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

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

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108022018000075

SECURITIES AND EXCHANGE COMMISSION

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Company Information

SEC Registration No.	0000010044
Company Name	PHILEX MINING CORP.
Industry Classification	
Company Type	Stock Corporation

Document Information

Document ID	108022018000075
Document Type	17-Q (FORM 11-Q:QUARTERLY REPORT/FS)
Document Code	17-Q
Period Covered	June 30, 2018
No. of Days Late	0
Department	CFD
Remarks	

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 June 30, 2018

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

N/A

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 June 30, 2018)

Amount of Debt Outstanding – ₱9,204,612,172 (As of June 30, 2018)

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 June 30, 2018 are hereto attached.

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

Status of Operations

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.

On April 27, 2017, the DENR issued Department Administrative Order (DAO) 2017-10 banning the use of open-pit mining method in the country, which took effect 15 days after its publication on April 30, 2017. DAO No. 2017-10 provides that the use of open pit method of mining for the extraction of copper, gold, silver and/or complex ores is prohibited and that mining contractors who have not commenced commercial operation but have approved Declarations of Mining Project Feasibility for open pit mining are given a period of six (6) months to review their planned mining methods accordingly. Management believes that DAO No. 2017-10 is a violation of the 1987 Constitution, Republic Act No. 7942 otherwise known as the Mining Act of 1995, Executive Order No. 192, Series of 1987, as amended, otherwise known as the DENR Charter and Executive Order No. 292, otherwise known as the Administrative Code.

In response to the transitory provision of DAO No. 2017-10, the management wrote to the DENR on November 17, 2017 informing that the management has initiated further studies to demonstrate project feasibility in order to develop further the Silangan Project of SMMCI in an environmentally sound, socially acceptable, technically compliant and economically viable manner. Based on latest results following these parameters, the project is envisioned to be an underground mine with (1) a starter surface mine (Phase 1) to initially extract the near surface ore and improve the groundwater condition of the ensuing underground mine; and (2) the main underground mine (Phase 2) to extract most of the deep seated ore for the planned mine life. These studies are being advanced to include more details in support of project financing requirements.

The Silangan Project has secured and currently maintains all major permits from the Department of Environment and Natural Resources ("DENR"), such as the Environmental Compliance Certificate ("ECC"); Declaration of Mining Project Feasibility ("DMPF"); and Special Tree Cutting and Earth Balling Permit ("STC-EB"), among others. The project has also secured the ISO:14001 Certification for Environmental Management System issued by Certification International Philippines Inc. ("CIPI") in June 2016.

As the challenges of operating the mature Padcal mine continue, the Company is exploring various globally-accepted mining practices geared towards mine life extension beyond 2022.

In addition, the Company is also employing engineering interventions as well as operational efficiency improvements in the coming years, while waiting for the results of the explorations being undertaken in the vicinity of the Padcal Mine.

The Company is also currently engaged in several concept studies including underground mining as one of the alternatives to the Silangan's Project's approved surface mining design and development plan.

Review of Financial Results

Total operating revenues for the first half ended June 30, 2018 amounted to ₱4.646 billion compared with ₱4.756 billion reported in 2017, largely due to lower metal output, despite favorable metal prices and foreign exchange rate. However, for the second quarter, total operating revenues were higher by 3% at ₱2.274 billion, compared with ₱2.214 billion in the same period last year, as the effect of higher metal prices and foreign exchange rate outweighed the impact of lower metal production.

As Padcal nears the end of its mine life, ore mined at the fringes registered lower grades. In early 2017, the Padcal Mine experienced production-related issues, characterized by low mine delivery due to equipment availability issues, limited flexibility related to ore handling, and persistent bouldery ore, which issues were slowly addressed towards the end of 2017.

Gold

Gold production reached 34,583 ounces compared with 43,251 ounces in 2017. Average gold price in the first half of 2018 was US$1,314 per ounce, 4% higher than the US$1,258 per ounce gold price realized for the same period last year. Despite improved average gold price and favorable exchange rates, gold revenue reached of ₱2.349 billion – comprising 51% of the total – against ₱2.710 billion in 2017.

For the second quarter of 2018, gold production was at 16,636 ounces compared with 20,799 ounces for the same period in 2017. Consequently, gold revenues amounted to ₱1.112 billion, compared with ₱1.284 billion in 2017, despite higher average gold prices at US$1,287 per ounce from US$1,250 per ounce last year.

Copper

Copper production in the first half of the year totaled 14,148,637 pounds against 14,992,065 pounds in 2017. Realized copper prices for the same period averaged higher at US$3.11 per pound against US$2.65 per pound in 2017. The higher copper prices coupled with favorable foreign exchange rates resulted in copper revenue of ₱2.262 billion, 13% higher than the ₱2.007 billion reported last year, and accounted for 49% of the total.

In the second quarter alone, copper production reached 7,075,707 pounds due mainly to low mine tonnage delivery against 7,240,396 pounds during the same period in 2017. Despite the lower-than-expected output, copper revenues significantly increased by 25% to ₱1.144 billion from ₱912.7 million due to higher average copper prices at US$3.12 per pound against US$2.58 per pound in 2017.

Silver

Revenue from silver made up the remaining 1% of the Company's total revenue and amounted to ₱35.9 million for the first half of 2018 compared with ₱38.9 million in 2017, principally due to lower silver output. For the second quarter of this year, revenues from silver amounted to ₱17.0 million from ₱17.1 million in the same period last year.

To protect part of the revenues from the volatility of global metal prices, the Company continues to assess 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.

