# COVER SHEET

10044

SEC Registration Number

PHILEX MINING CORPORATION

(Company's Full Name)

2nd Floor, LaunchPad, Reliance corner Sheridan Streets, Mandaluyong City, Metro Manila

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

DANNY Y. YU

(Contact Person)

(632) 631-13-81

(Company Telephone Number)

12 31

*Month* *Day*

(Calendar Year)

17-Q

(Form Type)

*Month* *Day*

(Annual Meeting)

Not Applicable

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Not Applicable

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

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To be accomplished by SEC Personnel concerned

File Number

LCU

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**SECURITIES AND EXCHANGE COMMISSION**

**SEC FORM 17-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER**

**For the quarterly period ended** March 31, 2017

**Commission identification number** 10044

**BIR Tax Identification No**. 000-283-731-000

**Exact name of issuer as specified in its charter**

PHILEX MINING CORPORATION

**Province, country or other jurisdiction of incorporation or organization**

Manila, Philippines

**Industry Classification Code:** **(SEC Use Only)**

**Address of issuer's principal office** **Postal Code**

2nd Floor, LaunchPad, Reliance Street corner Sheridan Street, Mandaluyong City, Metro Manila, Philippines 1550

**Issuer's telephone number, including area code**

(632) 631-1381 to 88

**Former name, former address and former fiscal year, if changed since last report**

Philex Building, No. 27 Brixton Street, Pasig City, Philippines 1600

**Securities registered pursuant to Sections 8 and 12 of the Code or sections 4 and 8 of the RSA**

Number of Shares of Stock Outstanding – 4,940,399,068 (As of March 31, 2017)

Amount of Debt Outstanding – ₱9,577,267,921 (As of March 31, 2017)

**Are any or all the securities listed on a Stock Exchange?**
Yes [ X ] No [ ]

**If yes, state the name of such Stock Exchange and the class/es of securities listed therein:**
Philippine Stock Exchange

**Indicate by check mark whether the registrant:**

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

Yes [ X ] No [ ]

has been subject to such filing requirements for the past ninety (90) days.

Yes [ X ] No [ ]

## PART I - FINANCIAL INFORMATION

**Item 1. Financial Statements.**

The Unaudited Consolidated Financial Statements for the period ended March 31, 2017 are hereto attached.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

**Status of Operations**

In February 2016, the Company announced a maiden inferred resource estimate of 21.7 million tonnes at 0.2% copper and 0.3 grams per tonne gold at 0.274% copper equivalent cut-off in its Bumolo exploration project within Mineral Production Sharing Agreement (MPSA) 156-2000-CAR, which increases confidence of further extending Padcal's life of mine beyond 2022. An additional drilling program was completed and an updated Mineral Resource Estimate (MRE) is in progress. The accessibility of the near-surface Bumolo ore to the existing Padcal mine and mill infra-structures makes it encouraging to pursue a mining feasibility study for the project.

In May 2016, the Department of Environment and Natural Resources (DENR), through the Mines and Geosciences Bureau (MGB), issued the Final Approval of the Amended Mining Project Feasibility Study for a surface mining method, in connection with the approved Declaration of Mining Project Feasibility (DMPF) of Silangan Mindanao Mining Co., Inc. (SMMCI) under the MPSA No. 149-99-XIII. Prior to this, the DMPF for underground mining operation was approved in April 2015. The Environmental Compliance Certificate (ECC) of Silangan Project has been amended to change the operation of the mine from underground mining to surface mining was also approved in May 2016.

In August 2016, a multi-sectoral team, led by the DENR, conducted an audit of all operating mines in the country, which includes the Padcal Mine in Benguet, under the directive of the newly-appointed DENR Secretary. In September 2016, the DENR completed the exercise and released a list of mining companies recommended for suspension or closure based on the results of the audit. Philex's Padcal Mine in Benguet was not included in the list for suspension or closure.

In February 2017, SMMCI and Philex Gold Philippines, Inc. (PGPI), both wholly-owned subsidiaries of the Company, received show cause letters from the DENR directing SMMCI and PGPI, respectively, to explain why their MPSAs should not be cancelled for being located within watershed areas. SMMCI and PGPI responded to the show cause letters stating that the MPSAs are valid and legal, and are not located in proclaimed watershed forest reserves or critical watersheds where mining is prohibited. The Company's subsidiaries are confident that their MPSAs can withstand any legal challenge. In March 2017, SMMCI and PGPI received letters from DENR acknowledging receipt of SMMCI's and PGPI's reply to the DENR show cause letters, sent on February 21, 2017. As stated in DENR's acknowledgement letter, it shall be evaluating the matter and inform SMMCI and PGPI of the result thereof accordingly.

In view of the foregoing, Padcal mine operated for 88 days in the first quarter of 2017 compared with 90 operating days in the same period last year.

## Review of Financial Results

The Company deconsolidated PXP Energy Corporation (PXP), formerly Philex Petroleum Corporation, and presented it as investment in an associate following the distribution of 17 PXP shares for every 100 PX shares as property dividend on July 15, 2016, which reduced the Company's interest in PXP from 64.7% to 19.8%.

Total operating revenues for the first quarter of 2017 amounted to ₱2.542 billion – 6% higher than the ₱2.390 billion reported in 2016 largely due to favorable metal prices and foreign exchange rate.

*Gold*

Gold production reached 22,451 ounces compared with 24,200 ounces in 2016. Gold prices, on the other hand, continued to improve allowing the Company's realized gold prices for the first quarter of 2017 to average at US$1,264 per ounce, higher than the US$1,239 per ounce gold price realized for the same period in 2016. The performance of gold prices was traced to the heightening geopolitical tension across the globe, causing jitters among investors and increasing the plight towards safe-haven investments like gold. The impact of improved gold prices and favorable exchange rates, however, partially offset the lower gold output and resulted in the slight decrease of gold revenue to ₱1.426 billion – comprising 56% of the total – from ₱1.427 billion in 2016.

*Copper*

Copper production was at 7,751,669 pounds in 2017 from 8,425,171 pounds in 2016. Realized copper prices for the first quarter of 2017, however, was higher at US$2.77 per pound from US$2.25 per pound in 2016, following the recovery of copper prices in the world market. With higher copper prices as well as favorable foreign exchange rates, revenue from copper rose to ₱1.094 billion in 2017 – 16% higher than the ₱945.7 million reported in 2016 – and accounted for 43% of the total, despite lower copper output.

Silver

Revenue from silver made up the remaining 1% of the Company's total revenue and amounted to ₱21.9 million in 2017, 31% higher than the ₱16.8 million in 2016, due to higher metal prices and foreign exchange rates.

As a strategy to protect part of the Company's revenues from unfavorable metal price, the Company regularly assesses the need to enter into metal hedging contracts in the form of forwards, purchased put options and sold call options which are usually designated as cash flow hedges. The gains or losses from these transactions are reflected in revenue as addition or deduction in deriving the realized metal prices for the Company's metal production during the respective reporting periods.

At the start of the year, the Company expected the behavior of metal prices to favor the Company's position, thus no hedges were entered into for 2017.

In February 2016, the Company entered into gold collar hedging contracts covering 3,000 ounces of monthly gold production from February to July 2016 at a strike price of US$1,170 per ounce for the put options and US$1,242 per ounce for the call options. Realized loss recognized for the first quarter 2016 amounted to ₱0.6 million, while the unrealized mark-to-market (MTM) loss on the outstanding gold hedges as of March 31, 2016 amounted to ₱10.4 million recorded under equity with the recognition of potential derivative liability. MTM gains or losses are reversed and actual gains or losses, if any, are realized and recorded through revenue upon maturity of the hedge.

**Operational Overview**

Total ore milled from the Company's Padcal mine for the first quarter of 2017 was at 1,998,392 tonnes from 2,324,758 tonnes in 2016, mainly due to low mine delivery brought about by equipment availability issues.

Gold production reached 22,451 ounces in the period from 24,200 ounces in the same period last year. This was mainly due to lower tonnage, which offset better ore grades and improved recovery rate. Gold head grade averaged at 0.421 grams per tonne, 4% higher than previous year's 0.405 grams per tonne.

Similarly, copper production reached 7,751,669 pounds in 2017 compared with 8,425,171 pounds in 2016 due to the decrease in tonnage, despite higher recovery rate and ore grades, which averaged 0.209% in the period as against 0.204% during the same period in 2016.

**Operating Costs and Expenses**

The Company's total operating costs and expenses, including General and Administrative Expenses (G&A), amounted to ₱1.668 billion in the first quarter in 2017 compared with ₱1.641 billion in 2016. As a result of lower copper concentrates production in 2017, to 16,344 dry metric tons (DMT) from 17,804 DMT in 2016, and a reduction in treatment and refining charges, smelting charges showed a marginal 2% decrease to ₱206.7 million compared with ₱210.7 million.

