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SEC Registration Number

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(Company's Full Name)

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

**ROMEO B. BACHOCO**

(Contact Person)

**(632) 8631-13-81**

(Company Telephone Number)

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Month Day  
(Calendar Year)

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(Form Type)

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Month Day  
(Annual Meeting)

**Not Applicable**

(Secondary License Type, If Applicable)

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Dept. Requiring this Doc.

**Not Applicable**

Amended Articles Number/Section

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Total No. of Stockholders

Total Amount of Borrowings

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Domestic

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Foreign

To be accomplished by SEC Personnel concerned

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File Number

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Document ID

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**SECURITIES AND EXCHANGE COMMISSION**

**SEC FORM 17-Q**

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

**For the quarterly period ended** September 30, 2022

**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) 8631-1381 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 – 5,782,399,068 (As of September 30, 2022)

Amount of Debt Outstanding – Php10,721,282,000 (As of September 30, 2022)

**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    ☒    No    ☐

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

Yes    ☒    No    ☐

**PART I - FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

The Unaudited Consolidated Financial Statements for the period ended September 30, 2022 are hereto attached.

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

**Status of Operations**

**Padcal Operation**

*Extension of Mine Life*

In June 2021, the Philex Board of Directors approved the extension of the life of Padcal Mine from December 2022 to December 2024. The decision to extend the life of mine was reached after the completion of confirmatory drilling and related technical studies on the mining methodology, the current and projected level of gold and copper prices, and implementation of the project to strengthen the TSF No. 3 buttresses and to increase the elevation of the TSF No 3 dike to accommodate additional tailings. The Company continues to benefit from the current high level of copper and gold prices and the medium term global outlook for the demand of these metals. The positive trend of the metal prices has allowed the extension of the Padcal life of mine for another two years to December 2024 after identifying additional mineable reserves in the Sto. Tomas orebody of Padcal. The extension of the life of mine of Padcal will ensure the continuous employment of 1,831 Padcal employees, including almost 500 service providers and support the social development of the Host Local Government Units under the Social Development and Monitoring Program (SDMP). It will provide additional taxes to both the local and national government that would augment funds for government projects especially in this time of COVID-19 pandemic. It will also give more time for the Company to bring the Silangan Project to development and commissioning stages.

The Company is on schedule to complete the project to strengthen the TSF 3 buttresses as well as to increase the elevation of the TSF 3 dikes ("OSD and OSDE") to accommodate additional tailings coming out from the processing mill plant. This project started in 2020 with Phase 1 and

Phase 2 already fully completed. Phase 3 which will involve the strengthening of Dike 9 and Dike 10 will be completed before the end of 2022. Overall, the current state of the TSF project have significantly improved the Factor of Safety ('FOS') metrics of the TSF 3 above the acceptable global standards.

The rising power costs due to increasing fossil fuel prices (petroleum and coal), high inflationary global environment and supply chain disruptions, increased the cost of operations on one hand while the volatility of the gold and copper prices on the other hand, may impact the viability of the plan for the extension of the life of the Padcal Mine. However, the higher Philippine Peso to USD exchange rate can reduce the negative impact to the viability of the plan as the Company's export revenues are denominated in USD.

#### *Covid-19*

The global pandemic caused by the spread of Covid-19 caused disruption to all businesses and the Company is no exception. The Company revisited and calibrated its strategic and operating plans to mitigate with the impact of Covid-19 to its business and stakeholders. In compliance with the government mandated Covid-19 protocols, Padcal Mine continues to operate under the strictest health protocols to maintain a safe working environment for its employees, and adopted and implemented regular surveillance and contact tracing activities as well as implemented stricter entry and exit controls in the mine camp. While keeping the employees in a safe workplace and community, the Company continue calibrate operating processes and activities to ensure a profitable business for all its stakeholders.

Since the start of the Covid-19 pandemic in March 2020, the Philippine government has issued several health and safety guidelines and has placed local government units under different community quarantine classification depending on the severity of covid-19 transmission. Philex, as an export-oriented company, was allowed to continue its operation subject to full compliance to IATF-DOH guidelines particularly in relation to work arrangements for employees, both in the head office and in Padcal mine. Quarantine protocols and restrictions due to Covid-19 have eased up from 2021 to early 2022. The government has allowed businesses to go on full operation and with full manpower complement onsite. This has allowed an almost back to normal of operation for Philex and its employees after going through the early challenges in the supply chain activities particularly in the procurement of critical materials and supplies. As a result, Philex had fulfilled its commitment on copper concentrate shipments to its customers that ensured payment of its obligations to its lenders, suppliers, contractors and most importantly to its employees.