With the favorable behavior of gold and copper prices, the Company entered into gold and copper collar hedging contracts in early 2018, with breakdown as follows:

GOLD COLLAR HEDGE 2018

Deal Date	Quantity (In Ounces)	Gold Prices - US$ per Ounce			Period Covered	Settlement Date	Realized Gain (P' Million)
		Put	Call	Settlement			
01/10/18	2,200	1,300	1,349.50	1,332	Jan. 2018	02/02/18	-
01/10/18	2,200	1,300	1,349.50	1,333	Feb. 2018	03/02/18	-
01/10/18	2,200	1,300	1,349.50	1,325	Mar. 2018	04/02/18	-
01/10/18	2,200	1,300	1,349.50	1,335	Apr. 2018	05/02/18	-
01/10/18	2,200	1,300	1,349.50	1,303	May 2018	06/04/18	-
01/10/18	2,200	1,300	1,349.50	1,282	June 2018	07/03/18	2.1
04/19/18	3,000	1,330	1,400		July 2018	08/02/18	
04/19/18	3,000	1,330	1,400		Aug. 2018	09/05/18	
04/19/18	3,000	1,330	1,400		Sept. 2018	10/02/18	
	22,200						2.1

COPPER COLLAR HEDGE 2018

Deal Date	Quantity (In Pounds)	Copper Prices - US$ per Pound			Period Covered	Settlement Date	Realized Gain (P' Million)
		Put	Call	Settlement			
1/8/2018	727,525	3.00	3.40	3.18	Jan. 2018	02/02/18	-
1/8/2018	727,525	3.00	3.40	3.08	Feb. 2018	03/02/18	-
1/8/2018	727,525	3.00	3.40	3.10	Mar. 2018	04/02/18	-
1/8/2018	727,525	3.00	3.40	3.09	May 2018	06/04/18	-
1/8/2018	727,525	3.00	3.40	3.15	June 2018	07/03/18	-
1/8/2018	727,525	3.00	3.40		July 2018	08/02/18	
	4,365,148						-

The Company recognized a gain of ₱2.1 million for the first half of 2018 on its gold hedge but none on its copper hedges that matured within the first half of 2018. For the outstanding gold and copper hedges as of June 30, 2018, a net unrealized MTM gain of ₱38.2 million was recorded under equity.

The Company entered into gold collar hedging contracts in 2017 as follows:

GOLD COLLAR HEDGE 2017

Deal Date	Quantity (In Ounces)	Gold Prices - US$ per Ounce			Period Covered	Settlement Date	Realized Gain (P' Million)
		Put	Call	Settlement			
09/06/17	2,300	1,300	1,395	1,316	Sept. 2017	10/02/17	2.4
09/06/17	2,300	1,300	1,395	1,280	Oct. 2017	11/02/17	2.0
09/06/17	2,300	1,300	1,395	1,283	Nov. 2017	12/02/17	4.3
09/06/17	2,300	1,300	1,395	1,263	Dec. 2017	01/02/18	-
	9,200						8.7

COPPER COLLAR HEDGE 2017

Deal Date	Quantity (In Pounds)	Copper Prices - US$ per Pound			Period Covered	Settlement Date	Realized Gain (P' Million)
		Put	Call	Settlement			
10/20/17	727,525	3.00	3.40	3.10	Nov. 2017	12/05/17	-
10/20/17	727,525	3.00	3.40	3.03	Dec. 2017	01/05/18	-
10/20/17	727,525	3.00	3.40	3.09	Jan. 2018	02/05/18	-
	2,182,574						-

Hedging contracts in 2017 were entered into only in the second half of 2017, thus no realized and unrealized gain or losses in the first half of 2017.

Operational Overview

Total ore milled from the Company's Padcal mine for the first six months of 2018 reached 4,387,896 tonnes, 6% higher than 4,138,169 tonnes the previous year, as production-related issues in 2017 were generally addressed towards the end of the year. Tonnage in the second quarter, however, was at 2,191,183 tonnes versus 2,196,713 tonnes in the first quarter, but was 2% higher than 2,139,777 tonnes for the same period in 2017.

Gold production reached 34,583 ounces for the first semester of this year from 43,251 ounces in the same period last year. This was mainly due to significantly lower ore grades and metal recovery, despite higher tonnage, as head grades averaged at 0.321 grams per tonne (g/t) against the previous year's 0.399 g/t. In the second quarter, gold grades averaged at 0.312 g/t compared with 0.379 g/t in the same period in 2017, resulting in gold output of 16,636 ounces against 20,799 ounces.

Similarly, copper production reached 14,148,637 pounds during the first half of 2018 compared with 14,992,065 pounds the previous year due to lower ore grades and metal recovery rate. Copper ore grades averaged 0.186% in the period against 0.199% in the first half of 2017. For the second quarter of this year, copper production reached 7,075,707 pounds against 7,240,396 pounds due to lower recoveries and ore grades that averaged at 0.187% compared with 0.189% in 2017.

Operating Costs and Expenses

The Company's total operating costs and expenses, including General and Administrative Expenses (G&A) and depreciation and depletion, amounted to ₱3.361 billion in the first half of

2018 compared with ₱3.294 billion in 2017, largely as a result of the 6% increase in tonnage, the 100% rise in excise tax and increase in depreciation and amortization.

Smelting charges amounted to ₱377.0 million in the period, lower than the ₱400.1 million last year, due mainly to lower treatment and refining charges arising from lower copper concentrates produced, which totaled 30,837 dry metric tons (DMT) from 32,046 DMT, and reduced TC charge from US$87.41/dmt to US$73.83/dmt for the same period in 2017.

Cash Production Costs for the first half in 2018 decreased by 3% to ₱2.118 billion from ₱2.175 billion, due mainly to lower power rates and other expenses. Power cost was 9% lower due to lower renegotiated terms on new contracts while other expenses were also down by 9% as against 2017.