Total Production Costs (including Depletion and Depreciation) amounted to ₱1.463 billion, 2% higher than ₱1.438 billion the previous year. Cash Production Costs decreased to ₱1.112 billion in 2017 from ₱1.128 billion while Depletion, Depreciation and Amortization increased to ₱351.6 million from ₱310.3 million.

Previously in 2016, the Company recorded lower block amortization costs due to a number of fully-amortized ore draw-points against some newly commissioned and higher-cost draw-points in 2017. Excise Taxes and Royalties also increased by 4% to ₱110.6 million from ₱106.0 million following the increase in net revenues. On the other hand, G&A was slightly lower at ₱93.7 million in 2017 from ₱96.9 million due to the continuous close monitoring of overhead expenses at Philex head office as well as at Silangan.

**Costs Per Tonne / Per Ounce / Per Pound**

Total production (including depletion and depreciation) and operating costs (including smelting charge, excise and royalties) on a per unit basis were ₱732 per tonne and ₱891 per tonne, respectively, in 2017 against ₱619 per tonne and ₱755 per tonne in 2016. The increase in production cost per tonne was attributed mainly to the lower tonnage output and higher block amortization cost.

The increase in non-cash production costs, to ₱351.6 million in 2017 from ₱310.3 million in 2016 due to higher block amortization costs, contributed to the higher production cost per tonne.

Meanwhile, the rise in smelting charges per tonne, due to higher metal production on every tonne produced arising from better grade and improved recovery rate, and increase in excise tax and royalties, as a result of higher net revenue, further increased operating cost per tonne in 2017.

Operating cost, excluding G&A, (using a co-production method) per ounce of gold and per pound of copper, were US$898 per ounce and US$1.96 per pound in 2017, respectively. The operating cost per ounce of gold was slightly lower than the 2016 costs by 5% from US$947 per ounce as a result of higher gold output, despite lower tonnage, and lower costs allocation for gold based on revenue contribution, while the operating cost per pound of copper was significantly higher by 14% from US$1.72 per pound in 2016 due to the higher costs proportion for copper following its revenue contribution.

**Other Income (Charges)**

A Net Other Charges of ₱55.2 million was incurred in the first quarter of 2017, which consisted mainly of Foreign Exchange Losses of ₱37.3 million, resulting from the impact of the Philippine Peso depreciation against the US Dollar on the restatement of the Company's net foreign currency-denominated liabilities. The foreign exchange rates at closing dates of March 31, 2017 were ₱50.16 as against ₱49.72 as of December 31, 2016. For the same period in 2016, a Net Other Income of ₱89.3 million was recorded, comprising of Foreign Exchange Gain of ₱57.0 million (from revaluation of the Company's net foreign currency-denominated liabilities based on a foreign exchange rate of ₱46.07 against ₱47.06 as of December 31, 2015).

Amortization of Mine Closure Cost amounted ₱5.1 million, both for 2017 and 2016, while Equity Share in Net Loss of Associates (covering PXP and Lepanto in 2017 and Lepanto only in 2016)

amounted to ₱6.3 million and ₱6.0 million, respectively, in 2017 and 2016. Some provisions in 2016 were also reversed.

Interest income from short-term money placements were minimal in 2017 and 2016, at an average interest rate ranging from 1.0% to 2.0%, due basically to the lower cash balance.

**Core and Reported Net Income**

The Company's core net income increased 18% to ₱458.3 million in 2017 compared with ₱388.9 million in 2016 as a result largely of higher operating revenues. Meanwhile, EBITDA amounted to ₱1.007 billion in the first quarter 2017 compared with ₱875.8 million in 2016. The Company's core net income and EBITDA excludes non-recurring transactions to clearly reflect and provide results based on the normal operating parameters of the business.

Net Income Attributable to the Equity Holders in the first quarter of 2017 was at ₱432.3 million versus ₱426.4 million in the same period last year. However, the same Reported Net Income of ₱432.3 million in 2017 was slightly higher than ₱420.4 million reported for 2016. The difference was largely attributed to the foreign exchange loss of ₱37.3 million in 2017 as against a foreign exchange gain of ₱57.0 million posted in 2016.

**FINANCIAL CONDITION REVIEW**

As of March 31, 2017, the Company's Current Assets stood at ₱6.822 billion against ₱6.895 billion in 2016, mainly due to lower Inventories of ₱1.941 billion from ₱2.319 billion in 2016.

Accounts Receivables consisted of Trade Receivables from sales of the Company's copper concentrates or bullion and Other Receivables. As of March 31, 2017, Accounts Receivable amounted to ₱452.8 million against ₱486.5 million in 2016. This year's outstanding receivables from shipments amounted to ₱378.7 million compared with the previous year's ₱411.8 million.

A total of four (4) copper concentrates shipments were made in the first quarter of 2017 compared with three (3) shipments for the same period in 2016. The Padcal mine's copper concentrates shipments were provisionally valued based on prices in the second calendar week immediately prior to the week of shipment. These were then adjusted to the applicable final prices based on their "quotational period (QP)", which under Pan Pacific Corporation for the contract years 2017 and 2016 were the calendar months following the month of the shipment's arrival in Japan for gold and silver, and the third calendar month following the month of arrival for copper, while shipments with Louis Dreyfus Commodities Metals Suisse SA have QP terms of "month of scheduled shipment (MOSS)".

The value of Inventories of ₱1.941 billion consisted of materials and supplies (69% of the total inventories) and mine products inventory (remaining 31% of total inventories). Materials and supplies inventory amounted to ₱1.338 billion in 2017 compared with ₱1.260 billion in 2016. Mine products inventory was valued at ₱603.6 million corresponding to the 4,366 DMT of copper concentrates against ₱1.059 billion, representing inventory of 8,053 DMT, as of December 31, 2016.

Other Current Assets slightly decreased to ₱1.419 billion in 2017 from ₱1.438 billion the previous year, attributed mainly to the decrease in input value-added tax (VAT) claims on importation of materials, supplies and equipment. During the first quarter 2017, the Company

received tax credit certificate amounting to P26.2 million from its prior year VAT claims with the Bureau of Internal Revenue.

As of March 31, 2017, Non-Current Assets of the Company, consisting mainly of Property, Plant and Equipment (PPE) and deferred exploration costs, which comprised 17% and 61% of total assets, respectively, increased to ₱31.982 billion from ₱31.767 billion by the end of last year.

PPE, as of March 31, 2017, decreased to ₱6.656 billion from ₱6.736 billion in 2016. With the capital intensive nature of operations, the Company continues to invest in new facilities and equipment to replace worn out facilities and equipment, which amounted to ₱281.5 million for the first quarter of 2017, but was significantly reduced by the corresponding depreciation, depletion and amortization for the period, resulting in the lower balance in 2017 compared with end-2016.

Available-for-Sale (AFS) Financial Assets, recorded at fair value, remained at ₱104.6 million as of March 31, 2017 with very insignificant changes in the share market prices. Investment in Associates amounted to ₱1.450 billion as of March 31, 2017 from ₱1.456 billion in 2016, which were net of share in net losses of associates. The investment in PXP was deconsolidated and treated as Investment in an Associate in 2016 following the declaration of 17 PXP shares for every 100 PX shares as property dividend which resulted in a decrease in the Company's interest from 64.7% to 19.8%.

Deferred Exploration Costs and Other Non-current Assets combined for ₱23.467 billion and grew from ₱23.158 billion in 2016 on account of the on-going exploration activities within Padcal vicinity and expenditures related to the completion of the Silangan definitive feasibility study. Of this, ₱21.441 billion or 91% was attributed to Silangan.

The Company's Total Assets as of March 31, 2017 amounted to ₱38.804 billion compared with ₱38.662 billion as at end-2016.

As of March 31, 2017, the Company's Total Current Liabilities amounted to ₱5.406 billion, 3% lower than ₱5.578 billion as of end-2016, as a result mainly of the partial repayment of local bank loans in the first quarter 2017.

Loans Payable decreased to ₱2.909 billion (US$58 million) as at end-March 2017 from ₱3.083 billion (US$62 million) as at end-December 2016 following the repayment of short-term loans with local banks of US$4 million or ₱200.8 million as the Company sustained its debt management program.

Accounts Payable and Accrued Liabilities, mainly due to suppliers and contractors, slightly went down to ₱1.763 billion from ₱1.833 billion in 2016. No significant amount of the Company's trade payables were left unpaid based on the terms and conditions agreed upon with suppliers.

