Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City, Philippines

CORPORATE GOVERNMENT SECTOR
Cluster 5 – Agricultural and Natural Resources

June 30, 2021

PHILIPPINE MINING DEVELOPMENT CORPORATION
RECEIVED
DATE: 6/30/2021 TIME:
BY: amdc
CRF 0621 - 0092

Atty. ALBERTO B. SIPACO
Chairman of the Board, President and Chief Executive Officer
Philippine Mining Development Corporation
Unit 3001-B West Tower
Philippine Stock Exchange Center
Exchange Road, Ortigas Center, Pasig City

Dear Atty. Sipaco:

Pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree (PD) No. 1445, otherwise known as the Government Auditing Code of the Philippines, we transmit herewith our Report on the results of the audit of the accounts and transactions of the **Philippine Mining Development Corporation (PMDC)** for the years ended December 31, 2020 and 2019.

The report consists of the Independent Auditor's Report, the Audited Financial Statements, the Observations and Recommendations, and the Status of Implementation of Prior Years' Audit Recommendations.

We rendered an unqualified opinion on the fairness of the presentation of the financial statements (FS).

The audit observations and recommendations that need immediate action are as follows:

1. The revised PMDC GAD Plan and Budget (GPB) and Accomplishment Report (AR) were not yet endorsed by the Philippine Commission on Women (PCW) as of today, thus, there was no assurance whether the activities undertaken and attributed to PMDC's program in CY 2020 of P13.398 million were aligned with the gender issues identified in the Philippine Plan for Gender-Responsive Development (PPGD) 1995-2025 and if it had contributed in responding to the gender issues of the PMDC and its clients.

1.1 We recommended that Management:

a. Strictly observe the provisions of PCW-NEDA-DBM Joint Circular No. 2012-01, COA Circular No. 2014-001 and other laws, rules, and regulations on the preparation and submission of GPB and GAD AR and act immediately on the revisions required by the PCW; and

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JUL 23 2021
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b. Require the GAD Focal Point System to coordinate with PCW to formally secure the endorsed GPB and AR and submit the same to the Audit Team for validation.

The audit observations together with the recommended courses of action, which were discussed by the Audit Team with concerned Management officials and staff during the exit conference conducted on June 24, 2021, are discussed in detail in Part II of the Report. We also invite your attention to the prior years' partially implemented audit recommendations embodied in Part III of the Report.

We respectfully request that the recommendations contained in Part II of the Report be implemented and that this Commission be informed of the actions taken thereon by accomplishing the Agency Action Plan and Status of Implementation Form (copy attached) and returning the same within 60 days from receipt of the Report.

We acknowledge the support and cooperation that Management extended to the Audit Team, thus facilitating the completion of the report.

Very truly yours,

COMMISSION ON AUDIT

By:

MARY S. ADELINO
Director IV
Cluster Director

Copy furnished:

The President of the Republic of the Philippines
The Vice President
The President of the Senate
The Speaker of the House of Representatives
The Chairperson – Senate Finance Committee
The Chairperson – Appropriations Committee
The Secretary of the Department of Budget and Management
The Governance Commission for Government-Owned or Controlled Corporations
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Commonwealth Avenue, Quezon City, Philippines

INDEPENDENT AUDITOR'S REPORT

THE BOARD OF DIRECTORS
Philippine Mining Development Corporation
Unit 3001-B West Tower
Philippine Stock Exchange Centre
Exchange Road, Ortigas Center, Pasig City

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of **Philippine Mining Development Corporation (PMDC)**, which comprise the statements of financial position as at December 31, 2020 and 2019, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of PMDC as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

We conducted our audits in accordance with International Standards of Supreme Audit Institutions (ISSAI) and Code of Ethics for Government Auditors. 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 PMDC in accordance with the Code of Ethics for Government Auditors (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.

Emphasis of the Matter

We draw attention to Note 12.2 to the financial statements which describes the PMDC's suspension of the payment of loan amortization and accrual of interest expense on Loan Payable to PMDC starting March 2019 because of the ongoing arbitration case filed by the PMDC before the Office of the Government Counsel (OGCC) Arbitration Tribunal. The Management cannot, at this point, establish with certainty the amount of interest that will be accrued, on the loan payable with a year-end balance of ₱56.576 million, which validity is being questioned. Our opinion is not modified in respect of this matter.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with PFRS, 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 PMDC'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 PMDC or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation'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 ISSAI 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 ISSAI, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Perform audit procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement.

- Assess the risks of material misstatement of the financial statements, whether due to error or fraud. In making those assessments, the auditor considers internal control relevant to the agency's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the agency's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management as well as evaluating the overall presentation of the financial statements including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

JUL 23 2021

- Communicate with those charged with governance the scope and timing of the audit, significant audit findings and deficiencies of internal control that we found during our audit.

Report on Supplementary Information Required under BIR Revenue Regulations No. 15-2010

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information for the year ended December 31, 2020 required by the Bureau of Internal Revenue as disclosed in Note 26 to the financial statements is presented for purposes of additional analysis. The supplementary information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in relation to the basic financial statements taken as a whole.

COMMISSION ON AUDIT

mcdecena

MARIA LINDA C. DECENA
OIC-Supervising Auditor
Audit Group E
Cluster 5 - Agricultural and Natural Resources
Corporate Government Sector

June 28, 2021

Republic of the Philippines
PHILIPPINE MINING DEVELOPMENT CORPORATION
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STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **Philippine Mining Development Corporation (PMDC)** is responsible for the preparation and fair presentation of the financial statements, including the schedules attached therein, for the years ended December 31, 2020 and 2019, 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 PMDC'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 to do so.

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

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

The Commission on Audit, through its authorized representative, has examined the financial statements of the PMDC pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 28 of the Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines. The audit was conducted in accordance with the International Standards of Supreme Audit Institutions and the auditor, in its report to the Board of Directos, has expressed its opinion on the fairness of presentation upon completion of such audit.

Atty. Alberto B. Sipaco, Jr.
Chairman of the Board, President and Chief Executive Officer

Mary Ann P. Zarcilla
Manager, Finance and Accounting

Signed this ___ day of _________.

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JUL 23 2021

Unit 3001B West Tower, Philippine Stock Exchange Centre, Exchange Road, Ortigas Center, 1605 Pasig City
Tel: (02) 706 1630 to 31 • info@pmdc.com.ph • records.pmdc@gmail.com

PHILIPPINE MINING DEVELOPMENT CORPORATION
STATEMENTS OF FINANCIAL POSITION
December 31, 2020 and 2019
(In Philippine Peso)

	Note	2020	2019
ASSETS			
Current assets			
Cash and cash equivalents	5	25,372,515	144,692,596
Trade and other receivables, net	6	202,645	99,101
Inventories	7	3,571,827	3,571,827
Other current assets	8	26,200,307	18,742,117
Total current assets		**55,347,294**	**167,105,641**
Non-current assets			
Property, plant and equipment, net	9	171,863,919	171,427,391
Intangible assets	10	1,012,613	1,144,455
Other non-current financial assets	11	1,833,273	1,445,068
Total non-current assets		**174,709,805**	**174,016,914**
TOTAL ASSETS		**230,057,099**	**341,122,555**
LIABILITIES			
Current liabilities			
Trade and other payables	12	19,629,826	33,236,575
Other payables	13	56,577,776	32,390,606
Total current liabilities		**76,207,602**	**65,627,181**
Non-current liabilities			
Financial liabilities	14	56,660,401	36,200,128
Deferred credits/unearned income	15	8,000,000	8,000,000
Total non-current liabilities		**64,660,401**	**44,200,128**
TOTAL LIABILITIES		**140,868,003**	**109,827,309**
EQUITY	23		
Share capital		125,000,000	125,000,000
Revaluation surplus		10,005,948	10,005,948
Retained earnings/(deficit)		(45,816,852)	96,289,298
TOTAL EQUITY		**89,189,096**	**231,295,246**
TOTAL LIABILITIES AND EQUITY		**230,057,099**	**341,122,555**

The Notes on pages 9 to 48 form part of these Financial Statements.

PHILIPPINE MINING DEVELOPMENT CORPORATION
STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2020 and 2019
(In Philippine Peso)

	Note	2020	2019
Revenue			
Service and business income	16	229,363	185,552,148
Total revenue		**229,363**	**185,552,148**
Expenses			
Personnel services	18	59,455,432	54,733,079
Maintenance and other operating expenses	18	47,892,639	37,728,085
Non-cash expenses	19	3,675,441	4,954,372
Finance costs	20	4,497	1,323,202
Total Expenses		**111,028,009**	**98,738,738**
Profit before tax		**(110,798,646)**	**86,813,410**
Income tax expense	21	131	24,439,067
Net income/loss		**(110,798,777)**	**62,374,343**
Other comprehensive loss for the period	17	**(120,201)**	**(451,941)**
COMPREHENSIVE INCOME/LOSS		**(110,918,978)**	**61,922,402**

The Notes on pages 9 to 48 form part of these Financial Statements.

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PHILIPPINE MINING DEVELOPMENT CORPORATION
STATEMENTS OF CHANGES IN EQUITY
For the Years Ended December 31, 2020 and 2019
(In Philippine Peso)

	Share capital Note 23.1	Revaluation surplus Note 23.2	Retained earnings/ (Deficit) Note 23.3	Total
BALANCE AT JANUARY 1, 2019	125,000,000	10,005,948	66,757,502	201,763,450
CHANGES IN EQUITY FOR 2019				
Add/(Deduct):				
Comprehensive income for the year	-	-	61,922,402	61,922,402
Dividends - 2018	-	-	(32,390,606)	(32,390,606)
BALANCE AT DECEMBER 31, 2019	125,000,000	10,005,948	96,289,298	231,295,246
CHANGES IN EQUITY FOR 2020				
Add/(Deduct):				
Comprehensive income for the year	-	-	(110,918,978)	(110,918,978)
Dividends - 2019	-	-	(31,187,172)	(31,187,172)
BALANCE AT DECEMBER 31, 2020	125,000,000	10,005,948	(45,816,852)	89,189,096

The Notes on pages 9 to 48 form part of these Financial Statements.

BUREAU OF INTERNAL REVENUE
JUL 23 2021

PHILIPPINE MINING DEVELOPMENT CORPORATION
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2020 and 2019
(In Philippine Peso)

	Note	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash inflows			
Collection of income/revenue		-	9,646,606
Collection of receivables		287,550	329,026
Trust receipts		278,311	75,000
Other receipts		630,788	840,177
Total cash inflows		1,196,649	10,890,809
Cash outflows			
Payment of expenses		70,838,344	140,828,374
Grant of cash advances		30,480,986	6,218,356
Remittance of personnel benefit contributions and mandatory deductions		11,212,085	10,756,857
Other disbursements		132,282	372,752
Total cash outflows		112,663,697	158,176,339
Net cash used in operating activities		**(111,467,048)**	**(147,285,530)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash inflows			
Receipt of interest earned		220,662	5,203,248
Proceeds from return on investments		-	50,421,000
Total cash inflows		220,662	55,624,248
Cash outflows			
Purchase/construction of property, plant and equipment		919,693	29,765,664
Purchase of intangible assets		33,801	36,339
Total cash outflows		953,494	29,802,003
Net cash provided by/(used in) investing activities		**(732,832)**	**25,822,245**
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash outflows			
Payment of long-term liabilities			1,647,414
Payment of interest on loans and other financial charges			1,157,960
Payment of cash dividends		7,000,000	
Total cash outflows		7,000,000	2,805,374
Net cash used in financing activities		**(7,000,000)**	**(2,805,374)**
DECREASE IN CASH AND CASH EQUIVALENTS		**(119,199,880)**	**(124,268,659)**
Effects of exchange rate changes on cash and cash equivalents	17	(120,201)	(451,941)
CASH AND CASH EQUIVALENTS, JANUARY 1		**144,692,596**	**269,413,196**
CASH AND CASH EQUIVALENTS, DECEMBER 31	5	**25,372,515**	**144,692,596**

The Notes on pages 9 to 48 form part of these Financial Statements.