Depletion, Depreciation and Amortization increased to ₱807.8 million from ₱737.0 million as a result mainly of higher tonnage and additional depreciation for newly acquired equipment.

Excise Taxes and Royalties also increased by 35% to ₱280.6 million from ₱207.7 million despite lower net revenue in 2018, which served as the basis of excise tax and royalty payments. In particular, excise taxes almost doubled to P171 million from P87 million in 2017 following the effectivity of the TRAIN Law starting 2018, which increased the excise tax rate by 100%, from 2% to 4%. On the other hand, G&A decreased to ₱154.5 million in 2018 from ₱173.8 million due to sustained productivity enhancement and manpower rationalization programs.

For the second quarter of 2018, total operating costs and expenses (including G&A) increased to ₱1.664 billion against ₱1.626 billion in 2017 on account of higher excise tax and increase in depreciation and amortization. Smelting charges also decreased to ₱169.7 million from ₱193.4 million on account mainly of lower treatment and refining charges and lower copper concentrates production.

Costs Per Tonne / Per Ounce / Per Pound

Total production (including depletion and depreciation) and operating costs (including smelting charge, excise taxes, and royalties) on a per unit basis were recorded at ₱667 per tonne and ₱817 per tonne, respectively, in the first half of 2018 against ₱704 per tonne and ₱851 per tonne in 2017.

The decrease in production cost per tonne was attributed mainly to the higher tonnage, which represented a higher denominator and translated to a lower production cost per unit. This was achieved despite the increase in non-cash production costs, to ₱807.8 million in 2018 from ₱737.0 million in 2017. For the second quarter of 2018, total production cost per tonne was ₱663 per tonne versus ₱677 per tonne in 2017 while operating cost per tonne was ₱803 per tonne as against ₱813 per tonne for the same period in 2017.

Operating cost, excluding G&A, (using a co-production method) per ounce of gold and per pound of copper, were US$998 per ounce and US$2.35 per pound in 2018, compared with US$937 per ounce gold and US$1.98 per pound copper in 2017, respectively, due basically to lower gold and copper output this year. For the second quarter of 2018, the operating cost of US$984 per ounce gold and US$2.38 per pound copper were both higher than the costs for the same period in 2017, which were US$972 per ounce of gold and US$2.01 per pound of copper.

Other Income (Charges)

A Net Other Charges of ₱129.0 million was incurred in the first half of 2018, which consisted mainly of Foreign Exchange Losses of ₱135.2 million, resulting mainly 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 reference foreign exchange rates at closing dates of June 30, 2018 were ₱53.34 as against ₱49.93 as of December 31, 2017.

For the same period in 2017, a Net Other Charges of ₱34.1 million was recorded, comprising of Foreign Exchange Losses of ₱54.5 million (substantially from revaluation of the Company's net foreign currency-denominated liabilities based on a foreign exchange rate of ₱50.47 against ₱49.72 as of December 31, 2016).

Amortization of Mine Closure Cost amounted ₱10.2 million, both for 2018 and 2017, while Equity Share in Net Loss of Associates (covering affiliates PXP Energy Corp. and Lepanto) amounted to ₱12.9 million and ₱9.5 million, respectively, for the same periods.

A gain of ₱55.3 million was recorded on the sale of subsidiary's scrap during the period coming from gross proceeds of ₱85.0 million.

Interest income from short-term money market placements were minimal in 2018 and 2017 due basically to the lower cash balance and minimal interest rates, ranging from 1.0% to 2.0%.

For the second quarter of 2018, Net Other Charges amounted to ₱93.9 million, principally from forex loss of ₱73.5 million, as compared with a Net Other Income of ₱21.1 million for the same period in 2017.

Core and Reported Net Income

The Company's core net income amounted to ₱646.3 million in the first half of this year compared with ₱747.6 million in 2017 as a result largely of lower revenues, increased excise taxes, and higher non-cash production costs. Meanwhile, EBITDA reached ₱1.734 billion during the first half 2018 compared with ₱1.821 billion in 2017. 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. For the second quarter of 2018, core net income amounted to ₱300.3 million compared with ₱289.3 million for the same period in 2017.

Reported Net Income (the same as the Net Income Attributable to the Equity Holders as income attributable to non-controlling interest was nil) in the first half ended June 30, 2018 was at ₱551.7 million against ₱718.6 million in the same period last year. The variance was largely attributed to the lower revenues and higher amount of foreign exchange losses in 2018.

For the second quarter of 2018 alone, Reported Net Income, which was also the Net Income Attributable to the Equity Holders of the Parent Company, amounted to ₱248.9 million compared with ₱286.3 million in 2017 on account of lower metal output.

FINANCIAL CONDITION REVIEW

Assets

As of June 30, 2018, the Company's Current Assets stood at ₱5.950 billion against ₱6.267 billion as of December 30, 2017, mainly due to the decreases in Accounts Receivable to ₱489.4 million from ₱990.6 million and Other Current Assets to ₱860.3 million from ₱1.007 billion.

The Company's Accounts Receivables consisted of Trade Receivables from sales of copper concentrates or bullion and Other Receivables. As of June 30, 2018, the outstanding receivables from shipments amounted to ₱389.8 million compared with ₱903.2 million as at end 2017. The balance of ₱99.6 million represented Other Receivables, consisting mainly of receivables from contractors and suppliers, and employee accounts, which increased from ₱87.4 million in 2017.

Outstanding receivables from copper concentrates as of end-June 2018 consisted of the remaining 10% of five (5) shipments during the first half of 2018, while the 2017 receivables consisted of 100% of the value of shipment no. 50-LDM, which was shipped to Japan on December 31, 2017 (of which 90% was subsequently collected in early 2018) and the remaining 10% of four (4) other shipments.