Income Tax Payable amounted to ₱164.9 million in 2017, representing the tax payable for the first quarter of the current year's income due by the end of May 2017. The additional tax payable of ₱164.3 million for the 2016 income was already settled in March 2017.

Dividends Payable stood to ₱569.4 million compared with ₱498.1 million in 2016. On February 28, 2017, the Company declared cash dividend of ₱0.04 per share as regular dividend to all stockholders on record as of March 14, 2017 and payable on March 27, 2017.

In February 2016, the Company declared its shares of stock in PXP as property dividends to its shareholders at a ratio of 17 PXP shares for every 100 PX shares held with payment date of July 15, 2016. In July 2016, the Company also declared cash dividend of ₱0.03 per share (equivalent to ₱148.2 million) with payment date of August 24, 2016.

Total Non-Current Liabilities as of March 31, 2017 stood at ₱9.764 billion, represented largely by Bonds Payable at 64% of the total, from ₱9.685 billion in 2016.

Deferred Income Tax Liabilities (DTL) decreased to ₱2.966 billion in 2017 from ₱2.958 billion as at end-2016 and consisted mainly of the following: ₱1.665 billion arising from the acquisition of 50% of Silangan from Anglo in 2009; and ₱1.301 billion for accelerated depreciation and deferred exploration costs.

The amount of Bonds Payable increased to ₱6.668 billion from ₱6.593 billion in 2016 and represented the carrying amount of the convertible notes (CN) issued by SMECI, net of the ₱1.226 billion portion representing the equity conversion option of the CN, which was recorded under Equity. Changes in the Bonds Payable in the first quarter of 2017 were related to the amortization of the discount and transaction costs.

Meanwhile, Provision for Losses and Mine Rehabilitation Costs amounted to ₱130.1 million in 2017 from ₱134.1 million in 2016. The Provision for Mine Rehabilitation represented the amortized value of the Company's estimated mine closure costs. The Mine Rehabilitation Costs amounted to ₱137.0 million based on an approved Final Mine Rehabilitation and Development Plan (FMRDP) discounted at 2.8% per year up to the end of mine life.

Other than the repayment of bank loans and payments of trade payables, there was no significant change in the amount of the Company's Total Liabilities as of March 31, 2017 from end-2016, which stood at ₱15.171 billion and ₱15.263 billion, respectively.

**Shareholders' Equity**

The Company's Total Equity as of March 31, 2017 amounted to ₱23.633 billion, a slight improvement from the ₱23.399 billion recorded in 2016 and was largely due to the net income of ₱432.3 million recorded for the period.

Retained Earnings amounted to ₱14.676 billion from ₱14.442 billion in 2016, after recording the Company's Net Income Attributable to the Equity Holders of the Parent Company of ₱432.3 million, net of ₱198.6 million cash dividends that the Company declared on February 28, 2017, corresponding to an additional cash dividend of ₱0.04 per share from its 2016 core net income with payment date of March 27, 2017. Of the Company's Retained Earnings, ₱10.5 billion was approved by the Company's Board of Directors for appropriation for the Company's share in the Silangan mine development and construction from 2016 to 2018. This comprise of approved appropriation of ₱10.0 billion in 2013 and the additional ₱500.0 million appropriated on February 28, 2017.

Total Equity also included ₱1.226 billion of Equity Conversion Options and ₱1.572 billion of Net Revaluation Surplus which amounts remained at the same level as of March 31, 2017 and December 31, 2016. Net Unrealized Loss on AFS Financial Assets, representing the temporary decline in the fair value of AFS Financial Assets, amounted to ₱3.1 million in 2017 and 2016.

## Liquidity and Capital Resources

The Company's primary objectives are to fund existing operations and maintain a healthy pipeline of exploration projects for possible expansion. Despite the risks inherent in the business associated with metal prices, foreign exchange rates and the changing economic and market conditions, the Company generated net cash flows from operating activities of ₱1.283 billion in the first quarter 2017, compared with ₱667.8 million for the same period in 2016.

Other than relying on internally generated funds, which remain as the Company's principal source of cash, the Company also maintains credit facilities as source of funds primarily to finance the capital expenditures of the Padcal mine, Silangan project and other exploration initiatives, as well as to refinance existing debt. The liquidity position of the Company is supported by credit facilities committed by various local banks.

Net cash used in investing activities, principally for capital expenditures and exploration costs, slowed down to ₱487.5 million from ₱616.7 million in 2016. Capital expenditures also amounted to ₱512.7 million in 2017, which consisted mainly of sustaining capital expenditures for Padcal and the Silangan Project amounting to ₱320.6 million and ₱172.6 million, respectively, from ₱618.4 million in 2016.

Expenditures for the continuing exploration activities at the Silangan, Kalayaan, and other projects amounted to ₱231.1 million in 2017, a 73% drop from the ₱313.8 million in 2016 following the slowdown at Silangan Project, as major exploration activities were completed and focus shifted to the completion of the Definitive Feasibility Study (DFS).

Net cash used in financing activities amounted to ₱414.4 million in 2017, due to the repayment of local bank loans of ₱200.8 million and dividend payment of ₱198.6 million, versus ₱153.4 million in 2016, on account of loan repayments of ₱143.1 million.

## Capital Expenditures and Exploration Costs

The Company continued to invest in the future and in new technologies to expand capacities and improve efficiencies. For the first quarter of 2017, capital expenditures and explorations costs amounted to ₱512.6 million from ₱616.7 million in 2016.

Padcal operations accounted for 63% of capital outlays in 2017 at ₱320.6 million compared with ₱288.7 million in 2016. The increase in 2017 was mainly due to expenditures on the tailings storage facility, which required ₱67.6 million versus ₱29.0 million in 2016. Equipment and machinery upgrade were also sustained with outlays amounting to ₱137.2 million in 2017 and ₱108.7 million in 2016.

Expenditures for the Silangan Project accounted for 49% of capital outlays in 2017 amounting to ₱172.6 million – mostly related to the completion of the Silangan DFS – which was lower than ₱300.2 million in 2016 – consisting of deferred exploration costs of ₱211.7 million, net of ₱39.1 million costs of disposed machinery and equipment.

Investments in exploration projects focused within the vicinity of Padcal and amounted to ₱19.4 million from ₱29.6 million in 2016.

## Top Five Key Financial and Non-Financial Performance Indicators

### ***Safety Performance***

The Company believes that operational excellence can only be achieved unless personnel health and safety remains an utmost priority. In the first quarter of 2017, there were no recorded Lost Time Accident-Fatal (LTA-F) and Lost Time Accident-Non Fatal (LTA-NF), compared with two LTA-F and five LTA-NF in 2016.

The Company continues to work on achieving “zero-harm” record by constantly reviewing safety policies and procedures. Initiatives are also in place to ensure that injuries are avoided and accidents are eliminated in the workplace. Third-party consultants are also engaged to evaluate the Company’s existing safety performance and identify risks areas and possible areas for improvement.

### ***Earnings Per Share***

The earnings per share (EPS) represent the net income attributable to equity holders of the Company expressed in amount per share of the Company’s average outstanding capital stock. Assuming a constant outstanding number of shares, the earnings per share correspondingly increases the Company's earnings increase. The EPS ultimately reflect the Company’s financial and operational growth as a result of its performance in cost management, technical efficiency and productivity.

The basic earnings per share in 2017 and 2016 were ₱0.0875 and ₱0.0863, respectively, based on 4,940,399,068 weighted average shares outstanding for the period.

In 2017 and 2016, the outstanding stock options were considered anti-dilutive based on the lower market prices of the Company’s shares compared with the exercise price, thus the diluted earnings per share for these periods were the same as the basic earnings per share of the Company.

### ***Ore Milled and Metal Produced***

Ore milled and ore grade determine the volume of concentrates to be produced and sold. Ore milled were 1,998,392 tonnes in 2017 compared with 2,324,758 tonnes in 2016 mainly due to low mine delivery brought about by equipment availability issues.

Copper output reached 7,751,669 pounds against 2016’s 8,425,171 pounds, while gold production totaled 22,451 ounces, compared with 24,200 ounces in 2016, as a result of lower tonnage, despite better ore grades and metal recovery.

### ***Total Production Cost Per Tonne and Operating Cost Per Tonne of Ore Milled, and Per Ounce Gold and Per Pound Copper Produced***

The Company’s average cost per tonne is a key measure of the Company’s operating performance. At the same cost level, the higher the production volume, the lower the cost per tonne becomes, which will also be similar if the same production volume incurs a lower

operating cost. Thus, a lower cost per tonne would generally reflect an improvement in operating efficiency.

