

**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, 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**

2<sup>nd</sup> 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 March 31, 2018)

Amount of Debt Outstanding – ₱9,586,605,807, (As of March 31, 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 March 31, 2018 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, including metallurgical testing, was completed and yielded preliminary resources and grades of Indicated category at 11.4 million tonnes of 0.19% copper and 0.30 grams per tonne gold at 0.312% copper equivalent cut-off grade. 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 and 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.

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.

The Company has initiated further studies to demonstrate project feasibility in order to develop the Silangan Project of SMMCI, a wholly-owned subsidiary of the Company, 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 Barring Permit ("STC-EB"), among others. The project has also secured the ISO:14001 Certification for Environmental Management System issued by Certification International Philippines Inc. ("CIP") in June 2016.

### **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 ended March 31, 2018 amounted to ₱2.373 billion – 7% lower than the ₱2.542 billion reported in 2017 largely due to lower metal output, despite favorable metal prices and foreign exchange rate.

The Padcal Mine experienced production-related issues in early 2017, 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. However, as Padcal nears the end of its mine life, ore mined at the fringes registered lower grades resulting in lower metal production in the first quarter of 2018.

#### *Gold*

Gold production reached 17,947 ounces compared with 22,451 ounces in 2017. Average gold price in the first quarter of 2018 was US\$1,338 per ounce, 6% higher the US\$1,264 per ounce gold price realized for the same period last year. Despite favorable gold average gold price and exchange rates, gold revenue reached of ₱1.237 billion – comprising 52% of the total – compared with ₱1.426 billion in 2017.

#### *Copper*

Copper production in the first three months of the year totaled 7,072,930 pounds against 7,751,669 pounds in 2017. Realized copper prices for the same period averaged higher at US\$3.10 per pound against US\$2.77 per pound in 2017, due to continued strong demand from China and prevailing supply constraints. The higher copper prices coupled with favorable foreign exchange rates resulted in copper revenue of ₱1.117 billion, 2% higher than the ₱1.094 billion reported in the same period in 2017, and accounted for 47% of the total.

#### *Silver*

Revenue from silver made up the remaining 1% of the Company's total revenue and amounted to ₱18.8 million for the period in review compared with ₱21.9 million in 2017, due to lower silver output.

To protect part of the revenues from unfavorable metal price, 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		Apr. 2018	05/02/18	
01/10/18	2,200	1,300	1,349.50		May 2018	06/04/18	
01/10/18	2,200	1,300	1,349.50		June 2018	07/03/18	
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						-

**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		Mar. 2018	04/02/18	
1/8/2018	727,525	3.00	3.40		May 2018	06/04/18	
1/8/2018	727,525	3.00	3.40		June 2018	07/03/18	
1/8/2018	727,525	3.00	3.40		July 2018	08/02/18	
	4,365,148						-

No gains nor losses were realized on the gold and copper hedges that matured within the first quarter of 2018. For the outstanding gold and copper hedges as of March 31, 2018, a net unrealized MTM gain of ₱8.1 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 quarter of 2017..

#### Operational Overview

Total ore milled from the Company's Padcal mine for the first quarter of 2018 reached 2,196,713 tonnes, 10% higher than 1,998,392 tonnes the previous year as production-related issues in 2017 were generally addressed towards the end of the year.

Gold production reached 17,947 ounces in the period from 22,451 ounces in the same period last year. This was mainly due to lower ore grades and metal recovery, despite higher tonnage, as head grades averaged at 0.329 grams per tonne (g/t) against the previous year's 0.421 g/t.

Similarly, copper production reached 7,072,930 pounds during the period compared with 7,751,669 pounds the previous year due to lower ore grades and metal recovery rate. Copper ore grades averaged 0.185% in the period against 0.209% in the first quarter of 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 ₱1.697 billion in the first quarter of 2018 compared with ₱1.668 billion in 2017 due to the 10% increase in tonnage.

