

COVER SHEET

SEC Registration Number

4 0 9 3 8

UNITED PARAGON MINING

CORPORATION

(Company's Full Name)

6th / F QUAD ALPHA CENTRUM,

125 PIONEER ST MANDALUYON CITY

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

Mr. Gilbert V. Rabago

Contact Person

631-5139

Company Telephone Number

2018 ANNUAL REPORT - SEC 17-A  
(With attachment - Audited Financial Statement 2018)

1 2

Month

3 1

Day

Fiscal Year

FORM TYPE

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Day

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Annual Meeting

Secondary License Type, If Applicable

Dept Requiring this Doc

Amended Articles Number / Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

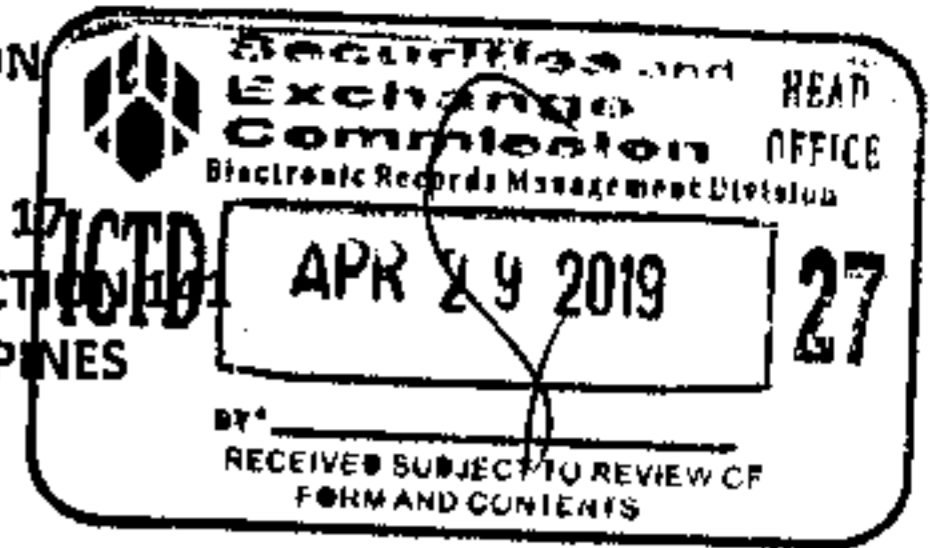
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SECURITIES AND EXCHANGE COMMISSION  
 SEC FORM 17-A  
 ANNUAL REPORT PURSUANT TO SECTION 17  
 OF THE SECURITIES REGULATION CODE AND SECTION 111  
 OF THE CORPORATION CODE OF THE PHILIPPINES



1. For the fiscal year ended December 31, 2018
2. SEC Identification Number 40938      3. BIR Tax ID No. 000--169-117-000
4. **UNITED PARAGON MINING CORPORATION**  
Exact name of issuer as specified in its charter
5. Philippines      6.  (SEC Use Only)  
Province, Country or other jurisdiction      Industry Classification Code:  
of incorporation or organization
7. Quad Alpha Centrum, 125 Pioneer St., Mandaluyong City      1550  
Address of principal office      Postal Code
8. (632) 631-5139  
Issuer's telephone number, including area code
9. N/A  
Former name, former address, and former fiscal year, if changed since last report
10. Securities registered pursuant to Sections 8 & 12 of the SRC, or Sec. 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding & Amount of Debt Outstanding
<b><u>Common Stock</u></b>	<b><u>261,314,797,080</u></b>

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

Yes []      No []

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

Philippine Stock Exchange, Inc.      Common Stock

12. Check whether the issuer:

- (a) Has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 hereunder or Section 11 of the RSA and RSA Rule 11(a)-1 hereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports);

Yes []

No []

- (b) Has been subject to such filing requirements for the past ninety (90) days.

Yes []

No []

13. State the aggregate market value of the voting stock held by non-affiliates (55,296,691,545 shares) of the registrant – ₱304.1 million based on the closing stock price of P0.0055 per share at the Philippine Stock Exchange, Inc. on December 31, 2018.

14. Check whether the issuer has filed all documents and reports required to be filed by Section 17 of the Code subsequent to the distribution of securities under a plan confirmed by a court or the Commission.

Yes []

No []

NA []

#### DOCUMENTS INCORPORATED BY REFERENCE

15. If any of the following documents are incorporated by reference, briefly describe them and identify the part of the report into which the document is incorporated:

The Company's 2018 Audited Financial Statements are incorporated under item 7 of Part II (Operational & Financial Information).

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## PART I - BUSINESS AND GENERAL INFORMATION

### Item 1. Business and General Information

United Paragon Mining Corporation ("UPMC" or the "Company") is a Philippine corporation whose main business is the exploration, development, exploitation, recovery and sale of gold.

UPMC was the result of a merger in 1989 between United Asia Resources and Geothermal Corporation ("UAR") and Abcar Paragon Mining Corporation ("Abcar Paragon"). Under the terms of the merger, UAR became the surviving corporation and Abcar Paragon transferred all of its assets and properties (real and personal, including rights, franchises and receivables, as well as the operating rights of the Longos Mine) to UAR. UAR was renamed United Paragon Mining Corporation in 1990. UAR was formed as a corporation in 1970 while Abcar Paragon was formed in 1986.

The Company's principal mining operation is the Longos Mine at Paracale, Camarines Norte. The Company operated an open pit area in the mine from August 01, 1988 to June 01, 1994 having extracted 888,809 metric tonnes (MT) of ore, which yielded 79,120 ounces of gold. This was more than twice its originally calculated reserve. By April 1994, the Company began the commercial operations of the underground mine at the same site. It was placed under care and maintenance in December 1998 because of depletion of economic reserves above Level 800, high operating cost and low metal prices

In 1999, the management of the Company decided to continue exploration drilling in the main Longos lode area and the neighboring sub-parallel veins to search for more ore to increase reserves. However, in the last quarter of 2003, the management of the Company was convinced that sufficient drilling had been done in these areas. In November 2003, the Company decided to suspend further drilling in Longos.

Another prospective area is San Mauricio in Jose Panganiban as an exploration target for the Company. The Company has plans of continuing exploration drilling in San Mauricio once the necessary clearance from the Department of Environment and Natural Resources ("DENR") is secured.

With the current gold prices, the present ore reserves of the Company are now sufficient for a viable project at 500-600 tonnes per day capacity. The Company pursued various options to raise project financing subject to the company being awarded appropriate government permits to resume further development and rehabilitation of Longos Mine.

Meanwhile, on December 29, 2018, the company acquired the rights and interests of Vulcan Industrial & Mining Corporation (VIMC) under the following MPSAs:

<i>Project</i>	<i>Location</i>	<i>Contract</i>	<i>Area (has)</i>
<i>Manlupo (Copper)</i>	<i>Bgy. Damutan, Hinobaan, and Bgy. Gatuslao, Candoni, Negros Occidental</i>	<i>MPSA 092-97-VI granted to VIMC on November 20, 1997 and registered with MGB-R06 on June 9, 1998</i>	<i>477.00</i>
<i>Luz (Copper)</i>	<i>Bgy. Manlucahoc, Sipalay, Negros Occidental</i>	<i>MPSA 113-98-VI granted to VIMC on May 26, 1998 and registered with MGB-R06 on May 13, 1999</i>	<i>806.5719</i>

The assignment is currently pending registration with the Mines and Geosciences Bureau.

**Production.** There were no gold and silver recovered in the years 2018, 2017 and 2016. The Company's mining and milling operations are still suspended.

**Products/Sales/Competition.** Prior to the suspension of the mining and milling operations, the Company produced dore bullions, containing gold and silver, which were either refined by the Bangko Sentral ng Pilipinas Mint and Gold Refinery or sent by airfreight and refined by Johnson Matthey PLC. of England. The principal product, gold accounted for over 99% while the by-product, silver contributed only less than 1%. Since the suspension of the mining and milling operations, the Company has had no new product.

The gold and silver dore bullions were sold either to Bangko Sentral ng Pilipinas or Johnson Matthey PLC. of England. The sales were covered by contracts using internationally accepted pricing in the world market available from the London Metal Exchange. Since no single gold producer (mining company) can affect the international metal prices, competition among mining companies is virtually non-existent. Competition among mining companies is on acquisition of mining claims/areas. Dore bullion is readily marketable.

**Sources and availability of raw materials and supplies.** The ore as raw material extracted usually comes from the Company's mineral properties. However, the Company suspended its mining and milling operations in 1999 due to depletion of economic reserves at its Shaft 4, high operating costs and low metal prices.

The Company has quite a number of suppliers for its operating supplies. Energy was sourced from Camarines Norte Electric Cooperative ("CANORECO") under a long-term contract for the supply of electricity from 1988 to 2000. Likewise, the Company has four (4) megawatt power plant, which has the ability to provide sufficient power for operation during any power failure, since these equipment has been idle for a period of time further rehabilitation is required. However, in November 2000, the Company switched its power supply from CANORECO to an in-house generating set to provide its limited power requirement of 10 KVA. In early 2012 site power supply is now provided by CANORECO. However, the Company is also looking an option for other possible power provider and/or participates in an open market to source its future power requirement. Purchases of supplies, equipment and spare parts are obtained on a competitive basis from sources both local and foreign and are generally available.

**Transactions with and/or dependence on related parties.** The information required is disclosed on Note 11 of the Company's 2018 Audited Financial Statements.

**Patents, trademarks, copyrights, licenses, franchises, concessions and royalty agreements.** The information required is disclosed on Note 2 of the Company's 2018 Audited Financial Statements.

**Government regulations and approvals.** The Company has to strictly comply with governmental regulations and seek government approvals, particularly those of the DENR, with respect to disposal of waste and tailings, rehabilitation, environment etc. to be able to start or continue mining operations. The Company's Environmental Compliance Certificate ("ECC") expired on July 31, 1999. The Company will have to renew its ECC before it can resume mining and milling operations. In preparation for the planned reopening and rehabilitation of the Longos Mine, the Company filed a request for the renewal of the said ECC on August 31, 2006. The DENR through the Environmental Management Bureau – Region V (EMB-V) required the Company to prepare an Environmental Performance Report and Management Program ("EPRMP") for its evaluation and approval prior to the renewal of the ECC. The Company had finalized and submitted the EPRMP to EMB-V on April 7, 2010. On October 8, 2010, the Company after satisfying the requirements and upon the

recommendation of the Environmental Management Bureau was granted an ECC for the Longos Mining Project. The company completed its documentation for exploration permit application filed at the Mines and Geoscience Bureau –Region V (MGB-V) on Feb 4, 2013 for further review and evaluation, issuance of these permits is on hold. In December 19, 2016, The Company received a notice of Cancellation of its Environmental Compliance Certificate (ECC-CO-1009-0028) on its original application covering 394 has and 500 MTPA milling rate. The Company will apply for a new application in due course to cover the wider area in conformity with the meridional blocking system covering an area of 972 has.

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

**Research and Development.** Exploration, drilling and development for a mining company, are the equivalent of research and development. The Company's principal activities since the suspension of the mining and milling operations until 2004 had been exploration and confirmation drilling. The total cost of exploration and drilling for the year 2004 amounted to ₱664,992.00. The company incurred total exploration cost attributable to community development program, environment and management cost of P2.6 million in 2018.

**Exploration/Drilling.** No exploration work was initiated during the years 2018, 2017 and 2016. The Company suspended its exploration/drilling activities in the San Mauricio mineral claim in Jose Panganiban after completing the 2<sup>nd</sup> hole in February 2004, pending approval by the DENR of the Company's application for Mineral Production Sharing Agreement ("APSA") over the area. This area is covered by application denominated as APSA V-041.

**Compliance with environmental laws.** On May 14,, 2011, the former president Benigno S. Aquino III issued EO 26, declaring the implementation of the National Greening Program as a government priority program to specifically seek to plant 1.5 billion seedlings in 1.5 million hectares of public lands nationwide in six years, from 2011 to 2016. Areas for planting under the program include forestlands, mangrove and protected areas, inactive and abandoned mine sites and other suitable lands of the public domain.

Notwithstanding during the launch of the NGP United Paragon Mining Corporation (UPMC) has no mining operation and eventually was under on a care and maintenance mode, nevertheless the company had envisioned to provide and have prepared tree-planting program especially on surface areas where mining activities had conducted. The total extend planted areas for the year 2018 pegged at 1.30 hectares and with 1,344 tree seedlings planted.

By 2011 and up to 2018 the company had planted 31,002 trees on an approximately 42.6 hectares of old mining land.

The company has constructed a Nursery to propagate various kind of tree seedling just to provide full support on the company's monthly tree planting activity but also in the production of quality seedlings. Tree planting activity was documented and was reported annually in compliance with the regional Mines and Geosciences Bureau ruling.

Moreover, the company likewise provided assistance on livelihood, health and safety, Education and Recreation, Environmental and Sanitation programs to the hosts Barangays as part of the company's Community Development program. The company has allotted a minimum fund to execute necessary support to the communities wherein request and solicitation are commonly considered.

Furthermore, the most pressing concern facing the company since the NGP launching is the issue on illegal small-scale miner's existence in the property. The problem has created instability and uncertainties on the area. However the company was urged to take steps and necessary protection on all areas where tree-planting activity was conducted. Environmental and ecological protection is the main goal of the company ever since the mine operation stops and closes last 1999.

The National Greening Program is not only expected to instill greater social confidence in the Mining Industry, but will also result in clear, stable and predictable policies on environmental and ecological aspects on mining.

**Employees.** The total manpower of the Company as of December 31, 2018 consists of seven (7) regular employees.

Type of employee	Exploration/Technical	Finance/Administration
Executive Officers	-	2
Managers/Technical Personnel	1	1
Rank and File		3
<b>Total</b>	<b>1</b>	<b>6</b>

The Company expects no significant change in the number of employees for the ensuing year unless the necessary permits have been awarded to the company and the needed funding requirements for exploration and further rehabilitation and development of the Longos Mine becomes available, in which case, a significant number of employees will be hired.

The Paracale based employees were members of National Allied Mines and Workers Union ("NAMA-WU") for rank and file and United Paragon Mining Corporation Supervisors' Union ("UPSU") for supervisors. The collective bargaining agreement between the Company and NAMA-WU expired on December 31, 1999 while that between the Company and UPSU expired on April 30, 2003. Mandaluyong City based employees and administrative personnel at the mine site are not subject to collective bargaining agreement. The Company's employees have not been on strike in the past three (3) years and are not threatening to go on strike. The Company does not have any incentive arrangement with its employees and no plans to establish one in the future.

**Major Risk/s.** The management of the Company regularly scans the events and trends concerning the mining industry in order to identify and assess risks affecting the Company. At the same time, the management of the Company assesses the internal risks and weaknesses in its operations. The major risks involved in the Company's operations are as follows:

- a. **Changes in the market price for gold.** The market price for gold can fluctuate widely. These fluctuations are caused by numerous factors beyond the Company's control such as speculative positions taken by investors or traders in gold; changes in the demand for gold for industrial uses, for use in jewelry and investment; changes in the supply of gold from production, disinvestment, scrap and hedging; financial market expectations regarding the rate of inflation; the strength of the US dollar (the currency in which the gold price trades internationally) changes in interest rates; actual or expected gold sales by central banks; gold sales by gold producers in forward transactions; global or regional political or economic events.



A sharp decline in the gold price would adversely affect the viability of the Longos Rehabilitation Project and the Company's ability to raise the required amount to finance the said project. However, inasmuch as gold price fluctuations are caused by numerous factors beyond the Company's control and gold hedging is not applicable to the Company at this stage, there is no way the Company can manage this risk at this time. In the future, when the Company reopens the mine, gold price hedging strategies will be considered.

- b. **Skills shortages.** Skills shortages are re-emerging as industry growth recovers and mine production ramps up to meet revived demand. With an inadequate supply of skilled workers and professionals for the mining sector, the challenge of recruitment, retention, development and deployment has re-emerged as a significant strategic threat to the industry. This may further delay future project development and production.
- c. **Development risks.** The Company's plan to rehabilitate and reopen the Longos Mine is based on the results of a pre-feasibility study conducted by the Company. The study used estimates of expected or anticipated project economic returns which are based on assumptions such as future gold and silver prices, anticipated tonnage, grades of ore to be mined and processed, anticipated recovery rates of gold and anticipated capital expenditure and cash operating costs, among other factors.

Actual cash operating costs, production and economic returns may differ significantly from those anticipated by Company's studies and estimates due to a number of uncertainties inherent in the development and construction of an extension to an existing mine or any new mine. Prior to reopening the mine, the Company may hire additional consultants to double check the Company's pre-feasibility study and rehabilitation plan.

- d. **Ore reserves estimate risk.** The ore reserves presented in this annual report are the best estimates of Company's technical personnel and confirmed/certified by competent persons-geologist and mining engineer. The Company undertakes annual revisions of its ore reserve estimates based upon actual exploration and drilling results, new information and fluctuations in economic parameters. The actual mineral deposition in quantity (tonnage) and quality (grade) may vary greatly from the Company's estimate when actual mining/extraction is conducted. Some physical obstacles in operation such as water inflow underground, fracturing of rock upon mining and erratic nature of the mineral content of the vein can contribute to the variance between the estimated and actual ore reserves.
- e. **The risk of flooding the underground workings.** The ore reserves of Longos Mine comprising of several parallel narrow gold veins are located in an ultramafic and granodiorite country rocks. Heavy water ingress into the underground workings caused by fissures of the veins under the ocean floor is inevitable but can be controlled by a well-planned and designed dewatering plan inside the mine. The Company had been successful in controlling water ingress in the past by installing heavy-duty pumps and by pushing the shoreline with a cofferdam. The same dewatering strategy will be used when the Company reopens the mine.
- f. **Liquidity and access to capital.** The Company needs an estimated amount of US\$20 million for capital expenditures to implement its two (2) years exploration work program. The company pursued various options to raise project funding to fully implement the approved exploration work program, approved exploration permit was received in August 24, 2018. Although, the Philippine government has been aggressively promoting and supporting the revitalization of the mining industry and investors are bullish on the gold price. Successful implementation of the approved exploration work program will upgrade the current ore reserve.

## **Item 2. Properties**

*The Company owns various office furniture, fixtures and transportation equipment in its Head office located at Mandaluyong City. The Company also owns various drilling, mining and milling equipment and support facilities in its Longos mine site. There is no mortgage, lien or encumbrance over the aforementioned properties.*

*The Company has no intention at present to lease or acquire any additional significant real property or machinery and equipment in the next twelve (12) months unless the appropriate government permit have been awarded to the company and the required funding for exploration and further development of the mine becomes available, in which case, additional significant real property or machinery and equipment will be acquired. Machinery and equipment are usually acquired month to month as needed usually through direct purchase or through letters of credit, if imported, under suppliers' or bank's credit terms.*

*The Company through an Operating Agreement executed on February 10, 1987 and Option and Operating Agreement dated November 17, 1987 with Camarines Minerals, Inc. ("CMI") has the exclusive rights to operate the mineral properties in the name of CMI that are covered by mining lease contracts, including the right to occupy the other real properties of CMI. The operating agreement expired on June 18, 2006. On July 30, 2007, the Company and CMI signed an operating agreement renewing and consolidating the previous option and operating agreements. This operating agreement provides for the extension of the term for twenty-five years or co-terminus with the relevant mineral production sharing agreement that may be issued by the Philippine Government and a royalty rate of 3.5% based on gross revenues, net of marketing and refining charges.*

*The principal properties subject of an operating agreement with CMI consists of 1,204.6160 hectares with confirmed mineral resources and prospective exploration areas. The approved mining lease contracts with the Philippine Government cover 394 hectares, 64 hectares expired in 2006 and 330 hectares expired in 2010. However, prior to expiry of these mining lease contracts, the Company submitted applications for conversion to mineral production sharing agreement/s. The mining claims covered by the operating agreement with CMI are all located in the Paracale - Jose Panganiban District.*

*The mining lease contracts assigned to the Company by CMI are as follows:*

- Mining Lease Contract ("MLC") No. MRD 267, granted on June 18, 1981 covering a group of nine (9) mining claims with a total area of 64.1609 hectares, expired on June 17, 2006. This is the central portion of Longos.
- MLC No. MRD 401, granted on March 19, 1985, covering twelve (12) mining claims with an area of 92.8699 hectares, expired on March 18, 2010. This is the southern portion, known as Malaguit group of claims, which includes Haliguing Bato area.
- MLC No. MRD 445, granted on July 01, 1985, covering a group of twenty-nine (29) mining claims with a total area of 194.2786 hectares, expired on June 30, 2010. This is the portion, which includes the UPMC village, the Tailings Pond No. 1, Baluarte and San Antonio structures and Barangay Palanas.
- MLC No. MRD 446 granted on July 01, 1985, covering a group of six (6) mining claims with a total area of 43.5000 hectares, expired June 30, 2010. This is the Tugos area.

The Company and CMI filed a joint application for production sharing agreement (“APSA”) for the above MLCs on February 7, 2006 (denominated as APSA V-375). However, with the passage of the Executive Order 79 (EO 79) dated July 6, 2012 “INSTITUTIONALIZING AND IMPLEMENTING REFORMS IN THE PHILIPPINE MINING SECTOR PROVIDING POLICIES AND GUIDELINES TO ENSURE ENVIRONMENTAL PROTECTION AND RESPONSIBLE MINING IN THE UTILIZATION OF MINERAL RESOURCES”, the processing of the renewal of the APSA application is on hold until a legislation rationalizing existing revenue sharing schemes mechanism shall have taken effect. In line with the company management mandate to upgrade its ore reserve the said APSA 375 application was converted to an exploration permit application in February 4, 2013. On October 4, 2013 the company received approval on the conversion of application from APSA-00375-V to EXPA-00180-V. In August 24, 2018 the company received the approved exploration permit with a larger area from 394 hectares to 580 hectares.

UPMC on its own has located several mineral areas located in Paracale and Labo, Camarines Norte consisting of 531,000 hectares for which APSAs were filed.

Following are the APSAs filed by the Company:

- APSA V-041 covers four (4) lots of 101 mining claims. Lots 1, 2 and 3 are owned by CMI (known as San Mauricio claim group) and Lot 4 (Torana Group, 126,0000 hectares) is owned by UPMC with a total area of 753.4439 hectares.
- APSA V-254 covers six (6) mining claims owned by UPMC and located within Labo and Paracale, Camarines Norte consisting of Lots 1 and 2 with a total area of 405.0227 hectares, denied by MGB V in an order dated June 30, 2011 pursuant to the provisions of Department Memorandum Order (DMO) NO. 2010-04. A motion for reconsideration on the denial of the application has been filed by the Company which is currently being evaluated by MGB V office.
- APSA V-270 covers twenty-four (24) mining claims owned by CMI also known as the Jeff-Sindicado claim group with a total area of 182.3624 hectares.
- APSA V-375 covers fifty-six (56) mining claims owned by CMI also known as the Longos claim group with a total area of 393.8607 hectares, this has been converted into an Exploration Permit Application by UPMC and CMI on February 4, 2013 upon submission of pertinent documents and payment of the required conversion fee and is now renumbered as EXPA-000180-V. On October 4, 2013 the company received approval on the conversion of application from APSA-00375-V to EXPA-00180-V. In August 24, 2018 the company received the approved exploration permit with a larger area from 394 hectares to 580 hectares.