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JUL 23 2021

PHILIPPINE MINING DEVELOPMENT CORPORATION
(FORMERLY NATURAL RESOURCES MINING DEVELOPMENT CORPORATION)
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019
(All amounts in Philippine Peso unless otherwise stated)

1. CORPORATE INFORMATION

The Philippine Mining Development Corporation (PMDC, or the Company, or the Corporation), formerly Natural Resources Mining Development Corporation (NRMDC), is a 100 per cent wholly-owned corporation of the National Government. Its original principal stockholders were the Natural Resources Development Corporation (NRDC), the corporate arm of the Department of Environment and Natural Resources (DENR), which held 55 per cent of the total capital stock, and the Philippine National Oil Corporation-Energy Development Corporation (PNOC-EDC), for the remaining 45 per cent. The PMDC was incorporated as an attached agency of DENR and registered with the Securities and Exchange Commission (SEC) on July 4, 2003 with Registration No. CS200314923 based on the authorization of the President of the Republic of the Philippines as contained in a Memorandum dated April 9, 2003. Upon the recommendation of the Secretary of DENR, the PMDC was authorized by the President of the Philippines, in a Memorandum dated June 9, 2005, to increase its capital stock from P100 million to P125 million. This resulted in a revised equity structure for PMDC where DENR-NRDC, PNOC-EDC, and National Development Company (NDC) held 44 per cent, 36 per cent and 20 per cent, respectively. The PNOC-EDC holdings of 36 per cent (P45 million) were subsequently turned over to the PNOC, the parent firm of PNOC-EDC sometime in Calendar Year (CY) 2006 due to PNOC-EDC's Initial Public Offering (IPO). Also, said Memorandum authorized PMDC to increase the number of its Board of Directors (BOD) from nine to 11.

Pursuant to DENR Administrative Order No. 2003-038 and by virtue of a Memorandum of Agreement (MOA) executed among DENR, PMDC (then NRMDC), and NRDC, PMDC was designated/appointed as the new implementing arm of DENR in undertaking the mining and mineral processing operations in the 8,100 hectares Diwalwal Mineral Reservation Area (DMRA) located in the Municipality of Monkayo, Davao de Oro. Based on the Agreement, the Diwalwal Direct State Development Project was turned over from NRDC to then NRMDC, now PMDC, and as such, collection of the 15 per cent government share from the ores extracted by the small-scale miners was later managed by the latter. In partial compliance, NRDC initially transferred P4.289 million to PMDC, with subsequent turnover of fund balance from the project and the documents related thereto. The Office of the President, however, returned said collection function to NRDC in February 2005. Such decision was based on the need for PMDC to focus on exploration and mining rather than the regulatory function of collection of the 15 per cent share from the small-scale miners 600 meters above sea level.

PMDC was primarily created to conduct and carry on the business of exploring, developing, mining, concentrating, converting, smelting, treating and otherwise developing, producing and dealing in gold, silver, copper, iron and any and all kinds of minerals, mineral deposits, substances and mineral resources.

The Corporation's registered business address is at 3001 B & C West Tower, Philippine Stock Exchange Center, Exchange Road, Ortigas Center, Pasig City, Metro Manila. It has a current workforce of 55 filled up organic and plantilla personnel and 33 project employees.

The financial statements of the Corporation as of and for the year ended December 31, 2020 (including the comparative financial statements as of and for the year ended December 31, 2019) were authorized for issue by the Corporation's BOD on June 24, 2021.

<u>Mining Property</u>

On May 28, 2007, the DENR transferred to PMDC, through Department Memorandum Order (DMO) No. 2007-05, all the non-performing mining tenements already cancelled, pursuant to DMO Nos. 2005-13 and 2005-03. The said DMOs contained the 93 cancelled tenements wherein 65 of these were cancelled as final and executory. PMDC shall dispose, develop or operate the subject tenements by itself or in partnership or in joint venture with qualified party or contractor.

The mining properties are then evaluated by PMDC to know their potential and feasibility through review and evaluation of the technical data, due diligence in the area and coordination with other government agencies. PMDC may undertake the direct development of the mining assets; however, due to financial constraints, it opted to offer the said mining properties to interested entities through competitive public bidding, which is governed by the provisions of the Government Procurement Act. The highest responsive bid shall be selected for award, which will be approved by the PMDC Management and its BOD.

The National Government considered PMDC as a vehicle for re-starting and re-opening of mining projects presently with the Department of Finance – Privatization and Management Office (DOF-PMO). Of the six projects initially listed, only the North Davao and Batong Buhay mining projects are identified for commercial development and consequently transferred to PMDC.

The mining assets of the North Davao Mining Corporation have been transferred to PMDC to facilitate their promotion as investment target. These assets are the subject of a preliminary evaluation and assessment by the Mines and Geosciences Bureau (MGB) for copper/gold potentials, which was covered by a MOA.

The mining asset of the Batong Buhay Mining Corporation is located at the Municipality of Pasil, Kalinga, Apayao Province.

2. STATUS OF OPERATIONS

<u>The Change in Corporate Business Model</u>

Shortfalls in equity requirements due to inability of PMDC shareholders to increase current equity level required by Development Bank of the Philippines (DBP) before a loan can be drawn necessitated the creation of a supplementary business model - the royalty business scheme.

The royalty business model enables PMDC to earn from marketing of mining areas even as it is still in assessment of whether it should pursue the traditional miner and gold refiner option. Currently, PMDC is compensated by commitment fees, i.e., upfront fees based on performance milestones as agreed prior to bidding process. The fees represent the payment for privilege to explore/study potentials of the mineral area. Upon commercial operation, PMDC is compensated over the life of the mine by agreed percentage of gross revenues of the partner from their sales of minerals or end-products of the minerals/ores extracted/processed.

Subsequently, PMDC monitors the conduct of the evaluation and later development and operations of the partners by way of required submissions of technical and financial reports, augmented from time to time by periodic visits by PMDC project officers and staff. The monitoring activity is a continuing effort by the PMDC technical staff on the activities of the partner-operators, as required under the contract as well as International Standards Organization (ISO) quality procedures.

Thus, from CY 2010 onwards, PMDC's corporate efforts were on the continuation of the offering and awards of the mineral tenements earlier transferred to it by the DENR-MGB.

Strategic Plans and Initiatives

In CY 2020, PMDC has sustained to invigorate its responsible mining advocacies and activities thru corporate social responsibility afforded to mining communities as well as linkages with both the national and local governments. It was also able to maintain and improve peace and order and environment protection in these areas.

Accomplishments/Highlights for CY 2020

Hereunder are PMDC's major corporate accomplishments, grouped accordingly, during the year.

I. Project monitoring and operations, including disclosures on exports of ores

  a. The Corporation had been monitoring all the awarded projects by assigned technical personnel, including the provision of technical and support assistance to partners/operators.

     Of the 28 awarded projects covered by Joint Operating Agreements (JOAs) executed between CYs 2006 to 2010, only three are in the development/operating stage, namely: the Dinagat Nickel Chromite Parcel 1 *(Loreto, Dinagat Islands)*, Dinagat Parcel 2B *(Libjo, Basilisa, Dinagat Islands)* and Pinamungahan Limestone Project *(Cebu)*. The Dinagat Nickel-Chromite Parcels 1 and 2B are currently undergoing Care and Maintenance Program (CMP)[1]. The Dinagat Parcel 1 planned to operate in 2020. However, due to restrictions posed by Coronavirus Disease 2019 (Covid-19) pandemic, the operation was postponed for the 1st Quarter of 2021. Pinamungahan Limestone is under development stage and most of its activities were also stalled due to the pandemic.

[1] *The said CMP was approved by the MGB RO No. XIII. In view thereof, there was no reported production for CY 2020 as the Operator, AAM-Phil Natural Resources Exploration and Development Corporation (AAM-Phil) concentrated in their environmental and social development activities in the project area.*

Due to violation of certain terms of the JOA, and/or non-performance and abandonment of mining project areas, four of the awarded projects, namely: *the Toledo Copper, Palawan Silica, Lagonoy Chromite and Itogon Gold*, were served cancellation notices and referred to the Office of the Government Corporate Counsel (OGCC) for possible judicial JOA cancellation. The JOA Evaluation Committee, formed by the Management to review and evaluate the other 20 projects which remained undeveloped, non-operational and non-performing for 10 years or more, had served letters to the partner-operators thereof, directing them to show cause why their respective JOAs should not be cancelled. Management eventually served "Cancellation Notices" to partner/operators of 13 JOAs, while seven of them were retained upon evaluation of the JOA Committee. The operator of Opol Gold Project, one of the seven projects retained, voluntarily withdrew from the JOA claiming that the project is not feasible for mining operation.

b. PMDC also bid out the Hernani Chromite and Dinagat Parcel 2A Nickel-Chromite Projects. The former operator of Hernani Chromite Project, however, questioned in the Pasig Regional Trial Court (RTC), PMDC's cancellation of its JOA and asked for the issuance of a Temporary Restraining Order (TRO) and/or Writ of Preliminary Injunction to prevent the public bidding of the Project for the selection of another partner-operator. The Court did not issue any TRO or Injunction, hence the scheduled bidding pushed through, although not one of the three pre-qualified bidders participated in the bidding, which resulted in a failed bidding. The bidding of the Dinagat Parcel 2A, however, was successful since one submitted a responsive bid. The awarding of the project was, however, deferred pending payment/settlement of the Commitment fee by the winning bidder.

c. The North Davao Mining Project was publicly bid out on October 19, 2009, but the winning bidder, Asia Alliance Mining Resources Corporation (AAMRC), refused to execute the JOA and pay its bid and even questioned in the RTC of Pasig the PMDC's declaration of default against it. The RTC granted AAMRC's prayer for the issuance of a TRO and/or Preliminary Injunction enjoining PMDC to award the contract to the next highest bidder or to conduct another bidding or to give effect to the declaration of default. PMDC assailed the granting of the injunctive relief with the Court of Appeals and with the Supreme Court. Later on, the Supreme Court remanded the case to the Court of Appeals for resolution thereof on the merits. In the meantime, PMDC and AAMRC have agreed to enter into a Compromise Agreement in order to end this litigation. PMDC is presently obtaining the approval of the Privatization Council (PrC) to the Compromise Agreement. PMDC urged the PrC to approve the same as soon as possible justifying that the project had been unproductive since CY 2009, hence, Government had suffered opportunity losses as a result; the approval will generate for the Government substantial amount of revenues; and the potential job opportunities to be created in the area.

d. The Batong Buhay Gold Project was awarded to Balatoc ICC *(represented by the Balatok Kalinga Tribe, Inc. – BKTI and Balatoc Tribal Exploration and Management Corporation - BTEMC)* through execution of a JOA in November 2009. BKTI then entered into a Memorandum of Agreement with Carrascal Nickel Corporation (CNC) in CY 2010 as the Tribe's financial and technical partner in the exploration, development, mining and milling operation, marketing and utilization for commercial purposes of copper/gold and other associated mineral deposits existing in the contract area. CNC subsequently assigned its rights in favor of CNC Faratuk Mining Inc.