Smelting charges amounted to ₱207.3 million in the first quarter of 2018, almost unchanged from ₱206.7 million last year, due mainly to forex despite lower copper concentrates production, which totaled 15,482 dry metric tons (DMT) from 16,344 DMT for the same period in 2017.

Cash Production Costs for the first quarter in 2018 decreased by 4% to ₱1.064 billion from ₱1.112 billion, due mainly from lower power rates and raw material costs. Power cost was 9%

lower due to lower price while expenses for raw materials and supplies were down by 7% mainly due to timing difference and lower maintenance cost in 2018 as against 2017.

Depletion, Depreciation and Amortization increased to ₱408.8 million from ₱351.6 million as a result mainly of higher tonnage and additional depreciation for newly acquired equipment.

Excise Taxes and Royalties also increased by 29% to ₱143.1 million from ₱110.6 million following the effectivity of the TRAIN Law starting 2018 increasing the excise tax rate by 100%, from 2% to 4%, of net revenue. On the other hand, G&A decreased to ₱81.5 million in 2018 from ₱93.7 million due to the continuous management 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 taxes, and royalties) on a per unit basis were recorded at ₱670 per tonne and ₱830 per tonne, respectively, in the first quarter of 2018 against ₱732 per tonne and ₱891 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 ₱408.8 million in 2018 from ₱351.6 million in 2017.

Operating cost, excluding G&A, (using a co-production method) per ounce of gold and per pound of copper, were US\$1,009 per ounce and US\$2.33 per pound in 2018, compared with US\$898 per ounce gold and US\$1.96 per pound copper in 2017, respectively, due basically to lower gold and copper output this year.

### **Other Income (Charges)**

A Net Other Charges of ₱35.1 million was incurred in the first quarter ended March 31, 2018, which consisted mainly of Foreign Exchange Losses of ₱61.7 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 foreign exchange rates at closing dates of March 31, 2018 were ₱52.16 as against ₱49.93 as of December 31, 2017. For the same period in 2017, a Net Other Charges of ₱55.2 million was recorded, comprising of Foreign Exchange Losses of ₱37.3 million (substantially from revaluation of the Company's net foreign currency-denominated liabilities based on a foreign exchange rate of ₱50.16 against ₱49.72 as of December 31, 2016).

Amortization of Mine Closure Cost amounted ₱5.1 million, both for 2018 and 2017, while Equity Share in Net Loss of Associates (covering PXP and Lepanto) amounted to ₱6.5 million and ₱6.3 million, respectively, for the same periods.

A gain of ₱55.3 million was recorded on the sale of subsidiary's scrap coming from gross proceeds of ₱85 million.

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

## Core and Reported Net Income

The Company's core net income amounted to ₱346.0 million in the first three months of the year compared with ₱458.3 million in 2017 as a result largely of lower revenues, increased excise taxes and higher non-cash production costs. Meanwhile, EBITDA reached ₱909.9 million during the period compared with ₱1.007 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.

Reported Net Income (the same as the Net Income Attributable to the Equity Holders) in the first quarter ended March 31, 2018 was at ₱302.8 million against ₱432.3 million in the same period last year. The variance was largely attributed to the lower revenues.

## FINANCIAL CONDITION REVIEW

### Assets

As of March 31, 2018, the Company's Current Assets stood at ₱6.359 billion against ₱6.267 billion in 2017, mainly due to the decrease in Accounts Receivable to ₱464.4 million from ₱990.6 million in 2017.