**Mineral Resources and Ore Reserves.** There was no change in the resource estimates during the year 2018 as compared to year 2017. The Indicated Mineral Resources Inventory as of January 01, 2019 is 3,160,737 MT at 10.89 grams of gold per tonnes (Au g/t) containing 1,106,420 ounces of gold. Summary of the ore resources as of January 01, 2019 is presented below:

Identified Mineral Resources	Tonnes	Grade, Au g/t	Ounces, Gold
Above Level 800			
Measured	257,808	11.25	93,248
Indicated	124,955	14.32	57,529
Inferred	-	-	-
Sub Total	382,763	12.25	150,777
Below Level 800			
Measured	590,714	12.68	240,817

Indicated	1,270,611	9.11	372,153
Inferred	338,800	13.09	142,585
Sub Total	2,200,125	10.68	755,555
Adjacent Vein Systems			
Measured	-	-	-
Indicated	577,849	10.77	200,088
Inferred	-	-	-
Sub Total	577,849	10.77	200,088
Identified Mineral Resources as of 01-01-2019	3,160,737	10.89	1,106,420
Identified Mineral Resources as of 01-01-2018	3,160,737	10.89	1,106,420
Difference	-	-	-

Summary of the ore reserves as of January 01, 2019 is presented below:

Underground Movable Ore Reserves	Tonnes	Grade, Au g/t	Ounces, Gold
Above Level 800			
Proven	202,071	10.61	68,930
Probable	85,928	8.28	22,875
Sub Total	287,999	9.91	91,805
Below Level 800			
Proven	-	-	-
Probable	1,302,52	11.30	473,211
Sub Total	1,302,52	11.30	473,211
Total			
Proven	202,071	10.61	68,930
Probable	1,388,45	11.30	496,086
Total Ore Reserves	1,590,52	11.05	565,016
Less: Reserves Used For Pillars	6,963	6.63	1,484
Total Ore Reserves - January 01, 2019	1,583,56	11.07	563,532
Total Ore Reserves - January 01, 2018	1,583,56	11.07	563,532
Difference	-	-	-

Note: The ore reserves presented in this table are included in the ore resources presented in the above table.

The estimation, assessment, and evaluation of Mineral Resources and Ore Reserves were undertaken by qualified technical personnel. However, the Company hired Competent Persons to evaluate and certify the mineral resources and ore reserves, in compliance with the Philippine Mineral Reporting Code for Reporting Exploration Results, Mineral Resources and Ore Reserves (PMRC) adopted by the Philippine Stock Exchange, Inc. in October 2007.

The information in this report that relates to Mineral Resources was based on information compiled and certified by Mr. Balgamel B. Domingo, who is a member of the Geological Society of the Philippines (GSP). Mr. Domingo is not employed by any company. He is a consultant for various mining and geologic projects. On the other hand, the information on Ore Reserves was compiled and certified by Mr. Lucio R. Castillo, a member of the Philippine Society of Mining Engineers. Mr. Castillo is the Chairman/CEO of Goldridge Mining Corporation. Both Messrs. Domingo and Castillo are included in the lists of competent persons promulgated by their respective accredited professional organizations.

Messrs. Domingo and Castillo have sufficient experiences, which are relevant to the style of mineralization and type of deposit under consideration and to the activity, which they had undertaken to qualify as Competent Persons as defined in the 2007 Edition of PMRC. Messrs. Domingo and Castillo consented to the inclusion in this report of the matters based on their information in the form and context in which it appears.

### Item 3. Legal Proceedings

There has not been any bankruptcy, receivership or similar proceedings neither instituted by or against the Company nor has there been any material reclassification, merger, consolidation or purchase or sale of significant amount of assets not in the ordinary course of business. There is no material pending legal proceedings involving the Company, apart from Civil Case No. 18-469 entitled *Ofelia R. Delos Santos, et. al. vs. United Paragon Mining Corporation* for unlawful detainer, pending before the Municipal Trial Court for Paracale, Camarines Norte involving a portion of Lot 971, PLS-1047-D, owned by Camarines Minerals, Inc. The parties therein have filed their respective memoranda for resolution of the court.

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

Except for the matters taken during the annual stockholders meeting on December 04, 2017, no other matter was submitted to a vote of security holders during the period covered by this report.

## PART II – OPERATIONAL AND FINANCIAL INFORMATION

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

**Market Information.** The Company’s shares of common stock are traded in the Philippine Stock Exchange, Inc. (“PSE”). The quarterly high and low stock prices (in Philippine Pesos) for the years 2016, 2017, 2018 and the first quarter of the current fiscal year 2019 are as follows:

Market Price	2019		2018		2017		2016	
	High	Low	High	Low	High	Low	High	Low
First Quarter	.0072	.0072	.0075	.0065	.01	.0083	.0093	.0064
Second Quarter	-	-	.0070	.0059	.011	.0081	.018	.0081
Third Quarter	-	-	.0120	.0057	.0088	.0076	.012	.009
Fourth Quarter	-	-	.0077	.0055	0.01	.006	.0099	.0075

The Company’s shares of common stock were traded with a closing price of ₱0.0055 per share on December 31, 2018 and ₱0.0072 March 31, 2019.

**Holdings.** The Company has 1,193 shareholders as of December 31, 2018. The outstanding shares as of December 31, 2018 are 261,314,797,080 shares of common stock; 12,200,000 shares of Class “A” preferred stock and 400,000 shares of Class “B” preferred stock.

The top 20 common stockholders as of December 31, 2018 are as follows:

No.	Name	No. of shares held	Percent of Total
1	PCD NOMINEE CORPORATION	252,763,417,629	96.7276
2	LANCASTER HOLDINGS LIMITED	5,235,537,900	2.0035
3	CAMARINES MINERALS, INC.	1,252,097,050	0.4792
4	ENRILE II, WILLIAM RAGOS	250,000,000	0.0957
5	ALAKOR SECURITIES CORPORATION	204,653,850	0.0783
6	LORENZO JR., LUIS P.	109,250,000	0.0418
7	YAN, LUCIO W.	100,000,000	0.0383
8	SY TIONG SHIOU &/OR JUANITA S. TAN	93,500,000	0.0358
9	VALMORA INVESTMENT AND MANAGEMENT	80,000,000	0.0306
10	CASTILLO, EDUARDO B.	54,375,000	0.0208
11	CASTANEDA, ISA F.	50,000,000	0.0191
12	KERRY SECURITIES (PHILS.), INC. RPS01	49,250,000	0.0188
13	LIM III, JOSE A.	22,500,000	0.0086
14	CORRO, ANTONIO SEBASTIAN, T.	20,000,000	0.0077
15	KEH, BENITO	18,000,000	0.0069
16	PONIO, BEN AZEL S.	17,500,000	0.0067
17	CHU, BERNARD CHIU, JOHNSON CHIU &/OR VICKY	15,000,000	0.0057
18	LEE, DANIEL U.	12,687,500	0.0049
19	HYDEE MANAGEMENT & RESOURCES CORP.	12,600,600	0.0048
20	SAN JOSE, ROBERTO V.	12,600,000	0.0048

Shown in the below table is the equity ownership on a per class basis as of December 31, 2018.

Security Class	Outstanding Shares	Percent of Total
<b>1. Common Shares</b>		
Filipino	255,590,480,280	97.8094
Alien:		
Other	5,701,860,550	2.1820
British	1,250,000	0.0005
American	13,000,000	0.0050
Chinese	8,206,250	0.0031
<b>Total</b>	<b>261,314,797,080</b>	<b>100.0000</b>
<b>2. Preferred A</b>		
Filipino	9,365,000	76.76
Alien-other	2,835,000	23.24
<b>Total</b>	<b>12,200,000</b>	<b>100</b>
<b>3. Preferred B</b>		
Filipino	120,000	30.00
Alien-other	280,000	70.00
<b>Total</b>	<b>400,000</b>	<b>100</b>

**Dividends.** No dividends were declared in the first quarter of 2019 and in the years 2018 and 2017. The Company's ability to declare and pay dividends on common equity is restricted by the availability of sufficient retained earnings and funds.

**Stock Ownership Plan.** Currently, UPMC Board of Directors approved and authorizes the adoption of a Stock Option Plan for the Directors and Management to cover an aggregate of 20 Billion UPMC Common Shares at various prices per share as follows:

Number of Shares	Strike Price per share
5 Billion	P0.020
10 Billion	0.0250
5 Billion	0.0275

The company hired a consultant to formulate and design a stock option plan to insure its proper implementation.

During the annual meeting of the stockholders of United Paragon Mining Corporation ("the corporation") on September 28, 2013, the stockholders approved and/or ratified the adoption and implementation of the Stock Option Plan for the directors and management of the Corporation, under such terms and conditions as determined by the Board, subject to the compliance with the applicable laws and rules and regulation of the Securities and Exchange Commission and Philippine Stock Exchange. As of date of this report no stock options were subscribed and/or availed.

**Recent Sale of Unregistered Securities.** No securities were sold by the Company within the past three (3) years, which were not registered under the Code. There were no new issues (including securities issued in exchange for property, services, or other securities and new securities resulting from the modification of outstanding securities) or sale of reacquired securities during the same period, except for 217,942,035,530 common shares issued resulting from the conversion of debts to equity approved by the SEC on July 24, 2008. Please refer to Note 15 of the 2018 Audited Financial Statements.

#### **Item 6. Management's Discussion and Analysis and Plan of Operation.**

##### **Management's Discussion and Analysis**

##### **Results of Operations.**

##### **2018 compared to 2017**

The company has posted net loss of ₱59.1 million in 2018 compared to ₱51.7 million in 2017. The increase in net loss of ₱7.4 million or 14% are represented by increase in financing cost of ₱5.1 million and foreign exchange loss of ₱4.9 million offset by decrease in general and administrative of ₱3.3 million arising from outside services/consultants and employee benefits and other income of ₱0.7 million.

Finance Expenses of ₱47.3 million in 2018 was slightly higher by ₱5.1 million as compared to ₱42.2 million in 2017 due to compounding interest calculation on unpaid obligation to Camarines Minerals Inc. (CMI).

Finance Income earned for the year 2018 arising from interest income on bank deposit.

Other income earned for the year 2018 of comes from the disposal of scrap materials.

### 2017 compared to 2016

The company has posted net loss of ₱51.7 million in 2017 compared to ₱57.8 million in 2016. The decrease in net loss of ₱6.1 million or 11% are represented by decrease in general and administrative of ₱5.0 million arising from outside services/consultants and employee benefits and ₱5.0 million on foreign exchange loss offset by an increase in finance charges of ₱4.3 million.

Finance Expenses of ₱42.2 million in 2017 was slightly higher by ₱4.3 million as compared to ₱37.9 million in 2016 due to compounding interest calculation on unpaid obligation to Camarines Minerals Inc. (CMI).

Finance income earned for the year 2017 arising from interest income on bank deposit.  
Other income earned for the year 2017 of comes from the disposal of scrap materials.

### 2016 compared to 2015

The company has posted net loss of ₱57.8 million in 2016 compared to ₱52.5 million in 2015. The increase in net loss of ₱5.3 million or 10% are represented by an increase in general and administrative of ₱0.7 million arising from outside services for consultants and employee benefits and finance expenses ₱4.1 million on creditors and related party advances and decrease in other income and foreign exchange gain by ₱0.5 million on disposal of scrap materials and revaluation of foreign denominated payables due to peso depreciation.

Finance Expenses of ₱38.0 million in 2016 was slightly higher by ₱4.2 million as compared to ₱33.8 million in 2015 due to compounding interest calculation on unpaid obligation to Camarines Minerals Inc. (CMI).

Finance income earned for the year 2016 arising from interest income on bank deposit.

Other income earned for the year 2016 of comes from the disposal of scrap materials.

The key performance indicators of the company.

<b>Ratios</b>	<b>Formula</b>	<b>December 31</b>	
		<b>2018</b>	<b>2017</b>
<b>Current Ratio</b>		<b>0.021</b>	<b>0.023</b>
	Current Assets/ Current Liabilities	₱ 23,450,245 ₱ 1,112,195,408	₱ 23,791,286 ₱ 1,051,114,539
<b>Quick Ratio</b>		<b>0.0006</b>	<b>0.0006</b>
	Current Asset- Inventory-Prepaid/ Current Liabilities	₱ 662,437 ₱ 1,112,195,408	₱ 673,274 ₱ 1,051,114,539
<b>Solvency Ratio</b>		<b>1.0028</b>	<b>1.0588</b>
	Total Assets/	₱ 1,116,405,051	₱ 1,114,147,606

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	Total Liabilities	₱ 1,113,283,813	₱ 1,052,224,454
Debt Ratio		<b>1.00</b>	<b>0.94</b>
	Total Liabilities/ Total Assets	₱ 1,113,283,813 ₱ 1,116,405,051	₱ 1,052,224,454 ₱ 1,114,147,606
Debt to equity ratio		<b>356.68</b>	<b>16.99</b>
	Total liabilities/ Stockholders' equity	₱ 1,113,283,813 ₱ 3,121,238	₱ 1,052,224,454 ₱ 61,923,152
Equity to debt ratio		<b>0.003</b>	<b>0.06</b>
	Stockholders' equity/ Total liabilities	₱ 3,121,238 ₱ 1,113,283,813	₱ 61,923,152 ₱ 1,052,224,454
Asset to equity ratio		<b>357.68</b>	<b>17.99</b>
	Total Assets Stockholders' equity/	₱ 1,116,405,051 ₱ 3,121,238	₱ 1,114,147,606 ₱ 61,923,152
Interest coverage ratios		<b>(0.25)</b>	<b>(0.22)</b>
	Earnings (loss) before interest & taxes Interest Expense	₱ (11,813,025) ₱ 47,267,501	₱ (9,485,515) ₱ 42,209,731
Book value per share		<b>0.00001</b>	<b>0.0002</b>
	Stockholders' equity/ Total # of shares	₱ 3,121,238 261,314,797,080	₱ 61,923,152 261,314,797,080
Loss per share		<b>0.00023</b>	<b>0.00020</b>
	Net loss/ Total # of shares	₱ 59,080,526 261,314,797,080	₱ 51,695,246 261,314,797,080

Current Ratio continue to decreased from 2017 to 2018 due to i) increased in current liabilities brought about by accrual of interest from unpaid royalty fees to Camarines Minerals Inc. (CMI) and the advances made from shareholders to fund operating costs.

Solvency Ratio continue to decreased from 2017 to 2018 due to increased in current liabilities brought about by accrual of interest from unpaid royalty fees to Camarines Minerals Inc. (CMI) and the advances made from shareholders to fund operating costs.

Debt-to-Equity Ratio continue to increased from 2017 to 2018 due to increased in current liabilities brought about by accrual of interest from unpaid royalty fees to Camarines Minerals Inc. (CMI) and the advances made from shareholders to fund operating costs.

Equity-to-Debt Ratio continue to decreased from 2017 to 2018 due to increased in current liabilities brought about by accrual of interest from unpaid royalty fees to Camarines Minerals Inc. (CMI) and the advances made from shareholders to fund operating costs and decrease in Stockholders Equity due to net loss incurred by the Company in 2018.

Asset to equity Ratio continue to decreased from 2017 to 2018 due to decrease in Stockholders Equity brought about by a net loss incurred by the Company in 2018.

Book Value per Share (BVPS) continue to decreased in 2017 to 2018 due to the decrease in Stockholders Equity resulting from the net loss incurred by the Company from 2017 to 2018.

Earnings Per Share (EPS) decreased from 2016 to 2018 due net losses incurred by the Company in 2017 to 2018.

#### **Financial Position.**

As shown in the financial statements, the Company incurred cumulative losses of ₱2,630.9 million and ₱2,571.8 million as at December 31, 2018 and 2017, respectively. As at December 31, 2018 and 2017, the Company's current liabilities exceeded its current assets by ₱1,077.9 million and ₱1,016.5 million, respectively. Net cash flows used in operating activities amounted to ₱6.6 million, ₱10.2 million and ₱13.7 million in 2018, 2017 and 2016, respectively. These conditions, among others, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern and achieve a profitable level of operations, enhance recoverability of its assets such as, but not limited to, the deferred exploration costs and property, plant and equipment, and its ability to pay its debts as they mature. The ultimate outcome of these uncertainties cannot be determined presently. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

Cash requirement for years 2018, 2017 and 2016 were principally financed by loans, advances from related parties, collection on TCC's cash conversion and from disposal of scrap materials.

The Company's total current liabilities of ₱1,112.2 million as of December 31, 2018, of which, ₱255.3 million (23%) was due to related parties for loans and advances, interests, and dividends and other liabilities, and the balance (77%) is due to suppliers and other creditors as disclosed in Note 10 of 2018 audited Financial statements.

The loans and advances from related parties are covered by promissory notes subject to roll over every ninety (90) days with interests accrued in the books. ₱2.2 billion worth of liabilities due to related companies were converted to equity in July 2008 as part of the capital restructuring approved by the SEC on July 24, 2008. For the details of the amounts of loans and advances and other liabilities converted to equity, please refer to Notes 11 and 15 of the 2018 Audited Financial Statements.

Due to the suspension of mining and milling operations and limited sources of funds, the Company failed to meet payments within the stated terms to majority of its suppliers, contractors and other creditors. However, the Company had reduced significantly the balance of its outstanding accounts with suppliers, contractors and other creditors through offsetting arrangements or installment

payment schemes. The internal and external sources of funds and the courses of action that the Company plans to undertake to address the liquidity problem are discussed under "Plan of Operations for the Year 2019".

Management's plans to address the liquidity and going concern issues are discussed under "Plan of Operations for the Year 2019".

The gold price slightly decline by 1% during the year 2018 as compared to the same period in 2017 and a 10% % Increase as compared to 2016. Gold was traded in the London Metal Exchange ("LME") with a closing price of USD per Oz of US\$1,281.65.50 at the end of 2018 as compared to US\$1,296.50 in 2017 and US\$1,159.10 in 2016. The gold price reached an all-time high of US\$1,370 on July 6, 2017. The outlook for gold remains bullish, as it continues to provide a hedge against weakness in fiat currencies. On March 31, 2019, gold price closed at US\$1,291.15 per ounce at the LME (Am Fix).

The bullish sentiments on gold prices have increased investors' interest in gold mining companies and exploration projects thus improving the Company's chances of raising the finances required for the rehabilitation and further development of the Longos mine. Likewise, higher gold prices improve the viability/future profitability of the Longos mine.

Other than the foregoing, there are NO known

- trends, demands, commitments or uncertainties that will result in or that are reasonably likely to result in the Company's liquidity increasing or decreasing in a material way,
- events that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation,
- material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Company with unconsolidated entities or other persons created during the reporting period,
- material commitments for capital expenditures, except for the implementation of the approved exploration work program for the period two years starting from August 24, 2018.
- trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations,
- significant elements of income or loss that did not arise from the Company's continuing operations and
- A seasonal aspect that has or had a material effect on the Company's condition or results of operations.

There have been no material changes from December 31, 2018 to December 31, 2017 in one or more line items of the financial statements *except* for the following:

- a) Increase in Accrued interest & other current liabilities by ₱51 million or 7% principally due to the accrual of interest charges for the year 2018 including interest/dividends on Class A preferred shares.
- b) Increase in Advances from related parties by ₱9.4 million or 4%.

- c) Changes in other line items shown in the Company's Statement of Comprehensive Income are due to the usual period-to-period fluctuation in amounts natural in every business operation. There are no material unusual items other than as discussed under Management's Discussion and Analysis, Results of Operations year 2018 compared to 2017.

Inasmuch as the Company's mining and milling operations are still suspended, there are no significant key performance indicators other than the financial ratios presented under Supplementary Schedule - Schedule I.

**Plan of operations for the year 2019.** The plan of operations for the year 2019 covers the following activities:

- a. The Company is in the process of complying pre-condition requirement after approval of its Exploration Permit Application on August 24, 2018. Once complied with the company will proceed with the implementation of the approved exploration work program within the two (2) year period.
- b. The Company will work on to get the financing requirement needed to implement the approved exploration work program, environmental work program and community development program either by external sources or internal sources.

The Company expects significant purchases of machinery & equipment and change in the number of its employees during the year, once the required government permit have been awarded to the company and the financing for the exploration activity of its Longos Mine becomes available during the year.

#### **Item 7. Financial Statements**

The 2018 Audited Financial Statements of the Company are incorporated herein by reference. The schedules listed in the accompanying index to supplementary schedules are filed as part of this SEC Form 17-A.

#### **Item 8. Information on Independent Accountant and other Related Matters**

**Information on Independent Accountant.** The accounting firm of SyCip Gorres Velayo & Co. CPAs ("SGV") with address at the 6760 Ayala Avenue 1226 Makati City, was appointed as external auditor of the Company at the annual stockholders' meeting in 2014 with Ms. Eleanor Layug as partner-in-charge, in 2017 audit year Ms. Eleanor Layug was replaced by Mr. Jose Raoul J. Balisalisa as the new audit partner-in-charge, and in 2018 Ma. Genalin Q. Arevalo is the partner in-charge, in line with the Company's commitment to good corporate governance and in compliance with SEC Memo Circular No. 8 Series of 2003.

**External Audit Fees and Services.** The fees of the external auditor in the past three (3) years are as follows:

<b>Year</b>	<b>Audit &amp; Related Fees</b>	<b>Tax Fees</b>	<b>Other Fees</b>
2018	₱325,000	0	0
2017	₱296,000	0	0
2016	₱354,000	0	0

For the past three (3) years, the Company had not engaged the services of SGV nor KPMG except for the audit and or review of the annual financial statements in connection with statutory and regulatory filings and certification of the proposed accounts to be converted to equity. The amounts under the caption "Audit and Related Fees" & "Other Fees" for the years 2018, 2017 and 2016

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pertain to these services. The Company's tax related matters are being handled by the tax services department of SGV.

The Audit Committee reviews and recommends to the Board and stockholders the appointment of the external auditor and the fixing of the audit fees for the Company. The Board and stockholders approve the Audit Committee's recommendation.

The Audit Committee has an existing policy, which prohibits the Company from engaging the external auditor to provide services that may adversely impact their independence, including those expressly prohibited by SEC regulations.

**Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.** The Company never had any disagreement with SGV, its current independent accountant on any matter of accounting principles or practices, financial statement disclosures or auditing scope or procedure.

No independent accountant engaged by the Company has resigned or declined to stand for re-election, or was dismissed.

### **PART III – CONTROL AND COMPENSATION INFORMATION**

#### **Item 9. Directors and Executive Officers of the Registrant**

The names, ages, citizenship, positions and periods of service of directors, executive officers and persons nominated to become as such are as follows:

**Alfredo C. Ramos** is the Chairman of the Board, of the Company. For the past five (5) years, he has served as director and/or executive officer, and maintained business interests in companies involved in the printing, publication, sale and distribution of books, magazines and other printed media, transportation, financial services, infrastructure, oil and gas exploration, mining, property development, shopping center, department store, gaming and retail, among others.

**Gerard Anton S. Ramos** is the President & Chief Executive Officer of the Company. For the past five (5) years, he has served as a Director and/or Executive Officer in companies involved in the music, broadcasting, stock brokerage, mining, investment holding, property development, sale and distribution of books, magazines and other printed media, and shopping centers, among others.

**Presentacion S. Ramos** is the Director of the Company. For the past five (5) years, she has served as director and/or executive officer of, and maintained business interests in companies involved in the printing, publication, sale and distribution of books, magazines and other printed media, department store, stock brokerage, oil & gas exploration, and mining, among others.