The same essentially applies to cost expressed in per metal unit, which incorporates the metal grade, as it affects metal production, and the exchange rate, as it affects the conversion from peso to dollars.

In 2017, the total production cost (mine site cost and expenses excluding marketing charges, excise tax and royalties) per tonne of ore milled was ₱732, with total production cost of ₱1.463 billion over ore milled of 1,998,392 tonnes. This was 18% higher than the cost per tonne of ₱619 from the total production cost of ₱1.438 billion over ore milled of 2,324,758 tonnes in 2016 primarily due to the lower tonnage output and higher block amortization cost in 2017.

The operating costs and expenses (all cost and expenses excluding G&A) per tonne of ore milled in 2017 was ₱891 from the total operating cost and expenses of ₱1.780 billion, 18% higher than the ₱755 from the operating costs and expenses of ₱1.755 billion in 2016. The total operating costs for 2017 were higher due to lower tonnage, and higher block amortization cost, excise tax and royalties.

As the mine produces both gold and copper (and silver) together in one operating process, no physical basis can be used in allocating costs between the two metals, thus, the cost may be allocated proportionately based on the revenue contribution of each product. In 2017, the operating cost applicable to gold produced amounted to US$898 per ounce compared with US$947 per ounce in 2016, while operating cost applicable to copper produced amounted to US$1.96 per pound in 2017 compared with US$1.72 per pound in 2016.

***Exploration Activities***

The Company is cognizant that exploration in itself is a speculative endeavor, and mineral exploration and mining operations can be hampered by force majeure and other unforeseen circumstances beyond the Company's control. To mitigate the impact of these external factors and other contingencies, the Company banks on its ability to successfully explore and/or acquire reserves, design and construct efficient processing facilities, operate and manage its projects, and provide financial controls and management. To ensure the optimization of value from its natural resource properties and the long-term sustainability of operations, the Company pursues and invests in viable exploration activities and operational enhancements on a constant basis.

In the first quarter of 2017, the amount spent on mining exploration amounted to ₱231.1 million compared with ₱313.8 million in 2016. As of March 31, 2017, total deferred exploration costs (excluding other noncurrent assets) amounted to ₱23.393 billion, comprising 60% of the Company's Total Assets, compared with ₱23.072 billion at year-end 2016.

**Subsidiaries and Related Party Transactions**

The Company's significant related party transactions as of March 31, 2017 and December 31, 2016, which are under terms that are no less favorable than those arranged with third parties, and account balances are as follows:

*a) Advances from PMC to SMMCI and SMECI*

PMC, owning directly and indirectly 100% of SMMCI and SMECI, provides the funds to SMMCI, through SMECI since 2011 and directly thereafter, for the Silangan project's expenditures since the Company's acquisition of Anglo American's interest in the Silangan Project in 2009. These advances, which were intended to be converted into equity, amounted to ₱650.6 million as of March 31, 2017, the same as of December 31, 2016.

*b) Advances from PMC to PXP*

PMC made cash advances to PXP Energy Corporation (PXP) for its additional working capital requirements, and for the acquisition of equity in FEP, PERC and Pitkin. As of March 31, 2017 and December 31, 2016, advances from PMC amounted to ₱2.167 billion and ₱2.194 billion, respectively. On August 17, 2015, PX and PXP entered into a pledge agreement to secure the advances against certain shares of stocks owned by PXP. In 2017, the Company received partial payment from PXP amounting to ₱25.1 million (US$ 0.5 million).

***c)*** *Issuance of Convertible Bonds to FPC and SSS by SMECI*

In December 2014, SMECI and PMC, as the co-issuer, issued 8-year convertible bonds with a face value of ₱7.2 billion at 1.5% coupon rate p.a. payable semi-annually. The bonds are convertible into 400,000 common shares of SMECI at ₱18 per share 12 months after the issue date ("Standstill Period"). On the last day of the Standstill Period, the Issuer shall have a one-time right to redeem the bonds from the holders in whole or in part. After the Standstill Period, the noteholders may exercise the conversion right, in whole but not in parts, at any time but no later than the maturity date. At redemption/maturity date, the bonds can be redeemed together with the principal or face value of the bonds at a premium, payable at a rate of 3% per annum compounded semi-annually based on the face value of the bonds and unpaid accrued interest (if there be any). The proceeds of the bonds were used to repay the SMECI's advances from PMC and fund further exploration works of SMMCI. The carrying value of loans payable amounted to ₱6.668 billion and ₱6.593 billion as of March 31, 2017 and December 31, 2016, respectively.

**Known Trends, Events, or Uncertainties**

There is no known event that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation that have not been booked, although the Company could be contingently liable for lawsuits and claims arising from the ordinary course of business, which contingencies are not presently determinable.

Other than as discussed above, there are no known significant trends, demands, commitments, or uncertainties that will result in or that are reasonably likely to result in the Company's liquidity increasing or decreasing in a material way. There are no material commitments for capital expenditures not reflected in the Company's financial statements.

There is likewise no significant seasonality or cyclicality in its business operation that would have material effect on the Company's financial condition or results of operation. There were no

other significant elements of income or loss that did not arise from the Company's continuing operations. There are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationship of the Company with unconsolidated entities or other persons created during the reporting period. There are no line items in the Company's financial statements not already explained for causes either above or in the Notes to the Consolidated Financial Statements other than due to the usual period-to-period fluctuations in amounts natural in every business operations.

## PART II - OTHER INFORMATION

There are no other information for this interim period not previously reported in a report on SEC Form 17-C.

## SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PHILEX MINING CORPORATION
(Issuer)

**EULALIO B. AUSTIN ,JR.**
President & Chief Executive Officer

**DANNY Y. YU**
Senior Vice President for Finance
& Chief Financial Officer

**PARALUMAN M. NAVARRO**
Division Manager –Corporate Finance

Date: May 2, 2017

# PHILEX MINING CORPORATION
# AND SUBSIDIARIES

UNAUDITED
CONSOLIDATED
FINANCIAL STATEMENTS
March 31, 2017

Pasig City, Philippines

**PHILEX MINING CORPORATION AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**
(Amounts in Thousands, except Par Value per Share)

| | | March 31 2017 (Unaudited) | | December 31 2016 (Audited) |
|---|---|---|---|---|
| **Current Assets** | | | | |
| Cash and cash equivalents | | 839,627 | | 457,937 |
| Accounts receivable | | 452,800 | | 486,497 |
| Inventories | | 1,941,259 | | 2,318,850 |
| Advances to a related party | | 2,168,649 | | 2,193,829 |
| Other current assets | | 1,419,370 | | 1,437,752 |
| **Total Current Assets** | | 6,821,705 | | 6,894,865 |
| **Noncurrent Assets** | | | | |
| Property, plant and equipment | | 6,655,686 | | 6,735,578 |
| Deferred exploration costs and other noncurrent assets | | 23,466,455 | | 23,158,325 |
| Available-for-sale (AFS) financial assets | | 104,615 | | 104,615 |
| Investment in associates | | 1,449,571 | | 1,455,876 |
| Pension asset - net | | 305,664 | | 312,570 |
| **Total Noncurrent Assets** | | 31,981,991 | | 31,766,964 |
| **TOTAL ASSETS** | **P** | **38,803,696** | **P** | **38,661,829** |
| **LIABILITIES AND EQUITY** | | | | |
| **Current Liabilities** | | | | |
| Loans payable | | 2,909,280 | | 3,082,640 |
| Accounts payable and accrued liabilities | | 1,762,780 | | 1,832,661 |
| Income tax payable | | 164,863 | | 164,265 |
| Dividends payable | | 569,369 | | 498,129 |
| **Total Current Liabilities** | | 5,406,292 | | 5,577,695 |
| **Noncurrent Liabilities** | | | | |
| Deferred income tax liabilities - net | | 2,966,346 | | 2,957,896 |
| Loans and bonds payable | | 6,667,987 | | 6,592,854 |
| Provision for losses and mine rehabilitation costs | | 130,111 | | 134,124 |
| **Total Noncurrent Liabilities** | | **9,764,444** | | **9,684,874** |
| **Total Liabilities** | | **15,170,736** | | **15,262,569** |
| **Equity Attributable to Equity Holders of the Parent Company** | | | | |
| Capital Stock - P1 par value | | 4,940,399 | | 4,940,399 |
| Additional paid-in capital | | 1,143,981 | | 1,143,981 |
| Retained Earnings | | | | |
| Unappropriated | | 4,176,137 | | 4,442,436 |
| Appropriated | | 10,500,000 | | 10,000,000 |
| Net unrealized loss on AFS financial assets | | (3,094) | | (3,094) |
| Equity conversion option | | 1,225,518 | | 1,225,518 |
| Net revaluation surplus | | 1,572,385 | | 1,572,385 |
| Effect of transactions with non-controlling interests | | 77,891 | | 77,892 |
| | | 23,633,217 | | 23,399,517 |
| Non-controlling Interests | | (257) | | (257) |
| **Total Equity** | | **23,632,960** | | **23,399,260** |
| **TOTAL LIABILITIES & EQUITY** | **P** | **38,803,696** | **P** | **38,661,829** |