Accounts Receivables consisted of Trade Receivables from sales of the Company's copper concentrates or bullion and Other Receivables. This year's outstanding receivables from shipments amounted to ₱307.9 million compared with the previous year's ₱903.2million. The balance of ₱156.5 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 March 31, 2018 consisted of the remaining 10% of four (4) shipments in December 2017 and in the first quarter 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 two (2) copper concentrates shipments in the first quarter of 2018, compared with four (4) shipments 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 ₱2.231 billion, consisted of materials and supplies (49% of the total inventories) and mine products inventory (remaining 51% of total inventories), increased from ₱1.517 billion as at end 2017. Materials and supplies inventory amounted to ₱1.091 billion in 2018 compared with ₱1.127 billion as of December 31, 2017. Mine products inventory was valued at ₱1.140 billion corresponding to the 8,018 DMT of copper concentrates against ₱390.4 million, representing inventory of 2,940 DMT, as of end-December 2017. The higher mine

products inventory was a result of delay in shipment caused by bad weather and unavailability of suitable vessel.

Other Current Assets slightly decreased to ₱997.0 million in 2018 from ₱1.007 billion. Movements in this account were attributed mainly to the amortization of prepaid insurance but was offset by additional input value-added tax (VAT) on purchases or VAT claims on importation of materials, supplies and equipment.

As of March 31, 2018, Non-Current Assets of the Company, consisting mainly of Property, Plant and Equipment (PPE) and deferred exploration costs, which comprised 17% and 62% of total assets, respectively, increased to ₱33.528 billion from ₱33.412 billion at the end of last year.

Specifically, PPE, as of March 31, 2018, decreased to ₱6.645 billion from ₱6.721 billion in 2017. 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 ₱343.5 million for the first quarter of 2018, but was significantly reduced by the corresponding depreciation, depletion and amortization for the period, resulting in the lower balance this year compared with end-2017.

Investment in Associates decreased to ₱1.409 billion as of March 31, 2018, consisting of investment in PXP of ₱1.037 billion and Lepanto of ₱372.0 million, from ₱1.416 billion in 2017, which were net of share in net losses of associates.

Pension Asset amounted to ₱373.3 million as of March 31, 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 ₱24.559 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 ₱22.391 billion or 91% of total deferred exploration costs.

Other Noncurrent Assets slightly increased to ₱541.4 million as of March 31, 2018 from ₱540.5 million in 2017, consisting mainly of the amount of Value-added Tax Receivable of SMMCI that was considered as non-current remained at ₱ 399.7 million starting 2017.

The Company's Total Assets as of March 31, 2018 amounted to ₱39.888 billion compared with ₱39.679 billion as at end-2017.

## **Liabilities**

As of March 31, 2018, the Company's Total Current Liabilities amounted to ₱4.804 billion, 1% lower than ₱4.857 billion as of end-2017, due to the decrease in Accounts Payable and Accrued Expenses.

Loans Payable remained at US\$49 million but was recorded higher, in terms of peso value, at ₱2.556 billion due to higher exchange rate of P52.16 as of March 31, 2018, as against ₱2.447 billion as at end-December 2017 at the exchange rate of P49.93. Subsequent payment of \$3.0 million was made on April 30, 2018.

Accounts Payable and Accrued Liabilities, mainly due to suppliers and contractors, went down by 23% to ₱1.372 billion from ₱1.652 billion in 2017. The decrease was mainly 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 ₱291.2 million in 2018, representing the tax payable for the first quarter of the current year's income due by the end of May 2018. The additional tax payable of ₱229.7 million for the 2017 income was already settled in April 2018.

Dividends Payable amounted to ₱585.5 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-March 2018 stood at ₱10.238, represented largely by Bonds Payable at 68% of the total, from ₱10.090 billion in 2017.

Deferred Income Tax Liabilities (DTL) slightly increased to ₱3.071 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 ₱1.406 billion for accelerated depreciation and deferred exploration costs.

The amount of Bonds Payable increased to ₱7.031 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 quarter of 2018 were related to the amortization of the discount and transaction costs.

Meanwhile, Provision for Losses and Mine Rehabilitation Costs amounted to ₱136.0 million at end-March 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.