The Company also responded to the call for concerted efforts by Mines and Geosciences Bureau (MGB) of the Department of Environment and Natural Resources' (DENR) directive allowing mining companies to support the Bayanihan Heal as One Act mandated by the Republic of the Philippines on March 23, 2020.

The issuance of Executive Order No. 130 in April 2021 has given a positive outlook to the mining in the country. The Company believes that E.O. 130 which aims to strengthen the implementing programs in mining, environmental protection and responsible mining and the recent government pronouncements would increase the level of interest and confidence of investors, both local and foreign, and lenders to mining industry and would benefit the Company as it prepares for the launch of its Silangan Project.

In September 2021, the Inter-Agency Task Force for the Management of Infectious Diseases (IATF) approved the shift in the policy of classifying Provinces, Highly Urbanized Cities (HUCs), and Independent Component Cities (ICCs) for purposes of community quarantine and adopted

the Alert Level System instead of the Community Quarantine System. This move was likewise approved by then President Duterte as embodied in Executive Order No. 151. This Alert Level System remains in force to date. This has allowed the full reporting to office work arrangement for both corporate office and the respective project sites as well as the corresponding revision of COVID-19 protocols and guidelines at the workplace and at the mine camps.

On October 28, 2022, President Ferdinand Marcos Jr. issued Executive Order No. 07 allowing the voluntary wearing of face masks, either indoors or outdoors. This is a welcome development in the business front which is seen as an initial step to returning to “business as usual” situation.

## **Silangan Project**

The Company and SMMCI finalized and completed the definitive feasibility study (DFS) for an underground sub-level cave mining method for the Silangan Project. The DFS was approved at the Company’s Board meeting on July 31, 2019 covered the Phase 1 of the Silangan Project. Phase 1 refers to the Boyongan deposit containing 81 million tonnes (Mt) of ore reserves with high-quality copper and gold grades from a total mineral resources of 571 Mt. Phase 2 of the Silangan Project refers to the Bayugo-Silangan and Bayugo-Kalayaan ore deposits which will be developed once Phase 1 is operational.

The Phase 1 of the Silangan Project (“Silangan Project”) is ready for implementation with all the needed government permits, studies and programs for its development. The Boyongan ore body is under the Mineral Production Sharing Agreement (MPSA) No. 149-99-XIII which is set to expire on December 29, 2024. The Company secured the approval from Mine and Geosciences Bureau (MGB) and DENR in December 10, 2020 for the early renewal and extension of MPSA No. 149-99-XIII up to December 29, 2049. This gave the Company the right to mine the ore body consistent with its mine life as contained in the DFS for Phase 1.

In the July 2021 Board meeting, the Board of Directors of Philex has approved the in-phase plan execution strategy of the Silangan Project. The Company appointed BDO Capital as its financial advisor and lead arranger to assist in the fund raising for the execution plan of the Project. With the plan, the capital expenditure requirement will be made in stages, and can be funded from a variety of potential resources including internally-generated cash and potentially through equity and debt from investors and creditors.

In January 2022, the Company completed the In-Phase Mine Plan feasibility study and updated the mineable reserve estimate for the Boyongan deposit in accordance with the 2012 Philippine Mineral Reporting Code (“PMRC”). Under the In-Phase Mine Plan, Silangan is expected to commence operation with a starter sub-level cave mine using copper and gold leaching processes with ore production of 2,000 tonnes per day or 700 thousand tonnes per year for the first 5 years, then ramp up to 4,000 tonnes per day or 1.3 million tonnes (Mt) per year up to year 8. Starting year 9 when copper flotation circuit will be added to the process plant, ore production and processing rates will further increase to 8,000 tonnes per day or 2.7 Mt per year before the final ramp up to 12,000 tonnes per day or 4 Mt per year on year 12. Based on the study, the life of mine for the Boyongan deposit under Phase 1 is 28 years with estimated total mineable reserves of 81 Mt at 0.67% copper and 1.13 grams per tonne gold, containing estimated metals of 2.8 million ounces of gold and 993 million pounds of copper.