There were a total of six copper concentrates shipments in the first half of 2018, compared with seven shipments for the same period last year. The Padcal mine's copper concentrates shipments were provisionally valued based on prices in the second calendar week and first calendar week immediately prior to the week of shipment to PPC and Louis Dreyfus Commodities Metals Suisse SA (LDM), respectively. These were then adjusted to the applicable final prices based on their "quotational period (QP)", which under PPC for the contract years April 2017-March 2018 and April 2016-March 2017 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 under LDM have QP terms of "month of scheduled shipment (MOSS)".

The value of Inventories of ₱1.599 billion, which consisted of materials and supplies (71% of the total inventories) and mine products inventory (remaining 29% of total inventories), increased from ₱1.517 billion while materials and supplies inventory amounted to ₱1.129 billion in 2018 compared with ₱1.127 billion as of December 31, 2017. Mine products inventory was valued at ₱470.1 million corresponding to the 3,284 DMT of copper concentrates against ₱390.4 million, representing inventory of 2,940 DMT, as of end-December 2017.

Advances to a Related Party amounting to ₱2.159 billion as of June 30, 2018 decreased from ₱2.169 billion in 2017 and represented advances to PXP Energy Corporation (PXP). These advances are secured by a pledge agreement between the Company and PXP.

Other Current Assets slightly decreased to ₱860.3 million in 2018 from ₱1.007 billion. Movements in this account were attributed mainly to the cash conversion of Tax Credit Certificates on input value-added tax (VAT) claims with the Bureau of Customs amounting to ₱142 million but was offset by additional VAT on local purchases or on importation of materials, supplies and equipment.

As of end-June 2018, Non-Current Assets, consisting mainly of Property, Plant and Equipment (PPE) and Deferred Exploration Costs and comprising 17% and 63% of total assets, respectively, increased to ₱33.668 billion from ₱33.412 billion at the end of last year.

PPE decreased to ₱6.558 billion from ₱6.721 billion in 2017 due to the corresponding depreciation, depletion and amortization for the period, net of capital expenditures related to the development of blocks and the acquisition of new facilities and equipment, which amounted to ₱897.8 million for the first half of 2018.

Investment in Associates decreased to ₱1.403 billion as of June 30, 2018, consisting of investment in PXP of ₱1.036 billion and Lepanto of ₱366.7 million, from ₱1.416 billion in 2017, which were net of share in net losses of associates.

Pension Asset amounted to ₱365.7 million as of June 30, 2018 from ₱373.8 million in 2017, representing the excess of the fair value of plan assets against the present value of defined benefit obligation under the Company's retirement plan, net of SMMCI's pension obligation.

Deferred Exploration Costs increased to ₱24.797 billion from ₱24.361 billion in 2017 on account of the on-going exploration activities within Padcal vicinity and expenditures related to Silangan Project – representing ₱22.599 billion or 91% of total deferred exploration costs.

Other Noncurrent Assets slightly increased to ₱543.6 million as of June 30, 2018 from ₱540.5 million in 2017, consisting mainly of the Value-added Tax Receivables of SMMCI of ₱400.6 million that was considered as non-current against ₱399.7 million as at end-December 2017.

The Company's Total Assets as of June 30, 2018 amounted to ₱39.618 billion compared with ₱39.679 billion as at end-2017.

Liabilities

As of June 30, 2018, the Company's Total Current Liabilities amounted to ₱4.231 billion, 13% lower than ₱4.857 billion as of end-2017, due to the decrease in Loans Payable and Accounts Payable and Accrued LIabilities.

Loans Payable decreased to ₱2.080 billion or US$39 million as of June 30, 2018 from ₱2.447 billion or US$49 million as at end-December 2017, after the payment of US$10 million was made in the second quarter of 2018.

Accounts Payable and Accrued Liabilities went down to ₱1.446 billion from ₱1.652 billion in 2017 due to payments made to suppliers and contractors. No significant amount of the Company's trade payables was left unpaid based on the terms and conditions agreed upon with suppliers.

Income Tax Payable amounted to ₱161.4 million in 2018, representing the tax payable for the second quarter of the current year's income due at the end of August 2018. The tax payable of ₱229.7 million for the 2017 income was already settled in April 2018.

Dividends Payable amounted to ₱543.8 million compared with ₱528.8 million in 2017. On February 27, 2018, the Company declared cash dividend of ₱0.04 per share as regular dividend to all stockholders on record as of March 13, 2018, which was paid on March 26, 2018.

In 2017, the Company declared the following cash dividends: (1) ₱0.04 per share with record date of March 14, 2017 and payment date of March 27, 2017; and (2) ₱0.03 per share with record date of November 24, 2017 and payment date of December 6, 2017

Total Non-Current Liabilities as at end-June 2018 stood at ₱10.262 billion, represented largely by Bonds Payable at 69% of the total, from ₱10.090 billion in 2017.

Deferred Income Tax Liabilities (DTL) slightly decreased to ₱3.001 billion in 2018 from ₱3.005 billion as at end-2017 and consisted mainly of the following: ₱1.665 billion arising from the acquisition of 50% of Silangan from Anglo in 2009 and ₱1.336 billion for accelerated depreciation and deferred exploration costs.

The amount of Bonds Payable increased to ₱7.125 billion from ₱6.950 billion in 2017 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 half of 2018 were related to the amortization of the discount and transaction costs.

Meanwhile, Provision for Losses and Mine Rehabilitation Costs amounted to ₱136.8 million as of June 30, 2018 from ₱135.1 million as end-2017. The Provision for Mine Rehabilitation represented the amortized value of the Company's estimated mine closure costs, which amounted to ₱137.0 million and was based on an approved Final Mine Rehabilitation and Decommissioning Plan (FMRDP), discounted at 2.8% per year up to the end of mine life.