Other than the payments of trade payables, there was no significant change in the amount of the Company's Total Liabilities as of March 31, 2018 from end-2017, which stood at ₱15.042 billion and ₱14.947 billion, respectively.

### **Shareholders' Equity**

The Company's Total Equity as of March 31, 2018 amounted to ₱24.845 billion, an improvement from the ₱24.732 billion recorded in 2017 and was largely due to the net income of ₱302.8 million recorded for the period.

Retained Earnings amounted to ₱15.877 billion from ₱15.771 billion in 2017, after recording the Company's Net Income Attributable to the Equity Holders of the Parent Company of ₱302.8 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, ₱10.500 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 March 31, 2018 and December 31, 2017. Others Reserves amounted to ₱8.7 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 and market conditions, the Company generated net cash flows from operating activities of ₱566.1 million in the first quarter ended March 31, 2018, compared with ₱1.283 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 three months of 2018, principally for capital expenditures and exploration costs, decreased to ₱437.8 million from ₱487.5 million in the same period last year. Specifically, capital expenditures amounted to ₱447.8 million in 2018, representing sustaining capital expenditures for Padcal of ₱368.6 million, net of disposal of Silangan machinery and equipment of ₱25.1 million, from ₱281.5 million in 2017.

Expenditures for the pre-development activities at the Silangan Project and continuing exploration activities at other projects amounted to ₱104.3 million in 2018, lower than the ₱231.1 million in 2017, following the paced development 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 ₱211.6 million in 2018, due mainly to dividend payment of ₱197.4 million, versus ₱413.5 million in 2017, on account of loan repayments of ₱200.8 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 ended March 31, 2018, capital expenditures and explorations costs amounted to ₱447.8 million from ₱512.6 million in 2017.

Padcal operations accounted for 82% of capital outlays in 2018 at ₱368.6 million compared with ₱320.6 million in 2017. The increase in 2018 was mainly due to equipment and machinery replacement and upgrade of existing infrastructure and facilities amounting to ₱164.1 million

versus ₱137.2 million, and sustaining mine development cost of ₱170.9 million as against ₱115.8 million in 2017. Further, expenditures on the tailings storage facility for the first quarter of the year amounted to ₱33.6 million versus ₱67.6 million in 2017.

Expenditures for the Silangan Project accounted for 8% of capital outlays in 2018 amounting to ₱37.4 million – mostly related to the completion of the Silangan DFS, net of ₱25.1 million costs of disposed machinery and equipment. This was lower than ₱172.6 million in 2017 – consisting of deferred exploration costs of ₱211.7 million, and disposal of equipment and machinery, net of ₱39.1 million.

Investments in exploration projects, focused within the vicinity of Padcal to further extend its mine life, amounted to ₱41.9 million from ₱19.4 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 quarter ended March 31, 2018, the Company recorded no Lost Time Accident-Fatal (LTA-F) and Lost Time Accident-Non Fatal (LTA-NF), same as that of 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 quarters of 2018 and 2017 were ₱0.0613 and ₱0.0875, 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 2,196,713 tonnes in 2018 compared with 1,998,392 tonnes in 2017 mainly due to low mine delivery brought about by equipment availability issues and deficient/poor ore quality.

Copper output reached 7,072,930 pounds against 2017's 7,751,669 pounds, while gold production totaled 17,947 ounces, compared with 22,451 ounces in 2017, as a result of lower tonnage and lower ore grades.

### **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 ₱670, with total production cost of ₱1.472 billion over ore milled of 2,196,713 tonnes. This was 8% lower than the cost per tonne of ₱732 from the total production cost of ₱1.463 billion over ore milled of 1,998,392 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 ₱830 from the total operating cost and expenses of ₱1.823 billion, 7% lower than the ₱891 from the operating costs and expenses of ₱1.781 billion in 2017. Despite higher total operating costs for 2018, the cost per tonne was also 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\$1,009 per ounce compared with US\$898 per ounce in 2017, while operating cost applicable to copper produced amounted to US\$2.33 per pound in 2018 compared with US\$1.96 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 quarter of 2018, the amount spent on mining exploration amounted to ₱447.8 million compared with ₱512.6 million in 2017. As of March 31, 2018, total deferred exploration costs amounted to ₱24.559 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 March 31, 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 ₱1.312 billion and ₱1.295 billion as of March 31, 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 March 31, 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 ₱7.031 billion and ₱6.950 billion as of March 31, 2018 and December 31, 2017, 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 cyclicity 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.