Aside from the internal squabble among the tribal members, the ICC is likewise embroiled in litigation with its financial and technical partner. A Writ of Injunction was issued by the National Commission on Indigenous People (NCIP) on September 2013, citing that CNC failed to meet its obligation under the agreement.

In July 2019, the BKTI requested PMDC to withdraw and cancel its previous approval issued in favor of CNC as the ICC's partner for the development of the project. PMDC then sent a letter to CNC as to this effect, but CNC responded that it will not honor the withdrawal, revocation and cancellation of the agreement until its expenses have been paid. However, the community claimed that there was no substantial set of community development projects as per agreed in the contract. There is now an ongoing arbitration proceeding to settle this dispute.

e. In the DMRA, PMDC continues its work to clean up and develop the area in response to the call of the President of the Philippines. The DMRA was proliferated with illegal small-scale miners who continue to pollute the Naboc River and its tributaries. PMDC continues all its work to protect the environment. The following were the activities done in DMRA:

   i. Continue the relocation of the ball mill operators and Carbon-in-Pulp (CIP) plant owners near the Mabatas Tailings Dam;

   ii. Continue the construction works in the facilities related to the Mabatas Tailings Dam. The sub-facilities of the Mabatas Tailings Storage Facility are the interim dam, spillway, tailings launder, decant tower, water system and sources and water cyanide recycling tank. An additional water system, Matangad Water System, was constructed to support the operations of the small-scale miners in the area.

II. The recent pandemic has affected PMDC's revenues for the year. However, the Management does not see such disruption to continue and persist, hence, will not in any way impact the Company's going concern status. PMDC's operations will not be hampered in the foreseeable future and will still be able to acquire assets and pay its liabilities and commitments in the normal course of business.

As a government-owned and control corporation without budgetary subsidy/appropriation from the Government, PMDC has been exhausting all its efforts to boost its revenue generating capacity. The operating expenses of PMDC are sourced out from the royalties due from the production of its Partner/Operator in operating projects – Dinagat Parcels 1 and 2B Nickel – Chromite Projects, and Commitment Fees on bidding of other PMDC Mining Properties.

The operation of Dinagat Projects had been stalled due to new policies imposed by the then DENR Secretary and the recent Covid-19 pandemic. In CY 2016, the DENR issued a DENR Memorandum Order No. 2016-01, denominated as Audit of All Operating Mines and Moratorium of New Mining Projects on July 8, 2016. After the said audit, the former DENR Secretary issued closure orders of 23 metallic mines which includes the two operating mining projects of PMDC, the Dinagat Projects. The Partner/Operator of PMDC filed its appeal including the other mining companies which had been issued closure orders, questioning the veracity of the audit results. The Mining Industry Coordinating Council, chaired by the Department Secretaries of DOF and DENR, conducted a review of the audit findings which prompted another audit of the operating mining projects. On November 12, 2018, the closure order issued to the Dinagat Projects was then downgraded to suspension order, to be lifted upon compliance of certain conditions stated therein. PMDC's Partner/Operator immediately complied with the said conditions imposed. Accordingly, the suspension order was lifted in February 2020. The Operator then planned to resume its mining operations in CY 2020, however, the Covid-19 pandemic broke out thereby further stalling its operations.

PMDC had been actively bidding out its mining projects, however, the biddings failed as there were no investors/private entities who posted any bid offer in CYs 2018-2019. In CY 2020, PMDC successfully bid out the Dinagat Parcel 2A Nickel Chromite Property. With this, PMDC shall receive a significant amount of Commitment Fee, but due to certain circumstances, the payment of the Commitment Fee to PMDC has been delayed as of to date. The Hernani Property was also bid out, but the qualified bidder did not post a bid offer.

With these turn of events, PMDC Management has been laying down its plan to generate its revenue-generating capacity to support the operating expenses of PMDC. For CY 2021, PMDC is bidding out seven mining properties of which, two properties have received an intent from a private entity to participate in the bidding. During the same year, the Dinagat Properties resumed its mining production wherein, to date, there are four concluded shipments of which PMDC has already billed with an estimated amount of P38.8 million net of 20 per cent final tax. PMDC will continue to aggressively bid out its mining properties. In addition, the Management is considering to gradually shift its business model of royalty-based business to directly operate the mining property together with a financial/service provider to increase the revenue sharing of PMDC. This business model will also enhance the technical expertise of PMDC in direct mining operations. In addition, PMDC requested to transfer certain mining projects with the DENR as another avenue or opportunity of revenue source.

PMDC will continue to review its contracts with Partners/Operators to ensure that the work program is on track. Any violations in the contract by the Partner/Operators will be considered for the imposition of sanctions depending on the gravity of violations. This will ensure that all projects of PMDC are in consonance with its objective to fast track the development of mining projects to eventually provide PMDC another source of revenue.

Aside from boosting the revenue-generating capacity of PMDC, the Management also decided to cut down its operating expenses, such as capital expenditure and other personnel expenses. PMDC shall prioritize the implementation of any facilities to be constructed in DMRA. The improvement/repair of the decantation tower will push through; however, other facilities/projects shall be put on hold. PMDC shall continue its cost-cutting measures to address the financial issues of the Company.

III. Community-support

PMDC continued to implement its Corporate Social Responsibility (CSR) agenda which focused on providing support to the direct stakeholders of DMRA in Mt. Diwata, Monkayo, Davao de Oro.

For CY 2020, PMDC provided monthly rice and food subsidy to the Mt. Diwata Health Center, Philippine National Police, and Armed Forces of the Philippines (AFP) stationed at DMRA. The partnership with PMDC and the two forces continues to strengthen as they partner in maintaining DMRA's holistic growth and development.

Through its depot office in Upper Ulip, PMDC responded to several requests of the barangays in the DMRA, which included providing financial assistance to certain barangay activities.

As support to the Republic Act (RA) No. 11469 also known as Bayanihan Heal as One Act, PMDC together with the Barangay Local Government Unit and AFP, distributed food packs to four directly impacted barangays within the DMRA. PMDC has distributed food packs to selected families who have lost their source of livelihood, solo parents, persons with disabilities, farmers, laborers, the jobless Habal-habal drivers, Senior Citizens, and those who are not beneficiaries from any government subsidy from Barangays Mt. Diwata, Upper Ulip, Naboc, and Tubo-tubo. An Information, Education and Communication (IEC) on Solid Waste Management and Environment Protection was also conducted during the distribution of the food relief packs. Leaflets and other IEC materials were included in each food pack distributed.

To strengthen and apply the conducted IEC on Solid Waste Management and Environmental Protection, PMDC installed Solid Waste Materials Recovery Facility-Drop Off Unit to the four barangays in DMRA. This supports the existing RA No. 9003, also known as the Ecological Solid Waste Management Act of 2000, to promote and strengthen proper waste management and disposal in the community.

PMDC also provided support to 11 primary and secondary schools in DMRA by donating sanitization materials and medical devices used by the teachers to prevent and mitigate the spread of the virus while preparing for the start of the school year.

Another initiative of the PMDC-CSR under its Health, Education, Rural Infrastructure and Opportunities to Earn (HERO) Program for Education this year is the Support to Basic Education Learning Continuity Plan of the Department of Education, by providing materials for Modular Production. This is to aid the schools in DMRA as they implement the newly developed mode of learning to continually provide education to the children in the community without compromising the health of the learners, teachers, and other stakeholders in this time of the pandemic. PMDC was able to donate reams of bond papers and bottles of liquid inks to the eight primary and four secondary schools in DMRA.

Lastly, PMDC expanded its Potable Water System in DMRA, the project expansion called Matangad Water Source Pipe Laying. The main objective of this Project is to provide an additional water source for the existing Mabatas Water System to ensure that the demand and needs of the rising number of relocated Carbon in Pulp

CIP/Ballmill Owner and Operators will be sufficiently provided without compromising nor cutting the supply or the services to its existing beneficiaries. The additional water source from Matangad will help supply water to the CIP/Ball mills Operators and owners in Mabatas Complex, to the households, schools, and other stakeholders' offices located in Sitio Depot.

IV. Corporate systems development and ISO certification

In CY 2020, with the onset of the Covid-19 outbreak, the certification activities and audit schedule were affected; hence, the certifying body initiated the 2nd surveillance audit of PMDC in two audit segments, the remote audit, and on-site audit. PMDC successfully completed the 2nd surveillance audit, and the organization is due for ISO 9001:2015 Quality Standards re-certification in CY 2021.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these financial statements are summarized below. These policies have been consistently applied to all the years presented unless otherwise stated.

3.1 Basis for the Preparation of Financial Statements

(a) *Statement of Compliance with Philippine Financial Reporting Standards*

The accompanying financial statements of PMDC as of and for the years ended December 31, 2020 and 2019 have been prepared in compliance with Philippine Financial Reporting Standards (PFRSs). The term PFRS, in general, includes, all applicable PFRS, Philippine Accounting Standards (PAS) and Standing Interpretations Committee)/International Financial Reporting Interpretations Committee interpretations issued by the International Accounting Standards Board and approved by the Financial Reporting Standards Council (FRSC) for adoption in the Philippines.

The Company has continued to adopt the Full PFRS as its Financial Reporting Framework despite the decline in threshold required under the SEC Revised Securities Regulation Code Rule 68 Part I-2 dated October 13, 2019. However, it will assess if such decline will continue significantly for a minimum of two years before transitioning to PFRS for Small and Medium-Sized Entities (SMEs).

Presentation of Financial Statements

The financial statements are presented in accordance with PAS 1, Presentation of Financial Statements. PMDC presents all items of income and expenses in a single Statement of Comprehensive Income (SCI).

(b) *Functional and Presentation Currency*

These financial statements are presented in Philippine pesos, the Corporation's functional and presentation currency, and all values represent absolute amounts except when otherwise indicated.

Items included in the financial statements of the Corporation are measured using its functional currency. Functional currency is the currency of the primary economic environment in which the Corporation operates.

3.2 Adoption of New and Amended PFRS

(a) *Effective in CY 2020 that are Relevant to the Corporation*

PAS 1 and PAS 8: *Amendments to PAS 1 and PAS 8* - Definition of Material

The amendments were issued in October 2018 to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information' is material if omitting, misstating, or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The amendments clarify that materiality will depend on the nature or magnitude of information, or both. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements.