As of June 30, 2018, the Company's Total Liabilities decreased to ₱14.493 billion from ₱14.947 billion as at end 2017, mainly with the repayment of bank loans and payments of trade payables.

Shareholders' Equity

The Company's Total Equity as of June 30, 2018 amounted to ₱25.124 billion, an improvement from the ₱24.732 billion recorded in 2017 and was largely due to the net income of ₱551.7 million recorded for the period, net of cash dividend payment.

Retained Earnings amounted to ₱16.126 billion from ₱15.771 billion, after recording the Company's Net Income Attributable to the Equity Holders of the Parent Company of ₱551.7 million, net of ₱197.6 million cash dividends that the Company declared on February 27, 2018, representing the cash dividend of ₱0.04 per share from its 2017 core net income, which was paid on March 26, 2018.

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 comprised 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 June 30, 2018 and December 31, 2017. Others Reserves amounted to ₱38.7 million in 2018 and ₱0.6 million in 2017. In addition, Effect of Transactions with Non-controlling Interests amounted to ₱77.9 million in 2018 and nil in 2017.

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, market and

regulatory conditions, the Company generated net cash flows from operating activities of ₱1.860 billion in the first half ended June 30, 2018, compared with ₱1.701 billion for the same period in 2017.

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 in the first half of 2018, principally for capital expenditures and exploration costs, decreased to ₱888.8 million from ₱1.070 billion in the same period last year. Capital expenditures amounted to ₱665.1 million in 2018, representing sustaining capital expenditures for Padcal of ₱714.8 million, net of disposal of Silangan machinery and equipment of ₱49.7 million, from ₱669.7 million in 2017.

Expenditures for the pre-development activities at the Silangan Project and continuing exploration activities at other projects amounted to ₱232.7 million in 2018, lower than the ₱447.2 million in 2017, following the paced development at Silangan Project, as major exploration activities were completed and focus shifted to the completion of new studies for the project.

Net cash used in financing activities amounted to ₱750.1 million in 2018, due mainly to loan repayment of ₱523.0 million and dividend payment of ₱197.6 million, versus ₱627.8 million in 2017, on account of loan repayments of ₱400.5 million and dividend payment of ₱197.4 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 half of 2018, capital expenditures and explorations costs amounted to ₱897.8 million from ₱1.117 million in 2017.

Padcal operations accounted for 80% of capital outlays in 2018 at ₱714.8 million compared with ₱729.9 million in 2017. For the first half of 2018, there was a slight decrease in machinery and equipment balance to ₱254.6 million versus P352.7 million in 2017, while sustaining mine development cost increased to ₱393.1 million as against ₱251.2 million in 2017 mainly due to the development of new mining level at 760 ML. Further, expenditures on the tailings storage facility for the first half of the year amounted to ₱67.0 million versus ₱126.0 million in 2017.

Expenditures for the Silangan Project accounted for 12% of capital outlays in 2018 amounting to ₱112.0 million – mostly related to the completion of the Silangan DFS, net of ₱49.7 million costs of disposed machinery and equipment. This was lower than ₱339.2 million in 2017 – consisting of deferred exploration costs of ₱161.7 million, and disposal of equipment and machinery, net of ₱49.7 million.

Investments in exploration projects, focused within the vicinity of Padcal to further extend its mine life, amounted to ₱71.0 million from ₱47.7 million in 2017.

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 half ended June 30, 2018, the Company recorded zero Lost Time Accident-Fatal (LTA-F), same as in 2017. Meanwhile, there were three (3) Lost Time Accident-Non Fatal (LTA-NF), compared to zero in 2017.

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 the first six months of 2018 and 2017 were ₱0.1117 and ₱0.1455, respectively, based on 4,940,399,068 weighted average shares outstanding for the period.

In 2018 and 2017, 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 4,387,896 tonnes in the first half of 2018, 6% higher compared with 4,138,169 tonnes in 2017.

Copper output reached 14,148,637 pounds against 2017's 14,992,065 pounds, while gold production totaled 34,583 ounces, compared with 43,251 ounces in 2017, as a result of lower ore grades and metal recoveries.

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 2018, the total production cost (mine site cost and expenses excluding marketing charges, excise tax and royalties) per tonne of ore milled was ₱667, with total production cost of ₱2.926 billion over ore milled of 4,387,896 tonnes. This was 5% lower than the cost per tonne of ₱704 from the total production cost of ₱2.912 billion over ore milled of 4,138,169 tonnes in 2017 primarily due to the a higher denominator brought about by increased tonnage in 2018.

The operating costs and expenses (all cost and expenses excluding G&A) per tonne of ore milled in 2018 was ₱817 from the total operating cost and expenses of ₱3.583 billion, 4% lower than the ₱851 from the operating costs and expenses of ₱3.520 billion in 2017. Despite higher total operating costs for 2018, the cost per tonne was lower as a result of higher tonnage.

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 2018, the operating cost applicable to gold produced amounted to US$998 per ounce compared with US$937 per ounce in 2017, while operating cost applicable to copper produced amounted to US$2.35 per pound in 2018 compared with US$1.98 per pound in 2017.

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 half of 2018, the amount spent on mining exploration amounted to ₱232.7 million compared with ₱447.2 million in 2017. As of June 30, 2018, total deferred exploration costs amounted to ₱24.797 billion, comprising 62% of the Company's Total Assets, compared with ₱24.361 billion at year-end 2017.