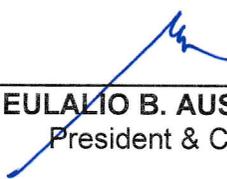
## **PART II - OTHER INFORMATION**

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)



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**EULALIO B. AUSTIN, JR.**  
President & CEO



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**DANNY Y. YU**  
SVP for Finance & CFO



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**PARALUMAN M. NAVARRO**  
AVP for Corporate Finance

Date: May 10, 2018

PHILEX MINING CORPORATION  
AND SUBSIDIARIES

UNAUDITED  
CONSOLIDATED  
FINANCIAL STATEMENTS  
March 31, 2018

Pasig City, Philippines

**PHILEX MINING CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

(Amounts in Thousands, except Par Value per Share)

	March 31 2018 (Unaudited)	December 31 2017 (Audited)
<b>Current Assets</b>		
Cash and cash equivalents	508,372	583,538
Accounts receivable - net	464,390	990,604
Inventories - net	2,230,674	1,517,097
Advances to a related party	2,158,593	2,168,632
Other current assets - net	997,127	1,007,000
<b>Total Current Assets</b>	<b>6,359,156</b>	<b>6,266,871</b>
<b>Noncurrent Assets</b>		
Property, plant and equipment - net	6,645,209	6,721,022
Deferred exploration costs	24,559,393	24,360,954
Investment in associates - net	1,409,141	1,415,604
Pension asset - net	373,280	373,849
Other non current assets	541,390	540,494
<b>Total Noncurrent Assets</b>	<b>33,528,413</b>	<b>33,411,923</b>
<b>TOTAL ASSETS</b>	<b>P 39,887,569</b>	<b>P 39,678,794</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Loans payable	2,555,840	2,446,570
Accounts payable and accrued liabilities	1,372,098	1,651,710
Income tax payable	291,256	229,679
Dividends payable	585,483	528,836
<b>Total Current Liabilities</b>	<b>4,804,677</b>	<b>4,856,795</b>
<b>Noncurrent Liabilities</b>		
Deferred income tax liabilities - net	3,070,931	3,004,830
Loans and bonds payable	7,030,766	6,950,306
Provision for losses and mine rehabilitation costs	135,963	135,086
<b>Total Noncurrent Liabilities</b>	<b>10,237,660</b>	<b>10,090,222</b>
<b>Total Liabilities</b>	<b>15,042,337</b>	<b>14,947,017</b>
<b>Equity Attributable to Equity Holders of the Parent Company</b>		
Capital Stock - P1 par value	4,940,399	4,940,399
Additional paid-in capital	1,143,981	1,143,981
Retained Earnings		
Unappropriated	5,376,648	5,271,302
Appropriated	10,500,000	10,500,000
Other reserves	8,667	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
	24,845,490	24,732,035
Non-controlling Interests	(258)	(258)
<b>Total Equity</b>	<b>24,845,232</b>	<b>24,731,777</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>P 39,887,569</b>	<b>P 39,678,794</b>

**PHILEX MINING CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)**

(Amounts in Thousands, except Earnings Per Share)