**PHILEX MINING CORPORATION AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)**
(Amounts in Thousands, except Earnings Per Share)

| | Three Months ended March 31 | | | |
|---|---|---|---|---|
| | | **2017** | | **2016** |
| **REVENUE** | | | | |
| Gold | P | 1,426,069 | P | 1,427,229 |
| Copper | | 1,094,068 | | 945,738 |
| Silver | | 21,890 | | 16,773 |
| | | 2,542,027 | | 2,389,740 |
| Less: Smelting charges | | 206,695 | | 210,715 |
| | | **2,335,332** | | **2,179,025** |
| **COSTS AND EXPENSES** | | | | |
| Production costs (including depletion and depreciation) | | 1,463,306 | | 1,438,294 |
| General and administrative expenses | | 93,663 | | 96,911 |
| Excise taxes and royalties | | 110,597 | | 105,988 |
| | | **1,667,566** | | **1,641,193** |
| **INCOME FROM OPERATIONS** | | **667,766** | | **537,832** |
| **OTHER INCOME (CHARGES)** | | | | |
| Foreign exchange gains (losses) - net | | (37,255) | | 57,045 |
| Interest income | | 236 | | 495 |
| Share in net losses of associates | | (6,304) | | (6,000) |
| Others - net | | (11,854) | | 37,739 |
| | | **(55,177)** | | **89,279** |
| **INCOME BEFORE INCOME TAX** | | **612,589** | | **627,111** |
| PROVISION FOR INCOME TAX | | | | |
| Current | | 164,820 | | 106,969 |
| Deferred | | 15,503 | | 84,734 |
| | | 180,323 | | 191,703 |
| | | **432,266** | | **435,408** |
| **LOSS ON DECONSOLIDATED SUBSIDIARY GROUP, NET OF TAX** | | - | | (14,963) |
| **NET INCOME** | **P** | **432,266** | **P** | **420,445** |
| **Net income (loss) attributable to:** | | | | |
| Equity holders of the Parent Company | | 432,266 | | 426,435 |
| Non-controlling interests | | - | | (5,990) |
| | **P** | **432,266** | **P** | **420,445** |
| **BASIC EARNINGS PER SHARE** | **P** | **0.0875** | **P** | **0.0863** |
| **DILUTED EARNINGS PER SHARE** | **P** | **0.0875** | **P** | **0.0863** |

**PHILEX MINING CORPORATION AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)**
(Amounts in Thousands)

| | Three Months ended March 31 | | | |
|---|---|---|---|---|
| | | **2017** | | **2016** |
| **NET INCOME** | P | 432,266 | P | 420,445 |
| **OTHER COMPREHENSIVE INCOME** | | | | |
| *Items to be reclassified to profit and loss in subsequent periods:* | | | | |
| Loss on movement in fair value of hedging instruments | | - | | (10,438) |
| Gain (Loss) on translation of financial statement of foreign subsidiaries | | - | | (16,656) |
| | | - | | (27,094) |
| **TOTAL COMPREHENSIVE INCOME** | **P** | **432,266** | **P** | **393,351** |
| | | | | |
| **Total Comprehensive Income Attributable to:** | | | | |
| Equity holders of the Parent Company | | 432,266 | | 399,341 |
| Non-controlling interests | | - | | (5,990) |
| | | **432,266** | | **393,351** |

## PHILEX MINING CORPORATION AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

| | Three Months ended March 31 | |
|---|---|---|
| | **2017** | **2016** |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Income before income tax from continuing operations | 612,589 | 627,111 |
| Loss before income tax from discontinued operations | - | (14,963) |
| | 612,589 | 612,148 |
| Adjustments for: | | |
| Depletion and depreciation | 361,435 | 318,502 |
| Unrealized foreign exchange (gain) losses and others | 27,480 | 5,105 |
| Accretion of Asset Retirement Obligation | 902 | 877 |
| Stock-based compensation expense | - | 727 |
| Amortization of prepaid expenses | - | 8,650 |
| Equity loss in investment | 6,304 | 6,000 |
| Interest income | - | (1,756) |
| Operating income before working capital changes | 1,008,710 | 950,253 |
| Decrease (increase) in: | | |
| Accounts receivable | 33,698 | 187,277 |
| Inventories | 377,591 | (303,881) |
| Other current assets | 18,381 | (8,724) |
| Other noncurrent assets | 13,118 | - |
| Increase (Decrease) in: | | |
| Accounts payable and accrued liabilities | 10,609 | (30,857) |
| Non current liabilities | (178,509) | (113,425) |
| Cash generated from operations | 1,283,598 | 680,642 |
| Income taxes paid | - | (12,793) |
| Net cash from operating activities | 1,283,598 | 667,849 |
| **CASHFLOWS FROM INVESTING ACTIVITIES** | | |
| Increase in deferred exploration costs and other noncurrent assets | (231,104) | (313,844) |
| Additions to property, plant and equipment | (281,568) | (302,883) |
| Advances to related parties | 25,180 | - |
| Net cash used in investing activities | (487,492) | (616,728) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Payments of: | | |
| Capitalized interest expenses | (15,012) | (10,243) |
| Dividends paid | (198,564) | (0) |
| Short-term bank loans | (200,840) | (143,130) |
| Net cash from (used in) financing activities | (414,416) | (153,373) |
| **EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS** | - | (27,094) |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | 381,690 | (129,343) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD** | 457,937 | 1,008,686 |
| **CASH AND CASH EQUIVALENTS AT END THE PERIOD** | 839,627 | 879,343 |

PHILEX MINING CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)
(Amounts in Thousands)

| | Attributable to Equity Holders of the Parent Company | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Retained Earnings | | | | | | | | | |
| | Capital Stock | Additional Paid-in Capital | Unappropriated | Appropriated | Net Unrealized Gain (Loss) on AFS Financial Assets | Equity Conversion Option | Cumulative translation adjustments | Net revaluation Surplus | Effect of transaction with Minority Interest | Sub-total | Minority Interest | Total |
| **BALANCES AT DECEMBER 31, 2016** | 4,940,399 | 1,143,981 | 4,442,436 | 10,000,000 | (3,094) | 1,225,518 | - | 1,572,385 | 77,892 | 23,399,517 | (257) | 23,399,260 |
| **Net income (loss)** | - | - | 432,266 | - | - | - | - | - | - | 432,266 | - | 432,266 |
| Appropriation of retained earnings | | | (500,000) | 500,000 | | | | | - | - | - | - |
| Declaration of dividends | - | - | (198,566) | - | - | - | - | - | - | (198,566) | - | (198,566) |
| **BALANCES AT MARCH 31, 2017 (Unaudited)** | **4,940,399** | **1,143,981** | **4,176,137** | **10,500,000** | **(3,094)** | **1,225,518** | **-** | **1,572,385** | **77,892** | **23,633,218** | **(257)** | **23,632,960** |
| **BALANCES AT DECEMBER 31, 2015** | 4,940,399 | 1,142,722 | 5,496,271 | 10,000,000 | (1,022) | 1,225,518 | 124,334 | 1,611,397 | 23,164 | 24,562,783 | 2,721,119 | 27,283,902 |
| Net income (loss) | | | 426,435 | | | | | | | 426,435 | (5,990) | 420,445 |
| *Items to be reclassified to profit and loss in subsequent periods:* | | | | | | | | | | | | |
| Movement of fair value of heding instruments | - | - | - | - | - | - | (10,438) | - | - | (10,438) | - | (10,438) |
| *Items not to be reclassified to profit and loss in subsequent periods:* | | | | | | | | | | | | |
| Gain on translation of foreign subsidiaries | - | - | - | - | - | - | (16,656) | - | - | (16,656) | - | (16,656) |
| Total comprehensive income (loss) | - | - | 426,435 | - | - | - | (27,094) | - | - | 399,341 | (5,990) | 393,351 |
| Increase in additional paid-in capital due to stock option plan | - | 726 | - | - | - | - | - | - | - | 726 | - | 726 |
| **BALANCES AT MARCH 31, 2016 (Unaudited)** | **4,940,399** | **1,143,448** | **5,922,706** | **10,000,000** | **(1,022)** | **1,225,518** | **97,240** | **1,611,397** | **23,164** | **24,962,850** | **2,715,129** | **27,677,979** |