Although the amendments to the definition of material is not expected to have a significant impact on an entity's financial statements, the introduction of the term 'obscuring information' in the definition could potentially impact how materiality judgments are made in practice, by elevating the importance of how information is communicated and organized in the financial statements.

Revised *Conceptual Framework for Financial Reporting*

The FRSC has issued a revised Conceptual Framework which will be used in standard-setting decisions with immediate effect. Key changes include:

- increasing the prominence of stewardship in the objective of financial reporting,
- reinstating prudence as a component of neutrality,
- defining a reporting entity, which may be a legal entity, or a portion of an entity,
- revising the definitions of an asset and a liability,
- removing the probability threshold for recognition and adding guidance on derecognition,
- adding guidance on different measurement basis, and
- stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

No changes will be made to any of the current accounting standards as the accounting policies applied by the Company are still in consonance with the revised Framework.

Covid-19-related Rent Concessions: *Amendments to PFRS 16*

As a result of the COVID-19 pandemic, rent concessions have been granted to lessees. Such concessions might take a variety of forms, including payment holidays and deferral of lease payments. The FRSC made an amendment to PFRS 16 *Leases* which provides lessees with an option to treat qualifying rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concessions as variable lease payments in the period in which they are granted.

Rent concessions entered into by the Company that are primarily operating leases were not affected by the said amendment.

(b) *Effective in CY 2020 that are not Relevant to the Corporation*

PFRS 9, PAS 39 and PFRS 7: *Amendments to PFRS 9, PAS 39, and PFRS 7*- Interest Rate Benchmark Reform

The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (an RFR).

The amendments to PFRS 9

The amendments include a number of reliefs, which apply to all hedging relationships that are directly affected by the interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument.

Application of the reliefs is mandatory. The first three reliefs provide for:

- The assessment of whether a forecast transaction (or component thereof) is highly probable
- Assessing when to reclassify the amount in the cash flow hedge reserve to profit and loss
- The assessment of the economic relationship between the hedged item and the hedging instrument

The amendments to PAS 39

The corresponding amendments are consistent with those for PFRS 9 but with the following differences:

- For the prospective assessment of hedge effectiveness, it is assumed that the benchmark on which the hedged cash flows are based (whether or not it is contractually specified) and/or the benchmark on which the cash flows of the hedging instrument are based, are not altered as a result of Interbank Offered Rates (IBOR) reform.

- For the retrospective assessment of hedge effectiveness, to allow the hedge to pass the assessment even if the actual results of the hedge are temporarily outside the 80-125 per cent range, during the period of uncertainty arising from IBOR reform.

- For a hedge of a benchmark portion (rather than a risk component under PFRS 9) of interest rate risk that is affected by IBOR reform, the requirement that the portion is separately identifiable needs to be met only at the inception of the hedge.

(c) *Effective Subsequent to CY 2020 but not Adopted Early*

Pronouncements issued but not yet effective or are not mandatory for annual reporting periods ending on December 31, 2020 are listed below. These are classified into two: (1) standards relevant to the Corporation; and (2) standards irrelevant to the Corporation.

c.1 <u>Standards relevant to the Corporation</u>

The Corporation intends to adopt the following pronouncements in the recognition, measurement, classification, and reporting of affected financial statement accounts when they become effective and will apply to the Company's transactions:

Effective for annual periods beginning on or after January 1, 2022.

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

The amendments help entities determine whether an acquired set of activities and assets is a business or not. The amendments clarify that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. They also clarify that a business can exist without including all of the inputs and processes needed to create outputs. That is, the inputs and processes applied to those inputs must have 'the ability to contribute to the creation of outputs' rather than 'the ability to create outputs'.

Amendments to PAS 16- *Property, Plant and Equipment: Proceeds before Intended Use*

The amendments prohibit an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is preparing the asset for its intended use. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss.

It also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment.

Entities must disclose separately the amounts of proceeds and costs relating to items produced that are not an output of the entity's ordinary activities.

Amendments to PAS 37- *Onerous Contracts – Cost of Fulfilling a Contract*

The amendment clarifies that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts. Before recognizing a separate provision for an onerous contract, the entity recognizes any impairment loss that has occurred on assets used in fulfilling the contract.

Annual Improvements to PFRS Standards 2018–2020 Cycle

Among the improvements, the following are relevant to the Corporation

- PFRS 9 *Financial Instruments* – clarifies which fees should be included in the 10 per cent test for derecognition of financial liabilities.

- PFRS 16 *Leases* – amendment of illustrative example 13 to remove the illustration of payments from the lessor relating to leasehold improvements, to avoid any confusion about the treatment of lease incentives.

Effective for annual periods beginning on or after January 1, 2023.

Amendments to PAS 1- *Classification of Liabilities as Current or Non-current*

The narrow-scope amendments to PAS 1 *Presentation of Financial Statements* clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (e.g., the receipt of a waiver or a breach of covenant). The amendments also clarify what PAS 1 means when it refers to the 'settlement' of a liability.

The amendments could affect the classification of liabilities, particularly for entities that previously considered Management's intentions to determine classification and for some liabilities that can be converted into equity.

They must be applied retrospectively in accordance with the normal requirements in PAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.*

c.2 <u>Standards irrelevant to the Corporation</u>

The Corporation does not expect that the future adoption of the following pronouncements to have a significant impact on its financial statements:

Effective for annual periods beginning on or after January 1, 2023.

PFRS 17- *Insurance Contracts*

This standard replaces PFRS 4, *Insurance Contracts*, which currently permits a wide variety of practices in accounting for insurance contracts. PFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.

Annual Improvements to PFRS 2018 to 2020 Cycle

Among the improvements, the following amendments are irrelevant to the Corporation:

- PFRS 1 *First-time Adoption of International Financial Reporting Standards* – allows entities that have measured their assets and liabilities at carrying amounts recorded in their parent's books also to measure any cumulative translation differences using the amounts reported by the parent. This amendment will also apply to associates and joint ventures that have taken the same PFRS 1 exemption.

  Effective for annual periods beginning on or after January 1, 2022.

- PAS 41 *Agriculture* – removal of the requirement for entities to exclude cash flows for taxation when measuring fair value of biological asset under PAS 41. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis.

  Effective for annual periods beginning on or after January 1, 2022.

Amendments to PFRS 4, *Extension of the Temporary Exemption from Applying PFRS 9*

The amendments change the fixed expiry date for the temporary exemption in PFRS 4 *Insurance Contracts* from applying PFRS 9 *Financial Instruments*, so that entities would be required to apply PFRS 9 for annual periods beginning on or after January 1, 2023.

3.3 <u>Financial Assets</u>

The Corporation recognizes a financial asset in the Statements of Financial Position (SFP) when it becomes a party to the contractual provisions of the instrument. The Corporation classifies its financial assets as follows:

(a) <u>Classification, Measurement and Reclassification of Financial Assets</u>

Under PFRS 9, the classification and measurement of financial assets is driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

i) Financial Assets at Amortized Cost

Financial assets are measured at amortized cost if both of the following conditions are met:

- the asset is held within the Corporation's business model whose objective is to hold financial assets in order to collect contractual cash flows ("hold to collect"); and

- the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

Except for trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with PFRS 15, all financial assets meeting these criteria are measured initially at fair value plus transaction costs. These are subsequently measured at amortized cost using the effective interest method.

The Corporation's financial assets at amortized cost are presented in the SFP as Cash and Cash Equivalents, and Trade and Other Receivables. (See Notes 5 and 6)

For purposes of cash flows reporting and presentation, cash and cash equivalents comprise accounts with original maturities of three months or less, including cash. These generally include cash on hand, demand deposits, and short-term, highly liquid investments readily convertible to known amounts of cash and are subject to insignificant risk of changes in value.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of the financial assets except for those that are subsequently identified as credit-impaired. For credit-impaired financial assets at amortized cost, the effective interest rate is applied to the net carrying amount of the financial assets (after deduction of the loss allowance). The interest earned is recognized in the SCI as part of Finance Income.

ii) Financial Assets at Fair Value Through Other Comprehensive Income (FVOCI)

The Corporation accounts for financial assets at FVOCI if the assets meet the following conditions:

- they are held under a business model whose objective is to hold to collect the associated cash flows and sell ("hold to collect and sell"); and

- the contractual terms of the financial assets give rise to cash flows that are SPPI on the principal amount outstanding.

At initial recognition, the Corporation can make an irrevocable election (on an instrument-by-instrument basis) to designate equity investments as at FVOCI; however, such designation is not permitted if the equity investment is held by the Corporation for trading or as mandatorily required to be classified as Fair Value Through Profit or Loss (FVTPL).

Financial assets at FVOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value, with no deduction for any disposal costs. Gains and losses arising from changes in fair value, including the foreign exchange component, are recognized in other comprehensive income, net of any effects arising from income taxes, and are reported as part of the Revaluation Surplus account in equity. When the asset is disposed of, the cumulative gain or loss previously recognized in the Revaluation Surplus account is not reclassified to profit or loss but is reclassified directly to Retained Earnings account, except for those debt securities classified as FVOCI wherein cumulative fair value gains or losses are recycled to profit or loss.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of the financial assets except for those that are subsequently identified as credit-impaired. For credit-impaired financial assets, the effective interest rate is applied to the net carrying amount of the financial assets (after deduction of the loss allowance). The interest earned is recognized in the SCI as part of Finance Income.

iii) Financial Assets at Fair Value Through Profit or Loss

Financial assets that are held within a different business model other than "hold to collect" or "hold to collect and sell" are categorized at FVTPL. Further, irrespective of business model, financial assets whose contractual cash flows are not SPPI are accounted for at FVTPL. In addition, equity securities are classified as financial assets at FVTPL, unless the Corporation designates an equity investment that is not held for trading as at FVOCI at initial recognition. The Corporation's financial assets at FVTPL include equity securities, which are held for trading purposes or designated as at FVTPL.

Financial assets at FVTPL are measured at fair value with gains or losses recognized in profit or loss as part of Finance Income in the SCI. The fair values of these financial assets are determined by reference to active market transactions or using a valuation technique where no active market exists.

Interest earned on these investments is included in the net fair value gains (losses) on these assets presented as part of Finance Income in the SCI.

(b) Impairment of Financial Assets

From January 1, 2018, the Corporation assesses its expected credit loss (ECL) on a forward-looking basis associated with its financial assets carried at amortized cost and debt instruments measured at FVOCI. Recognition of credit losses is no longer dependent on the Corporation's identification of a credit loss event. Instead, the Corporation considers a broader range of information in assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect collectability of the future cash flows of the financial assets.

The key elements used in the calculation of ECL are as follows:

- *Probability of default* – It is an estimate of likelihood of default over a given time horizon.
- *Loss given default* – It is an estimate of loss arising in case where a default occurs at a given time. It is based on the difference between the contractual cash flows of a financial instrument due from a counterparty and those that the Corporation would expect to receive, including the realization of any collateral.
- *Exposure at default* – It represents the gross carrying amount of the financial instruments subject to the impairment calculation.