**Adrian Paulino S. Ramos** is the Vice-President and the Treasurer of the Company. For the past five (5) years, he has worked as an Instructor at a business school, Operations Manager for a major book retailer and Business Analyst for Mckinsey & Company. He is currently working in various management capacities and served as Director and/or Executive Officer, in companies involved in mining, investment holdings, securities, sale and distribution of books, magazines and other printed media, property development, transportation, oil and gas exploration, among others.

**Eduardo B. Castillo** is a Director of the Company. For the past five (5) years, he has served as a director and/or executive officer and maintained business interests in companies involved in agribusiness, travel and tourism, real estate, food processing, medical products, marketing, telecommunication, mining, among others.

**Christopher M. Gotanco** is a Director of the Company. For the past five (5) years, he has served as Director, Chairman and/or Chief Executive Officer in companies involved in natural resources (oil and gas), investment banking, holdings, mass transportation, property development, and mining, among others.

**John Peter C. Hager** is an Independent Director of the Company. For the past five (5) years, he has been working in various management capacities and serves as Managing Director in companies involved in import/export commodities trading particularly pulp, paper, packaging, security paper and security printing products, rubber, coconut oil and other coconut-related products, among others. His business activities also include managing local interests of foreign principals and serving as commercial advisor to several international companies and local agents.

**Maureen Alexandra S. Ramos-Padilla** is a Director of the Company. For the past 5 years, she has served as a director and/or executive officer, and maintains business interests in companies engaged in department store, media and music distribution, securities brokerage property development, oil and gas exploration and development (2013-present), among others.

**Iris Marie U. Carpio-Duque** is the Company's Compliance Officer, Alternate Corporate Information Officer and Corporate Secretary. For the past five (5) years, she has served as officer and/or corporate secretary or assistant corporate secretary in companies involved in mining, investment holding, securities brokering and real estate. She is a member of the Integrated Bar of the Philippines.

**Atty. Deborah S. Acosta-Cajustin, Filipino** is the Assistant Corporate Secretary of the Company. For the past 5 years, she has been in active corporate and taxation law practice for more than five (5) years and serves as an officer of companies engaged in the printing, publication, sale and distribution of books, magazines and other printed media, investment holding, and securities brokering.

**Gilbert V. Rabago**, is the Company's Finance, Purchasing & Administrative Officer and Alternate Corporate Information Officer. For the past five (5) years, he has served in different managing capacities in companies involved in mining both in the Philippines and abroad.

Mr. John Peter C. Hager is the current independent directors. Currently there is a vacancy for the Independent Director due to the resignation of Mr. Laurito E. Serrano last February 26, 2019.

The Directors of the Company are elected at the annual stockholders' meeting to hold office until the next succeeding annual meeting and until each respective successors have been elected and qualified.

Officers are appointed or elected annually by the Board of Directors during its organizational meeting following the Annual Meeting of Stockholders, each to hold office until the corresponding meeting of the Board of Directors in the next year or until a successor shall have been elected, appointed or shall have qualified.

Reporting companies in which each Director holds directorship:

Alfredo C. Ramos

Anglo Philippine Holdings Corporation  
The Philodrill Corporation  
Shang Properties, Inc.  
Vulcan Industrial & Mining Corporation  
Atlas Consolidated Mining & Devt. Corp.

United Paragon Mining Corporation  
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Adrian Paulino S. Ramos	Anglo Philippine Holdings Corporation The Philodrill Corporation Vulcan Industrial & Mining Corporation Atlas Consolidated Mining & Devt. Corp. Alakor Securities Corporation*
Gerard Anton S. Ramos	Anglo Philippine Holdings Corporation The Philodrill Corporation Vulcan Industrial & Mining Corporation Atlas Consolidated Mining & Devt. Corp. Alakor Securities Corporation
Presentacion S. Ramos	Anglo Philippine Holdings Corporation The Philodrill Corporation Vulcan Industrial & Mining Corporation Alakor Securities Corporation
Maureen Alexandra S. Ramos-Padilla	Anglo Philippine Holdings Corporation The Philodrill Corporation Vulcan Industrial & Mining Corporation Alakor Securities Corporation
Christopher M. Gotanco	Anglo Philippine Holdings Corporation The Philodrill Corporation Vulcan Industrial & Mining Corporation Boulevard Holdings, Inc.
John Peter C. Hager	Alakor Securities Corp.

**Resignation or Declination to Stand for Re-election of a Director.** Since the Company's last annual meeting of stockholders held on December 05, 2018 one independent director resigned.

**Significant Employees.** Other than the above named directors and executive officers, the Company has not engaged the services of any person who is expected to make significant contributions to the business of the Company. The business of the Company is not dependent on certain key personnel and there are no arrangements to assure that certain personnel will remain with the registrant and not compete upon termination.

**Family Relationships.** The following are the family relationships among officers and directors: Ms. Maureen Alexandra S. Ramos-Padilla, Mr. Gerard Anton S. Ramos and Mr. Adrian Paulino S. Ramos are the children of Mr. Alfredo C. Ramos, Chairman of the Board & President and Ms. Presentacion S. Ramos, Director

**Involvement in Certain Legal Proceedings.** The Company is not aware of any adverse events or legal proceedings of the nature required to be disclosed under Part IV, paragraph (A), (4) of SRC Rule 12, Annex C with respect to directors and executive officers during the past five (5) years that are material to the evaluation of the ability or integrity of the directors or executive officers.

#### **Item 10. Executive Compensation**

The aggregate compensation paid or incurred for the Company's Chief Executive Officer and most highly compensated executive officers and employees named below as a group for the two (2) most recently completed years (2018 and 2017) and the ensuing fiscal year (2019) are as follows:

Name	Position	Year	Salary	Bonus	Other Annual Compensation
Alfredo C. Ramos	Chairman/President/CEO				
Gerard Anton Ramos	Vice-President				
Adrian Paulino Ramos	Treasurer				
Gilbert Rabago	Finance and Admin Manager				
Iris-Marie Carpio-Duque	Legal and Compliance Officer/Corporate Secretary				
Total (Top 5 Executives)		2017	₱2.5 million	0	0
		2018	₱1.8 million	0	0
		2019 (Est.)	₱1.8 million	0	0
Total (All Executives & Directors)		2017	₱2.5 million	0	0
		2018	₱1.8 million	0	0
		2019 (Est.)	₱1.8 million	0	0

For the most recently completed fiscal year and the ensuing fiscal year, directors received and will receive a per diem of ₱2,000.00 per board meeting to defray their expenses in attending board meetings. There are no other arrangements for compensation of directors, as such, during the last fiscal year and for the ensuing fiscal year.

The Company maintains standard employment and consultancy contracts with the above officers, all of which provide for their respective compensation and benefits. Other than what is provided under applicable labor laws, there are no compensatory plans or arrangements with executive officers entitling them to receive more than ₱2.5 million as a result of their resignation, retirement or any other termination of employment, or from a change in control of the Company, or a change in the executive officers' responsibilities following a change in control of the Company.

The Company has not granted any bonus and other compensation to directors and executive officers since 1994 except for the mandatory 13<sup>th</sup> month pay, which is already included in the amounts shown in the above table. There are no warrants or options outstanding in favor of directors and officers of the Company other than the item discussed under stock option plan above.



## Item 11. Security Ownership of Certain Beneficial Owners and Management

**Security Ownership of Certain Record and Beneficial Owners.** As of December 31, 2018 the Company knows of no one who beneficially owns in excess of 5% of the Company's common and preferred stocks except as set forth in the table below:

Title of Class	Name, Address of Record Owner and Relationship with Issuer	Name of beneficial owner and relationship with record owner	Citizenship	No. of shares held	Percent of Class
Common	National Book Store Inc. (1,6,7) 3 <sup>rd</sup> Floor, Quad Alpha Centrum, 125 Pioneer St., Mandaluyong City (Stockholder)	National Book Store Inc.	Filipino	84,325,108,842	32.27
Common	Anglo Phil. Holdings Corp. (2,6,7) 6 <sup>th</sup> Floor, Quad Alpha Centrum, 125 Pioneer St., Mandaluyong City (Stockholder)	Anglo Phil. Holdings Corp.	Filipino	67,119,143,395	25.69
Common	Alakor Corporation <sup>(3,6,7)</sup> 9 <sup>th</sup> Floor, Quad Alpha Centrum, 125 Pioneer St., Mandaluyong City (Stockholder)	Alakor Corporation	Filipino	53,884,038,981	20.62
Common	PCD Nominee Corporation <sup>(4)</sup> G/F, MSE Bldg., 6767 Ayala Avenue, Makati City (No relationship with issuer)	Various Please see Note 4	Filipino/ Foreign	47,435,126,411	18.15
Preferred "A"	Pargold Mining Corp. <sup>(6,7)</sup> c/o 9 <sup>th</sup> Floor, Quad Alpha Centrum, 125 Pioneer St., Mandaluyong City (Stockholder)	Pargold Mining Corp.	Filipino	4,050,000	33.20
Preferred "A"	Lancaster Holdings Limited <sup>(5,6,7)</sup> 9 <sup>th</sup> Floor, Quad Alpha Centrum, 125 Pioneer St., Mandaluyong City (Stockholder)	Lancaster Holdings Limited	Foreign	2,835,000	23.24
Preferred "A"	Aurora B. Caringal 7759 St. Paul St., San Antonio Village, Makati City (Stockholder)	Aurora B. Caringal	Filipino	2,700,000	22.13
Preferred "A"	Edmundo M. Tolentino No. 7 Commonwealth Village, Commonwealth Ave., Quezon City (Director until 1993/Stockholder)	Edmundo M. Tolentino	Filipino	2,000,000	16.39
Preferred "B"	Lancaster Holdings Limited <sup>(5,6,7)</sup> 9 <sup>th</sup> Floor, Quad Alpha Centrum, 125 Pioneer St., Mandaluyong City (Stockholder)	Lancaster Holdings Limited	Foreign	280,000	70.00
Preferred "B"	Alakor Corporation <sup>(3,6,7)</sup> 9 <sup>th</sup> Floor, Quad Alpha Centrum, 125 Pioneer St., Mandaluyong City (Stockholder)	Alakor Corporation	Filipino	89,500	22.38
Notes:					
(1)	National Book Store, Inc. is a local corporation engaged in retailing business.				
(2)	Anglo Philippine Holdings Corp. is an investment holding firm focused on infrastructure and related property development activities.				
(3)	Alakor Corporation is a holding company with investments in real estate and stock market.				

(4)	PCD Nominee Corporation is a wholly owned subsidiary of Philippine Central Depository, Inc. (PCD) and is the registered owner of the shares in the books of the Company's transfer agent. The beneficial owners of such shares are either PCD's participants (Brokers) themselves or the clients of these PCD participants in whose names these shares are recorded in their respective books. No individual or entity owns more than 5% of outstanding common shares in UPMC. Net of 130, 321, 765, 879 shares in the name of Alakor Securities Corporation (ASC) and 94, 440, 484, 634 shares in the name of BDO Securities Corporation. Of the 224, 762, 250, 513 shares in the name of ASC and BDO Securities, (a) National Book Store, Inc. owns 84,325,108,842 shares,(b) Anglo Philippine Holdings Corp. owns 67,119,143,395 shares and (c) Alakor Corporation owns 53,884,038,981 shares.
(5)	Lancaster Holdings Ltd. is a company incorporated in the Bahamas.
(6)	Anglo Philippine Holdings Corp., National Book Store Inc., Lancaster Holdings Limited., Alakor Corporation and Pargold Mining Corporation are record and beneficial owners owning more than 5% of the Company's common and or preferred shares. Based on previous practice, these companies issue proxies nominating, constituting and appointing Mr. Alfredo C. Ramos, Chairman & President as proxy to vote for the number of shares they beneficially owned as of Record Date.
(7)	Mr. Alfredo C. Ramos has some direct or indirect interests/shareholdings with these companies.

**Security Ownership of Management.** Following are the securities beneficially owned by directors and executive officers of the Company:

Title of Class	Name of Beneficial Owner	Amount and nature of Record <sup>(A)</sup> /Beneficial (B) Ownership		Citizenship	Percent of Class
		Direct	Indirect		
Common	Alfredo C. Ramos	500,050	318,476,767	Filipino	0.12
Common	Christopher Gotanco	500,000	90,312,500	Filipino	0.03
Common	Eduardo B. Castillo	54,375,000	-	Filipino	0.02
Common	Adrian Paulino S. Ramos	500,000	-	Filipino	0.00
Common	Gerard Anton S. Ramos	100,000	-	Filipino	0.00
Common	Presentation S. Ramos	-	73,050,000	Filipino	0.02
Common	Francisco A. Navarro	1,000,000	-	Filipino	0.00
Common	John Peter C. Hager	-	87,000,000	Filipino	0.03
Common	Laurito E. Serrano	1	-	Filipino	0.00
Common	Iris-Marie U. Carpio-Duque	-	-	Filipino	0.00
Common	Gilbert V. Rabago	-	-	Filipino	0.00

As of December 31, 2018, the aggregate number of shares owned by the Company's directors and executive officers is 689, 814, 318 shares or approximately 0.24% of the Company's outstanding common stock. Except for shares appearing on record in the names of the directors and officers above, the Company is not aware of any shares, which said persons, may have the right to acquire beneficial ownership.

**Voting Trust Holders of 5% or More.** To the extent known to the Company, there are no voting trust holders of 5% or more of the Company's stocks.

**Changes in Control.** No change in control of the Company has occurred since the beginning of its last fiscal year. The Company has no knowledge of any existing arrangements that may result in a change in control of the Company.

## **Item 12. Certain Relationships and Related Transactions**

The Company, on a regular basis secures loans and advances from its related parties (i.e. companies with shareholders common with the Company) to fund its capital expenditure and working capital requirements. The loans and advances are covered by promissory notes subject to roll over every ninety (90) days with interests at 24% per annum. Interest rates are determined on arm's length basis and are based on terms similar to those offered to other related and non-related parties by the creditor-related companies. These loans and advances, inclusive of accrued interests, guaranty fees and other liabilities to related companies in the amount of ₱2.2 billion were converted to common shares of stock of the Company in July 2008 as part of the capital restructuring program approved by the SEC on July 24, 2008. On September 20, 2011, the Company entered into a loan agreement with Alakor Corporation, a company under common control, to finance the Company's cost of conducting feasibility study on the Longos Gold Project and provides for its general working capital requirements. The loan amounts to ₱250.0 million with 10% interest per annum due 36 months after draw down date.

As of December 31, 2011, initial drawdown amounted to ₱120.0 million. The loan agreement gives the following rights to Alakor Corporation: (i) Option to convert, at any time after the earliest draw down date, all amounts outstanding under the loan into equity of the Company at the price of ₱0.018 per share. (ii) Subscribe to no more than 2,700,000 shares of the Company at ₱0.018 per share within five years from the execution of the loan documents. As of December 31, 2018, no additional funds have been drawn.

The identities of the related parties, the nature of the relationships, amounts and details of the transactions are disclosed on Note 11 of the Company's 2018 Audited Financial Statements.

There are no on-going contractual or other commitments as a result of the loans and advances obtained from related companies other than the payment of the loans and advances, interests, conversion of the same to equity and other rights as mentioned above.

During the last two (2) years, there were no other transactions involving the Company in which any of its directors or executive officers, any nominee for election as director, or security holder owning 10% or more of the Company's total outstanding shares and members of their immediate family had a material interest.

There were no transactions with parties that fall outside the definition of "related parties" under SFAS/IAS No. 24.

**Parent of the Company.** No person or entity holds more than 50% of the Company's voting securities; consequently the Company has no parent company.

**Transaction with Promoters.** There are no transactions with promoters within the past five (5) years.

**PART IV - EXHIBITS AND SCHEDULES**

**Item 13. Exhibits and Reports on SEC Form 17-C**

- a. Exhibits - See accompanying Index to Exhibits (pages 30 and 31)
- b. Reports on SEC Form 17-C - Reports on SEC Form 17-C filed during the year of 2018 and for the first quarter of 2019 are as follows:

Date	Particulars
February 23, 2018	Annual Verification & Certification from the Mines and Geosciences Bureau
May 18, 2018	Postponement of Annual Stockholders Meeting
August 28, 2018	Issuance of Exploration Permit
October 09, 2018	Notice & Agenda of the Annual Stockholders' Meeting
December 05, 2018	Result of Annual Stockholders' & Organizational Board Meeting
February 26, 2019	Resignation of Mr. Laurito E. Serranno
March 22, 2019	Annual Verification & Certification from the Mines and Geosciences Bureau

**SIGNATURES**

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

**GERARD ANTON S. RAMOS**  
President / Chief Executive Officer

**ADRIAN PAULINO S. RAMOS**  
Vice-President / Treasurer

**GILBERT V. RABAGO**  
Principal Financial & Accounting Officer

**IRIS MARIE U. CARPIO-DUQUE**  
Corporate Secretary

**APR 26 2019**

**QUEZON CITY**

**SUBSCRIBED AND SWORN** to before me this \_\_\_\_\_ day of April 2018 affiant (s) is exhibiting to me their competent evidence of identity, as follows:

Names	ID No.	Date of Issue/Expiry	Place of Issue
Gerard Anton S. Ramos	PASSPORT – P7752563A	29 June 2028	DFA NCR South
Adrian Paulino S. Ramos	PASSPORT – EC6344702	07 Jan 2021	DFA Manila
Gilbert V. Rabago	PRC No. 0105874	24 March 2020	PRC Manila
Iris-Marie U. Carpio-Duque	PASSPORT- P4323180A	10 September 2022	DFA NCR East

Doc no. \_\_\_\_\_  
Page no. 371  
Book no. 76  
Series of 2018 03

**ATTY. CONCEPCION P. VILLAREÑA**  
Notary Public for Quezon City  
Until December 31, 2019  
PTR No. 7323642 – 1-03-2019/ QC  
PR No. 14460591 – 12-17-2018/ QC  
Roll No. 30457 – 05-09-80  
MCLE 5-0012536 – 12-21-2016  
Adm. Matter No. NP 270 (2018-2019)

**UNITED PARAGON MINING CORPORATION**  
**INDEX TO THE FINANCIAL STATEMENTS**  
**AND SUPPLEMENTARY SCHEDULES**  
**SEC FORM 17-A**  
**DECEMBER 31, 2018**

**FINANCIAL STATEMENTS**

Statement of Management's Responsibility for Financial Statements

Report of Independent Auditors

Consolidated Statements of Financial Position as at December 31, 2018 and 2017

Statements of Comprehensive Income for the Years Ended  
December 31, 2018, 2017 and 2016

Statements of Changes in Equity for the Years Ended  
December 31, 2018, 2017 and 2016

Statements of Cash Flows for the Years Ended  
December 31, 2018, 2017 and 2016

Notes to Financial Statements

**SUPPLEMENTARY SCHEDULES**

Report of Independent Auditor's on Supplementary Schedules

SCHEDULE I Financial Ratios

SCHEDULE II Map of the Relationships of the Companies within the Group

SCHEDULE III Schedule of Effective Standards and Interpretations under the PFRSs

SCHEDULE IV Reconciliation of Retained Earnings Available for Dividend Declaration

SCHEDULE A. Financial Assets in Equity Securities

SCHEDULE B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal  
Stockholders (other than Related Parties)

SCHEDULE C. Amounts Receivable from Related Parties which are Eliminated during the Consolidation of  
Financial Statements

SCHEDULE D. Intangible Assets - Other Assets

SCHEDULE E. Long-Term Debt

SCHEDULE F. Indebtedness to Related Parties (Long-Term Loans from Related Companies)

SCHEDULE G. Guarantees of Securities of Other Issuers

SCHEDULE H. Capital Stock

**SCHEDULE I**  
**UNITED PARAGON MINING CORPORATION**  
**FINANCIAL RATIOS PURSUANT TO SRC RULE 68, AS AMENDED**  
**DECEMBER 31, 2018**

	2018	2017
<b><u>Profitability Ratios:</u></b>		
Return on assets	-5.29%	-4.64%
Return on equity	-1,892.86%	-83.48%
Gross profit margin	-	-
Net profit margin	-	-
<b><u>Liquidity and Solvency Ratios:</u></b>		
Current ratio	0.0211:1	0.0226:1
Quick ratio	0.0006:1	0.0006:1
Solvency ratio	1.0028:1	1.0588:1
<b><u>Financial Leverage Ratios:</u></b>		
Asset to equity ratio	357.68:1	17.99:1
Debt ratio	1.00:1	0.94:1
Debt to equity ratio	356.68:1	16.99:1
Interest coverage ratio	-0.25:1	-0.22:1

**SCHEDULE II**

**UNITED PARAGON MINING CORPORATION  
MAP OF THE RELATIONSHIPS OF THE COMPANIES WITHIN THE GROUP  
PURSUANT TO SRC RULE 68, AS AMENDED  
DECEMBER 31, 2018**

<p><u>United Paragon Mining Corporation</u> (The Company; Reporting Company)</p>
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**Note: The Company does not have any subsidiary or associate as at December 31, 2018.**

**SCHEDULE III**  
**UNITED PARAGON MINING CORPORATION**  
**SCHEDULE OF ALL EFFECTIVE STANDARDS**  
**AND INTERPRETATIONS**  
**PURSUANT TO SRC RULE 68, AS AMENDED**  
**DECEMBER 31, 2018**

List of Philippine Financial Reporting Standards (PFRSs) effective as at December 31, 2018

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
Effective as of December 31, 2018				
<b>Philippine Financial Reporting Standards</b>				
PFRS 1	First-time Adoption of Philippine Financial Reporting Standards			
PFRS 2	Share-based Payment			
	Amendments to PFRS 2, Classification and Measurement of Share-based Payment Transactions			
PFRS 3	Business Combinations			
PFRS 4	Insurance Contracts			
	Amendments to PFRS 4, Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts			
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			
PFRS 6	Exploration for and Evaluation of Mineral Resources			
PFRS 7	Financial Instruments: Disclosures			
PFRS 8	Operating Segments			
PFRS 9	Financial Instruments			
PFRS 10	Consolidated Financial Statements			
PFRS 11	Joint Arrangements			
PFRS 12	Disclosure of Interests in Other Entities			
PFRS 13	Fair Value Measurement			
PFRS 14	Regulatory Deferral Accounts			
PFRS 15	Revenue from Contracts with Customers			
<b>Philippine Accounting Standards</b>				
PAS 1	Presentation of Financial Statements			
PAS 2	Inventories			



PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
PAS 7	Statement of Cash Flows			
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors			
PAS 10	Events after the Reporting Period			
PAS 12	Income Taxes			
PAS 16	Property, Plant and Equipment			
PAS 17	Leases			
PAS 19	Employee Benefits			
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			
PAS 21	The Effects of Changes in Foreign Exchange Rates			
PAS 23	Borrowing Costs			
PAS 24	Related Party Disclosures			
PAS 26	Accounting and Reporting by Retirement Benefit Plans			
PAS 27	Separate Financial Statements			
PAS 28	Investments in Associates and Joint Ventures			
	Amendments to PAS 28, Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)			
PAS 29	Financial Reporting in Hyperinflationary Economies			
PAS 32	Financial Instruments: Presentation			
PAS 33	Earnings per Share			
PAS 34	Interim Financial Reporting			
PAS 36	Impairment of Assets			
PAS 37	Provisions, Contingent Liabilities and Contingent Assets			
PAS 38	Intangible Assets			
PAS 39	Financial Instruments: Recognition and Measurement			

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
Effective as of December 31, 2018				
PAS 40	Investment Property			
	Amendments to PAS 40, Transfers of Investment Property			
PAS 41	Agriculture			