Subsidiaries and Related Party Transactions

The Company's significant related party transactions as of June 30, 2018 and December 31, 2017, 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. In February 2015, the Company infused all outstanding advances amounting to ₱7.208 billion as equity. The remaining advances, which were intended to

be converted into additional equity, amounted to ₱1.401 billion and ₱1.295 billion as of June 30, 2018 and December 31, 2017, respectively.

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 and Pitkin. In August 2015, PX and PXP entered into a pledge agreement to secure the advances against certain shares of stocks owned by PXP. As of June 30, 2018 and December 31, 2017, advances from PMC amounted to P2.159 billion and P2.169 billion, respectively. In 2018, the Company received partial payment from PXP amounting to P10.2 million (US$0.2 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 ₱18,000 per share one year after the issue date. The carrying value of loans payable amounted to ₱7.124 billion and ₱6.950 billion as of June 30, 2018 and December 31, 2017, respectively.

Known Trends, Events, or Uncertainties

On July 25, 2018, the Board of Directors of the Parent Company approved the declaration of cash dividend of P0.035 per share as regular dividend to all stockholders at record date of August 8, 2018 payable on August 24, 2018.

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 & CEO

DANNY Y. YU
SVP for Finance & CFO

PARALUMAN M. NAVARRO
AVP for Corporate Finance

Date: July 31, 2018

PHILEX MINING CORPORATION
AND SUBSIDIARIES

UNAUDITED
CONSOLIDATED
FINANCIAL STATEMENTS
June 30, 2018

Pasig City, Philippines

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

		June 30 2018 (Unaudited)		December 31 2017 (Audited)
Current Assets				
Cash and cash equivalents		843,122		583,538
Accounts receivable - net		489,379		990,604
Inventories - net		1,598,658		1,517,097
Advances to a related party		2,158,593		2,168,632
Other current assets - net		860,303		1,007,000
Total Current Assets		5,950,055		6,266,871
Noncurrent Assets				
Property, plant and equipment - net		6,558,195		6,721,022
Deferred exploration costs		24,797,391		24,360,954
Investment in associates - net		1,402,678		1,415,604
Pension asset - net		365,713		373,849
Other non current assets		543,586		540,494
Total Noncurrent Assets		33,667,563		33,411,923
TOTAL ASSETS	**P**	**39,617,618**	**P**	**39,678,794**
LIABILITIES AND EQUITY				
Current Liabilities				
Loans payable		2,080,020		2,446,570
Accounts payable and accrued liabilities		1,446,223		1,651,710
Income tax payable		161,386		229,679
Dividends payable		543,771		528,836
Total Current Liabilities		4,231,400		4,856,795
Noncurrent Liabilities				
Deferred income tax liabilities - net		3,000,609		3,004,830
Loans and bonds payable		7,124,592		6,950,306
Provision for losses and mine rehabilitation costs		136,840		135,086
Total Noncurrent Liabilities		**10,262,041**		**10,090,222**
Total Liabilities		**14,493,441**		**14,947,017**
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		5,625,536		5,271,302
Appropriated		10,500,000		10,500,000
Other reserves		38,724		558
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		77,892		77,892
		25,124,435		24,732,035
Non-controlling Interests		(258)		(258)
Total Equity		**25,124,177**		**24,731,777**
TOTAL LIABILITIES & EQUITY	**P**	**39,617,618**	**P**	**39,678,794**

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

	Six Months ended June 30			
		2018		**2017**
REVENUE				
Gold	P	2,349,005	P	2,709,854
Copper		2,261,592		2,006,787
Silver		35,864		38,949
		4,646,461		4,755,590
Less: Smelting charges		376,984		400,080
		4,269,477		**4,355,510**
COSTS AND EXPENSES				
Production costs		2,117,753		2,175,251
Depletion, depreciation and amortization		807,829		737,009
General and administrative expenses		154,461		173,848
Excise taxes and royalties		280,610		207,745
		3,360,653		**3,293,853**
INCOME FROM OPERATIONS		**908,824**		**1,061,657**
OTHER INCOME (CHARGES)				
Foreign exchange losses - net		(135,226)		(54,457)
Interest income - net		799		920
Share in net losses of associates		(12,926)		(9,457)
Gain on sale of AFS financial assets		-		9,075
Others - net		18,367		19,819
		(128,986)		**(34,100)**
INCOME BEFORE INCOME TAX		**779,838**		**1,027,557**
PROVISION FOR INCOME TAX				
Current		222,963		301,011
Deferred		5,220		7,952
		228,183		308,963
NET INCOME	**P**	**551,655**	**P**	**718,594**
Net income attributable to:				
Equity holders of the Parent Company		551,655		718,594
Non-controlling interests		-		-
	P	**551,655**	**P**	**718,594**
BASIC EARNINGS PER SHARE	**P**	**0.1117**	**P**	**0.1455**
DILUTED EARNINGS PER SHARE	**P**	**0.1117**	**P**	**0.1455**

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

	2nd Quarter ended June 30			
		2018		**2017**
REVENUE				
Gold	P	1,112,427	P	1,283,785
Copper		1,144,422		912,719
Silver		17,033		17,059
		2,273,882		2,213,563
Less: Smelting charges		169,703		193,384
		2,104,179		**2,020,179**
COSTS AND EXPENSES				
Production costs		1,054,189		1,063,542
Depreciation, depletion and amortization		399,049		385,412
General and administrative expenses		72,977		80,185
Excise taxes and royalties		137,531		97,148
		1,663,746		1,626,287
INCOME FROM OPERATIONS		**440,433**		**393,892**
OTHER INCOME (CHARGES) - Net				
Foreign exchange losses - net		(73,500)		(17,202)
Interest income - net		482		684
Share in net losses of associates		(6,463)		(3,152)
Gain on sale of AFS financial assets		-		9,075
Others - net		(14,438)		31,671
		(93,919)		**21,076**
INCOME BEFORE INCOME TAX		**346,514**		**414,968**
PROVISION FOR (BENEFIT FROM) INCOME TAX				
Current		161,386		136,191
Deferred		(63,760)		(7,551)
		97,626		128,640
NET INCOME	**P**	**248,888**	**P**	**286,328**
Net income attributable to:				
Equity holders of the Parent Company		248,888		286,328
Non-controlling interests		-		-
	P	**248,888**	**P**	**286,328**
BASIC EARNINGS PER SHARE	**P**	**0.0504**	**P**	**0.0580**
DILUTED EARNINGS PER SHARE	**P**	**0.0504**	**P**	**0.0580**

