
Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise cash and cash equivalents and interest-bearing borrowings. The main purpose of the Group's financial instruments is to fund the Group's operations. The Group has other financial instruments such as receivables, AFS financial assets and trade and other payables, which arise directly from operations. The main risks arising from the use of financial instruments are credit risk, foreign exchange risk, interest rate risk, equity price risk, commodity price risk and liquidity risk. The Group's BOD reviews and approves the policies for managing each of these risks and they are summarized below.

Credit Risk

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

All gold exports when priced are practically settled on cash basis. Parent company's existing contracts with gold refineries allow for advances of ninety-eight percent (98%) of payable metals paid in two (2) working days from pricing. Full settlement is normally received within three (3) working days. For copper concentrates, parent company's existing contracts with smelters allow for advances of ninety percent (90%) of payable metals paid within two (2) to five (5) working days from pricing. Full settlement, however, takes three (3) to six (6) months.

The parent company enters into marketing contracts only with refineries and smelters of established international repute. Since the parent company became a primary gold and copper concentrates producer, it has entered into exclusive marketing contracts with Heraeus for gold and TrafiguraBeheer BV and Shanghang County Jinshan Trading Co., Ltd. for copper concentrates. The Group has a significant concentration of credit risk in relation to its trade receivables from Heraeus. Such risk is managed by securing the specific approval of the BOD before entering into contracts with refineries and by assessing the creditworthiness of such refineries.

The credit risk arising from these financial assets arises from default of the counterparty, with maximum exposure equal to the carrying amount of these instruments. The Group's gross maximum exposure to credit risk is equivalent to the carrying values since there are no collateral agreements for these financial assets.

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

1. Cash in banks and short-term investments are assessed as high grade since the related amounts are deposited with the country's reputable banks duly approved by BOD.
2. Trade receivables, which pertain mainly to receivables from sale of ore, are assessed as high-grade. These are assessed based on past collection experience of full settlement within three days after invoice date with no history of default.
3. Quoted equity instruments are assessed as substandard grade since Prime Orion Philippines, Inc. (POPI) is currently implementing its business plan to address its recovery issues.
4. Unquoted equity instruments are assessed as high grade as this pertain to the lone copper smelter in the country that operates in an industry which has a potential growth.

The above high grade credit quality financial assets pertain to financial assets with insignificant risk of default based on historical experience. Substandard grade credit quality financial assets pertain to financial assets with more than insignificant risk of default based on historical experience and/or counterparty credit standing.

Market Risk

Market risk is the risk of loss to future earnings, to fair values or to future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in foreign currency exchange rates, interest rates, equity prices and other market changes.

Foreign Exchange Risk

Foreign exchange risk is the risk to earnings or capital arising from changes in foreign exchange rates. The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its consolidated financial statements and consolidated statements of cash flows. The Group follows a policy to manage its currency risk by closely monitoring its cash flow position and by providing forecast on all other exposures in non-Philippine peso currencies.

The Group sells its product to the interstates national market. All metal sales are denominated in US\$. Dollar conversion of metal sales to Philippine peso is based on the prevailing exchange rate at the time of sale. The Group also has purchase transactions denominated in Australia dollar (AU\$), New Zealand dollar (NZ\$), Euro (€) and South African rand (ZAR).

Management believes that exposure of the Group to foreign currency risk arising from its NZ\$, € and ZAR denominated receivables and payables as at December 31, 2012 is immaterial relative to the consolidated financial statements. As such, no foreign currency risk disclosure on these is presented.

Interest Rate Risk

The Group's exposure to the risk for changes in market interest rate relates primarily to its long-term borrowings with floating interest rates. The Group regularly monitors its exposure to interest rates movements. Management believes that cash generated from operations is sufficient to pay for its obligations under the loan agreements as they fall due.

Nominal interest rates vary from floating rate of 3 month LIBOR plus fixed margin of 1% and Dollar prime plus margin of three percent (3%) for US\$ denominated long-term borrowings and one (1)-month PDST-F rate plus 3% minimum spread on peso denominated long-term borrowings.

Based on the historical movement of the interest rates, management believes that the reasonably possible change for the next (12) months would result to an increase (decrease) of 100 basis points for 2013 and 2012. There is no other impact on the Group's equity other than those already affecting the consolidated profit or loss.