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
Effective as of December 31, 2018				
<b>Philippine Interpretations</b>				
Philippine Interpretation IFRIC-1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			
Philippine Interpretation IFRIC-2	Members' Shares in Co-operative Entities and Similar Instruments			
Philippine Interpretation IFRIC-4	Determining whether an Arrangement contains a Lease			
Philippine Interpretation IFRIC-5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			
Philippine Interpretation IFRIC-6	Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment			
Philippine Interpretation IFRIC-7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			
Philippine Interpretation IFRIC-10	Interim Financial Reporting and Impairment			
Philippine Interpretation IFRIC-12	Service Concession Arrangements			
Philippine Interpretation IFRIC-14	PAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
Philippine Interpretation IFRIC-16	Hedges of a Net Investment in a Foreign Operation			
Philippine Interpretation IFRIC-17	Distributions of Non-cash Assets to Owners			
Philippine Interpretation IFRIC-19	Extinguishing Financial Liabilities with Equity Instruments			
Philippine Interpretation IFRIC-20	Stripping Costs in the Production Phase of a Surface Mine			
Philippine Interpretation IFRIC-21	Levies			
Philippine Interpretation IFRIC-22	Foreign Currency Transactions and Advance Consideration			
Philippine Interpretation SIC-7	Introduction of the Euro			
Philippine Interpretation SIC-10	Government Assistance—No Specific Relation to Operating Activities			
Philippine Interpretation SIC-15	Operating Leases—Incentives			
Philippine Interpretation SIC-25	Income Taxes—Changes in the Tax Status of an Entity or its Shareholders			
Philippine Interpretation SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			
Philippine Interpretation SIC-29	Service Concession Arrangements: Disclosures			
Philippine Interpretation	Intangible Assets—Web Site Costs			

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018	Adopted	Not Adopted	Not Applicable
SIC-32			

*Note: Standards and interpretations tagged as "Not Applicable" are those standards which were adopted and have no significant covered transaction as of and for the year ended December 31, 2018.*

**SCHEDULE IV**  
**UNITED PARAGON MINING CORPORATION**  
**RECONCILIATION OF RETAINED EARNINGS**  
**AVAILABLE FOR DIVIDEND DECLARATION**  
**PURSUANT TO SEC RULE 68, AS AMENDED AND**  
**SEC MEMORANDUM CIRCULAR NO. 11**  
**As of December 31, 2018**

		(P)
<b>Unappropriated Retained Earnings, beginning</b>		2,571,799,142)
Adjustments:		—
		(P)
<b>Unappropriated Retained Earnings, as adjusted, beginning</b>		2,571,799,142)
<b>Add: Net loss actually earned/realized during the period</b>	(59,350,717)	
Net income during the period closed to Retained Earnings		
Less: Non-actual/unrealized income net of tax	—	
Equity in net income of associate/joint venture	—	
Unrealized foreign exchange gain - net (except those attributable to cash)	—	
Unrealized actuarial gain	—	
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	—	
<b>Subtotal</b>	<u>—</u>	
<b>Add: Non-actual losses</b>		
Depreciation on revaluation increment (after tax)	—	
Adjustment due to deviation from PFRS/GAAP - loss	—	
Loss on fair value adjustment of investment property (after tax)	—	
<b>Subtotal</b>	<u>—</u>	
<b>Net loss actually earned during the period</b>		<u>(59,350,717)</u>
<b>Add (Less):</b>		
Dividend declarations during the period	—	
Appropriations of retained earnings	—	
Reversals of appropriations	—	
Effects of prior period adjustments	—	
Treasury shares	—	
<b>Subtotal</b>	<u>—</u>	<u>(59,350,717)</u>
<b>Unappropriated Retained Earnings, as adjusted, ending†</b>		<u><u>R —</u></u>

†Amount is zero since the reconciliation results to a deficit

**SCHEDULE A**

**UNITED PARAGON MINING CORPORATION  
FINANCIAL ASSETS IN EQUITY SECURITIES  
DECEMBER 31, 2018**

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
--	--	---	-----------------------------

NOT APPLICABLE			
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**SCHEDULE B**

**UNITED PARAGON MINING CORPORATION**  
**AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES AND PRINCIPAL STOCKHOLDERS**  
**(OTHER THAN RELATED PARTIES)**  
**DECEMBER 31, 2018**

Name and Designation of Debtor	Balance at Beginning period	Additions	Amounts Collected / Settlements	Amounts Written-off	Current	Not Current	Balance at end period
NOT APPLICABLE							

**SCHEDULE C**

**UNITED PARAGON MINING CORPORATION  
 AMOUNTS RECEIVABLE FROM RELATED PARTIES  
 WHICH ARE ELIMINATED DURING THE  
 CONSOLIDATION OF FINANCIAL STATEMENTS  
 DECEMBER 31, 2018**

Name and Designation of Debtor	Balance at Beginning period	Amounts Collected /Settlements	Amounts Written-off	Current	Not Current	Balance at end period
NOT APPLICABLE						



SCHEDULE D

UNITED PARAGON MINING CORPORATION  
 INTANGIBLE ASSETS - OTHER ASSETS  
 DECEMBER 31, 2018

Description	Beginning balance	Additions at cost	Charged to cost and expenses	Charged to other accounts	Other changes additions (deductions)	Ending balance
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NOT APPLICABLE

**SCHEDULE E**

**UNITED PARAGON MINING CORPORATION  
LONG-TERM DEBT  
DECEMBER 31, 2018  
(Amounts in Thousands)**

<b>Title of Issue and type of obligation</b>	<b>Amount authorized by: Indenture</b>	<b>Amount shown under the caption "Current Portion of long-term borrowings" in related balance sheet</b>	<b>Amount shown under the caption "Long-term borrowings- net of current portion" in related balance sheet</b>
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<b>NOT APPLICABLE</b>
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**SCHEDULE F**

**UNITED PARAGON MINING CORPORATION  
INDEBTEDNESS TO RELATED PARTIES  
(LONG-TERM LOANS FROM RELATED COMPANIES)  
DECEMBER 31, 2018**

Name of Related Party	Balance at beginning of period	Balance at end of period
	NOT APPLICABLE	

**SCHEDULE G**

**UNITED PARAGON MINING CORPORATION  
GUARANTEES OF SECURITIES OF OTHER ISSUERS  
DECEMBER 31, 2018**

Name of issuing entity of securities guaranteed by the Parent 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

**SCHEDULE H**

**UNITED PARAGON MINING CORPORATION  
CAPITAL STOCK  
DECEMBER 31, 2018**

The Company's authorized share capital is ₱4.0 billion divided into 397.3 billion shares at ₱0.01 par value. As at December 31, 2018, total shares issued and outstanding is 261,314,797,080 held by 1,194 shareholders.

Title of Issue	Number of shares authorized	Number of shares reserved		Principal/ Substantial Stockholders	No of shares held by Government	Banks	Others
		issued and outstanding as shown under related financial condition	for option, warrants, conversions Directors and Officers				
Common Stock	397,325,000,000	261,314,797,080	689,814,318	205,328,291,218	-	-	55,296,691,544



**UNITED PARAGON MINING CORP.**  
6<sup>th</sup> Flr Quad Alpha Centrum Bldg.  
125 Pioneer St. Mandaluyong  
Tel No. 635-6130

## **STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS**

The management of **UNITED PARAGON MINING CORPORATION** is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2018 and 2017, 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 a going concern, disclosing, as applicable matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

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

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

Signature: **ALFREDO C. RAMOS**  
*Chairman of the Board*

Signature: **GERARD ANTON S. RAMOS**  
*Chief Executive Officer*

Signature: **GILBERT VIRABAGO**  
*Chief Financial Officer*

Signed this **APR 25 2019**  
day of \_\_\_\_\_

SUBSCRIBED AND SWORN TO before me this APR 25 2019 day of 2019 in MANDALUYONG City, affiants exhibiting to me their competent proofs of identity with details below:

<u>Name</u>	<u>Competent Proof of Identity</u>	<u>Expiry Date / Place Issued</u>
Alfredo C. Ramos	Passport No. EC8370209	July 20, 2021/DFA NCR East
Gerard Anton S. Ramos	Passport No. P7752563A	June 29, 2028 / DFA NCR South
Gilbert V. Rabago	PRC No. 0105874	March 20, 2020 /PRC Manila

Doc. No. 159  
 Page No. 33  
 Book No. 52  
 Series of 2019.

**ATTY. JAMES K. ABUKEAN**  
 NOTARY PUBLIC  
 App. No. 8-16-10  
 Until Dec. 31, 2019  
 IBP No. 0525, 7-10-11-1013  
 Roll No. 2501-10-10-10  
 BACLE No. VI-6812878-10-10-10-10-2022  
 TIN No. 116-200-10  
 PTR No. 38115161-10-10-10-10-10  
 TA No. 631-48-50  
 MANDALUYONG CITY  
 MANDALUYONG CITY

PLEASE STAMP WITH SEC  
 AFTER THE SEC 106  
 STAMP IS RECEIVED

# COVER SHEET

for  
**AUDITED FINANCIAL STATEMENTS**

SEC Registration Number

4	0	9	3	8					
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**COMPANY NAME**

U	N	I	T	E	D	P	A	R	A	G	O	N	M	I	N	I	N	G	C	O	R	P	O	R	A	T	
I	O	N																									

**PRINCIPAL OFFICE (No. / Street / Barangay / City / Town / Province)**

6	t	h	F	l	o	o	r	Q	u	a	d	A	l	p	h	a	C	e	n	t	r	u	m	,			
1	2	5	P	i	o	n	e	e	r	S	t	.	M	a	n	d	a	l	u	y	o	n	g	C	i	t	y

Form Type

A	A	F	S
---	---	---	---

Department requiring the report

C	R	M	D
---	---	---	---

Secondary License Type, If Applicable

N	/	A
---	---	---

**COMPANY INFORMATION**

Company's Email Address

**info@unitedparagon.com**

Company's Telephone Number

**(632) 636-5133**

Mobile Number

**N/A**

No. of Stockholders

**1,193**

Annual Meeting (Month / Day)

**Month of May**

Fiscal Year (Month / Day)

**12/31**

**CONTACT PERSON INFORMATION**

The designated contact person **MUST** be an Officer of the Corporation

Name of Contact Person

**Gilbert Rabago**

Email Address

**gilbert.rabago@unitedparagon.com**

Telephone Number/s

**(02) 631-5139**

Mobile Number

**N/A**

**CONTACT PERSON'S ADDRESS**

**6th Floor, Quad Alpha Centrum Building, 125 Pioneer Street, Mandaluyong City**

**NOTE 1:** In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

**2:** All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.





## INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders  
United Paragon Mining Corporation  
6th Floor Quad Alpha Centrum  
125 Pioneer St., Mandaluyong City

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of United Paragon Mining Corporation (the Company), which comprise the statements of financial position as at December 31, 2018 and 2017, and statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2018, and notes to the financial statements, including a summary of significant accounting policies.

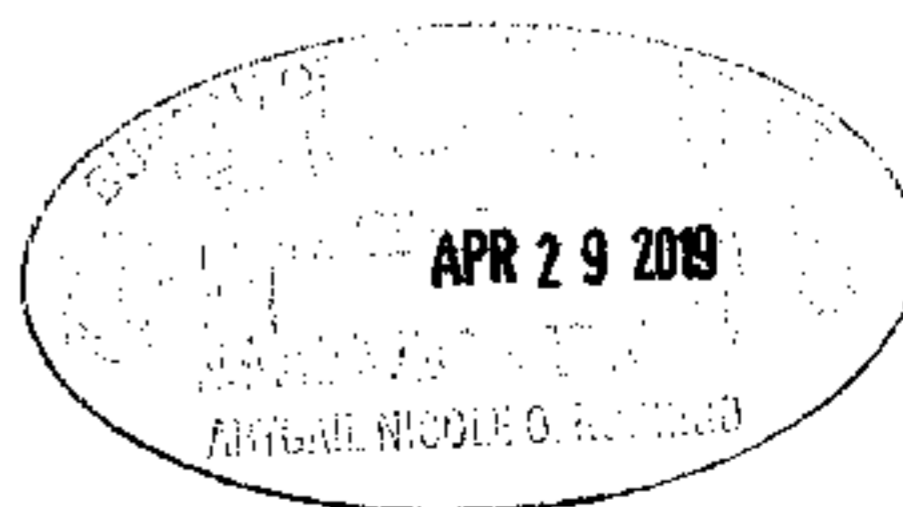
In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2018 in accordance with Philippine Financial Reporting Standards (PFRSs).

#### Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company 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 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.

#### Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the financial statements, which indicates that the Company has incurred cumulative losses, and has negative working capital and negative operating cash flows. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicates that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as going concern. Our opinion is not modified in respect of this matter.



## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the 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.

In addition to the matters described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the 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 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 financial statements.

### *Recoverability of deferred exploration cost*

The carrying values of deferred exploration costs as at December 31, 2018 amounting to ₱83.9 million represent expenditures incurred by the Company for the Longos Mine. PFRSs requires the Company to assess the recoverability of its deferred exploration costs when facts and circumstances suggest that the carrying amount exceeds its recoverable amount. The ability of the Company to recover its deferred exploration costs would depend on the commercial viability of the reserves. The significant management judgment required in assessing whether there is an indication of impairment is a key area of focus on our audit.

The disclosures related to recoverability of deferred exploration cost are included in Notes 4 and 9 to the financial statements.

### *Audit Response*

We obtained management's assessment on whether there is any indication that deferred exploration costs may be impaired and reviewed relevant updates on the current status of the Longos Mine under exploration and future management plans. We inspected the licenses/permits of each exploration project to determine that the period for which the Company has the right to explore in the specific area has not expired and will not expire within the period of their plan of operation. We also reviewed the Company's relevant disclosures. 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.

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

The net book value of the Company's property, plant and equipment amounted to ₱994.6 million as at December 31, 2018. The Company is currently under exploration status upon receipt of exploration permit dated August 20, 2018. Under PFRSs, the Company assesses, at each reporting period whether there is an indication that these assets may be impaired. The assessment of the recoverable amount of property, plant and equipment related to Longos Mine project requires significant judgment and involves estimation and assumptions about future production levels and costs, as well as external inputs such as gold prices and discount rate. Hence, such assessment is a key audit matter in our audit.

APR 29 2019



The disclosure related to recoverability of property, plant and equipment are included in Notes 4 and 8 to the financial statements.

#### *Audit Response*

We involved our internal specialist in evaluating the methodologies and the assumptions used in determining the recoverability of the property, plant and equipment, which key assumptions include the future production levels and costs, gold prices and discount rate. We compared the key inputs such as future production levels and costs against project feasibility report and gold prices against externally published data. We carried out an update discussion with the consultants who were part of the feasibility study team on the basis of the estimated production levels and costs and anticipated changes. We tested the parameters used in the determination of the discount rate against market data. We also reviewed the Company'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.

#### **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, 2018. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2018 are expected to be made available to us after the date of this auditor's report.

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

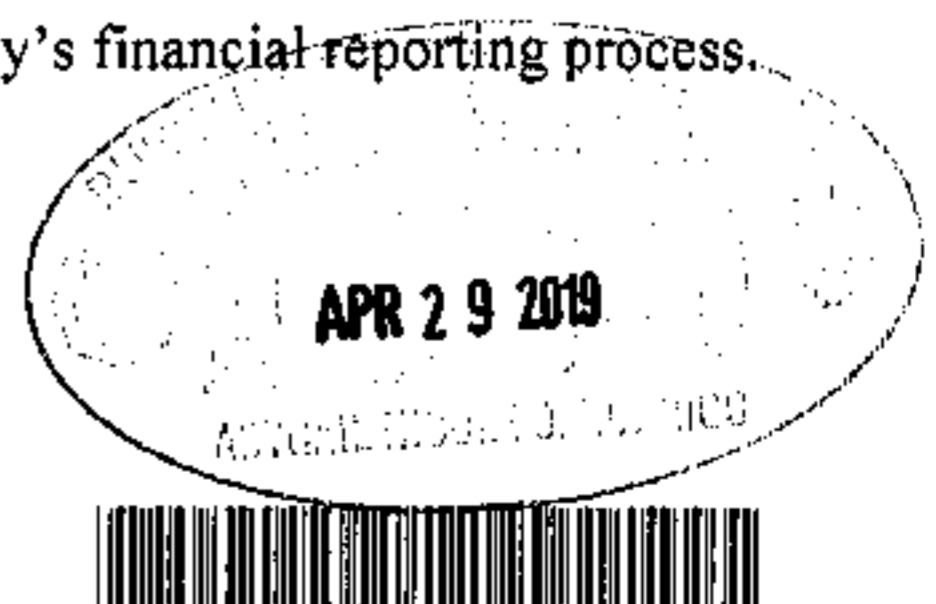
In connection with our audits of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRSs, 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 a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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



### **Auditor's Responsibilities for the Audit of the Financial Statements**

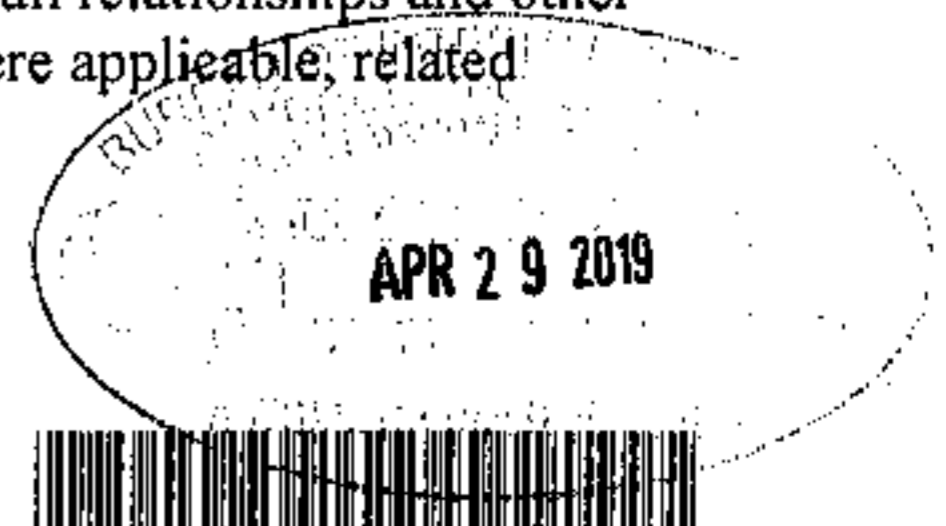
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee 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 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 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 Company'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 Company'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 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 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.

#### **Report on the Supplementary Information Required Under Revenue Regulations 15-2010**

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 24 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of United Paragon Mining Corporation. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The engagement partner on the audit resulting in this independent auditor's report is  
Ma. Genalin Q. Arevalo.

SYCIP GORRES VELAYO & CO.

*Ma. Genalin Q. Arevalo*

Ma. Genalin Q. Arevalo

Partner

CPA Certificate No. 108517

SEC Accreditation No. 1613-A (Group A),

March 2, 2017, valid until March 1, 2020

Tax Identification No. 224-024-926

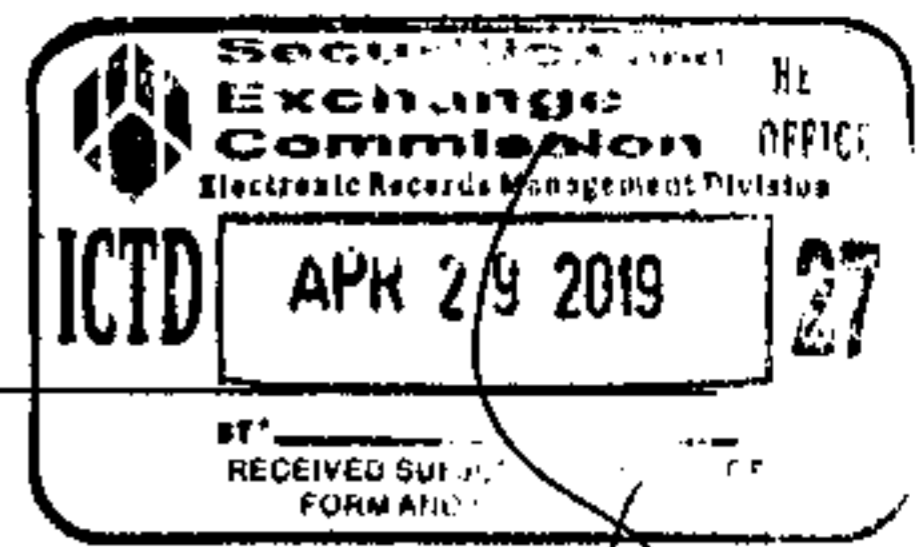
BIR Accreditation No. 08-001998-123-2017,

February 9, 2017, valid until February 8, 2020

PTR No. 7332522, January 3, 2019, Makati City

April 1, 2019





**UNITED PARAGON MINING CORPORATION**  
**STATEMENTS OF FINANCIAL POSITION**

December 31

	2018	2017
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash (Note 5)	₱662,437	₱673,274
Materials and supplies (Note 6)	17,327,500	17,324,202
Other current assets (Note 7)	5,460,308	5,793,810
<b>Total Current Assets</b>	<b>23,450,245</b>	<b>23,791,286</b>
<b>Noncurrent Assets</b>		
Property, plant and equipment (Note 8)	994,641,400	994,822,492
Deferred exploration costs (Note 9)	83,944,446	81,370,657
Other noncurrent assets (Note 7)	14,368,960	14,163,171
<b>Total Noncurrent Assets</b>	<b>1,092,954,806</b>	<b>1,090,356,320</b>
<b>TOTAL ASSETS</b>	<b>₱1,116,405,051</b>	<b>₱1,114,147,606</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and other current liabilities (Note 10)	₱830,839,435	₱779,144,325
Due to related parties (Note 11)	255,255,969	245,855,969
Redeemable preferred shares (Note 12)	26,100,000	26,100,000
Income tax payable (Note 19)	4	14,245
<b>Total Current Liabilities</b>	<b>1,112,195,408</b>	<b>1,051,114,539</b>
<b>Noncurrent Liability</b>		
Pension liability (Note 13)	1,088,405	1,109,915
<b>Total Liabilities</b>	<b>1,113,283,813</b>	<b>1,052,224,454</b>
<b>Equity</b>		
Capital stock - ₱0.01 par value (Note 15)		
Authorized - 397,325,000,000 shares		
Issued - 261,314,797,080 shares	2,613,147,971	2,613,147,971
Additional paid-in capital	19,449,376	19,449,376
Remeasurement gains on retirement benefits obligation (Note 13)	1,403,559	1,124,947
Deficit (Note 2)	(2,630,879,668)	(2,571,799,142)
<b>Total Equity</b>	<b>3,121,238</b>	<b>61,923,152</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>₱1,116,405,051</b>	<b>₱1,114,147,606</b>

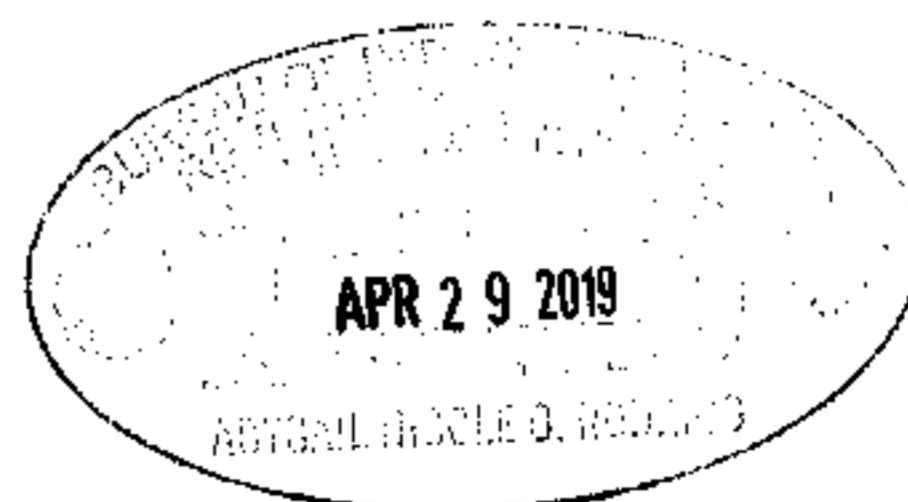
See accompanying Notes to Financial Statements



**UNITED PARAGON MINING CORPORATION**  
**STATEMENTS OF COMPREHENSIVE INCOME**

	Years Ended December 31		
	2018	2017	2016
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b> (Note 16)	<b>₱6,695,044</b>	<b>₱9,961,761</b>	<b>₱14,761,531</b>
<b>OTHER EXPENSES (INCOME)</b>			
Interest expenses (Note 17)	47,267,501	42,209,731	37,914,671
Foreign exchange loss - net	5,120,332	226,733	5,132,340
Interest income (Note 5)	(2,155)	(2,991)	(7,670)
Other income (Note 18)	(200)	(714,233)	(6,571)
	<b>52,385,478</b>	<b>41,719,240</b>	<b>43,032,770</b>
<b>LOSS BEFORE INCOME TAX</b>	<b>59,080,522</b>	<b>51,681,001</b>	<b>57,794,301</b>
<b>PROVISION FOR CURRENT INCOME TAX</b> (Note 19)	<b>4</b>	<b>14,245</b>	<b>131</b>
<b>NET LOSS</b>	<b>59,080,526</b>	<b>51,695,246</b>	<b>57,794,432</b>
<b>OTHER COMPREHENSIVE LOSS (INCOME)</b> <i>Item that will not be reclassified to profit or loss:</i>			
Remeasurement loss (gain) on retirement benefits obligation (Note 13)	(278,612)	(200,005)	107,781
<b>TOTAL COMPREHENSIVE LOSS</b>	<b>₱58,801,914</b>	<b>₱51,495,241</b>	<b>₱57,902,213</b>
<b>Basic and Diluted Loss Per Share</b> (Note 20)	<b>₱0.0002</b>	<b>₱0.0002</b>	<b>₱0.0002</b>

See accompanying Notes to Financial Statements.