**PHILEX MINING CORPORATION AND SUBSIDIARIES**
**FINANCIAL SOUNDNESS INDICATORS**

| | | Three Months Ended March 31 | |
|---|---|---|---|
| | | 2017 | 2016 |
| Current Ratio | Current Assets over Current Liabilities | 1.26 | 0.96 |
| Debt-to-equity Ratio | Total Liabilities over Total Equity | 0.64 | 0.58 |
| Asset-to-equity Ratio | Total Assets over Equity | 1.64 | 1.58 |
| Net Income Ratio | Net Income over Net Revenue | 0.19 | 0.19 |

**PHILEX MINING CORPORATION AND SUBSIDIARIES**

**SCHEDULE OF ACCOUNTS RECEIVABLE**
As of March 31, 2017
(In Thousands)

| | |
|---|---|
| Accounts Receivable- Trade | P 378,700 |
| Others | 74,100 |
| | **P 452,800** |

**AGING OF ACCOUNTS RECEIVABLE - TRADE**
As of March 31, 2017

| | **0-30 days** | **31-60 days** | **Total** |
|---|---|---|---|
| Pan Pacific Copper Co. Ltd. | | P 113,837 | P 113,837 |
| Louis Dreyfus Commodities Metals | 264,863 | | 264,863 |
| | **P 264,863** | **P 113,837** | **P 378,700** |

**PHILEX MINING CORPORATION AND SUBSIDIARIES**

**SCHEDULE OF LOANS PAYABLE**

As of March 31, 2017

(In thousands)

| | | |
|---|---|---|
| Banco de Oro | | 1,504,800 |
| Philippine National Bank | | 1,254,000 |
| Bank of the Philippine Islands | | 150,480 |
| **Total** | **P** | **2,909,280** |

**PHILEX MINING CORPORATION AND SUBSIDIARIES**
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**
**MARCH 31, 2017**
**(Amounts in Thousands, Except Amounts Per Unit and Number of Shares)**

## 1. Summary of Significant Accounting Policies and Financial Reporting Practices

Basis of Preparation

The unaudited consolidated financial statements have been prepared in accordance with Philippine Accounting Standard (PAS) 34, Interim Financial Reporting. Accordingly, the unaudited consolidated financial statements of Philex Mining Corporation (the Parent Company) and its subsidiaries (the Group) do not include all the information and disclosure required in the annual consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at December 31, 2016.

The unaudited consolidated financial statements of the Group have been prepared using the historical cost basis, except for mine products inventories that are measured at net realizable value (NRV), and for AFS financial assets and derivative financial instruments that are measured at fair value. The unaudited consolidated financial statements are presented in Philippine Peso (Peso), which is the Parent Company's functional and reporting currency, rounded to the nearest thousands (₱000), except when otherwise indicated.

Statement of Compliance
The unaudited consolidated financial statements of the Group have been prepared in accordance with accounting principles generally accepted in the Philippines. The Group prepared its unaudited consolidated financial statements in accordance with PAS 34, except for the Parent Company's mine products inventories that are measured at NRV, which was permitted by the Philippine Securities and Exchange Commission. The significant accounting policies followed by the Group are disclosed below.

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following new and amended PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations [based on the International Financial Reporting Interpretations Committee (IFRIC) interpretations] which became effective in 2017. Except as otherwise indicated, the Group does not expect the adoption of these new and amended PFRS, PAS and Philippine Interpretations to have significant impact on its financial statements. The relevant disclosures will be included in the notes to the financial statements when these become effective.

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

*Effective beginning on or after January 1, 2017*

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

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

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

  The amendments to PAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendments, entities are not required to provide comparative information for preceding periods. Early application of the amendments is permitted. Application of amendments will result in additional disclosures in the 2017 consolidated financial statements of the Group.

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

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

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

  These amendments are not expected to have any impact on the Group.

## 2. Significant Judgments and Estimates and Assumptions

The preparation of the unaudited consolidated financial statements in accordance with accounting principles generally accepted in the Philippines requires the management of the Group to exercise judgment, make accounting estimates and use assumptions that affect the reported amounts of assets, liabilities, income and expenses, and disclosure of any contingent assets and contingent liabilities. Future events may occur which will

cause the assumptions used in arriving at the accounting estimates to change. The effects of any change in accounting estimates are reflected in the consolidated financial statements as they become reasonably determinable.

Accounting assumptions, estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effects on amounts recognized in the consolidated financial statements:

*Determination of the functional currency*

The Parent Company and most of its local subsidiaries based on the relevant economic substance of the underlying circumstances, have determined their functional currency to be the Philippine peso. It is the currency of the primary economic environment in which the Parent Company and most of its local subsidiaries primarily operates.

*Recognition of deferred income tax assets*

The Group reviews the carrying amounts at each end of reporting period and adjusts the balance of deferred income tax assets to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. The sufficiency of future taxable profits requires the use of assumptions, judgments and estimates, including future prices of metals, volume of inventories produced and sold, and amount of costs and expenses that are subjectively determined like depreciation.

*Classification of financial instruments*

The Group exercises judgment in classifying financial instruments in accordance with PAS 39. The Group classifies a financial instrument, or its components, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the Group's consolidated statements of financial position.

The Group has no intention of selling its investments in stocks in the near term. These are being held indefinitely and may be sold in response to liquidity requirements or changes in market condition. Accordingly, the Group has classified its investments in stocks as AFS investments. The Group has no plans to dispose its AFS investments within 12 months from the end of the reporting date.

The Group determines the classification at initial recognition and re-evaluates this classification, where allowed and appropriate, at every reporting date.

*Valuation of financial assets and financial liabilities*

The Group carries certain financial assets and financial liabilities (i.e., derivatives and AFS financial assets) at fair value, which requires the use of accounting estimates and judgment. At initial recognition, the fair value of quoted AFS financial assets is based on its quoted price in an active market while the fair value of unquoted AFS financial assets

is based on the latest available transaction price. The amount of changes in fair value would differ if the Group utilized a different valuation methodology. Any change in fair value of these financial assets and financial liabilities would affect the profit and loss or other comprehensive income.

Accounting Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainties at the end of reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

*Measurement of mine products revenue*

Mine products revenue is provisionally priced until or unless these are settled at pre-agreed future or past dates referred to as "quotational period," the prevailing average prices at which time become the basis of the final price. Revenue on mine products is initially recognized based on shipment values calculated using the provisional metals prices, shipment weights and assays for metal content less deduction for insurance and smelting charges as marketing costs. The final shipment values are subsequently determined based on final weights and assays for metal content and prices during the applicable quotational period.

*Impairment of loans and receivables*

The Group maintains an allowance for doubtful accounts at a level that management considers adequate to provide for potential uncollectibility of its loans and receivables. The Group evaluates specific balances where management has information that certain amounts may not be collectible. In these cases, the Group uses judgment, based on available facts and circumstances, and based on a review of the factors that affect the collectibility of the accounts. The review is made by management on a continuing basis to identify accounts to be provided with allowance.

The Group did not assess its loans and receivables for collective impairment due to few counterparties that can be specifically identified. Outstanding trade receivables are mainly from the Parent Company's main customer. Other receivables of the Group are not material. The amount of loss is recognized in the consolidated statements of income with a corresponding reduction in the carrying value of the loans and receivables through an allowance account.

*Valuation of AFS financial assets*

The Group carries its quoted and unquoted AFS financial assets at fair value and at cost, respectively. Fair value measurement requires the use of accounting estimates and judgment. At initial recognition, the fair value of quoted AFS financial assets is based on its quoted price in an active market, while the fair value of unquoted AFS financial assets is based on the latest available transaction price. The amount of changes in fair value would differ if the Group utilized a different valuation methodology.

Any change in fair value of its AFS financial assets is recognized in the consolidated statements of comprehensive income.

*Impairment of AFS financial assets*

The Group treats AFS financial assets as impaired when there has been a significant or prolonged decline in fair value below its cost or where other objective evidence of

impairment exists. The determination of what is “significant” or “prolonged” requires judgment. The Group treats “significant” generally as 30% or more and “prolonged” as greater than 12 months for quoted equity securities. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted securities.

*Impairment of goodwill*
The Group reviews the carrying values of goodwill for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the CGU or group of CGUs to which the goodwill relates. Assessments require the use of estimates and assumptions such as long-term commodity prices, discount rates, future capital requirements, exploration potential and operating performance. If the recoverable amount of the unit exceeds the carrying amount of the CGU, the CGU and the goodwill allocated to that CGU shall be regarded as not impaired. Where the recoverable amount of the CGU or group of CGUs is less than the carrying amount of the CGU or group of CGUs to which goodwill has been allocated, an impairment loss is recognized.