Equity Price Risk

Equity price risk is the risk to earnings or capital arising from changes in stock exchange indices relating to its quoted equity securities. The Group's exposure to equity price risk relates primarily to its AFS investment in POPI.

The Group's policy is to maintain its risk to an acceptable level. Movement of share price is monitored regularly to determine impact on the consolidated statements of financial position.

Commodity Price Risk

The Group is exposed to the risk of fluctuations in prevailing market commodity prices on the mix of mineral products it produces.

The Group's policy is to maintain the risk to an acceptable level. Movement in metal price is monitored regularly to determine the impact on its consolidated statements of financial position.

Liquidity Risk

Liquidity risk arises from the possibility that the Group may encounter difficulties in raising funds to meet maturing obligations from financial instruments or that a market for derivatives may not exist in some circumstances.

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

As part of its liquidity risk management, the Group regularly evaluates its projected and actual cash flows. It also continuously assesses conditions in the financial markets for opportunities to pursue fund raising activities, in case any requirements arise. Fund raising activities may include bank loans and capital market issues. Accordingly, its loan maturity profile is regularly reviewed to ensure availability of funding through an adequate amount of credit facilities with financial institutions.

Fair Values

PFRS defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models, as appropriate.

Cash and Cash Equivalents, Trade Receivables and Trade and Other Payables

The carrying amounts of cash and cash equivalents, receivables and trade and other payables, which are all subject to normal trade credit terms and are short-term in nature, approximate their fair values.

AFS Financial Assets

Fair values of investments are estimated by reference to their quoted market price at the end of the reporting period. Unquoted equity securities are carried at cost, net of impairment in value, since fair value of these AFS securities cannot be reliably determined as these securities are not listed and have no available bid price.

Loans Payable and Borrowings

The outstanding short-term borrowings and long-term borrowings as at December 31, 2013 and 2012 bear floating rates that are repriced monthly and quarterly, respectively.

The fair value of the interest bearing long-term debt in 2013 and 2012 is based on the discounted value of future cash flows using the applicable rates for the similar types of loans. For floating rate long-term borrowings which are repriced quarterly, the fair value is determined by discounting the principal amount plus the next interest payment using the prevailing market rate for the period up to the next repricing date.

Financial Instruments

PFRS defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models, as appropriate.

Cash, Receivables and Trade and Other Payables. The carrying amounts of cash, short-term investments, trade receivables and trade and other payables approximate their fair values due to the short-term nature of these financial instruments accounts.

AFS Financial Asset

The fair value of quoted equity instrument is determined by reference to market bid quotes at the end of the reporting period. For unquoted equity securities for which no reliable basis of fair value measurement is available, these are carried at cost, less any impairment losses.

Long-term Borrowings. Fair value of long-term debt and other interest-bearing liabilities is estimated using the discounted cash flow methodology using the benchmark risk free rates for similar types of long-term debt and other interest-bearing liabilities.

The Company uses the following hierarchy for determining and disclosing the fair value by valuation technique:

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

Currently, the Company manages its capital structure and makes adjustments to it in the light of changes in the economic conditions in order to meet its capital management objective.

RISK MANAGEMENT PRACTICES

All departments in the Company are aware of the risk issues that concern their departments, including:

- Operations: ore reserve; metal prices; availability and prices of equipment spare parts, materials and supplies; security; weather disturbances; new laws and regulations; security; availability and cost of power;
- Finance: Treasury, Accounting and Purchasing: new tax laws or regulations; interest rate; foreign exchange rate; metal prices; security; availability and prices of equipment, spare parts, materials and supplies; freight; debts ; return on investments; insurance; labor cost
- Legal: new laws and regulations; threat of, or need for, litigation; outcome of existing court cases;
- Human Resource: availability of manpower; need for training; attrition; losing/retaining personnel
- Information Systems: obsolescence of systems; security of information
- Social Development and Environment: responding to the changing needs of the community: climate change; weather disturbances.

Appropriate risk-mitigating measures are timely adopted to address the different risk concerns. Minor issues are addressed at the department level while major issues are reported to the COO, the CFO, the Audit Committee and the Board for appropriate action and/or funding.

The Internal Audit Department audits compliances with agreed risk management measures, or otherwise recommend or formulate procedures and systems for addressing specific risk issues, detecting or preventing fraud, reviewing complex transactions.

It is the Audit Committee that approves the Internal Audit Plan and oversees its implementation.