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

	Six Months ended June 30			
		2018		**2017**
NET INCOME	P	551,655	P	718,594
OTHER COMPREHENSIVE INCOME				
Items to be reclassified to profit and loss in subsequent periods:				
Unrealized gain on fair value of hedging instruments		38,166		-
Unrealized gain on AFS financial assets		-		1,192
Realized loss on sale of AFS financial asset		-		3,491
		38,166		4,683
TOTAL COMPREHENSIVE INCOME	**P**	**589,821**	**P**	**723,277**
Total Comprehensive Income Attributable to:				
Equity holders of the Parent Company		589,821		723,277
Non-controlling interests		-		-
		589,821		**723,277**

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

	Six Months ended June 30	
	2018	**2017**
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax from continuing operations	779,839	1,027,557
Adjustments for:		
Depletion and depreciation	827,847	757,148
Unrealized foreign exchange (gain) losses and others	156,640	43,195
Amortization of Asset Retirement Obligation	1,804	1,804
Amortization of prepaid expenses	13,809	13,809
Equity loss in investment	12,926	9,457
Interest income	(799)	-
Operating income before working capital changes	1,792,066	1,842,975
Decrease (increase) in:		
Accounts receivable	502,024	45,060
Inventories	(81,562)	270,372
Other current assets	144,730	5,118
Increase (Decrease) in:		
Accounts payable and accrued liabilities	52,813	203,352
Non current liabilities	(258,482)	(338,079)
Cash generated from operations	2,151,590	2,028,798
Income taxes paid	(291,256)	(328,061)
Net cash from operating activities	1,860,334	1,700,737
CASHFLOWS FROM INVESTING ACTIVITIES		
Increase in deferred exploration costs and other noncurrent assets	(232,689)	(447,247)
Additions to property, plant and equipment	(665,069)	(669,663)
Increase in available-for-sale financial assets	(1,125)	-
Proceeds from sale of AFS financial assets	-	22,386
Advances to related parties	10,039	24,995
Net cash used in investing activities	(888,843)	(1,069,529)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of:		
Capitalized interest expenses	(29,462)	(29,759)
Dividends paid	(197,421)	(197,616)
Short-term bank loans	(523,190)	(400,455)
Net cash from (used in) financing activities	(750,073)	(627,830)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	38,166	-
NET INCREASE IN CASH AND CASH EQUIVALENTS	259,584	3,378
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	583,538	457,937
CASH AND CASH EQUIVALENTS AT END THE PERIOD	843,122	461,315

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	Other reserves	Equity Conversion Option	Net revaluation Surplus	Effect of transaction with Non-controlling Interest	Sub-total	Non-controlling Interest	Total
BALANCES AT DECEMBER 31, 2017	4,940,399	1,143,981	5,271,302	10,500,000	558	1,225,518	1,572,385	77,892	24,732,035	(258)	24,731,777
Net income (loss)	-	-	551,655	-	-	-	-	-	551,655	-	551,655
Other comprehensive income (loss):											
Items to be reclassified to profit and loss in subsequent periods:											
Unrealized gain on fair value of hedging instruments	-	-	-	-	38,166	-	-	-	38,166	-	38,166
Total comprehensive income (loss)	-	-	551,655	-	38,166	-	-	-	589,821	-	589,821
Declaration of dividends	-	-	(197,421)	-	-	-	-	-	(197,421)	-	(197,421)
BALANCES AT JUNE 30, 2018 (Unaudited)	**4,940,399**	**1,143,981**	**5,625,536**	**10,500,000**	**38,724**	**1,225,518**	**1,572,385**	**77,892**	**25,124,435**	**(258)**	**25,124,177**
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)	-	-	718,594	-	-	-	-	-	718,594	-	718,594
Other comprehensive income (loss):											
Unrealized gain on sale of AFS financial asset net of related deferred income tax	-	-	-	-	1,192	-	-	-	1,192	-	1,192
Realized gain on sale of AFS financial asset	-	-	-	-	3,491	-	-	-	3,491	-	3,491
Total comprehensive income (loss)	-	-	718,594	-	4,683	-	-	-	723,277	-	723,277
Appropriation of retained earnings	-	-	(500,000)	500,000					-	-	-
Declaration of dividends	-	-	(197,617)	-	-	-	-	-	(197,617)	-	(197,617)
BALANCES AT JUNE 30, 2017 (Unaudited)	**4,940,399**	**1,143,981**	**4,463,413**	**10,500,000**	**1,589**	**1,225,518**	**1,572,385**	**77,892**	**23,925,177**	**(257)**	**23,924,920**

PHILEX MINING CORPORATION AND SUBSIDIARIES
FINANCIAL SOUNDNESS INDICATORS

		Six Months Ended June 30	
		2018	2017
Current Ratio	Current Assets over Current Liabilities	1.41	0.67
Debt-to-equity Ratio	Total Liabilities over Total Equity	0.58	0.69
Asset-to-equity Ratio	Total Assets over Equity	1.58	1.69
Net Income Ratio	Net Income over Net Revenue	0.13	0.18