Measurement of the ECL is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

(c) Derecognition of Financial Assets

The financial assets (or where applicable, a part of a financial asset or part of a group of financial assets) are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party. If the Corporation neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred assets, the Corporation recognizes its retained interest in the asset and an associated liability for amount it may have to pay. If the Corporation retains substantially all the risks and rewards of ownership of a transferred financial asset, the Corporation continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received. (PFRS 7 and PFRS 9)

3.4 Inventories

Inventories are electrical supplies and other materials valued at the lower of cost and net realizable value applying PAS 1 and PAS 2. Pursuant to Commission on Audit (COA) Circular No. 2016-006 dated December 29, 2016, tangible assets below the capitalization threshold of P15,000 are classified as inventories before these are issued to end- users. (See Note 7)

3.5 Other Assets

Other assets pertain to other resources controlled by the Corporation as a result of past events. They are recognized in the financial statements when it is probable that the future economic benefits will flow to the Corporation and the asset has a cost or value that can be measured reliably.

Other recognized assets of similar nature, where future economic benefits are expected to flow to the Corporation beyond one year after the end of the reporting period or in the normal operating cycle of the business, if longer, are classified as non-current assets in accordance with PAS 1. (See Notes 8 and 11)

3.6 Property, Plant and Equipment (PPE)

PPE are measured at cost less any subsequent accumulated depreciation, amortization and any impairment in value. The initial cost of PPE consists of its purchase price and other directly attributable costs of bringing the asset to its working condition and location for its intended use as provided in PAS 1 and PAS 16. (See Note 9)

Subsequent expenditures relating to an item of PPE that have already been recognized are added to the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Corporation.

All other expenses relating to an item of PPE that is described as repairs and maintenance are reflected in the SCI during the year in which they are incurred.

Depreciation is computed on a straight-line method based on the following estimated useful life of the property, net of 5 per cent salvage value, pursuant to Paragraph 6.3.e of COA Circular No. 2017-004 dated December 13, 2017:

Infrastructure assets	25 years
Buildings and other structures	10 years
Machinery and equipment	2-10years
Transportation equipment	5 years
Leased assets improvement	2- 5 years

The estimated useful lives, residual values, and depreciation method are reviewed periodically to ensure that the period and method of depreciation are consistent with the expected pattern of economic benefits from items of property and equipment.

If there is an indication that there has been a significant change in depreciation rate, useful life or residual value of an asset, the depreciation of that asset is revised prospectively to reflect new expectations.

An item of PPE, including the related accumulated depreciation and impairment losses, is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from the derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the profit or loss in the year the item is derecognized.

Incomplete construction is stated at cost and is depreciated only when the assets are already completed and/or put into operational use.

3.7 Exploration and Evaluation Assets

These are initially carried at acquisition cost subject to revaluation after conducting an assessment for impairment of the assets, which is dependent on the result of exploratory drilling indicating sufficient data from which technical feasibility and commercial viability can be determined.

The assets are consequently carried at replacement cost retrospective as at November 15, 2007 after the appraisal made by a reputable independent appraiser using the replacement cost as basis of valuation. In 2018, an independent appraisal of said properties was undertaken wherein the fair value method has been applied. (See Notes 9 and 23.2)

Lease-to-purchase mining equipment is carried at "exercise price" or future value at the end of the rental period or two years, net of interest at the rate of 11 per cent, which is charged to operations.

PMDC also has a Jumbo Drill, tunnel-boring equipment, included in its exploration and evaluation assets. Said idle and intended for sale equipment has been depreciated and appraised in accordance with PFRS 6, PAS 16, and PAS 36. (See Note 9)

3.8 Intangible Assets

Intangible assets include acquired licenses, franchises, and internally developed software, which are accounted for under the cost model. The cost of the asset is the amount of cash or cash equivalents paid or the fair value of the other considerations given up to acquire an asset at the time of its acquisition or production. Capitalized costs are amortized on a straight-line basis over the estimated useful lives up to ten years, as the lives of these intangible assets are considered finite in accordance with PAS 1 and PAS 38. (See Note 10)

Acquired computer software licenses are capitalized based on the costs incurred to acquire and bring to use the specific software. These costs are amortized on the basis of the expected useful lives.

Costs associated with developing or maintaining computer software programs are recognized as an expense as incurred.

3.9 Financial Liabilities

Financial liabilities, which include trade and other payables (excluding tax-related liabilities) and loans payable, are recognized when the Corporation becomes a party to the contractual terms of the instrument. These payables are stated at nominal values. All interest-related charges incurred on financial liability are recognized as expense in profit or loss under finance income (costs)-net in the SCI as required in PAS 1 and PFRS 9. (See Notes 12, 13 and 14)

Financial liabilities are classified as current liabilities if payment is due to be settled within one year or less after the end of the reporting period (or in the normal operating cycle of the business, if longer) or the Corporation does not have an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period. Otherwise, these are presented as non-current liabilities.

Financial liabilities are derecognized from the SFP only when the obligations are extinguished either through discharge, cancellation, or expiration. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized as profit or loss in the SCI.

3.10 Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the resulting net amount, considered as a single financial asset or financial liability, is reported in the SFP when the Corporation currently has legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The right of set-off must be available at the end of the reporting period; that is, it is not contingent on a future event. It must also be enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy; and, must be legally enforceable for both entity and all counterparties to the financial instruments (PAS 32).

3.11 Provisions and Contingencies

Provisions are recognized when the Corporation has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation (PAS 1 and PAS 37).

In CYs 2019 and 2020, the Corporation sets up a provision for unused vacation and sick leave credits of the employees accumulated at the end of the year. (See Notes 12.1 and 18.4)

Contingent liabilities are not recognized in the financial statements but 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 are disclosed in the notes to financial statements when an inflow of economic benefits is probable.

3.12 Revenue and Expense Recognition

Revenue is recognized by applying PFRS 15 to all contracts that have the following attributes (See Note 16):

a) Parties to the contract has approved it and are committed to perform;
b) Each party's rights to the goods/services transferred are identified;
c) The payment terms are identified;
d) The contract has a commercial substance; and
e) It is probable that an entity will collect the consideration – there is a need to evaluate the customer's ability and intention to pay.

Costs and expenses are decreases in economic benefits during the accounting period in the form of outflows or depletion of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. General and administrative expenses are generally recognized when the services are used, or the expenses arise while interest and other finance charges are accrued in the appropriate period. (See Notes 18, 19, and 20)

3.13 Leases

The Corporation assesses whether a contract is or contains a lease, at inception of the contract. Should it be applicable, the Corporation shall recognize a right of use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low-value assets.

For short-term leases and leases of low value assets, the Corporation recognizes the lease payments as an operating expense on a straight-line basis over the lease term in profit or loss section of the SCI in accordance with PAS 1 and PAS 17 unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The Corporation's CYs 2019 and 2020 lease transactions as lessee fall under either short-term leases or leases of low-value assets. (See Notes 18.17 and 24.1)

3.14 Foreign Currency Transactions and Translations

The Corporation converts into local currency its foreign currency-denominated transactions using actual foreign exchange rate prevailing during the month and date of transaction, respectively. Monetary assets and liabilities that are denominated in foreign currencies are restated using the closing exchange rate at reporting date. Foreign exchange (FOREX) gains and losses arising from foreign currency fluctuations are recognized in profit or loss section of the SCI for the period as provided in PAS 21 and PFRS 9. (See Note 17)

3.15 Impairment of Non-Financial Assets

The Corporation assesses at each reporting date whether there is an indication that PPE may be impaired. If any such indication exists or when annual impairment testing for a non-financial asset is required, the Corporation makes an estimate of the non-financial asset's recoverable amount. Recoverable amount is the higher of a non-financial asset's fair value less costs to sell and its value in use and is determined for an individual asset, unless the non-financial asset does not generate cash inflows that are largely independent of those from other or groups of non-financial assets (PAS 1 and PAS 36).

When the carrying amount of a non-financial asset exceeds its recoverable amount, the non-financial asset is considered impaired and is written down to its recoverable amount. An impairment loss is charged against operations in the year in which it arises.

An impairment assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exists or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the SCI. For PPE, after such reversal, the depreciation expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life. (See Notes 9 and 10)

3.16 Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale (PAS 1 and PAS 23).

To the extent that variable rate borrowings are used to finance a qualifying asset and are hedged in an effective cash flow hedge of interest rate risk, the effective portion of the derivative is recognized in other comprehensive income and reclassified to profit or loss when the qualifying asset impacts profit or loss. To the extent that fixed rate borrowings are used to finance a qualifying asset and are hedged in an effective fair value hedge of interest rate risk, the capitalized borrowing costs reflect the hedged interest rate.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred. The Corporation has not incurred any borrowing costs in the prior year and during the reporting period.

3.17 Income Taxes

The Income tax expense represents the amount of tax currently payable (PAS 1 and PAS 12).

Under PAS 12, income tax expense comprises current and deferred tax. It is recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in Other Comprehensive Income.

Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends, if applicable.

The tax currently payable is based on the taxable profit for the year. Taxable income differs from Profit for the Year as reported in the SCI because of items of income or expense that are taxable or deductible in other years and items that are neither taxable or deductible. The Corporation's liability for current tax is calculated using the tax rates and tax laws applicable to the periods to which it relates. (See Note 21)

Current tax assets and liabilities are offset only if certain criteria are met.

Deferred tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for:

– temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;

– temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Corporation is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and

– taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognize a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences are considered.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date, and reflects uncertainty related to income taxes, if any.

Deferred tax assets and liabilities are offset only if certain criteria are met.

3.18 Related Party Transactions and Relationships

A related party relationship exists 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 its key management personnel, directors, or its stockholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely on the legal form as provided in PAS 1. (See Note 22)

3.19 Equity

Share capital represents the nominal value of shares that have been issued. Revaluation surplus represents appraisal increment of exploration and evaluation assets (PAS 32).

Retained earnings represent all current and prior period results of operations as reported in the profit or loss section of the SCI less any dividends declared. (See Note 23)

3.20 Events After the End of the Reporting Period

Any post-year-end event that provides additional information about the Corporation's financial position at the end of the reporting period (adjusting event) is reflected in the financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material (PAS 10).

4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

In preparing these financial statements, management has made judgements and estimates that affect the application of the Corporation's accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

Below is one of the management's significant judgments and/or estimates that have the most significant effect in the preparation of the financial statements for the current period:

Fair value measurements and valuation processes

The Corporation has engaged the services of a third-party valuation Corporation to conduct the appraisal of the Exploration and Evaluation Assets at Mt. Diwalwal, Monkayo, Davao de Oro. The decrease in property valuation (impairment loss) has been treated as a reduction in the revaluation surplus account. (See Note 23.2)

Classification of Financial Instruments

The Corporation classifies and measures a financial instrument, or its component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual agreement and the definitions of a financial asset, a financial liability or an equity instrument. (See Notes 3.3 and Note 3.9)

5. CASH AND CASH EQUIVALENTS

This account consists of the following:

	2020	2019
Cash on hand	91,270	107,000
Cash in bank-local currency	23,113,910	106,257,082
Cash in bank-foreign currency	2,167,335	2,435,874
Cash equivalents	-	35,892,640
	25,372,515	144,692,596

Cash in bank earns interest at floating rates based on daily bank deposit rates. The dollar deposits amounting to US$45,131.18 were translated in Philippine Peso based on the Philippine Dealing System closing rate of P48.023 to US$1 prevailing at the end of the year. Unrealized exchange loss of P120,201 was recognized.