	Three Months ended			
	March 31			
		2018		2017
<b>REVENUE</b>				
Gold	P	1,236,578	P	1,426,069
Copper		1,117,170		1,094,068
Silver		18,830		21,890
		2,372,578		2,542,027
Less: Smelting charges		207,280		206,695
		<b>2,165,298</b>		<b>2,335,332</b>
<b>COSTS AND EXPENSES</b>				
Production costs		1,063,565		1,111,710
Depletion, depreciation and amortization		408,780		351,596
General and administrative expenses		81,484		93,663
Excise taxes and royalties		143,079		110,597
		<b>1,696,908</b>		<b>1,667,566</b>
<b>INCOME FROM OPERATIONS</b>		<b>468,390</b>		<b>667,766</b>
<b>OTHER INCOME (CHARGES)</b>				
Foreign exchange losses - net		(61,726)		(37,255)
Interest income		317		236
Share in net losses of associates		(6,463)		(6,304)
Others - net		32,806		(11,854)
		<b>(35,066)</b>		<b>(55,177)</b>
<b>INCOME BEFORE INCOME TAX</b>		<b>433,324</b>		<b>612,589</b>
PROVISION FOR INCOME TAX				
Current		61,577		164,820
Deferred		68,980		15,503
		130,557		180,323
<b>NET INCOME</b>	<b>P</b>	<b>302,767</b>	<b>P</b>	<b>432,266</b>
<b>Net income (loss) attributable to:</b>				
Equity holders of the Parent Company		302,767		432,266
Non-controlling interests		-		-
	<b>P</b>	<b>302,767</b>	<b>P</b>	<b>432,266</b>
<b>BASIC EARNINGS PER SHARE</b>	<b>P</b>	<b>0.0613</b>	<b>P</b>	<b>0.0875</b>
<b>DILUTED EARNINGS PER SHARE</b>	<b>P</b>	<b>0.0613</b>	<b>P</b>	<b>0.0875</b>

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

(Amounts in Thousands)

	Three Months ended			
	March 31			
	2018		2017	
<b>NET INCOME</b>	P	302,767	P	432,266
<b>OTHER COMPREHENSIVE INCOME</b>				
<i>Items to be reclassified to profit and loss in subsequent periods:</i>				
Gain on movement in fair value of hedging instruments		8,109		-
		8,109		-
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>P</b>	<b>310,876</b>	<b>P</b>	<b>432,266</b>
<b>Total Comprehensive Income Attributable to:</b>				
Equity holders of the Parent Company		310,876		432,266
Non-controlling interests		-		-
		<b>310,876</b>		<b>432,266</b>

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

	Three Months ended	
	March 31	
	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax from continuing operations	433,324	612,589
Adjustments for:		
Depletion and depreciation	419,326	361,435
Unrealized foreign exchange (gain) losses and others	109,270	27,480
Amortization of Asset Retirement Obligation	902	902
Amortization of prepaid expenses	6,904	-
Equity loss in investment	6,463	6,304
Interest income	(317)	-
Operating income before working capital changes	975,872	1,008,710
Decrease (increase) in:		
Accounts receivable	526,531	33,698
Inventories	(713,577)	377,591
Other current assets	9,461	18,381
Other noncurrent assets	-	13,118
Increase (Decrease) in:		
Accounts payable and accrued liabilities	(140,464)	9,662
Non current liabilities	(91,718)	(178,509)
Net cash from operating activities	566,104	1,282,650
<b>CASHFLOWS FROM INVESTING ACTIVITIES</b>		
Increase in deferred exploration costs and other noncurrent assets	(104,312)	(231,104)
Additions to property, plant and equipment	(343,537)	(281,568)
Decrease in advances to related parties	10,039	25,180
Net cash used in investing activities	(437,810)	(487,492)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Availment of loans	(14,149)	(15,012)
Dividends paid	(197,421)	(197,616)
Short-term bank loans	-	(200,840)
Net cash from (used in) financing activities	(211,571)	(413,468)
<b>EFFECT OF EXCHANGE RATE CHANGES</b>		
<b>ON CASH AND CASH EQUIVALENTS</b>	8,110	-
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	(75,167)	381,690
<b>CASH AND CASH EQUIVALENTS</b>		
<b>AT BEGINNING OF THE PERIOD</b>	583,538	457,937
<b>CASH AND CASH EQUIVALENTS AT END THE PERIOD</b>	508,371	839,627