**UNITED PARAGON MINING CORPORATION**  
**STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016**

	Capital stock (Note 15)	Additional paid-in capital	Remeasurement gains (loss) on retirement benefit obligation (Note 13)	Deficit	Total
<b>Balances at January 1, 2016</b>	<b>₱2,613,147,971</b>	<b>₱19,449,376</b>	<b>₱1,032,723</b>	<b>(₱2,462,309,464)</b>	<b>₱171,320,606</b>
Net loss	-	-	-	(57,794,432)	(57,794,432)
Other comprehensive loss	-	-	(107,781)	-	(107,781)
<b>Total comprehensive loss</b>	<b>-</b>	<b>-</b>	<b>(107,781)</b>	<b>(57,794,432)</b>	<b>(57,902,213)</b>
<b>Balances at December 31, 2016</b>	<b>2,613,147,971</b>	<b>19,449,376</b>	<b>924,942</b>	<b>(2,520,103,896)</b>	<b>113,418,393</b>
Net loss	-	-	-	(51,695,246)	(51,695,246)
Other comprehensive income	-	-	200,005	-	200,005
<b>Total comprehensive loss</b>	<b>-</b>	<b>-</b>	<b>200,005</b>	<b>(51,695,246)</b>	<b>(51,495,241)</b>
<b>Balances at December 31, 2017</b>	<b>2,613,147,971</b>	<b>19,449,376</b>	<b>1,124,947</b>	<b>(2,571,799,142)</b>	<b>61,923,152</b>
Net loss	-	-	-	(59,080,526)	(59,080,526)
Other comprehensive income	-	-	278,612	-	278,612
<b>Total comprehensive loss</b>	<b>-</b>	<b>-</b>	<b>278,612</b>	<b>(59,080,526)</b>	<b>(58,801,914)</b>
<b>Balances at December 31, 2018</b>	<b>₱2,613,147,971</b>	<b>₱19,449,376</b>	<b>₱1,403,559</b>	<b>(₱2,630,879,668)</b>	<b>₱3,121,238</b>

*See accompanying Notes to Financial Statements.*





**UNITED PARAGON MINING CORPORATION**  
**STATEMENTS OF CASH FLOWS**

	Years Ended December 31		
	2018	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Loss before income tax	(P59,080,522)	(P51,681,001)	(P57,794,301)
Adjustments for:			
Interest expense (Note 17)	47,267,501	42,209,731	37,914,671
Unrealized foreign exchange losses	5,120,332	226,733	5,132,340
Net change in pension liability (Note 13)	257,102	280,697	156,047
Depreciation (Notes 8 and Note 16)	181,092	517,871	1,115,111
Interest income (Note 5)	(2,155)	(2,991)	(7,670)
Gain on disposal of property and equipment (Note 18)	(200)	(625,850)	-
Operating loss before working capital changes	(6,256,850)	(9,074,810)	(13,483,802)
Decrease (increase) in:			
Materials and supplies	(3,298)	31,590	203,545
Other current assets	333,502	(207,622)	14,091
Decrease in accounts payable and other current liabilities	577,468	(1,000,607)	(383,766)
Net cash used in operations	(5,349,178)	(10,251,449)	(13,649,932)
Interest paid	(1,270,191)	-	-
Income taxes paid	(14,245)	(131)	(7,951)
Interest received	2,155	2,991	7,670
Net cash flows used in operating activities	(6,631,459)	(10,248,589)	(13,650,213)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Additions to deferred exploration costs (Note 9)	(2,573,789)	-	(4,480,000)
Additions to other noncurrent assets	(205,789)	(194,843)	(255,553)
Proceeds from disposal of property and equipment (Note 18)	200	625,850	-
Net cash flows from (used in) investing activities	(2,779,378)	431,007	(4,735,553)
<b>CASH FLOWS FROM A FINANCING ACTIVITY</b>			
Additional advances from related parties (Note 11)	9,400,000	9,976,981	8,180,000
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>(10,837)</b>	<b>159,399</b>	<b>(10,205,766)</b>
<b>CASH AT BEGINNING OF YEAR</b>	<b>673,274</b>	<b>513,875</b>	<b>10,719,641</b>
<b>CASH AT END OF YEAR (Note 5)</b>	<b>P662,437</b>	<b>P673,274</b>	<b>P513,875</b>

See accompanying Notes to Financial Statements.



# **UNITED PARAGON MINING CORPORATION**

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## **NOTES TO FINANCIAL STATEMENTS**

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### **1. Corporate Information**

#### Corporate Information

United Paragon Mining Corporation (the Company) was the name given to United Asia Resources and Geothermal Corporation (UARGC), surviving corporation, when the Securities and Exchange Commission (SEC) approved the merger of UARGC and Abcar-Paragon Mining Corporation (APMC) on January 29, 1990. The more significant provisions of the merger, which for accounting purposes were effective July 31, 1989, included the acquisition of assets and assumption of APMC's obligations by UARGC through issuance of shares of stock. UARGC was registered with the Philippine SEC on April 10, 1970 with a corporate term of fifty (50) years.

The Company's major activities are principally devoted to the exploration and development of its underground mining operations for the extraction of gold.

No person or entity holds more than 50% of the Company's voting securities. Accordingly, the Company has no parent company.

The Company's registered office address is 6th Floor Quad Alpha Centrum, 125 Pioneer St., Mandaluyong City. Its exploration and mining operations are located in Longos, Paracale, Camarines Norte.

The financial statements of the Company as at December 31, 2018 and 2017 and for each of the three years in the period ended December 31, 2018, were authorized for issue by the Board of Directors (BOD) on April 1, 2019.

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### **2. Status of Operations and Management Plans**

As shown in the financial statements, the Company incurred cumulative losses of ₱2,630.9 million and ₱2,571.8 million as at December 31, 2018 and 2017, respectively. As at December 31, 2018 and 2017, the Company's current liabilities exceeded its current assets by ₱1,077.9 million and ₱1,016.5 million, respectively. Net cash flows used in operating activities amounted to ₱6.6 million, ₱10.2 million and ₱13.7 million in 2018, 2017 and 2016, respectively. These conditions, among others, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern, and, therefore that it may be unable to realize its assets and discharge its liabilities in the normal course of business. The ultimate outcome of these uncertainties cannot be determined presently. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

Management's actions and plans to improve and sustain the Company's operations include the following, among others:

- a. The Company will examine various project financing options to fund its exploration work program;
- b. The Company will continue with its exploration and drilling activities since it already received its Exploration Permit dated August 20, 2018; and,
- c. The Company continues to dispose scrap, obsolete and excess assets to raise additional funds and to meet its current operating costs under exploration status.



Further, the Company's major shareholder, Alakor Corporation, is financially capable and committed to provide full support in the operations of the Company to implement the approved exploration work program, environmental work program, and community development program.

Prior to April 1, 1994, start of commercial operations of the underground mine, significant costs and expenses incurred by both APMC and UARGC, and subsequently by the Company, were deferred in the accounts with the expectation that they would benefit future periods and were recorded as deferred exploration costs amounting to ₱83.4 million.

The underground Shaft 4 mining operations was discontinued in December 1998 to avoid further operating losses and to preserve the remaining reserves for future extraction from the Main Shaft at a profitable level. Following the suspension of its underground mining operations, the Company retrenched its employees and paid separation pay totaling ₱24.6 computed in accordance with the provisions of the Labor Code of the Philippines.

The Company continued to explore and drill certain mining properties on a limited scale to find additional ore reserves to sustain an expanded operation in the future. However, in February 2004, the Company temporarily suspended its drilling operations pending receipt of mineral production sharing agreement for the San Mauricio group of mining claims. Also, in 2004, the BOD and stockholders of the Company approved the proposed capital restructuring which was approved by SEC in July 2008. As discussed in Note 15 to the financial statements, the capital restructuring reduced the Company's deficit and capital deficiency by ₱460.5 million and resulted in the termination of accrual of interest on advances from related parties that were converted to equity.

On July 30, 2007, the Company's Option and Operating Agreements with Camarines Minerals, Inc. (CMI) were extended for 25 years or co-terminus with the relevant mineral production sharing agreement that may be approved by the Government of the Philippines (see Note 21).

In December 2009, the Mines and Geoscience Bureau (MGB) Central Office returned all documents pertaining to said Mineral Production Sharing Agreement (MPSA) Application to MGB R-V for completion of the deficiency documents. The Company had completed and submitted the remaining deficiencies for the above MPSA to MGB R-V and were subsequently endorsed to MGB Central Office in June 2010. The Company received a letter from MGB Central Office dated September 9, 2015 returning the said application to MGB Regional Office for further evaluation.

On February 4, 2013, the Company's APSA-000375-V has been converted into an Exploration Permit and now is renumbered as EXPA-000180-V. The MGB, in its memorandum dated June 24, 2016, has issued a clearance to issue the exploration permit, but was held in abeyance in view of the Moratorium on the processing and approval of mining applications, pursuant to Department Memorandum order (DMO) No. 2016-01 dated July 8, 2016.

Furthermore, newly-appointed Department of Environment and Natural Resources (DENR) Secretary issued Memorandum Order No. 2016-01 on July 8, 2016, requiring an audit of all operating mines and a moratorium on the acceptance, processing and/or approval of mining applications and/or mining projects for all metallic and non-metallic minerals.

On August 20, 2018, exploration permit No. EP-016-2016-V has been issued by the MGB Regional Office No. V, Legazpi City in favor of the Company which will expire in August 19, 2020.



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### 3. **Basis of Preparation, Statement of Compliance, Changes in Accounting Policy and Summary of Significant Accounting Policies**

#### Basis of Preparation

The accompanying financial statements have been prepared using the historical cost basis. The financial statements are presented in Philippine peso (₱), which is the Company's functional currency and presentation currency in compliance with Philippine Financial Reporting Standards (PFRSs). All amounts are rounded off to the nearest peso, except when otherwise indicated.

#### Statement of Compliance

The Company's financial statements have been prepared in accordance with PFRSs.

#### Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year, except that the Company has adopted the following new accounting pronouncements starting 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. Entities are required to apply the amendments to: (1) share-based payment transactions that are unvested or vested but unexercised as of January 1, 2018, (2) share-based payment transactions granted on or after January 1, 2018 and to (3) modifications of share-based payments that occurred on or after January 1, 2018. Retrospective application is permitted if elected for all three amendments and if it is possible to do so without hindsight.

The Company has assessed that the adoption of these amendments did not have any impact on the 2018 financial statements as it has no share-based payment transactions.

- *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. 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 Company applied PFRS 9 using modified retrospective approach, and chose not to restate comparative figures as permitted by the transitional provisions of PFRS 9, thereby resulting in the following impact:

- The classification and measurement requirements previously applied in accordance with PAS 39 and disclosures requirements in PFRS 7 are retained for the comparative period. Accordingly, the information presented for the comparative period does not reflect the requirements of PFRS 9.



- The Company discloses the accounting policies for both the current and the comparative periods, one applying PFRS 9 beginning January 1, 2018 and one applying PAS 39 as at December 31, 2017.
- The difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application is recognized in the opening retained earnings or other component of equity, as appropriate.
- As comparative information is not restated, the Company is not required to provide a third statement of financial information at the beginning of the earliest comparative period in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*.

As at January 1, 2018, the Company has reviewed and assessed all its existing financial assets.

- *Classification and Measurement.* PFRS 9 requires debt instruments to be classified either at amortized cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVPL). Classification under PFRS 9 for debt instruments depends on the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI).

An entity's business model is how an entity manages its financial assets in order to generate cash flows and create value for the entity either from collecting contractual cash flows, selling financial assets, or both. If a debt instrument is held to collect contractual cash flows, it is classified as at amortized cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held both to collect the assets' contractual cash flows and to sell the assets are classified as FVOCI.

Under the new model, FVPL is the residual category - financial assets should therefore be classified as FVPL if they do not meet the criteria of FVOCI or amortized cost. Regardless of the business model assessment, an entity can elect to classify a financial asset at FVPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency.

The Company's debt instruments have contractual cash flows that are solely payments of principal and interest and accordingly measured at amortized cost under PFRS 9. There is no significant impact arising from measurement of these instruments under PFRS 9. PFRS 9 requires all equity instruments to be carried at FVPL, unless an entity chooses, on an instrument-by-instrument basis on initial recognition, to present fair value changes in other comprehensive income.

The Company has assessed which business model apply to the financial assets held by the Company at the date of initial application of PFRS 9 and has classified its financial instruments into the appropriate PFRS 9 categories.



Summarized below is the effect of adoption of PFRS 9 in the classification of the Company's financial assets at January 1, 2018:

Financial Instruments	Under PAS 39		Remeasurements/ Reclassifications	Under PFRS 9	
	Classification	Amount		Classification	Amount
<b>Financial Assets</b>					
Cash	Loans and receivables (measured at amortized cost)	₱673,274	₱-	Financial assets measured at amortized cost	₱673,274
<b>Financial Liabilities</b>					
Accounts payable and other current liabilities	Financial liabilities measured at amortized cost	778,718,446	-	Financial liabilities measured at amortized cost	778,718,446
Due to related parties	Financial liabilities measured at amortized cost	245,855,968	-	Financial liabilities measured at amortized cost	245,855,968
Redeemable preferred shares	Financial liabilities measured at amortized cost	26,100,000	-	Financial liabilities measured at amortized cost	26,100,000

**Impairment.** The new impairment model for financial assets requires the recognition of allowance of impairment losses on financial assets based on expected credit losses, rather than only incurred credit losses as under current PAS 39. The adoption of new impairment model under PFRS 9 did not result in any adjustment to the opening balance of retained earnings.

In conclusion, the effect of adoption of PFRS 9 has no material impact on the Company's financial statements.

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

The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the new insurance contracts standard. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018. An entity may elect the overlay approach when it first applies PFRS 9 and apply that approach retrospectively to financial assets designated on transition to PFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying PFRS 9.

The amendments are not applicable to the Company since it does not 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 five-step model is as follows:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract



3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when (or as) the entity satisfies a performance obligation.

While the Company elected to apply the modified retrospective approach in the adoption of PFRS 15, it did not result to a cumulative adjustment in the retained earnings as at January 1, 2018 based on the Company's evaluation.

In conclusion, the adoption had no significant impact on the substance of the principles applied by the Company to the amount and timing of revenue recognition.

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

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

The amendments are not applicable to the Company since it is not a venture capital organization or an investment entity, nor does the Company has associates or joint ventures that are investment entities.

- 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. Retrospective application of the amendments is not required and is only permitted if this is possible without the use of hindsight.

Adoption of these amendments did not have any impact on the financial statements as the Company does not have investment property.

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

The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transaction for each payment or receipt of advance consideration. Retrospective application of this interpretation is not required.



The Company's current practice is in line with the clarifications issued and did not have any effect on its financial statements.

New Standards and Interpretation Issued and Effective after December 31, 2018

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

*Effective Beginning On or After January 1, 2019*

▪ *Amendments to PFRS 9, Prepayment Features with Negative Compensation*

Under PFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from January 1, 2019, with earlier application permitted.

These amendments are expected to have no impact on the financial statements of the Company.

▪ *PFRS 16, Leases*

PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases. PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17.

A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

The Company is currently assessing the impact of adopting PFRS 16 and plans to adopt the new standard on the required effective date.





▪ Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*

The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after January 1, 2019, with early application permitted.

These amendments will apply only to any future plan amendments, curtailments, or settlements of the Company.

▪ Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*

The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in PFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying PFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying PAS 28, *Investments in Associates and Joint Ventures*.

The amendments should be applied retrospectively and are effective from January 1, 2019, with early application permitted.

Since the Company does not have long-term interests in associate and joint venture to which equity method is not applied, the amendments will not have an impact on its financial statements.



▪ *Philippine Interpretation IFRIC 23, Uncertainty over Income Tax Treatments*

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12, *Income Taxes*, and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

The Company plans to adopt the interpretation on the required effective date and does not expect it to have a significant impact on the financial statements.

▪ *Annual Improvements to PFRSs 2015-2017 Cycle*

- *Amendments to PFRS 3, Business Combinations, and PFRS 11, Joint Arrangements, Previously Held Interest in a Joint Operation*

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in PFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019 and to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted.

These amendments are currently not applicable to the Company but may apply to future transactions.



- Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application is permitted.

These amendments do not apply to the Company because dividends declared by the Company do not give rise to tax obligations under the current tax laws.

- Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted.

The Company plans to apply these amendments on the required effective date.

#### *Effective Beginning On or After January 1, 2020*

- Amendments to PFRS 3, *Definition of a Business*

The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

These amendments will apply to future business combinations of the Company.

- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*

The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements.



An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

*Effective Beginning On or After January 1, 2021*

▪ **PFRS 17, *Insurance Contracts***

PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted.

The new standard is expected to have no significant impact on the financial statements of the Company because it is not engaged in the insurance business.

*Deferred Effectivity*

▪ **Amendments to PFRS 10, *Consolidated Financial Statements*, 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. 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 deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) completes 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.

These amendments are expected to have no impact on the financial statements of the Company.



## Summary of Significant Accounting Policies

### Current versus Noncurrent Classification

The Company presents assets and liabilities in the statement of financial position based on current/noncurrent classification. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within 12 months after the reporting date; or,
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting date.

All other assets are classified as noncurrent.

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within 12 months after the reporting date; or,
- There is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting date.

The Company classifies all other liabilities as noncurrent.

Deferred income tax assets and liabilities are classified as noncurrent assets and liabilities.

### Fair Value Measurement

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

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

The principal or the most advantageous market must be accessible to the Company. 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 Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

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



is significant to the fair value measurement as a whole:

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

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by reassessing 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 Company 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.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 22.

#### Presentation of Financial Statements

The Company has elected to present all items of recognized income and expense in a single statement of comprehensive income.

#### Financial Instruments

##### *Initial Recognition*

Financial instruments are recognized in the statement of financial position when the Company becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the trade date (i.e., the date that the Company commits to purchase or sell the asset).

Financial assets and financial liabilities are recognized initially at fair value. Transaction costs are included in the initial measurement of all financial assets and liabilities, except for financial instruments measured at FVPL.

##### *Classification and Subsequent Measurement Prior to January 1, 2018*

##### *Financial Assets*

Financial assets are classified in the following categories: financial assets at FVPL, loans and receivables, AFS financial assets, held-to-maturity (HTM) investment, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The classification depends on the purpose for which the financial assets were acquired and whether they are quoted in an active market. The Company determines the classification at initial recognition and, where allowed and appropriate, re-evaluates this designation at every reporting date.

- *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 at FVPL or



designated as AFS financial asset. After initial recognition, loans and receivables are 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 fee or costs that are an integral part of the EIR. The EIR amortization is included in the "Interest income" account in the statement of comprehensive income. Any losses arising from impairment are recognized in "General and administrative expenses" in the statement of comprehensive income.

As at December 31, 2017, the Company's loans and receivables include cash.

#### *Financial Liabilities*

Financial liabilities are classified into financial liabilities at FVPL and other financial liabilities, as appropriate.

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.

The Company's financial liabilities are in the nature of other financial liabilities. As at December 31, 2017, the Company has no financial liabilities at FVPL.

- *Other Financial Liabilities.* This category pertains to financial liabilities that are not held for trading or not designated as at FVPL upon the inception of the liability. These include liabilities arising from operations and borrowings. Issued financial instruments or their components, which are not classified as at FVPL are classified as other financial liabilities, where the substance of the contractual arrangement results in the Company 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, other financial liabilities are measured at amortized cost using the EIR method. The EIR amortization is included in the "Interest expenses" in the statement of comprehensive income.

As at December 31, 2017, the Company's other financial liabilities include accounts payable and other current liabilities (excluding statutory payables), due to related parties and redeemable preferred shares (see Notes 10, 11 and 12).

#### *Impairment of Financial Assets Prior to January 1, 2018*

The Company assesses at each end of the reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial asset is deemed impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has or have occurred after initial recognition of the asset (an incurred "loss event") and that loss has an impact on the estimated future cash flows of the financial asset or the group of financial asset that can be reliably estimated.



Objective evidence includes observable data that comes to the attention of the Company about loss events such as but not limited to significant financial difficulty of the counterparty, a breach of contract, such as a default or delinquency in interest or principal payments, probability that borrower will enter bankruptcy or other financial reorganization.

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

For the purpose of a collective assessment of impairment, financial assets are grouped on the basis of such credit risk characteristics such as customer type, payment history, past-due status and term. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the Company. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Company to reduce any difference between loss estimates and actual loss experience.

If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original EIR (i.e., the EIR computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is recognized in the statement of comprehensive income. Interest income continues to be recognized based on the reduced amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Receivables, together with the associated allowance accounts, are written-off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the statement of comprehensive income by adjusting the allowance account.