Cash equivalents pertain to PMDC's treasury bills placement arranged by the Land Bank of the Philippines (LBP) with a term of 63 days at 3.135 per cent yield in CY 2019. No placements were made in CY 2020.

6. TRADE AND OTHER RECEIVABLES

In CYs 2020 and 2019, the Company did not record any accounts receivable on royalty nor commitment fees earned from its Partner/Operator.

6.1 Inter-Agency Receivables

	2020	2019
Due from government corporations	126,486	3,840
	126,486	3,840

Due from government corporations represent receivables from Social Security System (SSS) for the maternity benefit paid by PMDC to its employees.

6.2 Other Receivables

	2020	2019
Due from officers and employees	117,111	126,212
Other receivables	71,825	81,826
	188,936	208,038
Less: Allowance for impairment	112,777	112,777
	76,159	95,261

Due from officers and employees consists mainly of receivables from retired/resigned employees of PMDC since CY 2006 amounting to P115,967 for that particular year. No impairment was recognized in CYs 2020 and 2019.

7. INVENTORIES

This account consists of the following:

	2020	2019
Other supplies and materials inventory	3,571,827	3,571,827
	3,571,827	3,571,827

Inventories held for consumption consist mainly of consumable materials and supplies kept at the PMDC's Depot Office in Davao City. These were subjected to physical count last December 2020. From the results of the physical count, ocular inspection and reconciliation, no materials were issued during the year.

8. OTHER CURRENT ASSETS

This account consists of:

	2020	2019
Advances to special disbursing officer	6,025,790	163,442
Advances to officers and employees	20,016	41,016
Creditable input tax	4,671,570	3,056,934
Other prepayments	15,482,931	15,480,725
	26,200,307	18,742,117

Other prepayments include income tax credit carried forward to succeeding taxable period amounting to P15,467,175 and P15,467,306 for CY 2020 and 2019, respectively. (See also Note 21)

9. PROPERTY, PLANT AND EQUIPMENT

This account consists of the following:

	Infrastructure assets	Buildings and other structures	Machinery and Equipment	Transportation equipment	Land Improvements	Leased assets improvements	Mabatas Interim Dam	Construction in progress	Total
Year Ended December 31, 2019									
Balances at January 1	10,605,782	1,571,083	1,817,395	1,223,360	-	1,224,494	8,658,872	7,372,388	32,473,374
Additions	31,362,425	997,498	1,215,745	3,114,718	-	131,521	-	11,132,448	47,954,355
Adjustments-cost	-	-	(515,414)	-	-	(125,245)	-	(18,188,692)	(18,829,351)
Depreciation for the year	(583,891)	(504,254)	(823,644)	(1,051,586)	-	(1,040,036)	-	-	(4,003,411)
Adjustments-Accum. dep	-	-	489,643	-	-	22,731	-	-	512,374
Carrying amounts	**41,384,316**	**2,064,327**	**2,183,725**	**3,286,492**	**-**	**213,465**	**8,658,872**	**316,144**	**58,107,341**
At December 31, 2019									
Cost	42,262,510	5,443,926	10,320,061	13,000,830	-	3,991,635	8,658,872	316,144	83,993,978
Accumulated depreciation	(878,194)	(3,379,599)	(8,136,336)	(9,714,338)	-	(3,778,170)	-	-	(25,886,637)
Carrying amounts	**41,384,316**	**2,064,327**	**2,183,725**	**3,286,492**	**-**	**213,465**	**8,658,872**	**316,144**	**58,107,341**
Year Ended December 31, 2020									
Balances at January 1	41,384,316	2,064,327	2,183,725	3,286,492	-	213,465	8,658,872	316,144	58,107,341
Additions	397,779	154,192	29,464	-	712,235	-	-	2,806,849	4,100,519
Adjustments-cost	-	-	-	-	-	-	-	(154,192)	(154,192)
Depreciation for the year	(1,622,350)	(442,208)	(442,415)	(452,439)	(22,554)	(13,883)	-	-	(2,995,849)
Carrying amounts	**40,159,745**	**1,776,311**	**1,770,774**	**2,834,053**	**689,681**	**199,582**	**8,658,872**	**2,968,801**	**59,057,819**
At December 31, 2020									
Cost	42,660,289	5,598,118	10,349,525	13,000,830	712,235	3,991,635	8,658,872	2,968,801	87,940,305
Accumulated Depreciation	(2,500,544)	(3,821,807)	(8,578,751)	(10,166,777)	(22,554)	(3,792,053)	-	-	(28,882,486)
Carrying amounts	**40,159,745**	**1,776,311**	**1,770,774**	**2,834,053**	**689,681**	**199,582**	**8,658,872**	**2,968,801**	**59,057,819**

In CY 2020, PMDC completed construction of Citizen Armed Forces Geographical Unit (CAFGU) Active Auxiliary Unit II Company (CAAC II) Hutment Project and Road Embankment and Structural Concreting Project at Mabatas Industrial Complex amounting to P154,192 and P702,490, respectively.

Construction in progress includes the following:

a. North Davao Sub-office renovation work of P242,023.

b. Depot Storage under construction of P74,121.

c. Construction of Matangad Water Source Pipe laying at Depot, Brgy. Upper Ulip, Monkayo, Davao de Oro amounting to P2,628,855.

d. Installation of Latrine Waterline amounting to P23,802.

Construction of the Mabatas Interim Dam Facility amounting to P8,658,872 was started in CY 2003 in consonance with the thrust of DENR to ensure environmental protection and non-recurrence of high mercury levels.

Also included in the Property, Plant and Equipment account are the exploration and evaluation assets itemized below:

	2020	2019
Victory tunnel and mining equipment	112,211,000	112,211,000
Quasar jumbo drill	1,827,000	1,827,000
Accumulated depreciation	(1,027,900)	(513,950)
Accumulated impairment loss	(204,000)	(204,000)
	112,806,100	113,320,050

The acquisition of the Victory tunnel and mining equipment for use in conducting and expediting core drilling at the 600-meter-level of the Diwalwal Mineral Reservation area was covered by a MOA executed on December 23, 2003 by and between PMDC (then NRMDC) and JB Management Mining Corporation (JBMMC). As a result of a JOA entered into by and between PMDC and Paraiso Consolidated Mining Corporation (PACOMINCO) on October 20, 2017, the Victory tunnel has been undergoing intensive rehabilitation for eventual exploration and production.

The Quasar jumbo drill is a tunnel boring equipment designed to facilitate industrial level drilling of holes and enlarging physical openings in support of tunnel construction and accessing underground minerals. The equipment is intended to be sold by Management, following public bidding requirements, due to lack of plans to utilize such in the near- term. The equipment was appraised at fair value of P1,623,000 in 2018. An allowance for impairment of P204,000 was provided for this purpose. (See Note 19.3)

Based on the appraisal conducted in CY 2018, the Exploration and Evaluation Assets posted a fair value of P112,211,000. (See also Note 23.2)

10. INTANGIBLE ASSETS

This account consists of:

	2020	2019
Computer software	2,648,078	2,614,277
Computerized accounting system	982,143	982,143
ArcGIS software	223,214	223,214
	3,853,435	3,819,634
Less: Accumulated amortization	(2,840,822)	(2,675,179)
	1,012,613	1,144,455

11. OTHER NON-CURRENT FINANCIAL ASSETS

This account consists of:

	2020	2019
Other deposits	1,833,273	1,445,068
	1,833,273	1,445,068

Other deposits are guarantees made on account of contractual obligations.

12. TRADE AND OTHER PAYABLES

12.1 Payables

	2020	2019
Accounts payable	11,944,762	5,309,727
Due to officers and employees	59,738	42,338
	12,004,500	5,352,065

Accounts payable consists of unreleased checks to different suppliers amounting to P1,646,560, accrued liabilities of P8,898,992, which is inclusive of unused vacation and sick leave credits of the employees and P1,399,210 retention payable to the Mabatas project contractor.

12.2 Bills/Bonds/Loans Payable

	2020	2019
Loans payable – domestic		
NDC	-	20,460,273
	-	20,460,273

The current portion of the NDC loan was reclassed to non-current financial liabilities in CY 2020 as this is not likely to be settled within one year from the date of the SFP pending the resolution of an arbitration case filed before the OGCC. (See also Note 14)

12.3 Inter-agency Payables

	2020	2019
Due to Bureau of Internal Revenue (BIR)	1,270,560	1,357,546
Due to Pag-IBIG	49,040	48,509
Due to PhilHealth	50,645	44,207
Due to SSS	88,820	80,748
Value-added tax (VAT) payable	1,044	321
	1,460,109	1,531,331

12.4 Trust Liabilities

	2020	2019
Trust liabilities	6,165,217	5,892,906
	6,165,217	5,892,906

This account represents performance bonds for awarded contracts; bid security from qualified bidders, sale of bid documents, and others trust funds, which will be used to fund the Bids and Award Committee honoraria. Other trust liabilities from maintenance, tailings storage fees and royalty allocation for any claimants are also included in the account.

Royalty allocation consists of one per cent allocated to any claimants who may later establish their vested rights out of the 15 per cent government share and service fee of service contractors in connection with the Diwalwal Direct State Development Project, including any incidental production from the Victory tunnel.

13. OTHER PAYABLES

	2020	2019
Dividends payable	56,577,776	32,390,606
	56,577,776	32,390,606

Although the request for downward adjustment of dividends on CY 2018 net earnings is still pending approval, the Company, with the recommendation of the COA, has recognized in its books of accounts a Dividends payable for CY 2019 equivalent to 50 per cent of the said net earnings. CY 2020 dividends payable, on the other hand, includes the remaining unpaid balance of dividends on CY 2019 net earnings declared during the year. (See also Note 23.3)

To put this in context, the following events in CY 2020 led to PMDC's decision to declare 25 per cent instead of 50 per cent dividends based on CY 2019 earnings:

The DOF, in its letter dated April 13, 2020, enjoined PMDC to declare and remit at least 50 cent its net earnings to the Bureau of the Treasury (BTr) by April 20, 2020 as the government was implementing emergency measures to contain the spread of Covid-19 and to "cushion the impact of the severe disruption of economic activities".

Indubitably, the DOF at that time already felt the pinch of the pandemic and was seeing the worse that could come nationally. The same circumstance happened in the PMDC. For this reason, the Company wrote the DOF in reply requesting for a 25 per cent dividend downward adjustment because it was also experiencing uncertainties particularly in its operations due to the health crisis. This was expounded in PMDC's letter to the DOF. The Company provided them with Cash flow projection for the year to initially support the request. Based on the said projection, the Company was then anticipating a year-end net loss in its financial operation that would eventually bring negative Retained Earnings (Deficit). In order to temper such deficit, the BOD approved the declaration of the 25 per cent dividend as recommended by the Management.