*Measurement of NRV of mine products inventory*
The NRV of mine products inventory is the estimated sales value less costs to sell, which can be derived from such inventory based on its weight and assay for metal content, and the LME and London Bullion Metal Association for prices, which also represents an active market for the product. Changes in weight and assay for metal content as well as the applicable prices as the mine products inventory are eventually shipped and sold are accounted for and accordingly adjusted in revenue.

*Write-down of carrying values of materials and supplies inventories*
The Group carries coal and material and supplies inventories at NRV when such value is lower than cost due to damage, physical deterioration, obsolescence or other causes. When it is evident that the NRV is lower than its cost based on physical appearance and condition of inventories, an allowance for inventory obsolescence is provided.

*Estimation of fair value of identifiable net assets of an acquiree in a business combination*
The Group applies the acquisition method of accounting whereby the purchase consideration is allocated to the identifiable assets, liabilities and contingent liabilities (identifiable net assets) on the basis of fair value at the date of acquisition. The determination of fair values requires estimates of economic conditions and factors such as metal prices, mineral reserve, freight exchange rates and others.

*Estimation of useful lives of property, plant and equipment*
The Group estimates the useful lives of depreciable property, plant and equipment, except for mine and mining and oil and gas properties, based on internal technical evaluation and experience. These estimated useful lives are reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical and commercial obsolescence and other limits on the use of the assets. For mine and mining properties which were depreciated based on units-of production, the Group estimates and periodically reviews the remaining recoverable reserves to ensure that remaining reserves are reflective of the current condition of the mine and mining and oil and gas properties**.**

*Estimation of recoverable reserves*
Recoverable reserves were determined using various factors or parameters such as market price of metals and global economy. These are economically mineable reserves based on the current market condition and concentration of mineral resource. The estimated recoverable reserves are used in the calculation of depreciation, amortization and testing for impairment, the assessment of life of the mine, and for forecasting the timing of the payment of mine rehabilitation costs.

*Estimation of provision for mine rehabilitation costs*
The Group recognized a liability relating to the estimated costs of mine rehabilitation. The Group assesses its mine rehabilitation provision annually. Significant estimates and assumptions are made in determining the provision for mine rehabilitation as there are numerous factors that will affect the ultimate liability. These factors include estimates of the extent and costs of rehabilitation activities, technological changes, regulatory changes, cost increases and changes in discount rates.

Those uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision at each end of the reporting period represents management's best estimate of the present value of the future rehabilitation costs required. Changes to estimated future costs are recognized in the consolidated statements of financial position by adjusting the rehabilitation asset and liability. If the net rehabilitation provisions of revised mine assets for mature mines exceed the carrying value, that portion of the increase is charged directly to the consolidated statements of income. For closed sites, changes to estimated costs are recognized immediately in the consolidated statements of income.

*Impairment of noncurrent non-financial assets*
The Group's non-financial assets include input tax recoverable, property, plant and equipment, deferred mine and oil exploration costs and other noncurrent assets. The Group assesses whether there are indications of impairment on its current and noncurrent non-financial assets, at least on an annual basis. If there is objective evidence, an impairment testing is performed. This requires an estimation of the value in use of the CGUs to which the assets belong. Assessments require the use of estimates and assumptions such as VAT disallowance rate, long-term commodity prices, discount rates, future capital requirements, exploration potential and operating performance. In assessing value in use, the estimated future cash flows are discounted to their present value using a suitable discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

*Valuation of financial assets and financial liabilities*
The Group carries certain financial assets and financial liabilities (i.e., derivatives and AFS financial assets) at fair value, which requires the use of accounting estimates and judgment. While significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates, quoted equity prices), the amount of changes in fair value would differ if the Group utilized a different valuation methodology. Any change in fair value of these financial assets and financial liabilities is recognized in the consolidated statements of income and in the consolidated statements of comprehensive income.

*Convertible Bonds*
The Group's convertible bonds, treated as a compound financial instrument, are separated into liability and equity components based on the terms of the contract. On issuance of the convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible instrument. This amount is classified as a financial liability measured at amortized cost (net of transaction costs) until it is extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognized and included in equity. Transaction costs are deducted from equity, net of associated income tax. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are initially recognized.

*Provisions for losses*
The Group provides for present obligations (legal or constructive) where it is probable that there will be an outflow of resources embodying economic benefits that will be required to settle the said obligations. An estimate of the provision is based on known information at each end of the reporting period, net of any estimated amount that may be reimbursed to the Group. The amount of provision is being re-assessed at least on an annual basis to consider new relevant information.

*Estimation of net retirement benefits liability (plan assets) and costs*
The Group's net retirement benefits costs are actuarially computed using certain assumptions with respect to future annual salary increases and discount rates per annum, among others.

## 3. Financial Risk Management Objectives and Policies

The Group's principal financial instruments, other than derivatives, comprise mainly of cash and cash equivalents, receivables, AFS financial assets and accounts payable and accrued liabilities. The main purpose of these financial instruments is to provide financing for the Group's operations and capital intensive projects.

The Board of Directors (BOD) is mainly responsible for the overall risk management approach and for the approval of risk strategies and principles of the Group.

Financial Risks
The main risks arising from the Group's financial instruments are credit and concentration risks, liquidity risk, and market risk. The market risk exposure of the Group can be further classified to foreign currency risk, cash flow interest rate risk, equity price risk, and commodity price risk. The BOD reviews and approves the policies for managing some of these risks and they are summarized as follows:

*Credit and concentration risks*

Credit risk is the risk where the Group could incur a loss if its counterparties fail to discharge their contractual obligations. To avoid such losses, the Group's primary credit risk management strategy is to trade only with recognized, creditworthy third parties. At present, 60% of the Parent Company's annual production of concentrates is sold to Pan

Pacific Copper Co., Ltd. The balance of the Parent Company's annual production of concentrates is contracted with LD Metals which is covered by several short-term agreements up to March 2018.

Credit risk may also arise from the Group's other financial assets, which comprise of cash and cash equivalents. The Group's exposure to credit risk could arise from default of the counterparty, having a maximum exposure equal to the carrying amount of these instruments.

With respect to credit risk arising from the other financial assets of the Group, which comprise of cash and cash equivalents, the Group's exposure to credit risk could arise from default of the counterparty, having a maximum exposure equal to the carrying amount of these instruments.

The table below summarizes the Group's exposure to credit risk for the components of the unaudited consolidated balance sheet as of March 31, 2017:

| | |
|---|---|
| Cash and cash equivalents: | |
| Cash with banks | ₱813,908 |
| Short-term deposits | 24,283 |
| Accounts receivable: | |
| Trade | 378,700 |
| Others | 74,100 |
| Advances to a related party | 2,168,649 |
| Gross maximum credit risk exposure | ₱3,459,640 |

The table below shows the credit quality of the Group's financial assets by class as of March 31, 2017 based on the Group's credit evaluation process:

| | Neither Past Due nor Impaired | | Past Due and Individually Impaired | Total |
|---|---|---|---|---|
| | High-Grade | Standard | | |
| Cash and cash equivalents: | | | | |
| Cash with banks | ₱813,908 | ₱– | ₱– | ₱813,908 |
| Short-term deposits | 24,283 | – | – | 24,283 |
| Accounts receivable: | | | | |
| Trade | 378,700 | – | – | 378,700 |
| Others | 74,100 | – | – | 74,100 |
| Advances to a related party | 2,168,649 | – | – | 2,168,649 |
| Total | ₱3,459,640 | ₱– | ₱– | ₱3,459,640 |

Credit quality of cash and cash equivalents are based on the nature of the counterparty and the Group's evaluation process. High-grade credit quality financial assets pertain to financial assets with insignificant risk of default based on historical experience.

The Group has no past due but not impaired financial assets as of March 31, 2017.

*Liquidity risk*

Liquidity risk is the risk where the Group becomes unable to meet its obligations when they fall due under normal and stress circumstances. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans. The Group addresses liquidity concerns primarily through cash flows from operations and short-term borrowings, if necessary.