#### *Classification and Measurement Effective January 1, 2018*

*Classification of Financial Assets.* Financial assets are classified in their entirety based on the contractual cash flows characteristics of the financial assets and the Company's business model for managing the financial assets. The Company classifies its financial assets into the following measurement categories:

- Financial assets measured at amortized cost;
- Financial assets measured at FVPL;
- Financial assets measured at FVOCI, where cumulative gains or losses previously recognized are reclassified to profit or loss
- Financial assets measured at FVOCI, where cumulative gains or losses previously recognized are not reclassified to profit or loss





*Contractual Cash Flows Characteristics.* If the financial asset is held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, the Company assesses whether the cash flows from the financial asset represent solely payments of principal and interest (SPPI) on the principal amount outstanding.

In making this assessment, the Company determines whether the contractual cash flows are consistent with a basic lending arrangement, i.e., interest includes consideration only for the time value of money, credit risk and other basic lending risks and costs associated with holding the financial asset for a particular period of time. In addition, interest can include a profit margin that is consistent with a basic lending arrangement. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual terms that introduce exposure to risks or volatility in the contractual cash flows that is unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are solely payments of principal and interest on the principal amount outstanding.

*Business Model.* The Company's business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Company's business model does not depend on management's intentions for an individual instrument.

The Company's business model refers to how it manages its financial assets in order to generate cash flows. The Company's business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. Relevant factors considered by the Company in determining the business model for a group of financial assets include how the performance of the business model and the financial assets held within that business model are evaluated and reported to the Company's key management personnel, the risks that affect the performance of the business model (and the financial assets held within that business model) and how these risks are managed and how managers of the business are compensated.

- *Financial Assets at Amortized Cost.* A debt financial asset is measured at amortized cost if (a) it is held within a business model for which the objective is to hold financial assets in order to collect contractual cash flows and (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These financial assets are initially recognized at fair value plus directly attributable transaction costs and subsequently measured at amortized cost using the EIR method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in "Interest income" in the statement of income and is calculated by applying the EIR to the gross carrying amount of the financial asset, except for (a) purchased or originated credit-impaired financial assets and (b) financial assets that have subsequently become credit-impaired, where, in both cases, the EIR is applied to the amortized cost of the financial asset. Losses arising from impairment are recognized in profit or loss.

As at December 31, 2018, the Company has financial assets at amortized cost consisting of cash (see Note 5).

- *Financial Assets at FVPL.* Financial assets at FVPL are measured at FVPL unless these are measured at amortized cost or at FVOCI. Included in this classification are equity investments held for trading and debt instruments with contractual terms that do not represent solely payments



of principal and interest. Financial assets held at FVPL are initially recognized at fair value, with transaction costs recognized in the statement of income as incurred. Subsequently, they are measured at fair value and any gains or losses are recognized in the statement of income.

Additionally, even if the asset meets the amortized cost or the FVOCI criteria, the Company may choose at initial recognition to designate the financial asset at FVPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency (an accounting mismatch) that would otherwise arise from measuring financial assets on a different basis.

Trading gains or losses are calculated based on the results arising from trading activities of the Company, including all gains and losses from changes in fair value for financial assets and financial liabilities at FVPL, and the gains or losses from disposal of financial investments.

As at December 31, 2018, the Company has no equity instruments at FVPL.

- *Financial Assets at FVOCI.* A financial asset is measured at FVOCI if (a) it is held within a business model for which the objective is achieved by both collecting contractual cash flows and selling financial assets and (b) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. These financial assets are initially recognized at fair value plus directly attributable transaction costs and subsequently measured at fair value. Gains and losses arising from changes in fair value are included in other comprehensive income within a separate component of equity. Impairment losses or reversals, interest income and foreign exchange gains and losses are recognized in profit and loss until the financial asset is derecognized. Upon derecognition, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. This reflects the gain or loss that would have been recognized in profit or loss upon derecognition if the financial asset had been measured at amortized cost. Impairment is measured based on the expected credit loss (ECL) model.

The Company may also make an irrevocable election to measure at FVOCI on initial recognition investments in equity instruments that are neither held for trading nor contingent consideration recognized in a business combination in accordance with PFRS 3. Amounts recognized in OCI are not subsequently transferred to profit or loss. However, the Company may transfer the cumulative gain or loss within equity. Dividends on such investments are recognized in profit or loss, unless the dividend clearly represents a recovery of part of the cost of the investment.

Dividends are recognized in profit or loss only when:

- the Company's right to receive payment of the dividend is established;
- it is probable that the economic benefits associated with the dividend will flow to the Company; and,
- the amount of the dividend can be measured reliably.

As at December 31, 2018, the Company has no financial assets at FVOCI.

*Classification of Financial Liabilities.* Financial liabilities are measured at amortized cost, except for the following:

- Financial liabilities measured at fair value through profit or loss;
- Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the Company retains continuing involvement;



- Financial guarantee contracts;
- Commitments to provide a loan at a below-market interest rate; and,
- Contingent consideration recognized by an acquirer in accordance with PFRS 3.

A financial liability may be designated at fair value through profit or loss if it eliminates or significantly reduces a measurement or recognition inconsistency (an accounting mismatch) or:

- if a host contract contains one or more embedded derivatives; or,
- if a group of financial liabilities or financial assets and liabilities is managed and its performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Where a financial liability is designated at FVPL, the movement in fair value attributable to changes in the Company's own credit quality is calculated by determining the changes in credit spreads above observable market interest rates and is presented separately in other comprehensive income.

The Company's financial liabilities include accounts payable and other current liabilities, due to related parties, and redeemable preferred shares.

*Impairment of Financial Assets.* Upon adoption of PFRS 9, the standard introduces the single, forward-looking "expected loss" impairment model, replacing the "incurred loss" impairment model under PAS 39.

No ECL is recognized on debt instruments that are measured at amortized cost.

ECLs are measured in a way that reflects the following:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and,
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Financial assets migrate through the following three stages based on the change in credit quality since initial recognition:

- *Stage 1: 12-month ECL.* For credit exposures where there have not been significant increases in credit risk since initial recognition and that are not credit-impaired upon origination, the portion of lifetime ECLs that represent the ECLs that result from default events that are possible within the 12-months after the reporting date are recognized.
- *Stage 2: Lifetime ECL - not credit-impaired.* For credit exposures where there have been significant increases in credit risk since initial recognition on an individual or collective basis but are not credit-impaired, lifetime ECLs representing the ECLs that result from all possible default events over the expected life of the financial asset are recognized.
- *Stage 3: Lifetime ECL - credit-impaired.* Financial assets are credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of those financial assets have occurred. For these credit exposures, lifetime ECLs are recognized and interest revenue is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset.



Loss allowances are recognized based on 12-month ECL for debt investment securities that are assessed to have low credit risk at the reporting date. A financial asset is considered to have low credit risk if:

- the financial instrument has a low risk of default;
- the borrower has a strong capacity to meet its contractual cash flow obligations in the near term; or,
- adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Company considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'.

- *Determination of the Stage for Impairment.* At each reporting date, the Company assesses whether there has been a significant increase in credit risk for financial assets since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The Company considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and forward-looking analysis.

An exposure will migrate through the ECL stages as asset quality deteriorates. If, in a subsequent period, asset quality improves and also reverses any previously assessed significant increase in credit risk since origination, then the loss allowance measurement reverts from lifetime ECL to 12-month ECL.

- *Simplified Approach.* The simplified approach, where changes in credit risk are not tracked and loss allowances are measured at amounts equal to lifetime ECL. The Company has established a provision matrix that is based on historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Company considers a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company.

#### Offsetting Financial Instruments

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

#### Derecognition of Financial Instruments

##### *Financial Assets*

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

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



- the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Company 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 Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay. In such case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

#### *Financial Liabilities*

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

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

#### Cash

Cash includes cash on hand and in banks, which are carried at face value and are subject to an insignificant risk of change in value.

#### Materials and Supplies

Materials and supplies are valued at the lower of cost and net realizable value (NRV). Cost is determined using the moving-average method and includes expenditures incurred in bringing the materials and supplies to their existing location and condition. NRV of materials and supplies is the current replacement cost.

Any write-down of materials and supplies to NRV is recognized as an expense in statement of comprehensive income in the year incurred.

When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the write-down is reversed (i.e., the reversal is limited to the amount of the original write-down) so that the new carrying amount is the lower of the cost and the revised net realizable value.

#### Other Current Assets

##### *Input VAT*

Revenues, expenses, and assets are recognized net of the amount of VAT, if applicable.

When VAT from sales of goods and/or services (output VAT) exceeds VAT passed on from purchases of goods or services (input VAT), the excess is recognized as payable in the statement of financial position. When VAT passed on from purchases of goods or services (input VAT) exceeds



VAT from sales of goods and/or services (output VAT), the excess is recognized as an asset in the statement of financial position to the extent of the recoverable amount.

*Tax Credit Certificates (TCCs)*

TCCs represent instruments evidencing the amount of tax credits granted by the tax authorities which can be used as payment for income taxes. TCCs are classified as current if these can be utilized in the next twelve months after the reporting date. TCCs are recognized under the "Other current assets" account in the statement of financial position

Property, Plant and Equipment

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

The initial cost of property, plant and equipment consists of construction cost, and its purchase price, including import duties and nonrefundable purchase taxes and any directly attributable costs of bringing the asset to the location and condition for its intended use. Subsequent costs that can be measured reliably are added to the carrying amount of the asset when it is probable that future economic benefits associated with the asset will flow to the Company. The costs of day-to-day servicing of an asset are recognized as an expense in the period in which they are incurred.

Property, plant and equipment include capitalized underground development and mine and mining properties.

Depreciation and amortization on property, plant and equipment, except for underground development and exploration and mine and mining properties, is calculated using the straight-line method to allocate the cost of each asset less its residual value over its estimated useful life.

The average estimated useful lives of property, plant and equipment are as follows:

<u>Category</u>	<u>Number of Years</u>
Buildings and plant improvements	10
Roads and bridges	10
Office and household furniture and equipment	5
Transportation equipment	3-5

Depletion of underground development and exploration costs and mine and mining properties is calculated using the units-of-production method based on estimated ore reserves.

The assets' residual values, useful lives and depreciation, amortization and depletion methods are reviewed periodically to ensure that they are consistent with the expected pattern of economic benefits from those assets.

Construction in-progress represents work under construction and is stated at cost. Construction in-progress is not depreciated until such time that the relevant assets are completed and available for use. This also include interest on borrowed funds incurred during the construction period.

When assets are disposed of, or are permanently withdrawn from use and no future economic benefits are expected from their disposals, the cost and accumulated depreciation, amortization, depletion and impairment losses, if any, are removed from the accounts and any resulting gain or loss arising from the retirement or disposal is recognized in the statement of comprehensive income.



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

#### Deferred Exploration Costs and Deferred Development Costs

Deferred exploration costs includes costs incurred on activities involving the search for mineral resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource.

Deferred development costs included in "Underground Development" under "Property, Plant and Equipment" include costs incurred after determining the commercial viability of extracting a mineral resource.

Deferred exploration costs are assessed at each reporting period for possible indications of impairment. This is to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case or is considered as areas permanently abandoned, the costs are written off through the statement of comprehensive income. Exploration areas are considered permanently abandoned if the related permits of the exploration have expired and/or there are no definite plans for further exploration and/or development.

The recoverability of deferred exploration costs is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of reserves and future profitable production or proceeds from the disposition of recoverable reserves.

#### Impairment of Nonfinancial Assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The Company used value in use to assess the recoverable amount of an asset.

Recovery of impairment losses recognized in prior years is recorded when there is an indication that the impairment losses recognized for the asset no longer exist or have decreased. The recovery is recorded in the statement of comprehensive income. However, the increased carrying amount of an asset due to a recovery of an impairment loss is recognized to the extent it does not exceed the carrying amount that would have been determined (net of depletion, depreciation and amortization) had no impairment loss been recognized for that asset in prior years.

#### *Deferred Exploration Costs*

An impairment review is performed, either individually or at the CGU level, when there are indicators that the carrying amount of the deferred exploration costs/deferred development costs may exceed their recoverable amounts. To the extent that this occurs, the excess is fully provided against, in the reporting period in which this is determined. Deferred exploration costs are 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.

#### Redeemable Preferred Shares

Equity instruments that include a contractual obligation to deliver cash or another financial asset to another entity are classified as a financial liability. Accordingly, preferred shares that are due for redemption are presented as a liability in the statement of financial position.

Preferred share is classified as a liability if it is redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. Dividends thereon are recognized as interest expense in the statement of comprehensive income as accrued.

The Company classified its redeemable preferred shares as a liability.

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

The Company has issued capital stock that is classified as equity. Incremental costs directly attributable to the issue of new capital stock or options are shown in equity as a deduction, net of tax, from the proceeds. Amount of contribution in excess of par value is accounted for as an APIC.

#### Deficit

Deficit includes accumulated losses attributable to the Company's stockholders. Deficit may also include effect of changes in accounting policy as may be required by the standard's transitional provisions.

#### Revenue Recognition

*Prior to the Adoption of PFRS 15.* Revenue is recognized based on the transfer of risks and rewards and to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received as receivables, excluding discounts, rebates, and other sales taxes or duties. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as a principal or an agent.

*Upon Adoption of PFRS 15.* Revenue is measured based on the consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

Revenue is recognized when the Company satisfies a performance obligation by transferring a promised good or service to the customer, which is when the customer obtains control of the good or service. A performance obligation may be satisfied at a point in time or over time. The amount of revenue recognized is the amount allocated to the satisfied performance obligation.





The following specific recognition criteria must also be met before revenue is recognized:

*Interest Income*

Income is recognized as the interest accrues (using the EIR that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

*Other Income*

Other income is recognized when earned. Other income consists of gain on sale of the Company's property and equipment and scrap inventory.

Cost and Expense Recognition

Costs and expenses are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Expenses are generally recognized when the expense arises following the accrual basis of accounting.

Provisions

*General*

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

*Provision for Mine Rehabilitation and Decommissioning*

Provision is made for close down, restoration and environmental rehabilitation costs (which include the dismantling and demolition of infrastructure, removal of residual materials and remediation of disturbed areas) in the financial period when the related environmental disturbance occurs, based on the estimated future costs using information available at reporting date. The obligation generally arises when the asset is constructed or the ground or environment is disturbed at the mine site. The provision is discounted using a current market-based pre-tax discount rate and the unwinding of the discount is classified as interest accretion in the statement of comprehensive income. At the time of establishing the provision, a corresponding asset is capitalized, where it gives rise to a future benefit, and depreciated over future production from the operations to which it relates.

The provision is reviewed on an annual basis for changes to obligations or legislation or discount rates that affect change in cost estimates or life of operations. The cost of the related asset is adjusted for changes in the provision resulting from changes in the estimated cash flows or discount rate, and the adjusted cost of the asset is depreciated prospectively.

Where rehabilitation is conducted systematically over the life of the operation, rather than at the time of closure, provision is made for the estimated outstanding continuous rehabilitation work at each reporting date and the cost is charged to the statement of comprehensive income.

Pension Liability

The net pension liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting date reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any



economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

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

Defined benefit costs comprise the following:

- Service cost;
- Net interest on the net defined benefit liability or asset; and
- Remeasurements of net defined benefit liability or asset.

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in statement of comprehensive income. Past service costs are recognized when plan amendment or curtailment occurs.

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

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods. These are retained in other comprehensive income until full settlement of the obligation.

### Income Taxes

#### *Current Income Tax*

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

#### *Deferred Income Tax*

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

Deferred income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized in the future.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized in the future.



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

Deferred income tax relating to items recognized in other comprehensive income is recognized in other comprehensive income.

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

#### Leases

##### *Operating Leases - The Company as a Lessee*

Operating leases represent those leases under which substantially all risks and rewards of ownership of the leased assets remain with the lessors. Lease payments under an operating lease are recognized as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

#### Segment Reporting

An operating segment is a component of an entity that: (a) engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity); (b) whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and (c) for which discrete financial information is available.

#### Basic Loss Per Common Share

Basic loss per common share is computed based on the weighted average number of shares outstanding and subscribed for each respective period with retroactive adjustments for stock dividends declared, if any. When shares are dilutive, the unexercised portion of stock options is included as stock equivalents in computing diluted loss per share, if any.

#### Diluted Loss Per Common Share

Diluted loss per common share amounts are calculated by dividing the net income 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, excluding treasury shares.

Since the Company has no potential dilutive common shares, basic and diluted loss per common share are stated at the same amount.

#### Foreign Currency Transactions

The financial statements are presented in Philippine peso, which is the Company's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange ruling at the end of the reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates prevailing as at the date of the initial transactions. All differences are taken to "Foreign exchange loss (gain) - net" in the statement of comprehensive income.



#### Contingencies

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

#### Events After the End of the Financial Reporting Date

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

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#### **4. Significant Accounting Estimates and Assumptions**

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

#### Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year are discussed below.

#### *Estimating Allowance for Inventory Obsolescence*

Inventories, which comprise of materials and supplies, are used in the Company'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 ₱17.3 million as at December 31, 2018 and 2017 (see Note 6). Materials and supplies inventories amounting to ₱11.1 million as at December 31, 2018 and 2017 had been fully provided with an allowance for impairment losses (see Note 6).

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

The Company estimates the useful lives of property, plant and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment are reviewed periodically and are updated if expectations differ from previous estimates based on factors that include asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of the assets tempered by related industry benchmark information. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances.

The Company recognized depreciation and amortization expense amounting to ₱0.1 million ₱0.5 million and ₱1.1 million in 2018, 2017 and 2016, respectively. The carrying amounts of property, plant and equipment amounted to ₱994.6 million and ₱994.8 million as at December 31, 2018 and 2017, respectively (see Note 8). There is no other change in the estimated useful lives of property and equipment as at December 31, 2018 and 2017.



*Estimating Impairment of Property, Plant and Equipment*

The Company assesses impairment on property, plant and equipment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The assessment of the recoverable amount of property, plant and equipment related to its Longos Mine project requires significant judgment and involves estimation and assumptions about future production levels and costs, as well as external inputs such as gold prices and discount rate.

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction 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. For impairment loss on specific assets, the recoverable amount represents the net selling price.

Management performed impairment test as at December 31, 2018 and 2017. The recoverable amount of the property, plant and equipment related to the Longos Mine Project has been determined using a discounted cash flow projection covering 10-year remaining mine life of the project based on the mine feasibility study.

The calculation of the value-in-use of the mine project incorporates the following key assumptions:

- future production levels and costs which are based on the Company's feasibility study;
- commodity prices; and,
- pre-tax discount rates.

The significant assumptions in the value-in-use calculation and sensitivity to changes in assumptions are disclosed in Note 8.

The carrying value of property, plant and equipment amounted to ₱994.6 million and ₱994.8 million as at December 31, 2018 and 2017, net of allowance for impairment losses of property, plant and equipment amounting to ₱141.7 million as of those dates. No impairment losses were recognized in 2018, 2017 and 2016 (see Note 8).

*Estimating Allowance for Impairment Losses on Claims for VAT TCCs and Advances to Employee*

The Company provides allowance for impairment losses on claims for VAT TCCs and advances to employees when they can no longer be realized. The amounts and timing of recorded expenses for any period would differ if the Company made different judgments or utilized different estimates. An increase in allowance for impairment losses would increase recorded expenses and decrease claims for VAT TCCs and advances to employees.

The Company's claims for VAT TCCs and advances to employees amounted to ₱16.3 million and ₱16.6 million as at December 31, 2018 and 2017, respectively, net of allowance for impairment losses amounting to ₱15.4 million each as at December 31, 2018 and 2017 (see Note 7).

*Assessing Recoverability of Deferred Exploration Costs*

The Company assesses impairment on deferred exploration costs when facts and circumstances suggest that the carrying amount of the asset may exceed its recoverable amount. When facts and circumstances suggest that the carrying amount exceeds the recoverable amount, an entity shall measure, present and disclose any resulting impairment loss. Facts and circumstances that would require an impairment assessment as set forth in PFRS 6, *Exploration for and Evaluation of Mineral Resources*, are as follows:



- The period for which the Company has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- Substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;
- Exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area; and
- Sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

The carrying value of deferred exploration costs amounted to ₱83.9 million and ₱81.4 million as at December 31, 2018 and 2017, respectively. No allowance for impairment losses on deferred development and deferred exploration costs was recognized by the Company in 2018, 2017 and 2016 since based on the Company's assessment, their estimated net recoverable amount exceeded their costs (see Note 9).

#### *Estimating Pension Costs*

The determination of the Company's obligation and pension costs is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 13 to the financial statements and include among others, discount rates, expected rates of return on plan assets and rates of future salary increase. In accordance with PAS 19, *Employee Benefits*, actual results that differ from the Company's assumptions are accumulated and amortized over future periods and therefore, generally affect the Company's recognized expense and recorded obligation in such future periods. While management believes that its assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in the assumptions may materially affect the Company's pension and other pension obligations. Net pension cost amounted to ₱0.3 million, ₱0.3 million and ₱0.2 million in 2018, 2017 and 2016, respectively. The Company's pension liability amounted to ₱1.1 million as at December 31, 2018 and 2017 (see Note 13).

#### *Assessing Realizability of Deferred Tax Assets*

The Company reviews the carrying amounts of deferred tax assets at each reporting date and reduces deferred income tax assets to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized. The Company did not recognize deferred income tax assets on deductible temporary differences, carry forward benefit of unused net operating loss carryover (NOLCO) and minimum corporate income tax (MCIT) (see Note 19).

## 5. Cash

	2018	2017
Cash on hand	₱35,000	₱35,000
Cash in banks	627,437	638,274
	<b>₱662,437</b>	<b>₱673,274</b>

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

Total interest income amounted to ₱2,155, ₱2,991 and ₱7,670 in 2018, 2017 and 2016, respectively.



## 6. Materials and Supplies

	2018	2017
At NRV:		
Spare parts	₱14,352,879	₱14,352,879
Consumables	2,860,438	2,860,438
	<u>17,213,317</u>	<u>17,213,317</u>
At cost:		
Fuel and lubricants	114,183	110,885
	<u>₱17,327,500</u>	<u>₱17,324,202</u>

Material and supplies charged to expense amounted to ₱70,672, ₱87,879 and ₱92,578 in 2018, 2017 and 2016, respectively (see Note 16).

No provision of inventory obsolescence was recorded in 2018, 2017 and 2016. The allowance for inventory obsolescence amounting to ₱8.8 million and ₱2.3 million pertains to spare parts and consumables, respectively, as of December 31, 2018 and 2017.

Gain on sale of scrap materials and supplies amounted to nil, ₱88,383 and ₱6,571 in 2018, 2017 and 2016, respectively (see Note 18).

## 7. Other Current Assets and Other Noncurrent Assets

### Other Current Assets

	2018	2017
Advances to employees	₱6,433,366	₱6,678,366
Others	1,495,934	1,584,436
	<u>7,929,300</u>	<u>8,262,802</u>
Allowance for impairment losses on:		
Advances to employees	1,029,932	1,029,932
Others	1,439,060	1,439,060
	<u>2,468,992</u>	<u>2,468,992</u>
	<u>₱5,460,308</u>	<u>₱5,793,810</u>

Others includes advances to a contractor, prepaid rent and insurance, and security deposits.