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

	Attributable to Equity Holders of the Parent Company									Minority Interest	Total
	Capital Stock	Additional Paid-in Capital	Retained Earnings		Other reserves	Equity Conversion Option	Net revaluation Surplus	Effect of transaction with Minority Interest	Sub-total		
			Unappropriated	Appropriated							
<b>BALANCES AT DECEMBER 31, 2017</b>	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
<b>Net income (loss)</b>	-	-	302,767	-	-	-	-	-	302,767	-	302,767
Other comprehensive income (loss): <i>Items to be reclassified to profit and loss in subsequent periods:</i> Movement in fair value of hedging instruments	-	-	-	-	8,109	-	-	-	8,109	-	8,109
Total comprehensive income (loss)	-	-	302,767	-	8,109	-	-	-	310,876	-	310,876
Declaration of dividends	-	-	(197,421)	-	-	-	-	-	(197,421)	-	(197,421)
<b>BALANCES AT MARCH 31, 2018 (Unaudited)</b>	<b>4,940,399</b>	<b>1,143,981</b>	<b>5,376,648</b>	<b>10,500,000</b>	<b>8,667</b>	<b>1,225,518</b>	<b>1,572,385</b>	<b>77,892</b>	<b>24,845,490</b>	<b>(258)</b>	<b>24,845,232</b>
<b>BALANCES AT DECEMBER 31, 2016</b>	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)
<b>BALANCES AT MARCH 31, 2017 (Unaudited)</b>	<b>4,940,399</b>	<b>1,143,981</b>	<b>4,176,136</b>	<b>10,500,000</b>	<b>(3,094)</b>	<b>1,225,518</b>	<b>1,572,385</b>	<b>77,892</b>	<b>23,633,217</b>	<b>(257)</b>	<b>23,632,960</b>

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

		Three Months Ended March 31	
		2018	2017
Current Ratio	Current Assets over Current Liabilities	1.32	0.67
Debt-to-equity Ratio	Total Liabilities over Total Equity	0.61	0.69
Asset-to-equity Ratio	Total Assets over Equity	1.61	1.69
Net Income Ratio	Net Income over Net Revenue	0.14	0.18

**PHILEX MINING CORPORATION AND SUBSIDIARIES**

**SCHEDULE OF ACCOUNTS RECEIVABLE**

As of March 31, 2018

(In Thousands)

Accounts Receivable- Trade	P 307,853
Others	156,536
	<b>P 464,390</b>

**AGING OF ACCOUNTS RECEIVABLE - TRADE**

As of March 31, 2018

	<b>0-30 days</b>	<b>31-60 days</b>	<b>Total</b>
Pan Pacific Copper Co. Ltd.	P (8,201)		P (8,201)
Louis Dreyfus Commodities Metals	316,055	-	316,055
	<b>P 307,853</b>	<b>P -</b>	<b>P 307,853</b>

**PHILEX MINING CORPORATION AND SUBSIDIARIES**

**SCHEDULE OF LOANS PAYABLE**

As of March 31, 2018

(In thousands)

Banco de Oro	1,251,840
Philippine National Bank	1,147,520
Bank of the Philippine Islands	156,480
<b>Total</b>	<b>P 2,555,840</b>

**PHILEX MINING CORPORATION AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2018**  
**(Amounts in Thousands, Except Amounts Per Unit and Number of Shares)**

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**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

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## **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.