The table below summarizes the maturity profile of the Group's financial assets that can be used by the Group to manage its liquidity risk and the maturity profile of the Group's financial liabilities, based on contracted undiscounted repayment obligations (including interest) as of March 31, 2017:

| | On Demand | Within 1 Year | More than 1 Year | Total |
|---|---|---|---|---|
| Loans and receivables: | | | | |
| Cash and cash equivalents | ₱839,627 | ₱– | ₱– | ₱839,627 |
| Accounts receivable: | | | | |
| Trade | – | 378,700 | – | 378,700 |
| Others | – | 74,100 | – | 74,100 |
| Advances to a related party | 2,168,649 | – | – | 2,168,649 |
| AFS financial assets: | | | | |
| Quoted equity investments | 31,909 | – | – | 31,909 |
| Unquoted equity investments | 72,706 | – | – | 72,706 |
| Total undiscounted financial assets | ₱3,112,891 | ₱452,800 | ₱– | ₱3,565,691 |

Market risks

*Foreign currency risk*

Foreign currency risk the risk where the value of the Group's financial instruments diminishes due to unfavorable changes in foreign exchange rates. The Parent Company's transactional currency exposures arise from sales in currencies other than its functional currency. All of the Parent Company's sales are denominated in US Dollar. Also, the Parent Company is exposed to foreign exchange risk arising from its US Dollar-denominated cash and cash equivalents and trade receivables.

As the need arises, the Group enters into structured currency derivatives to cushion the effect of foreign currency fluctuations.

The following table summarizes the impact on the unaudited consolidated income before income tax of reasonably possible changes in the exchange rates of US Dollar against the Peso:

| US$ Appreciate (Depreciate) | Effect on Consolidated Income before Income Tax |
|---|---|
| 4% | (₱134,984) |
| (4%) | 134,984 |

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

*Interest rate risk*
Interest rate risk arises from the possibility that changes in interest rates would unfavorably affect future cash flows from financial instruments. As of March 31, 2016, Group's exposure to the risk in changes in market interest rates relates to bank loans.

The Group relies on budgeting and forecasting techniques to address cash flow concerns. The Group also keeps its cash flow interest rate risk minimum by prepaying, to the extent possible, interest-bearing debt using operating cash flows.

*Equity price risk*
Equity price risk is the risk where the fair values of investments in quoted equity securities could increase or decrease as a result of changes in the levels of equity indices and the value of individual stocks. The management monitors the movement of the share prices pertaining to its investments. The Group is exposed to equity securities price risk because of investments held by the Parent Company and PPC, which are classified in the unaudited consolidated balance sheets as AFS financial assets.

The effect on equity, as a result of a possible change in the fair value of the Group's quoted equity instruments held as AFS financial assets as at March 31, 2017, that could be brought by changes in equity indices with all other variables held constant, are as follows:

| Currency | Change in Quoted Prices of Investments Carried at Fair Value | Effect on Equity |
|---|---|---|
| Peso | Increase by 41% | 13,087 |
| | Decrease by 41% | (13,087) |

*Commodity price risk*
The Parent Company's mine products revenues are based on international commodity quotations (i.e., primarily on the LME and London Bullion Market Association quotes) over which the Parent Company has no significant influence or control. This exposes the Group's results of operations to commodity price volatilities that may significantly impact its cash inflows.

The table below shows the effect on income before income tax should the change in the prices of copper and gold occur based on the inventory of the Parent Company as of March 31, 2017:

| Change in metal prices (Gold) | Effect on income before income tax |
|---|---|
| Increase by 8% | ₱114,086 |
| Decrease by 8% | (114,086) |

| Change in metal prices (Copper) | Effect on income before income tax |
|---|---|
| Increase by 12% | ₱131,288 |
| Decrease by 12% | (131,288) |

## 4. Deconsolidation of a Subsidiary Group

On February 29, 2016, the Parent Company declared portion of its shares in PXP Energy Corporation as property dividends to all stockholders and distributed on July 15, 2016. Results of deconsolidated subsidiary group as of March 31, 2016 follows:

| | For the three months ended March 31, 2016 |
|---|---|
| *Revenue* | |
| Petroleum | P 23,126 |
| *Cost and expenses* | |
| General and administrative expense | (13,534) |
| Petroleum product costs | (19,007) |
| | (32,541) |
| *Othe income (expenses)* | |
| Interest income | 1,261 |
| Foreign exchange gains (losses) - net | (6,861) |
| Others | 52 |
| | (5,548) |
| Loss before income tax | (14,963) |
| Provision for income tax | - |
| Loss from deconsolidated subsidiary group | (P 14,963) |

## 5. Segment Information

Before deconsolidation of a subsidiary group, the Group is organized into business units on their products and activities and has two business: the metals segment and the energy and hydro carbon segment. The operating businesses are organized and managed separately through the Parent Company and its subsidiaries according to the nature of the products provided, with each segment representing a strategic business

unit that offers different products to different markets. As of July 15, 2016, the energy and hydrocarbon group was deconsolidated and the results of its operation was presented as one line item in the Statement of Income as “Gain (Loss) of a deconsolidated subsidiary group”.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on net income (loss) for the year, earnings before interest, taxes and depreciation and depletion (EBITDA), and core net income (loss).

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

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

In 2013, management reevaluated its calculation of EBITDA to exclude the effects of non-recurring items. Management believes that the revised computation of EBITDA is more useful in making decisions about resource allocation and performance assessment of its reportable segments.

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

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

| | March 31, 2017 (Unaudited) |
|---|---|
| **Revenue** | |
| External customers | P 2,335,332 |
| **Consolidated revenue** | 2,335,332 |
| | |
| **Results** | |
| EBITDA | P 1,006,833 |
| Interest Income (Expense) - Net | 236 |
| Income Tax Expense | (180,323) |
| Depreciation and depletion | (357,225) |
| Non-recurring items | (37,255) |
| **Consolidated net income (loss)** | P 432,266 |
| | |
| **Core net income (loss)** | P 458,345 |
| | |
| **Consolidated total assets** | P 38,803,696 |
| | |
| **Consolidated total liabilities** | P 15,170,736 |
| | |
| **Other Segment Information** | |
| Capital expenditures and other non-current assets | P 512,672 |

| | March 31, 2016 (Unaudited) | | | | |
|---|---|---|---|---|---|
| | Metals | Energy and Hydrocarbon | Unallocated Corporate Balances | Eliminations | Total |
| **Revenue** | | | | | |
| External customers | P 2,179,024 | P 23,126 | P - | P - | P 2,202,150 |
| Inter-segment | - | - | - | - | - |
| **Consolidated revenue** | 2,179,024 | 23,126 | - | - | 2,202,150 |
| **Results** | | | | | |
| EBITDA | P 785,341 | (9,364) | P - | P 108,732 | P 884,709 |
| Interest Income (Expense) - Net | 495 | 1,261 | - | - | 1,756 |
| Income Tax Expense | (191,703) | - | - | - | (191,703) |
| Depreciation and depletion | (318,502) | - | - | - | (318,502) |
| Non-recurring items | 51,045 | (6,861) | - | - | 44,184 |
| **Consolidated net income (loss)** | P 326,677 | P (14,963) | P - | P 108,732 | P 420,445 |
| **Core net income (loss)** | P 395,475 | P (6,577) | P - | P - | P 388,898 |
| **Consolidated total assets** | P 44,824,140 | P 4,365,774 | P 9,359 | P (5,356,980) | P 43,842,293 |
| **Consolidated total liabilities** | P 14,814,152 | P 1,348,955 | P 1,207 | P - | P 16,164,314 |
| **Other Segment Information** | | | | | |
| Capital expenditures and other non-current assets | P 616,728 | P 10,242 | P - | P - | P 626,970 |

## 6. Basic/Diluted Earnings Per Share

Basic earnings per share as of March 31, 2017 and 2016 are computed as follows:

| | 2017 | 2016 |
|---|---|---|
| Net income attributable to equity holders of the Parent Company | ₱432,266 | ₱426,435 |
| Divided by weighted average number of common shares outstanding during year | 4,940,399,068 | 4,940,399,068 |
| Basic earnings per share | ₱0.0875 | ₱0.0863 |

Diluted earnings per share as of March 31, 2017 and 2016 are computed as follows:

| | 2017 | 2016 |
|---|---|---|
| Net income attributable to equity holders of the Parent Company | ₱432,266 | ₱426,435 |
| Divided by weighted average number of common shares adjusted for the effect of exercise of stock options | 4,940,399,068 | 4,940,399,068 |
| Diluted earnings per share | ₱0.0875 | ₱0.0863 |
| Weighted average number of common shares for basic earnings per share | 4,940,399,068 | 4,940,399,068 |
| Dilutive effect of outstanding stock options | – | – |
| Weighted average number of common shares adjusted for the effect of exercise of stock options | 4,940,399,068 | 4,940,399,068 |

## 7. Seasonality and Cyclicality of Interim Operation

There are no significant seasonality or cyclicality in its business operation that would have material effect on the Company's financial condition or results of operation.

## 8. Events After End of Reporting Period

There are no known event that will trigger direct or contingent financial obligation that is material to the Company.