True enough and based on the CY 2020 Unaudited Financial Statements that the Company submitted to the COA, PMDC posted a Net loss of P110,918,978 and a deficit in the Statement of Changes in Equity of P30,223,266. PMDC's declaration of additional 25 per cent dividend based on CY 2019 net earnings was therefore warranted.

14. NON-CURRENT FINANCIAL LIABILITIES

	2020	2019
NDC	56,660,401	36,200,128
	56,660,401	36,200,128

The accounts pertain to the loan covered by the revised loan agreement between PMDC and NDC, the balance presented is as of February 28, 2019 inclusive of the current portion. See also Notes 12.2 and 22

The loan contract also provided for P54,611,477 penalties payable in 3.25 years, which payment will commence in July 2023. The amount was not yet recognized in the books (See also Note 22)

The loan itself is the very issue of the litigation and the Company is in doubt as to its validity. It has then suspended its monthly loan amortization payments to NDC starting with March 2019 billing.

Furthermore, due to the circumstances surrounding the PMDC's complaint against the NDC, the Management cannot at this point establish with certainty the amount of interest that will be accrued, should there be any, on the unpaid loan amortization. Furthermore, the negotiation is still ongoing and considering the gravity of PMDC's defense on the matter, any presumptions (in this case, the accrual of interest payable) would tantamount to pre-empting the case's resolution in favor of NDC and such action would be detrimental and disadvantageous to PMDC.

On February 17, 2020, the OGCC Arbitration Tribunal issued an Order furnishing the NDC a copy of PMDC's complaint and was given a period of 20 days within which to file its Comment. On September 28, 2020, the NDC filed its Comment and was received by PMDC on December 21, 2020 only via registered mail.

On January 5, 2021, PMDC filed a Motion for Extension to File its Reply and PMDC has up to January 20, 2021 within which to file the same. On the said date, PMDC filed its Reply to the OGCC. Counsel on record inquired on the status of the aforementioned case and the same was referred to the handling lawyers of OGCC. The Company is awaiting updates on the matter.

15. NON-CURRENT DEFERRED CREDITS/UNEARNED INCOME

	2020	2019
Other deferred credits	8,000,000	8,000,000
	8,000,000	8,000,000

The Other deferred credits account includes a balance of P3,000,000 representing advances from the Pacific Nickel Corporation (Parcel 2A Dinagat Nickel-Chromite Project) while the remaining balance of P5,000,000 emanates from the advance royalties paid in CY 2013 by a Cagayan-based developer with its intent on dredging a part of the Cagayan coastline. The proposed project's contractual arrangements are currently being worked out by the concerned parties.

16. REVENUES

16.1 Service and Business Income

	2020	2019
Interest income (net)	220,662	5,349,855
Other business income-commitment fee	-	178,571,429
Other business income	8,701	1,630,864
	229,363	185,552,148

Commitment fees for 2019 was generated by virtue of the JOA with PACOMINCO.

17. GAIN/LOSS ON FOREIGN EXCHANGE

Other comprehensive loss for the period:

	2020	2019
Loss on FOREX – unrealized: Exchange rate changes on foreign currency denominated account	120,201	451,941
	120,201	451,941

18. OPERATING EXPENSE BY NATURE

PERSONNEL SERVICES

18.1 Salaries and Wages

	2019	2019
Salaries and wages-regular	31,536,503	37,168,328
Salaries and wages-casual/contractual	9,611,927	-
	41,148,430	37,168,328

18.2 Other Compensation

	2020	2019
Year-end bonus	7,306,313	6,509,707
Personnel economic relief allowance	1,411,909	1,410,685
Representation allowance	905,750	850,125
Transportation allowance	905,750	817,125
Clothing/uniform allowance	510,000	450,000
Productivity incentive allowance	434,000	404,000
Hazard pay	259,000	-
Overtime and night pay	193,471	475,912
Other bonuses and allowances	251,467	2,985,082
	12,177,660	13,902,636

Other bonuses and allowances include the accrual of the CY 2016 Performance-Based Bonus of resigned employees amounting to P1,089,241.

18.3 Personnel Benefits Contributions

	2020	2019
Retirement and life insurance premiums	1,393,520	1,198,895
PhilHealth contributions	475,771	342,087
Pag-IBIG contributions	97,400	90,794
Employees compensation insurance premiums	24,030	22,440
	1,990,721	1,654,216

18.4 Other Personnel Benefits

	2020	2019
Pension benefits	1,318,631	-
Other personnel benefits	2,819,990	2,007,899
	4,138,621	2,007,899
Total Personnel Services	59,455,432	54,733,079

Other personnel benefits are unused sick leave and vacation leave which are monetized for accrual purposes. (See also Note 12.1)

MAINTENANCE AND OTHER OPERATING EXPENSES

18.5 Traveling Expenses

	2020	2019
Traveling expenses-local	837,444	3,538,215
	837,444	3,538,215

18.6 Training and Scholarship Expenses

	2020	2019
Training expenses	10,500	770,290
	10,500	770,290

18.7 Supplies and Materials Expenses

	2020	2019
Fuel, oil and lubricants expenses	615,142	774,585
Office supplies expense	206,879	367,953
Semi-expendable machinery and equipment expenses	40,647	318,011
Drugs and medicines expenses	40,002	7,967
Non-accountable forms expenses	17,926	22,300
Other supplies and material expenses	340,845	535,130
	1,261,441	2,025,946

18.8 Utility Expenses

	2020	2019
Electricity expenses	456,145	452,472
Water expenses	14,362	16,155
Other Utility expenses	238,290	282,589
	708,797	751,216

18.9 Communication Expenses

	2020	2019
Telephone expenses	165,818	191,794
Internet subscription expenses	128,239	123,320
Postage and courier services	33,945	51,261
	328,002	366,375

18.10 Survey, Research, Exploration and Development Expenses

	2020	2019
Research, exploration and development expenses	372,074	44,868
	372,074	44,868

18.11 Confidential, Intelligence, and Extraordinary Expenses

	2020	2019
Confidential expenses	6,395,000	5,000,000
Extraordinary and miscellaneous expenses	52,564	87,229
	6,447,564	5,087,229

18.12 Professional Services

	2020	2019
Auditing services	4,604,553	4,598,801
Legal services	589,143	863,652
Consultancy services	57,733	783,548
	5,251,429	6,246,001

18.13 General Services

	2020	2019
Security services	16,706,919	817,780
Environment/sanitary services	88,549	46,339
Other general services	2,625,014	2,767,638
	19,420,482	3,631,757

The amount of P817,780 Security services expenses in CY 2019 was mostly related to activation costs covering subsistence allowance that was disbursed only in November 2019. The substantial increase in this account in CY 2020 was due to subsistence allowance and other incidental expenses of CAAC II of P15,073,588.

18.14 Repairs and Maintenance

	2020	2019
Repairs and maintenance-buildings and other structures	654,285	588,264
Repairs and maintenance-transportation equipment	286,346	270,824
Repairs and maintenance-machinery and equipment	42,744	24,390
Repairs and maintenance-furniture and fixtures	12,450	25,428
Repairs and maintenance-other property, plant and equipment	15,063	8,791
	1,010,888	917,697

18.15 Financial Assistance/Subsidy/Contribution

	2020	2019
Financial assistance/subsidy/contribution-others	38,000	75,000
	38,000	75,000

18.16 Taxes, Insurance Premiums and Other Fees

	2020	2019
Taxes, duties, and licenses	4,276,937	5,666,010
Fidelity bond premiums	517,013	482,675
Insurance expenses	481,760	482,813
	5,275,710	6,631,498

18.17 Other Maintenance and Operating Expenses

	2020	2019
Rent/lease expenses	3,787,532	3,557,586
Directors and committee members' fees	603,000	70,000
Subscription expenses	187,238	236,341
Printing and publication expenses	71,928	75,267
Representation expenses	27,959	134,235
Advertising, promotional and marketing expenses	10,000	104,300
Donations	3,000	33,185

	2020	2019
Membership dues and contributions to organizations	2,000	2,200
Major events and conventions expenses	-	504,709
Other maintenance and operating expenses	2,237,651	2,924,170
	6,930,308	7,641,993
Total Maintenance and Other Operating Expenses	**47,892,639**	**37,728,085**

19. NON-CASH EXPENSES

19.1 Depreciation

	2020	2019
Depreciation-infrastructure assets	1,622,350	583,891
Depreciation-transportation equipment	452,440	1,051,586
Depreciation-machinery and equipment	442,414	823,644
Depreciation-buildings and other structures	442,208	504,254
Depreciation-land improvements	22,554	-
Depreciation-leased assets improvements	13,883	1,040,036
Depreciation-other property, plant and equipment	513,949	513,950
	3,509,798	4,517,361

19.2 Amortization

	2020	2019
Amortization-intangible assets	165,643	279,063
	165,643	279,063

19.3 Impairment Loss

	2020	2019
Impairment loss-property, plant and equipment	-	128,286
	-	128,286

19.4 Loss on sale of assets

	2020	2019
Loss on FOREX	-	29,662
	-	29,662
Total Non-Cash Expenses	3,675,441	4,954,372

20. FINANCE COSTS

	2020	2019
Interest expenses	-	1,157,960
Bank charges	4,497	165,242
	4,497	1,323,202

21. INCOME TAX EXPENSE AND INCOME TAX PAYABLE

The computation for the Income tax expense is shown below:

	2020	2019
Pre-tax income	(110,918,847)	86,361,469
Add/(Deduct):		
Interest income already subjected to final tax	(220,662)	(5,349,855)
Unrealized foreign exchange (gain)/loss	120,201	451,941
Taxable income, BIR basis	(111,019,308)	81,463,555
Regular Corporate Income Tax (RCIT) using BIR rate of 30 per cent	-	24,439,067
Gross income, BIR basis	8,701	180,202,293
Minimum Corporate Income Tax (MCIT) using BIR rate of 1.5 per cent in 2020 and 2 per cent in 2019	131	3,604,046
Tax due (higher between RCIT and MCIT)	131	24,439,067
Creditable withholding tax	-	(20,455)
Prior year's excess credits	(15,467,306)	(4,844,791)
Tax payments for the previous quarters	-	(35,041,127)
Income tax credit carried forward to succeeding taxable period	(15,467,175)	(15,467,306)

Based on the recent BIR Revenue Memorandum Circular No. 50-2021 dated April 8, 2021, the MCIT rate transitioned from 2 per cent to 1.5 per cent for December 31, 2020.

PMDC also recognized in CY 2020 a Net Operating Loss Carry Over (NOLCO), pursuant to Section 4 of Bayanihan II as implemented under BIR Revenue Regulations (RR) No. 25-2020 dated September 30, 2020.