PHILEX MINING CORPORATION AND SUBSIDIARIES

SCHEDULE OF ACCOUNTS RECEIVABLE
As of June 30, 2018
(In Thousands)

Accounts Receivable- Trade	P 389,770
Others	99,609
	P 489,379

AGING OF ACCOUNTS RECEIVABLE - TRADE
As of June 30, 2018

	0-30 days	Total
Herraeus	P 1,351	P 1,351
Goldman Sachs	2,130	2,130
Louis Dreyfus Commodities Metals	386,289	386,289
	P 389,770	**P 389,770**

PHILEX MINING CORPORATION AND SUBSIDIARIES

SCHEDULE OF LOANS PAYABLE

As of June 30, 2018

(In thousands)

Banco de Oro	1,013,220
Philippine National Bank	746,760
Bank of the Philippine Islands	320,040
Total	**P 2,080,020**

PHILEX MINING CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018
(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, 2017.

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 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 consolidated financial statements of the Group have been prepared in accordance with accounting principles generally accepted in the Philippines. The Group prepared its consolidated financial statements in accordance with Philippine Financial Reporting Standards (PFRSs), except for the Parent Company's mine products inventories that are measured at NRV which was permitted by the Philippine SEC. 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 2018. 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. The Group intends to adopt the following pronouncements when they become effective. Adoption of these pronouncements is not expected to have a significant impact on the Group's consolidated financial statements unless otherwise indicated.

Effective beginning on or after January 1, 2018

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

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

  The Group is assessing the potential effect of the amendments on its consolidated financial statements.

- PFRS 9, Financial Instruments
  PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, Financial Instruments: Recognition and Measurement, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. Retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

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

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

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

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

  The Group is currently assessing the impact of adopting this standard.

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

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

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

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.

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.

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.

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 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 June 30, 2018:

Cash and cash equivalents:	
Cash with banks	₱760,599
Short-term deposits	79,593
Accounts receivable:	
Trade	389,770
Others	99,609
Advances to a related party	2,158,593
Gross maximum credit risk exposure	₱3,488,164

The table below shows the credit quality of the Group's financial assets by class as of June 30, 2018 based on the Group's credit evaluation process:

	Neither Past Due nor Impaired		Past Due and Individually	Total
	High-Grade	Standard	Impaired	
Cash and cash equivalents:				
Cash with banks	₱760,599	₱–	₱–	₱760,599
Short-term deposits	79,593	–	–	79,593
Accounts receivable:				
Trade	389,770	–	–	389,770
Others	99,609	–	–	99,609
Advances to a related party	2,158,593	–	–	2,158,593
Total	₱3,488,164	₱–	₱–	₱3,488,164

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.

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 June 30, 2018:

	On Demand	Within 1 Year	More than 1 Year	Total
Loans and receivables:				
Cash and cash equivalents	₱843,122	₱–	₱–	₱843,122
Accounts receivable:				
Trade	–	389,770	–	389,770
Others	–	99,609	–	99,609
Advances to a related party	2,158,593	–	–	2,158,593
Others	77,161	–	–	77,161
Total undiscounted financial assets	₱3,078,876	₱489,379	₱–	₱3,568,254

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 reasonable possible changes in the exchange rates of US Dollar against the Peso:

US$ Appreciate (Depreciate)	Effect on Consolidated Income before Income Tax
4%	(₱121,242)
(4%)	121,242

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

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.

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 June 30, 2018:

Change in metal prices (Gold)	Effect on income before income tax
Increase by 12%	₱281,880
Decrease by 12%	(281,880)

Change in metal prices (Copper)	Effect on income before income tax
Increase by 17%	₱384,471
Decrease by 17%	(384,471)

4. 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.

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.

	June 30, 2018 (Unaudited)	
Revenue		
External customers	P	4,269,477
Consolidated revenue		**4,269,477**
Results		
EBITDA	P	1,733,694
Interest Income		799
Income Tax Expense		(228,183)
Depreciation and depletion		(819,428)
Non-recurring items		(135,226)
Consolidated net income (loss)	**P**	**551,656**
Core net income (loss)	**P**	**646,314**
Consolidated total assets	**P**	**39,617,432**
Consolidated total liabilities	**P**	**14,493,450**
Other Segment Information		
Capital expenditures and other non-current assets	**P**	**897,758**

	June 30, 2017 (Unaudited)	
Revenue		
External customers	P	4,355,509
Consolidated revenue		**4,355,509**
Results		
EBITDA	P	1,820,747
Interest Income		920
Income Tax Expense		(308,963)
Depreciation and depletion		(748,728)
Non-recurring items		(45,382)
Consolidated net income (loss)	**P**	**718,594**
Core net income (loss)	**P**	**747,639**
Consolidated total assets	**P**	**38,824,447**
Consolidated total liabilities	**P**	**14,899,527**
Other Segment Information		
Capital expenditures and other non-current assets	**P**	**1,116,910**

5. Basic/Diluted Earnings Per Share

Basic earnings per share as of June 30, 2018 and 2017 are computed as follows:

	2018	2017
Net income attributable to equity holders of the Parent Company	₱551,656	₱718,594
Divided by weighted average number of common shares outstanding during year	4,940,399,068	4,940,399,068
Basic earnings per share	₱0.1117	₱0.1455

Diluted earnings per share as of June 30, 2018 and 2017 are computed as follows:

	2018	2017
Net income attributable to equity holders of the	₱551,656	₱718,594

	2018	2017
Parent Company		
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	₱0.1117	₱0.1455
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

On July 25, 2018, the Board of Directors of the Parent Company approved the declaration of cash dividend of P0.035 per share as regular dividend to all stockholders at record of August 8, 2018 payable on August 24, 2018.

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