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### **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 March 31, 2018:

<u>Cash and cash equivalents:</u>	
Cash with banks	P273,511
Short-term deposits	233,174
<u>Accounts receivable:</u>	
Trade	307,853
Others	156,536
Advances to a related party	2,158,593
<u>Gross maximum credit risk exposure</u>	<u>P3,129,667</u>

The table below shows the credit quality of the Group's financial assets by class as of March 31, 2018 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	P273,511	P-	P-	P273,511
Short-term deposits	233,174	-	-	233,174
Accounts receivable:				
Trade	307,853	-	-	307,853
Others	156,536	-	-	156,536
Advances to a related party	2,158,593	-	-	2,158,593
<b>Total</b>	<b>P3,129,667</b>	<b>P-</b>	<b>P-</b>	<b>P3,129,667</b>

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 March 31, 2018:

	On Demand	Within 1 Year	More than 1 Year	Total
Loans and receivables:				
Cash and cash equivalents	P508,372	P-	P-	P508,372
Accounts receivable:				
Trade	-	307,853	-	307,853
Others	-	156,537	-	156,537
Advances to a related party	2,158,593	-	-	2,158,593
Others	76,517	-	-	76,517
<b>Total undiscounted financial assets</b>	<b>P2,743,482</b>	<b>P464,390</b>	<b>P-</b>	<b>P3,207,872</b>

## Market risks

### *Foreign currency risk*

Foreign currency risk is 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:

<u>US\$ Appreciate (Depreciate)</u>	<u>Effect on Consolidated Income before Income Tax</u>
4%	(P125,280)
(4%)	125,280

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 March 31, 2018:

	Effect on income before income tax
<b>Change in metal prices (Gold)</b>	
Increase by 12%	₱148,389
Decrease by 12%	(148,389)
	Effect on income before income tax
<b>Change in metal prices (Copper)</b>	
Increase by 17%	₱189,919
Decrease by 17%	(189,919)

#### **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.

**March 31, 2018**  
**(Unaudited)**

<b>Revenue</b>		
External customers	P	2,372,578
<b>Consolidated revenue</b>		<b>2,372,578</b>
<b>Results</b>		
EBITDA	P	909,850
Interest Income		317
Income Tax Expense		(130,557)
Depreciation and depletion		(415,117)
Non-recurring items		(61,726)
<b>Consolidated net income (loss)</b>	<b>P</b>	<b>302,767</b>
<b>Core net income (loss)</b>	<b>P</b>	<b>345,976</b>
<b>Consolidated total assets</b>	<b>P</b>	<b>39,887,569</b>
<b>Consolidated total liabilities</b>	<b>P</b>	<b>15,042,337</b>
<b>Other Segment Information</b>		
Capital expenditures and other non-current assets	P	447,849

**March 31, 2017**  
**(Unaudited)**

**Revenue**

External customers	P 2,335,332
<b>Consolidated revenue</b>	<b>2,335,332</b>

**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)
<b>Consolidated net income (loss)</b>	<b>P 432,266</b>

<b>Core net income (loss)</b>	<b>P 458,345</b>
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<b>Consolidated total assets</b>	<b>P 38,803,696</b>
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<b>Consolidated total liabilities</b>	<b>P 15,170,736</b>
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**Other Segment Information**

Capital expenditures and other non-current assets	P 512,672
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**5. Basic/Diluted Earnings Per Share**

Basic earnings per share as of March 31, 2018 and 2017 are computed as follows:

	2018	2017
Net income attributable to equity holders of the Parent Company	P302,767	P432,266
Divided by weighted average number of common shares outstanding during year	4,940,399,068	4,940,399,068
<b>Basic earnings per share</b>	<b>P0.0613</b>	<b>P0.0875</b>

Diluted earnings per share as of March 31, 2018 and 2017 are computed as follows:

	2018	2017
Net income attributable to equity holders of the Parent Company	₱302,767	₱432,266
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
<b>Diluted earnings per share</b>	<b>₱0.0613</b>	<b>₱0.0875</b>
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

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**7. Seasonality and Cyclicity of Interim Operation**

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

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**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.