Year Incurred	Year of Expiry	NOLCO
2020	2025	111,010,607
		111,010,607

22. RELATED PARTY TRANSACTIONS

The Company's transactions with its related parties involve its stockholders and the Company's key management personnel.

a) On May 28, 2013, the PMDC and NDC Management agreed on the restructuring of the two loan agreements granted in August 2005 (P25,000,000) and November 2006 (P25,000,000) with consideration on the following terms (See Notes 12.2 and 14):

a.1 Consolidation of the principal of P50,000,000 and interest of P47,768,000 (composed of interest as of December 31, 2012 and total interest for the period January - December 2013), a total of P97,768,000, which would be the basis of the settlement;

a.2 Agreement on a 10-year period settlement with revised fixed monthly payments of P1,402,687 inclusive of 12 per cent annual interest rate. Payment would commence in July 2013 up to June 2023.

a.3 Subsequent to the settlement of the restructured loan of P97,768,000 is the settlement of the accrued penalties on the original loans amounting to P54,611,477 for a period of 39 months. Payments of P1,400,000 will be made monthly commencing in July 2023 up to June 2026.

b) Key management personnel compensation which is included under salaries and other compensation amounted to P16,208,007 and P14,370,532 in 2020 and 2019, respectively. (See Notes 18.1 and 18.2)

23. EQUITY

23.1 Share Capital

The initial 100,000 shares of stock (par value of P1,000 per share) were fully subscribed by PNOC-EDC and DENR-NRDC. As at December 31, 2003, PNOC-EDC had fully paid its 45,000 shares worth P45,000,000, while DENR-NRDC had fully paid P55,000,000 worth of subscribed stocks on April 20, 2007. The PNOC-EDC shares were turned over to PNOC, the parent firm of PNOC-EDC, in CY 2006.

In CY 2005, the Corporation's shares of stock were increased to 125,000 with NDC acquiring the additional 25,000 shares equivalent to P25,000,000 duly subscribed and paid for. NDC's subscription, which was approved by its BOD under Resolution Nos. 02-05-19 and 02-05-23, was covered by a Subscription Agreement dated March 22, 2005.

23.2 Revaluation Surplus

This account represents the projected appraisal increment in the value of the Victory tunnel and mining equipment in the amount of P144,415,500, between the acquisition cost of P80,000,000 and the replacement cost of P224,415,500, retrospective as at November 15, 2007.

In 2018, an appraisal of the exploration and evaluation assets (Victory Tunnel and Mining Equipment) was made. Corresponding impairment of the asset amounting to P134,409,552 was deducted to the previously recorded revaluation surplus of P144,415,500 bringing the 2018 balance to P10,005,948. (See Note 9)

23.3 Retained Earnings

Changes in retained earnings were primarily due to net earnings posted in CY 2020 and 2019, as well as, dividends.

For CY 2018 dividends declaration and remittance, the Company's BOD thru Board Resolution No. BD 08-19 s. 2019 has authorized the Management to remit the appropriate amount of either 50 per cent or 15 per cent of net earnings depending on the result of its appeal for downward adjustment to the Office of the President.

With the COA's recommendation and pending the resolution of its appeal for reduction, the Company recognized in CY 2019 a Dividends Payable of P32,390,606 representing 50 per cent of CY 2018 net earnings. It was further recommended that a reversal of the related accounts shall be made should the 15 per cent adjustment be granted. (See Note 13)

Similarly, for CY 2019 dividends, the BOD, thru Board Resolution No. BD 26-20 s. 2020, approved and confirmed the Company's request to the DOF for 25 per cent to P15.6 million downward adjustment on CY 2019 net earnings. The same amount was also declared for remittance. A partial remittance of P7 million was made to the BTr on April 21, 2020. The remaining balance, which will be based on CY 2019 Audited Financial Statements, will be remitted in June 2021.

Subsequent to the COA's recommendation, the Management will correspondingly recommend to the BOD to amend the declaration to 50 per cent. Should the DOF approve PMDC's request for 25 per cent downward adjustment, the difference shall be reversed. (See Note 13)

24. COMMITMENTS AND CONTINGENCIES

24.1 Lease

The Corporation has a number of lease agreements covering office spaces, parking slots and warehouses that are accounted for as operating lease with periods ranging from six months to one year.

Operating lease expense recognized in the SCI amounted to P3,787,532 and P3,557,586 in CYs 2020 and 2019, respectively. (See Note 18.17)

25. RISK MANAGEMENT OBJECTIVES AND POLICIES

25.1 Market Risk

25.1.1 Foreign Currency Risk

The Corporation is exposed to foreign exchange risk arising from currency exposures primarily with respect to the US Dollar. Foreign exchange risk arises when future commercial transactions and recognized assets and liabilities are denominated in a currency that is not the Corporation's functional currency. Significant fluctuations in the exchanges rates could significantly affect the Corporation's financial position.

The carrying amounts of the Corporation's foreign currency denominated monetary assets and liabilities at reporting date are as follows:

	2020		2019	
	US Dollar	**Peso Equivalent**	**US Dollar**	**Peso Equivalent**
Cash and cash equivalents	$ 45,131.18	2,167,334.66	$ 48,106.52	2,435,873.64
Net exposure	$ 45,131.18	2,167,334.66	$ 48,106.52	2,435,873.64

Converted to Philippine peso at US$1.00: P48.023 as at December 31, 2020 and US$1.00: P50.635 as at December 31, 2019

25.2 Credit Risk

Credit risk is the risk that counterparties may not be able to settle their obligations as agreed. To manage this risk, the Corporation periodically assesses the financial reliability of customers.

The table below shows the gross maximum exposure to credit risk of the Corporation as at December 31, 2020 and 2019.

	Gross Maximum Exposure	
	2020	2019
Cash and cash equivalents*	25,281,245	144,585,596
Trade and other receivables	315,422	211,878
	25,596,667	144,797,474

**excludes Cash on hand*

To cushion PMDC's exposure to credit risk, funds are channeled thru short-term Treasury Bills guaranteed by the Philippine Government.

Trade and other receivables are accounts with its customer, national government agencies and due from employees.

The credit quality of the Corporation's assets as at December 31, 2020 and 2019 is as follows:

	December 31, 2020				
	Neither past due nor impaired		Past due but not impaired	Past due and impaired	Total
	High grade	Standard grade			
Cash and cash equivalents	25,281,245	-	-	-	25,281,245
Trade and other receivables	-	202,645	-	112,777	315,422
	25,281,245	202,645	-	112,777	25,596,667

	December 31, 2019				
	Neither past due nor impaired		Past due but not impaired	Past due and Impaired	Total
	High grade	Standard grade			
Cash and cash equivalents	144,585,596	-	-	-	144,585,596
Trade and other receivables	-	99,101	-	112,777	211,878
	144,585,596	99,101	-	112,777	144,797,474

High-grade cash and cash equivalents are short-term placements and working cash fund placed, invested, or deposited in LBP and DBP.

Standard grade accounts are active accounts that are typically not impaired as the counterparties generally respond to credit actions and update their payments accordingly.

25.3 Liquidity Risk

Liquidity risk is the risk that the Corporation will encounter difficulty in raising funds to meet its contractual obligations and commitments. The seasonality of revenue generation exposes the Corporation to shortage of funds during slack season and may result in payment defaults of financial commitments.

The Corporation manages its liquidity profile to: (i) ensure that adequate funding is available at all times; (ii) meet commitments as they arise without incurring unnecessary costs; (iii) be able to access funding when needed at the least possible cost, and (iv) maintain an adequate time spread of financing maturities.

The following table summarizes the maturity profile of the Corporation's financial liabilities as at December 31, 2020 and 2019.

	December 31, 2020				
	On demand	Less than 3 months	3 to 12 months	>1 to 5 years	Total
Accounts payable and accrued expenses*	8,975,036	2,969,726	-	-	11,944,762
Loans payable (NDC)	-	-	-	56,660,401	56,660,401
	8,975,036	2,969,726	-	56,660,401	68,605,163

	December 31, 2019				
	On demand	Less than 3 months	3 to 12 months	>1 to 5 years	Total
Accounts payable and accrued expenses*	2,633,195	2,676,532	-	-	5,309,727
Loans payable	8,747,277	-	11,712,997	36,200,127	56,660,401
	11,380,472	2,676,532	11,712,997	36,200,127	61,970,128

*Excluding Due to Officers and employees

26. SUPPLEMENTARY INFORMATION AS REQUIRED UNDER BIR RR NO. 15-2010

In compliance with the requirements set forth by BIR RR No.15-2010, hereunder are the information on taxes, duties, and license fees paid or accrued during the taxable years of 2020 and 2019.

a. The Corporation is VAT-registered with VAT output tax declarations of P1,044 and P21,626,262 taken from output tax deferral and based on the amounts reflected in the revenues of the Corporation of P8,701 and P180,218,852 for CYs 2020 and 2019, respectively. These were reported to BIR based on the Quarterly VAT forms submitted on various dates in CYs 2020 and 2019.

b. PMDC has no zero-rated/exempt revenues for the taxable year.

c. The amount of VAT Input taxes claimed are broken down as follows:

	2020	2019
Current year's purchases:		
On purchases of capital goods:		
Exceeding P1 million	72,643	66,589
Not exceeding P1 million	89,084	110,034
Domestic purchases of goods other than capital goods	605,953	264,647
Domestic purchases of services	726,550	3,852,556
	1,494,230	4,293,826

d. There were no royalty fees/income during the year.

e. There were no importations made by the Corporation during the taxable year.

f. PMDC incurred a total amount of P9,063,242 and P10,189,084 on rentals, insurance, taxes, fees and licenses for CYs 2020 and 2019, respectively. The insurance expense for CY 2020 amounted to P481,760, while for CY 2019 it amounted to P482,813.

Details are summarized below:

	2020	2019
Rentals; fees/dues/other charges for parking space; insurance costs and rentals of motor vehicle and microcomputers and office equipment	4,269,292	4,040,399
Fidelity bond and premiums	517,013	482,675
	4,786,305	4,523,074
Taxes, fees and licenses:		
Motor vehicle registration	31,192	30,937
Notarial and legal fees	19,406	17,634
SEC listing and registration/BIR fees	1,000	1,000
Documentary stamp tax	110	120
Business taxes, business permits and barangay clearance and other fees	4,225,229	5,616,319
	4,276,937	5,666,010
	9,063,242	10,189,084

The amount of withholding taxes paid/accrued for the year amounted, as follows:

	2020	2019
Income taxes withheld on compensation	6,015,156	5,398,986
Creditable income taxes withheld (expanded)	414,576	964,543
Withholding VAT	672,899	1,912,721
	7,102,631	8,276,250

g. Certificates of Approval for the Corporation's application for abatement/ cancellation of penalties were received for the following taxable years (TY):

Date of Approval	TY	Tax Type	Amount Cancelled
June 2, 2016	2007	VAT/WC/WE/WG/EX/DST	641,116
March 1, 2016	2010	VAT	6,477,706
March 1, 2016	2011	VAT	951,328
			8,070,150

For CY 2006 deficiency income tax assessment of P8,177,213, the BIR issued a Notice of Denial dated January 28, 2016 for P6,594,527 (net of the previous payment of P1,582,686). Management, noting that the BIR, in the exchange of communications from the time of the assessment, did not consider that PMDC had not realized any revenue from the procurement of the goods and services, which the BIR incorrectly deduced as intended for sales, will contest the BIR's position with the help of the OGCC. PMDC filed an appeal with the Court of Tax Appeals (CTA), with CTA Case No. 9292 docket forwarded to Litigation Division by BIR Large Taxpayer on March 31, 2016.