### Other Noncurrent Assets

	2018	2017
Claims for VAT TCCs	₱23,772,232	₱23,772,232
Input VAT	3,273,561	3,067,772
Others	267,696	267,696
	<u>27,313,489</u>	<u>27,107,700</u>
Allowance for impairment loss on claims for VAT TCCs	<u>(12,944,529)</u>	<u>(12,944,529)</u>
	<u>₱14,368,960</u>	<u>₱14,163,171</u>



Claims for VAT TCCs of ₱23.8 million have been formally submitted to the Bureau of Internal Revenue (BIR) and the Department of Finance (DOF) and subsequently filed with the Court of Tax Appeals (CTA) to preclude prescription. On September 9, 1998, the CTA granted the Company's petition for refund of its excess and unutilized input VAT amounting to ₱10.9 million net of disallowance of ₱12.9 million.

As of December 31, 2017, the Company's claims for value-added tax (VAT) tax credit certificates (TCCs) amounting to ₱10.8 million, net of allowance for impairment losses amounting to ₱12.9 million, were previously classified as a current asset in the 2017 financial statements. In 2018, the Company determined that it is not expected to be recovered within 12 months from balance sheet date and as such, the Company reclassified the VAT TCCS from current asset to noncurrent asset and restated the 2017 financial statements to reflect the reclassification adjustment. The restatement resulted in a decrease in current assets by ₱10.8 million and an increase in noncurrent assets by the same amount as of December 31, 2017 and January 1, 2017. There is no impact on the total liabilities, equity, retained earnings and cash flows previously presented. Hence, no third balance sheet was presented.





**8. Property, Plant and Equipment**

	2018						
Cost	Underground Development	Mine and Mining Properties	Buildings and Plant Improvements	Roads and Bridges	Office and Household Furniture and Equipment	Transportation Equipment	Total
Balances at beginning of year	₱1,574,754,870	₱405,000,000	₱123,519,016	₱18,140,398	₱4,603,059	₱2,119,727	₱2,128,137,070
Retirement	-	-	-	-	(7,450)	-	(7,450)
<b>Balances at end of year</b>	<b>1,574,754,870</b>	<b>405,000,000</b>	<b>123,519,016</b>	<b>18,140,398</b>	<b>4,595,609</b>	<b>2,119,727</b>	<b>2,128,129,620</b>
<b>Accumulated depreciation, amortization and depletion:</b>							
Balances at beginning of year	763,575,151	84,461,189	122,816,730	14,054,622	4,584,200	2,119,727	991,611,619
Depreciation (Note 16)	-	-	137,416	39,136	4,540	-	181,092
Retirement	-	-	-	-	(7,450)	-	(7,450)
Balances at end of year	763,575,151	84,461,189	122,954,146	14,093,758	4,581,290	2,119,727	991,785,261
<b>Accumulated impairment losses</b>	<b>101,568,158</b>	<b>40,134,801</b>	-	-	-	-	<b>141,702,959</b>
<b>Net book values</b>	<b>₱709,611,561</b>	<b>₱280,404,010</b>	<b>₱564,870</b>	<b>₱4,046,640</b>	<b>₱14,319</b>	<b>₱-</b>	<b>₱994,641,400</b>

	2017						
Cost	Underground Development	Mine and Mining Properties	Buildings and Plant Improvements	Roads and Bridges	Office and Household Furniture and Equipment	Transportation Equipment	Total
Balances at beginning of year	₱1,574,754,870	₱405,000,000	₱123,519,016	₱18,140,398	₱4,603,059	₱3,309,727	₱2,129,327,070
Disposal	-	-	-	-	-	(1,190,000)	(1,190,000)
<b>Balances at end of year</b>	<b>1,574,754,870</b>	<b>405,000,000</b>	<b>123,519,016</b>	<b>18,140,398</b>	<b>4,603,059</b>	<b>2,119,727</b>	<b>2,128,137,070</b>
<b>Accumulated depreciation, amortization and depletion:</b>							
Balances at beginning of year	763,575,151	84,461,189	122,647,117	14,018,497	4,362,266	3,219,528	992,283,748
Depreciation (Note 16)	-	-	169,613	36,125	221,934	90,199	517,871
Disposal	-	-	-	-	-	(1,190,000)	(1,190,000)
Balances at end of year	763,575,151	84,461,189	122,816,730	14,054,622	4,584,200	2,119,727	991,611,619
<b>Accumulated impairment losses</b>	<b>101,568,158</b>	<b>40,134,801</b>	-	-	-	-	<b>141,702,959</b>
<b>Net book values</b>	<b>₱709,611,561</b>	<b>₱280,404,010</b>	<b>₱702,286</b>	<b>₱4,085,776</b>	<b>₱18,859</b>	<b>₱-</b>	<b>₱994,822,492</b>



The Company performs an individual assessment of the physical condition of its property, plant and equipment. No provision for impairment was recognized in 2018, 2017 and 2016. Accumulated impairment losses on property, plant and equipment amounted to ₱141.7 million as at December 31, 2018 and 2017 (see Note 9).

The carrying value of temporarily idle property, plant and equipment amounted to ₱990.0 million as at December 31, 2018 and 2017. The Company has no plans of disposing these idle assets as these are reserved for future use when the mine is reopened.

Depreciation expense on property, plant and equipment used in the exploration activities amounting to ₱0.06 million in 2018 and nil in 2017 and 2016, is capitalized as part of deferred explorations costs, which relates to Longos Mining Project of the Company.

#### Key Assumptions Used in Value in Use Calculations and Sensitivity to Changes in Assumptions

The Company performed an impairment test in 2018 and 2017.

The recoverable amount of the property, plant and equipment has been determined based on a discounted cash flows (DCF) calculation using cash flow projections from the project feasibility study.

The projected cash flows have been developed to reflect the expected mine production over the life of the mine adjusted by the effects of other factors such as inflation rate. The pre-tax discount rate applied to the cash flow projections as at December 31, 2018 is 11.95%. As a result of this analysis, management concluded that property, plant and equipment is not impaired.

The calculation of DCF is most sensitive to the following assumptions:

- a. future production levels and costs
  - b. gold prices
  - c. pre-tax discount rate
- a. **Future Production Levels and Costs**  
Future production levels and costs include direct and indirect costs used to concentrate the mined ore reserves for the remaining life of the mine.
  - b. **Gold Prices**  
The Company considers the effect of commodity price changes. The Company considered the possible effect of the changes in the price of gold as it relates to the revenues that may be generated by the Company and the attainment of the cash flow projections. The Company used the data from the project feasibility study and was compared against externally published data.
  - c. **Pre-tax Discount Rate**  
Discount rate represents the current market assessment of the risks specific to the Company, taking into consideration the time value of money. The discount rate calculation is based on the specific circumstances of the Company and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Company's investors. The cost of debt is based on the risk free market rate available in the market. Specific risk is incorporated by applying individual beta factors are evaluated annually based on publicly available market data. Adjustments to the discount rate are made to factor in the specific amount and timing of the future tax flows in order to reflect a pre-tax discount rate. The pre-tax discount rates used by the Company are 11.95% and 7.6% as at December 31, 2018 and 2017, respectively.



Management believes that no reasonably possible change in any of the key assumptions would cause the carrying value of the cash-generating unit to materially exceed its recoverable amount.

## 9. Deferred Exploration Costs

	2018	2017
Balances at January 1	₱90,214,575	₱90,214,575
Additions	2,573,789	—
Balances at December 31	92,788,364	90,214,575
Allowance for impairment losses	(8,843,918)	(8,843,918)
Net book value at December 31	₱83,944,446	₱81,370,657

Deferred exploration costs include, among others, acquisition of rights to explore, topographical and geophysical studies, exploratory drilling, trenching, sampling and activities in relation to evaluating the technical feasibility of extracting mineral resources.

The Company's deferred exploration costs were incurred in relation to the following:

- MPSA-V-0041 dated July 19, 1991 and AMA-V-0270 dated October 29, 1998 which were returned to the MGB Regional office in view of the moratorium on the grant of Mineral Agreement pursuant to the pertinent provisions of Section 4 of the Executive Order (EO) No. 79 issued by the President of the Philippines on July 6, 2012;
- APSA-000375-V dated February 7, 2006 which has been converted into an Exploration Permit on February 4, 2013 and now is renumbered as EXPA-000180-V. On June 24, 2016, MGB issued a memorandum for the clearance to issue the exploration permit but was held in abeyance in view of the Moratorium on the processing and approval of mining applications pursuant to Department Memorandum order (DMO) No. 2016-01 dated July 8, 2016; and,
- Exploration Permit No. EP-016-2016-V which was issued on August 20, 2018 by MGB Regional Office No. V, Legazpi City.

No additional impairment loss was recognized in 2018, 2017 and 2016. The Longos Mine still has an estimated ore reserve of 1.6 million metric tons (MT) at 11.05 gram per ton of gold (Au g/t) with an estimated mineable reserve of 1.8 million MT at 9.88 Au g/t. Based on the estimates of ore reserves calculated by qualified technical personnel and certified by a competent geologists and mine engineers hired by the Company, the carrying value of the above assets, including that of the related property, plant and equipment, is not higher than the estimated fair value less costs to sell of the mineable reserves.



## 10. Accounts Payable and Other Current Liabilities

	2018	2017
Royalty payable (Note 21)	₱326,355,043	₱287,837,995
Accrued interest on:		
Redeemable Class B preferred shares (Note 12)	201,161,642	197,161,642
Bonds payable	101,033,931	95,941,882
Due to related parties (Note 11)	66,560,069	66,560,069
Redeemable Class A preferred shares (Note 12)	63,484,968	62,264,968
Royalty payable (Note 21)	18,954,966	16,694,704
Others	1,925,988	1,925,988
	<b>453,121,564</b>	<b>440,549,253</b>
Dividends payable (Note 12)	20,022,233	20,022,233
Nontrade payables	8,538,630	8,538,630
Accruals:		
Third parties:		
Salaries and wages	7,530,816	7,401,569
Professional and consultancy fees	4,308,769	4,359,375
Taxes and licenses	61,075	61,075
Related parties:		
Rental and utilities (Note 11)	3,197,895	3,197,895
Others	7,703,410	7,176,300
	<b>₱830,839,435</b>	<b>₱779,144,325</b>

Terms and conditions of the aforementioned liabilities are as follows:

- Accrued interest on bonds pertains to unpaid dollar-denominated interest on bonds, which were converted into equity shares in 1999. In 2008, some accrued interest on bonds payable were converted to equity (see Note 15). The movement in the remaining accrued interest payable pertains to the translation adjustments of US\$1.9 million and is due and demandable.
- Accrued interest on royalty payable pertains to the interest on unpaid royalty due under the Operating Agreement with CMI (see Note 21). The loan to CMI and the accrued interest is payable within one (1) year from the date of the note payable, and if the loan is not paid within the agreement, a new promissory note from the Company shall be made amounting to the original principal of the loan plus accrued interest to-date.
- Accrued salaries and wages and professional fees are noninterest-bearing and generally settled within thirty (30) days.
- Others consist mainly of statutory payables and payables to third parties. This includes the payable to Mining and Petroleum Services Corp. (MIPSCOR) which is already due and demandable. Statutory payables are expected to be paid within thirty (30) days.
- Dividends payable pertains to the cash dividends which remains outstanding as at December 31, 2018 and 2017 (see Note 12).



## 11. Related Party Transactions

In the normal course of business, the Company transacts with companies that are considered related parties under PAS 24, *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.

All transactions with related parties are unsecured and settled in cash upon demand.

Outstanding balances of transactions with related parties are set out below:

Related Party	Year	Amount/volume	Accruals (see Note 10)	Due to related parties	Terms	Condition
<i>Entities under common control</i>						
<i>Alakor Corporation (Alakor)</i>						
	2018	₱-	₱-	₱120,000,000	10% interest bearing	Uncollateralized
	2017	₱-	₱-	₱120,000,000		
	2018	-	39,313,795	-	Due and demandable	Uncollateralized
	2017	-	39,313,795	-		
	2018	-	-	75,684,098	12% interest bearing Due and Demandable	Uncollateralized
	2017	-	-	75,684,098		
	2018	-	27,246,274	-	Due and demandable	Uncollateralized
	2017	-	27,246,274	-		
	2018	-	-	18,630,000	Noninterest-bearing	Uncollateralized
	2017	-	-	18,630,000		
	2018	-	766,771	-	Noninterest-bearing; Due and Demandable	Uncollateralized
	2017	-	766,771	-		
National Book Store, Inc. (NBS)	2018	-	-	14,400,714	Noninterest-bearing; Due and Demandable	Uncollateralized
	2017	-	-	14,400,714		
Anglo Phil. Holding Corp. (APHC)	2018	9,400,000	-	26,047,744	Noninterest-bearing; Due and Demandable	Uncollateralized
	2017	10,300,000	-	16,647,744		
Abacus Book and Card Corporation (Abacus)	2018	-	-	493,413	Noninterest-bearing; Due and Demandable	Uncollateralized
	2017	-	-	493,413		
The Philodrill Corporation (TPC)	2018	-	1,376,801	-	Noninterest-bearing; Due and demandable	Uncollateralized
	2017	-	1,376,801	323,019		
Vulcan Industrial & Mining Corp. (VIMC)	2018	-	1,054,323	-	Noninterest-bearing; Due and demandable	Uncollateralized
	2017	-	1,054,323	-		
	<b>2018</b>		<b>₱69,757,964</b>	<b>₱255,255,969</b>		
	<b>2017</b>		<b>₱69,757,964</b>	<b>₱245,855,969</b>		



On September 20, 2011, the Company entered into loan agreement with Alakor, a company under common control, to finance the Company's cost of conducting feasibility study on the Longos Gold Project and provided for its general working capital requirements. The uncollateralized loan amounts to ₱250.0 million with 10% interest per annum due 36 months after draw down date. In 2011, drawdown amounted to ₱120.0 million. There were no additional drawdowns in 2018 and 2017.

The loan agreement gives the following rights to Alakor:

- a. Option to convert, at any time after the earliest draw down date, all amounts outstanding under the loan into equity of the Company at the price of ₱0.018 per share.
- b. Subscribe to no more than 2,700,000 shares of the Company at ₱0.018 per share within five (5) years from the execution of the loan documents.

Accrued expenses due to Alakor, TPC and VIMC pertain to rental and utilities charged by the related parties to the Company.

Advances from Alakor consist of loans and advances that are covered by promissory notes subject to roll-over every ninety (90) days with interest at twelve percent (12%) per annum. These are used to finance the Company's capital expenditures and working capital requirements.

Due to NBS, APHC, TPC and Abacus pertain to advances for working capital purposes. APHC made additional advances to UPMC for additional working capital amounting to ₱9.4 million and ₱10.3 million in 2018 and 2017, respectively.

On December 29, 2018, VIMC executed a Deed of Assignment (the Deed) assigning its rights in Negros Copper Projects to the Company. The Deed stipulates that the Company assumed all actual and contingent liabilities arising from or will arise from the abandonment of VIMC's exploration activities. In relation to the assignment, VIMC has condoned its receivables from the Company relating to accrued rentals and utilities amounting to ₱1.1 million presented as part of "Accounts payables and other current liabilities" (see Note 10).

#### *Compensation of Key Management Personnel*

Key management personnel compensation in the form of short-term benefits amounted to ₱1.8 million and ₱2.5 million in 2018 and 2017, respectively.

#### Changes in liabilities arising from financing activities

	January 1, 2018	Additions	Payments	December 31, 2018
Due to related parties	₱245,855,969	₱9,400,000	₱-	₱255,255,969
Redeemable preferred shares	26,100,000	-	-	26,100,000
	<b>₱271,955,969</b>	<b>₱9,400,000</b>	<b>₱-</b>	<b>₱281,355,969</b>
	January 1, 2017	Additions	Payments	December 31, 2017
Due to related parties	₱235,878,988	₱10,300,000	(₱323,019)	₱245,855,969
Redeemable preferred shares	26,100,000	-	-	26,100,000
	<b>₱261,978,988</b>	<b>₱10,300,000</b>	<b>(₱323,019)</b>	<b>₱271,955,969</b>



## 12. Redeemable Preferred Shares

	Class A		
	Shares	Par value	Amount
December 31, 2007	13,500,000	₱1.00	₱13,500,000
Effect of capital restructuring in 2008:			
Decrease in par value (see Note 15)	-	(0.50)	(6,750,000)
Conversion of preferred shares to common shares (see Note 15)	(1,300,000)	-	(650,000)
<b>Balances at December 31, 2018, 2017 and 2016</b>	<b>12,200,000</b>	<b>₱0.50</b>	<b>₱6,100,000</b>

	Class B		
	Shares	Par value	Amount
December 31, 2007	400,000	₱100.00	₱40,000,000
Effect of capital restructuring in 2008:			
Decrease in par value (see Note 15)	-	(50.00)	(20,000,000)
<b>Balances at December 31, 2018, 2017 and 2016</b>	<b>400,000</b>	<b>₱50.00</b>	<b>₱20,000,000</b>

<b>Total redeemable preferred shares</b>	<b>12,600,000</b>		<b>₱26,100,000</b>
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The Company's preferred shares carry features or characteristics that provide for redemption on a specific date which constitutes a financial liability. As such, the Company's preferred shares are presented under current liabilities in the statements of financial position, in accordance with PAS 32, *Financial Instruments: Presentation*.

### *Class A*

The holders of Class A preferred shares shall be entitled to a cumulative yearly dividend at the rate of 20%, payable annually, on the dates to be fixed by the BOD. Each Class A preferred share shall be redeemed at the option of the Company's BOD before May 5, 1992 at the price of ₱1.00 each share plus dividends accrued and unpaid at the date of redemption.

In April 1994, the Company notified the holders of Class A preferred shares of its intent to redeem the shares. Subsequently, redemption of redeemable preferred shares was moved and will be made at the discretion of the BOD to be determined at some future time.

On October 21, 1994, the BOD approved the declaration of cash dividends in the amount of ₱26.5 million or ₱0.0098 per share to all Preferred "A" stockholders of record as of October 31, 1994 either payable not later than October 1, 1995 or may be applied against any of the unpaid subscriptions for common shares issued under the first and second 1994 stock rights offerings. A substantial portion of these cash dividends equivalent to ₱20.0 million remains outstanding as at December 31, 2018 and 2017 (see Note 10).

The dividends accruing on Class A preferred shares from November 1, 1994 to December 31, 2018 and 2017 that have not been declared amounted to ₱63.5 million and ₱62.3 million, respectively. The corresponding liabilities for these dividends were recorded in the books under "Accrued interest" (see Note 10). As discussed in Note 15 to the financial statements, certain Class A preferred shares and the related accrued dividends were converted to equity in 2008.

Interest expense amounted to ₱1.2 million each year in 2018, 2017 and 2016 (see Note 17).



*Class B*

The holders of Class B preferred shares shall not be entitled to any dividend. Each Class B preferred share shall be subject to redemption before April 10, 1994 at the price of ₱100 for each share. In April 1994, the Company notified the holders of Class B preferred shares of its intent to redeem. Subsequently, the redemption date was moved and will be made at the discretion of the BOD to be determined at some future time. The redemption amount will earn 20% interest per annum from April 10, 1994 until paid.

As of December 31, 2018 and 2017, accrued interest on Class B preferred shares amounted to ₱201.2 million and ₱197.2 million, respectively (see Note 10).

Interest expense amounted to ₱4.0 million each year in 2018, 2017 and 2016 (see Note 17).

### 13. Pension Liability

The Company has an unfunded defined benefits retirement plan covering substantially all of its employees. Benefits are dependent on the years of service and the respective employee's compensation.

Under the existing regulatory framework, Republic Act 7641 requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

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

The details of pension costs are as follows:

	2018	2017	2016
Current service cost	₱192,727	₱223,061	₱119,308
Interest cost	64,375	57,636	36,739
	<b>₱257,102</b>	<b>₱280,697</b>	<b>₱156,047</b>

The movements in present value of the pension liability are as follows:

	2018	2017
Balances at beginning of year	₱1,109,915	₱1,029,223
Retirement benefit expense recognized in profit or loss:		
Current service cost	192,727	223,061
Interest cost	64,375	57,636
	<b>257,102</b>	<b>280,697</b>
Remeasurement loss (gain) in other comprehensive income:		
Experience adjustments	(206,203)	(175,580)
Change in demographic assumptions	65,071	-
Change in financial assumptions	(137,480)	(24,425)
	<b>(278,612)</b>	<b>(200,005)</b>
Balances at end of year	<b>₱1,088,405</b>	<b>₱1,109,915</b>





The Company does not have any plan assets as at December 31, 2018 and 2017.

The cost of defined retirement benefits plan, as well as the present value of the retirement benefits liability are determined using actuarial valuations. The actuarial valuation involves making various assumptions.

The principal assumptions used in determining pension liability for the defined retirement plan are shown below:

Annual rates	2018	2017
Discount rate	7.50%	5.80%
Salary increase rate	5.00%	5.00%

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as at December 31, 2018 and 2017, assuming all other assumptions were held constant:

	Increase (Decrease)	2018	2017
Discount rates	+1.00%	(₱74,471)	(₱110,785)
	-1.00%	85,217	130,734
Salary increase rate	+1.00%	₱86,509	₱130,466
	-1.00%	(76,810)	(112,549)

The Company does not expect to contribute to the defined benefit pension plan in 2018.

The Company does not have a Trustee Bank, and does not currently employ any asset-liability matching.

Shown below is the maturity analysis of the undiscounted benefit payments as at December 31, 2018 and 2017:

	2018	2017
More than 1 year to 5 years	₱574,743	₱580,287
More than 5 years to 10 years	359,886	347,433
More than 10 years	3,656,035	6,014,941
	<b>₱4,590,664</b>	<b>₱6,942,661</b>

The average duration of the defined benefit obligation as of December 31, 2018 and 2017 are 10.5 years and 14.9 years, respectively.

#### 14. Provision for Mine Rehabilitation and Decommissioning Costs

DENR Administrative Order (DAO) No. 2007-26, which was published in the Philippine Star on August 9, 2007 and took effect 15 days thereafter, was released by the DENR, amending Section 2 of DAO 2005-7 and requires Contractors with approved Environmental Protection and Enhancement Programs (EPEP) to submit the Final Mine Rehabilitation and Decommissioning Plan (FMRDP) for review by the Mine Rehabilitation Fund (MRF) Committee and approval by the Contingent Liability and Rehabilitation Fund Steering Committee before December 31, 2007.



The Company's Environmental Compliance Certificate (ECC) expired in July 1999. In preparation of its planned reopening and rehabilitation of the Longos Mine, the Company requested for the renewal of the said ECC. The DENR required the Company to prepare an Environmental Performance Report and Management Program (EPRMP) for its evaluation and approval prior to the renewal of the ECC. After the issuance of the new ECC, the Company will be required to prepare an EPEP, FMRDP and Social Development Management Program (SDMP). The FMRDP will be the basis for determining the amount required for the provision of mine rehabilitation and decommissioning costs. Provision for mine rehabilitation and decommissioning costs will be made once the Company's EPEP, FMRDP and SDMP are submitted and approved by the Mines Geosciences Bureau (MGB). On October 8, 2010, the Company, after satisfying the requirements and upon recommendation of the Environmental Management Bureau, was granted an ECC for the Longos Mining Project located at Sitio Longos, Paracale, Camarines Norte.

On January 7, 2011, the Company submitted a revised EPEP and FMRDP to the MGB subject for evaluation and approval which were not yet approved until the Company received a notice of cancellation of the ECC for its Longos Mine Project on December 19, 2016. Cancellation was raised on the ground that the said project was never implemented since the issuance of the ECC, citing Item 10 (d) of DENR Administrative Order No. 2003-30. The Company intends to renew the ECC for Longos Mine once the Company has declared and secured approval from MGB of its mining project feasibility for Longos Mine.

As at December 31, 2018, the Company is still under exploration stage upon receipt of the exploration permit dated August 20, 2018. Hence, there is no reasonable basis for estimating the provision for mine rehabilitation and decommissioning costs.

## 15. Capital Stock and Capital Restructuring

The movements in authorized common shares are as follows:

	Authorized shares		
	Shares	Par value	Amount
December 31, 2007	1,850,000,000	₱1.00	₱1,850,000,000
Capital restructuring in 2008:			
a) Decrease in authorized capital stock	(435,000,000)	—	(435,000,000)
	1,415,000,000	1.00	1,415,000,000
b) Change in par value from ₱1.00 to ₱0.50 per share	1,415,000,000	0.50	—
	2,830,000,000	0.50	1,415,000,000
c) Reduction in par value from ₱0.50 to ₱0.01, with proportionate increase in number of shares	138,670,000,000	(0.49)	—
	141,500,000,000	0.01	1,415,000,000
d) Increase in authorized capital stock	255,825,000,000	0.01	2,558,250,000
<b>Balances at December 31, 2018 and 2017</b>	<b>397,325,000,000</b>	<b>₱0.01</b>	<b>₱3,973,250,000</b>



Below is the Company's track record of registration of securities under the Securities Regulation Code of the SEC:

Date of approval or date of effectivity	Description	Number of shares registered	Issue or offer price	Balance	Amount
April 10, 1970	Initial Capital	500,000,000	₱0.01	500,000,000	₱5,000,000
January 29, 1990	Increase in authorized capital stock:				
	Common shares	50,000,000,000	0.01	50,000,000,000	500,000,000
	Preferred Class A	2,700,000,000	0.01	2,700,000,000	27,000,000
	Preferred Class B	5,000,000	100.00	5,000,000	500,000,000
	Balance as of January 29, 1990	52,705,000,000		52,705,000,000	1,027,000,000
April 8, 1994	Increase in authorized capital stock:				
	Common shares	200,000,000,000	0.01	200,000,000,000	2,000,000,000
	Preferred Class A	-	0.01	-	-
	Preferred Class B	-	100.00	-	-
		200,000,000,000		200,000,000,000	2,000,000,000
	Balance as of April 8, 1994	252,705,000,000		252,705,000,000	3,027,000,000
August 28, 1997	Change in par value of common shares from ₱0.01 to ₱1.00				
	Common shares	2,500,000,000	1.00	2,500,000,000	2,500,000,000
	Preferred Class A	2,700,000,000	0.01	2,700,000,000	27,000,000
	Preferred Class B	5,000,000	1.00	5,000,000	500,000,000
	Balance as of August 28, 1997	5,205,000,000		5,205,000,000	3,027,000,000
November 26, 1999	Decrease in outstanding capital stock by 50% and reclassification of 2,200,000 preferred shares to common shares and change in par value of preferred A shares from ₱0.01 to ₱1.00				
	Common shares	(650,000,000)	1.00	(650,000,000)	(650,000,000)
	Preferred Class A	(13,500,000)	1.00	(13,500,000)	(13,500,000)
	Preferred Class B	(4,600,000)	100.00	(4,600,000)	(460,000,000)
		(668,100,000)		(668,100,000)	(1,123,500,000)
	Balance as of November 26, 1999	1,863,900,000		1,863,900,000	1,903,500,000
July 24, 2008	Decrease of authorized capital stock from ₱1,903,500,000 to ₱1,441,750,000				
	Common shares	(435,000,000)	1.00	(435,000,000)	(435,000,000)
	Preferred Class A	(6,750,000)	1.00	(6,750,000)	(6,750,000)
	Preferred Class B	(200,000)	100.00	(200,000)	(20,000,000)
		(441,950,000)		(441,950,000)	(461,750,000)
	Balance after decrease of authorized capital stock	1,421,950,000		1,421,950,000	1,441,750,000

(Forward)



Date of approval or date of effectivity	Description	Number of shares registered	Issue or offer price	Balance	Amount
July 24, 2008	Decrease in par value of common shares from ₱1.00 to ₱0.01, Class A from ₱1.00 to ₱0.50/share and Class B from ₱100.00 to ₱50.00/share				
	Common shares	141,500,000,000	₱0.01	141,500,000,000	₱1,415,000,000
	Preferred Class A	13,500,000	0.50	13,500,000	6,750,000
	Preferred Class B	400,000	50.00	400,000	20,000,000
		141,513,900,000		141,513,900,000	1,441,750,000
July 24, 2008	Increase in capital stock				
	Common shares	255,825,000,000	0.01	255,825,000,000	2,558,250,000
	Balance as of December 31, 2011	397,338,900,000	₱0.01	397,338,900,000	₱4,000,000,000

For the years ended December 31, 2018 and 2017, there were no movements in the Company's registered securities. There are 1,193 and 1,200 shareholders who hold 261.3 billion shares as at December 31, 2018 and 2017.

The movements in issued common shares are as follows:

	Issued shares		
	Shares	Par value	Amount
Balances at December 31, 2007	867,455,231	₱1.00	₱867,455,231
Capital restructuring in 2008:			
a) Change in par value from ₱1.00 to ₱0.50 per share	-	(0.50)	(433,727,615)
b) Reduction in par value from ₱0.50 to ₱0.01, with proportionate increase in number of shares	42,505,306,319	(0.49)	-
	43,372,761,550	0.01	433,727,616
c) Debt-to-equity conversion	217,942,035,530	0.01	2,179,420,355
Balances at December 31, 2018 and 2017	261,314,797,080	₱0.01	₱2,613,147,971

On July 24, 2008, the SEC approved the Company's capital restructuring plan consisting of the following:

- Decrease the Company's issued capital stock by 50% or ₱460.5 million by reducing the par value of common and Preferred "A" shares from ₱1.00 to ₱0.50 per share and Preferred "B" shares from ₱100.00 to ₱50.00 per share, and accordingly decrease its authorized capital stock from ₱1.9 billion to ₱1.4 billion. The decrease in capital stock and in the redeemable preferred shares was applied against the Company's deficit (see Note 12).
- Further reduction in the par value of the Company's common shares from ₱0.50 to ₱0.01 per share with the corresponding increase in number of shares.
- Increase in the authorized capital stock from ₱1.4 billion to ₱4.0 billion divided into 397.3 billion common shares with par value of ₱0.01 each; 13.5 million Class A preferred shares with the par value of ₱0.50 each; 400.0 thousand Class B preferred shares with par value of



₱50.00 each. The Company issued ₱2.2 billion worth of common shares with a par value of ₱0.01 per share paid by way of conversion of existing liabilities of the Company to related parties (see Note 12).

In June and October 2007, the Company obtained the approval of related party creditors for the conversion of their loans, advances and accrued interests to common shares of stock of the Company as part of the capital restructuring plan, with the following terms and conditions:

- The interest on the loans and advances shall be reduced from 24% per annum to 18% per annum effective April 1, 2007;
- The cut-off date for the accruals of interest on the loans and advances shall be June 30, 2007 to facilitate the conversion process;
- If for whatever reason, the debt conversion process does not materialize as planned, accruals of interest at the reduced rate of 18% per annum shall resume starting July 1, 2007.

The following is the summary of amounts converted to equity in 2008:

Advances from related parties and the corresponding accrued interest	₱2,010,448,878
Guarantee fee payable	144,104,494
Accrued interest on bonds payable	14,321,555
Accrued rental and utilities payable	5,123,782
Nontrade payables	4,272,333
Redeemable Preferred "A" shares and dividends payable	1,149,313
	<u>₱2,179,420,355</u>

The Philippine Stock Exchange ("Exchange") approved on December 14, 2011, the application of the Company to list 217.8 million common shares with a par value of ₱0.01 per share, to cover its debt-to-equity conversion transactions with its creditors at a conversion price of ₱0.01 per share. The total transaction value was ₱2.2 million.

As required by the Exchange, a separate listing application for the underlying common shares of convertible preferred shares of 114.9 million new shares will be filed with the Exchange once the necessary documentary requirements are available. On February 14, 2012, the listing application for the underlying common shares of convertible preferred shares was filed with the Exchange. The related underlying common shares were subsequently approved for listing with the Exchange.

## 16. General and Administrative Expenses

	2018	2017	2016
Salaries and allowances	₱2,445,954	₱3,513,025	₱4,040,315
Outside services	1,805,517	2,749,290	4,955,113
Land compensation damage	502,500	697,500	750,000
Insurance	352,148	343,225	137,674
Professional fees	322,279	361,305	340,861
Pension cost (see Note 13)	257,102	280,697	156,047
Office supplies	126,318	164,419	173,304
Depreciation expense (see Note 8)	122,626	517,871	1,115,111

(Forward)



	2018	2017	2016
Utilities	₱98,455	₱289,963	₱362,368
Taxes and licenses	93,696	152,838	1,627,529
Rent	87,502	161,850	138,505
Representation and entertainment	78,250	15,615	297,226
SSS, HMDF and other contributions	59,170	115,202	136,447
Transportation and travel	55,817	84,240	101,431
Repairs and maintenance	14,231	37,685	44,688
Fuel and oil (see Note 6)	70,672	87,879	92,578
Others	202,807	389,157	292,334
	<b>₱6,695,044</b>	<b>₱9,961,761</b>	<b>₱14,761,531</b>

Others mainly comprise of mailing and postage charges, and seminars and training fees.

#### 17. Interest Expenses

	2018	2017	2016
Royalty payable (see Note 21)	₱42,047,501	₱36,989,731	₱32,683,712
Redeemable preferred Class B shares (see Note 12)	4,000,000	4,000,000	4,010,959
Redeemable preferred Class A shares (see Note 12)	1,220,000	1,220,000	1,220,000
	<b>₱47,267,501</b>	<b>₱42,209,731</b>	<b>₱37,914,671</b>

#### 18. Other Income

	2018	2017	2016
Gain on sale of scrap materials and supplies (Note 6)	₱-	₱88,383	₱6,571
Gain on disposal of property and equipment (Note 8)	200	625,850	-
	<b>₱200</b>	<b>₱714,233</b>	<b>₱6,571</b>

#### 19. Income Taxes

- a. The Company is subject to regular corporate income tax or minimum corporate income tax (MCIT) whichever is higher. The provision for current income tax in 2018, 2017 and 2016 pertains to MCIT.



- b. The reconciliation of income tax computed at the statutory income tax rate to the provision for income tax as shown in the statement of comprehensive income follows:

	2018	2017	2016
Income tax benefit at statutory income tax rate of 30%	(₱17,724,157)	(₱15,504,300)	(₱17,338,290)
Additions to (reductions in) income tax resulting from:			
Nondeductible expenses	14,280,857	12,667,604	10,260,281
Change in unrecognized deferred taxes	3,443,951	2,851,838	7,080,441
Interest already subjected to final tax	(647)	(897)	(2,301)
	<b>₱4</b>	<b>₱14,245</b>	<b>₱131</b>

- c. The Company has deductible temporary differences, unused NOLCO and excess MCIT for which no deferred tax assets were recognized as it is not probable that sufficient taxable profit will be available against which the benefit of the deferred tax assets can be utilized. These are as follows:

	December 31		
	2018	2017	2016
Allowances for impairment losses on:			
Property, plant and equipment (see Note 8)	₱141,702,959	₱141,702,959	₱141,702,959
Deferred exploration costs (see Note 9)	8,843,918	8,843,918	8,843,918
Receivable from employees and others (see Note 6)	2,468,992	2,468,992	2,468,992
Allowance for inventory obsolescence (see Note 6)	11,102,947	11,102,947	11,104,940
NOLCO	28,676,865	34,872,259	40,390,815
Unrealized foreign exchange loss	5,120,332	226,733	5,132,340
Pension liability (see Note 13)	1,088,405	1,109,915	1,029,233
MCIT	14,380	22,327	15,622

Movements in NOLCO and MCIT are as follows:

#### NOLCO

Year Incurred	Expiry Date	At January 1, 2017	Addition (Expiration) At December 31, 2017	Addition (Expiration) At December 31, 2018
2014	2017	₱14,471,766	(₱14,471,766)	₱-
2015	2018	12,554,886	-	(12,554,886)
2016	2019	13,364,163	-	-
2017	2020	-	8,953,210	8,953,210
2018	2021	-	-	6,359,492
		<b>₱40,390,815</b>	<b>(₱5,518,556)</b>	<b>₱34,872,259</b>
				<b>(₱6,181,589)</b>
				<b>₱28,676,865</b>



**MCIT**

Year Incurred	Expiry Date	At January 1, 2017	Addition (Expiration)	At December 31, 2017	Addition (Expiration)	At December 31, 2018
2014	2017	₱7,540	(₱7,540)	₱-	₱-	₱-
2015	2018	7,951	-	7,951	(7,951)	-
2016	2019	131	-	131	-	131
2017	2020	-	14,245	14,245	-	14,245
2018	2021	-	-	-	4	4
		<b>₱15,622</b>	<b>₱6,705</b>	<b>₱22,327</b>	<b>(₱7,947)</b>	<b>₱14,380</b>

**Tax Reform for Acceleration and Inclusion (TRAIN) Act**

Republic Act (RA) No.10963 or the TRAIN was signed into law on December 19, 2017 and took effect January 1, 2018, making the new tax law enacted as of the reporting date. Although the TRAIN changes existing tax law and includes several provisions that generally affect businesses on a prospective basis, the management assessed that the same did not have any significant impact on the financial statement balances as of the reporting date.

**20. Basic and Diluted Loss Per Common Shares**

Basic and diluted loss per share is computed as follows:

	2018	2017	2016
Net loss for the year	<b>₱59,080,526</b>	₱51,695,246	₱57,794,432
Divided by weighted average number of common shares	<b>261,314,797,080</b>	261,314,797,080	261,314,797,080
Basic and diluted loss per share	<b>₱0.0002</b>	<b>₱0.0002</b>	<b>₱0.0002</b>

The resulting per share amounts are the same for both basic and diluted earnings per share in 2018, 2017 and 2016, since the Company does not have any debt or equity securities that will potentially cause a loss per share dilution.

**21. Commitments and Contingencies**

**Option and Operating Agreement with CMI**

The Company entered into Option and Operating Agreement with CMI for the exploration, evaluation, operation, development and exploitation of certain mineral properties located in Camarines Norte. The Operating Agreement provides that should CMI at any time during the term decides to sell any of the mining leases covered by the Operating Agreement, the Company will have the right of first refusal.

The Operating Agreement, which expired on June 18, 2006, was renewed on July 30, 2007, consolidating the previous Option and Operating Agreements. The renewed Operating Agreement provides for the extension of the term for 25 years or co-terminus with the relevant mineral production sharing agreement to be approved by the Government of the Philippines and for the payment of royalties at 3.5% of the value of production from the covered mineral properties which amounted to ₱35.8 million as at December 31, 2018 and 2017.

Interest expense on royalty payable, which is at 14% interest rate compounded annually and covered by promissory notes, is recognized in the statements of comprehensive income amounting to ₱42.0 million, ₱37.0 million and ₱32.7 million in 2018, 2017 and 2016, respectively (see Note 17). The total accrued interest payable included in the principal amounted to ₱290.8 million and





₱252.0 million as at December 31, 2018 and 2017, respectively. Accrued interest payable to CMI amounted to ₱19.0 million and ₱16.7 million as at December 31, 2018 and 2017, respectively (see Note 10).

As at December 31, 2018 and 2017, royalty payable to CMI amounted to ₱326.4 million and ₱287.8 million, respectively (see Note 10).

#### Assignment of Mine Rights from VIMC

On December 29, 2018, the Company and VIMC executed a Deed of Assignment (the "Deed") whereby VIMC assigns its rights and interests in Negros Copper Projects to the Company. As included in the Deed, the Company is also expected to assume various liabilities of VIMC amounting to ₱13.3 million including actual and contingent liabilities arising from or will arise related to the Negros Copper Projects. As of December 31, 2018, the Company has not determined probable liabilities relating to these projects. As of December 31, 2018, the assignment is currently pending registration with the MGB and approval of the DENR and as such, the Company has not recognized any asset nor liability related to the assignment.

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## **22. Financial Risk Management and Capital Management**

The Company's financial instruments consist mainly of cash, accounts payable and other current liabilities, due to related parties and redeemable preferred shares. The main purpose of the Company's dealings in financial instruments is to fund its operations and capital expenditures.

The risks arising from the Company's financial instruments are credit risk, liquidity risk and foreign exchange risk.

The BOD has the overall responsibility for the establishment and oversight of the Company's risk management policies. The Finance & Accounting Manager is responsible for developing and monitoring the Company's risk management policies. Issues affecting the operations of the Company are reported regularly to the BOD.

Management addresses the risks faced by the Company in the preparation of its annual operating budget. Mitigating strategies and procedures are also devised to address the risks that inevitably occur so as not to affect the Company's operations and forecasted results. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

#### Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises principally from the Company's cash.

With respect to credit risk arising from cash, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The Company manages the risk by adopting appropriate credit control policies and procedures and therefore does not expect to incur material financial losses.

As at December 31, 2018, the Company used general approach in the assessment of cash credit quality. The ECL relating to Company's cash is minimal as these are deposited in reputable banks which have good bank standing, and is considered to have low credit risk.



The adoption of new impairment model under PFRS 9 did not have a significant effect on the Company's financial statements.

**Liquidity Risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's objective in managing liquidity risk is to ensure, as far as possible, that it will always have sufficient funds to meet its liabilities as they fall due. Management is responsible for liquidity, funding as well as settlement management. In addition, liquidity and funding risks, related processes and policies are overseen by the management. To effectively manage liquidity risk, the Company has arranged for funding from related parties and continues to dispose of scrap, obsolete and excess assets to raise additional funds.

The following table summarizes the maturity profile of the Company's financial liabilities and financial assets as at December 31, 2018 and 2017, based on contractual undiscounted cash flows. The analysis into relevant maturity groupings is based on the remaining term at the end of the reporting period to the contractual maturity dates, including estimated interest payments and excluding the impact of netting agreements:

2018	On demand	Within 6 Months	6 to 12 Months	Over 1 year	Total
<b>Financial Asset:</b>					
Cash	₱662,437	₱-	₱-	₱-	₱662,437
<b>Financial Liabilities:</b>					
Accounts payable and other current liabilities*	830,771,026	-	-	-	830,771,026
Due to related parties	255,255,969	-	-	-	255,255,969
Redeemable preferred shares	26,100,000	-	-	-	26,100,000
<b>Net Financial Liabilities</b>	<b>(₱1,112,789,432)</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>(₱1,112,789,432)</b>

\*excluding statutory payables

2017	On demand	Within 6 Months	6 to 12 Months	Over 1 year	Total
<b>Financial Asset:</b>					
Cash	₱673,274	₱-	₱-	₱-	₱673,274
<b>Financial Liabilities:</b>					
Accounts payable and other current liabilities*	778,718,446	-	-	-	778,718,446
Due to related parties	245,855,968	-	-	-	245,855,968
Redeemable preferred shares	26,100,000	-	-	-	26,100,000
<b>Net Financial Liabilities</b>	<b>(₱1,050,001,140)</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>(₱1,050,001,140)</b>

\*excluding statutory payables

**Foreign Exchange Risk**

Foreign exchange risk is the risk to earnings or capital arising from changes in foreign exchange rates. The Company uses the Philippine Peso (₱) as its functional currency and is therefore exposed to foreign exchange movements, primarily on the US Dollar (\$). The Company follows a policy to manage this risk by closely monitoring its cash flow position and by providing forecast on its exposures in non-peso currency.

The Company's net exposure to foreign exchange risk arises from \$-denominated accrued interest and other current liabilities.



Information on the Company's \$-denominated monetary liabilities and their ₱ equivalent is as follows:

	2018		2017	
	US\$	₱	US\$	₱
Accrued interest on bonds payable	1,921,528	101,033,931	1,921,528	95,941,882
Other current liabilities	17,399	914,839	17,399	886,556

As at December 31, 2018 and 2017, the exchange rate of ₱ to the \$ is ₱52.58 and ₱49.92, respectively.

The following table demonstrates the sensitivity to a reasonably possible change in Philippine Peso/US Dollar exchange rate, with all other variables held constant, of the Company's loss before income tax. There is no other impact on the Company's equity other than those affecting the statement of comprehensive income.

	Change in exchange rate	
	\$ strengthens by 5%	\$ weakens by 5%
Decrease (increase) in loss before income tax and equity		
2018	(₱5,097,439)	₱5,097,439
2017	(4,796,134)	4,796,134
2016	(4,785,565)	4,785,565

#### Fair Values of Financial Instruments

Fair value is defined as the amount at which the financial instruments could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced liquidation or sale. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models, as appropriate.

#### *Cash, Accounts Payable and Other Current Liabilities, Due to Related Parties and Redeemable Preferred Shares*

The carrying amounts of cash, accounts payable and other current liabilities, due to related parties and redeemable preferred shares are equal or approximate their fair values due to their short-term maturities and are considered due and demandable.

During the years ended December 31, 2018, 2017 and 2016, there were no transfers among Levels 1, 2 and 3 of fair value measurements.

#### Capital Management

The Company maintains a capital base to cover risks inherent in the business. The primary objective of the Company's capital management is to increase the value of shareholders' investment. The Company sets strategies with the objective of establishing a versatile and resourceful financial management and capital structure upon commencement of its operations.

The BOD has overall responsibility for monitoring of capital in proportion to risk. Profiles for capital ratios are set in the light of changes in the Company's external environment and the risks underlying the Company's business operations and industry. No changes were made in the objectives, policies or processes during the years ended December 31, 2018, 2017 and 2016.

Note 2 discusses management plans on how to address the Company's deficit.



The following table summarizes what the Company considers as its total capital as of December 31, 2018 and 2017:

	2018	2017
Capital stock	₱2,613,147,971	₱2,613,147,971
Additional paid-in capital	19,449,376	19,449,376
Deficit	(2,630,879,668)	(2,571,799,182)
	<u>₱1,717,679</u>	<u>₱60,798,165</u>

The Company is not exposed to externally imposed capital requirements.

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### 23. Segment Reporting

The Company has only one (1) operating segment which is the mining business. There is no geographical segment information presented since its business is located in the Philippines.

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### 24. Supplementary Tax Information Required Under Revenue Regulations (RR) 15-2010

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

The Company's reported and/or paid the following types of taxes in 2018:

#### VAT

The Company is a VAT-registered company with no declared sale subject to output VAT.

Input VAT declared in the Company's VAT returns filed in 2018 follows:

Balance at January 1, 2018	₱3,067,772
Current year's domestic payments for:	
Domestic purchase of goods other than capital goods	239
Domestic purchases of services	210,321
<u>Balance at December 31, 2018</u>	<u>₱3,278,332</u>

#### Withholding Taxes

The below summarizes the total withholding taxes paid or accrued by the Company:

Withholding taxes on compensation and benefits	₱354,716
Expanded withholding taxes	31,564
<u></u>	<u>₱386,280</u>



Other Taxes and Licenses for 2018

Taxes and licenses, local and national, include real property taxes, licenses and permit fees included in general and administrative expenses are as follows:

Permits and licenses	₱72,162
Real property taxes	64,695
	<hr/>
	₱136,857

Tax assessments and cases

The Company has not received any final assessment notice from the BIR and has no pending tax cases under preliminary investigation, litigation, and/or prosecution in courts or bodies outside of the BIR as at December 31, 2018.