The initial capital to develop the starter mine over 2.5 years is estimated at US\$224 Million which will be raised in a number of ways including Stock Rights Offering (SRO), debt and fresh capital

infusion out of Philex's cash reserves. The stock rights offering was completed by Philex with the listing of the 842 million shares on August 3, 2022. A total of Php2.65 billion was raised from the Philex SRO, the net of which amounting to Php2.58 billion has been invested by Philex in early October 2022 into the Silangan Project under Silangan Mindanao Mining Co., Inc., through Silangan Mindanao Exploration Co. Inc., as partial funds to finance the initial capital cost of the project. The Front End Engineering and Design ("FEED") works for the mine, process plant and tailings storage facility are currently ongoing with some areas already completed. Ground works have already commenced following the infusion of the Philex SRO proceeds into the Silangan Project. The ongoing pre-development activities include earthmoving works for the construction of the ventilation pad and the boxcut necessary for the commencement of the underground tunneling, the advance mine de-watering works in preparation for the driving of the decline tunnel and the drilling of additional dewatering wells across the mine area. Based on the In-Phase Mine Plan, the commercial operations of the Project is targeted 1Q2025.

The Company, through BDO Capital, is currently undertaking the debt syndication exercise as part of the overall funding plan to finance the initial capital of the In Phase Mine Plan. The syndication program is targeting to raise up to US\$170 million of syndicated loan from local financial institutions.

## **Operational Overview**

The Padcal Mine milled a total of 5,554,056 tonnes for the nine months ended September 30, 2022 (9M2022), 7% lower than the tonnage of 5,973,659 tonnes in the nine months ended September 30, 2021 (9M2021) as operations was affected by unscheduled repairs of ageing milling equipment and disruption on needed materials and supplies. Mining from higher grade ore sources remains as the Company's strategy to lessen the impact of low tonnage output. For the third quarter of 2022 (3Q2022), tonnage was at 1,872,893 tonnes, only 7% lower than the 2,006,002 tonnes in the third quarter of 2021 (3Q2021) as the Company started to narrow down the tonnage variance experienced early this year.

Gold production of 37,357 ounces for 9M2022 was 10% lower compared with 41,295 ounces in 9M2021 mainly due to lower tonnage and slightly lower gold grades that averaged at 0.275 grams per tonne (g/t) in 9M2022 against 0.284 g/t in 9M2021. Gold production was down due to the impact of lower tonnage, gold grade as well as lower metal recovery of 75.5% in 9M2022 versus 75.8% for 9M2021. For 3Q2022, gold production was 12,144 ounces, 15% lower than the 14,270 ounces in 3Q2021 due mainly to lower tonnage.

Similarly, copper production on a year-to-date basis decreased by 4% to 19,024,995 pounds in 9M2022 compared with the production for the 9M2021 of 19,745,345 pounds. The decrease was due mainly to lower tonnage, despite the 4% increase in ore grades that averaged at 0.192% in 9M2022 versus 0.186% in 9M2021, and slightly higher metal recovery. Metal recovery for copper for 9M2022 averaged at 80.74% compared to 80.67% in 9M2021. For 3Q2022, copper production also decreased to 6,382,380 pounds compared with 6,539,863 pounds in 3Q2021, despite higher copper grades partially offsetting the impact of lower tonnage and metal recovery.

## **Review of Financial Results**

Total operating revenues for 9M2022 amounted to Php7.677 billion, lower by Php65 million or 1% compared with Php7.742 billion reported in 9M2021 due mainly to lower copper and gold output

as well as the decline in copper prices, partially offset by higher gold prices that averaged slightly above last year's number, and favorable foreign exchange rates (Forex) that averaged at Php54.40 compared with Php49.24 in 9M2021. Favorable Forex continues to cushion the impact of declining copper and gold prices in the Company's revenues. From an increase in 1H2022, the Company recorded a decrease on the year-to-date revenues as a result of the significant drop in the 3Q2022 revenues. After smelting charges, the net revenues amounted to Php7.058 billion for 9M2022 as against Php7.220 billion in 9M2021.

Similarly, operating revenues for 3Q2022 were significantly lower by Php411 million or 15% at Php2.245 billion compared with Php2.656 billion in 3Q2021. The decrease in revenues was due to the unexpectedly lower copper and gold production and declining metal prices that started to go a downward trend starting 2Q2022, the impact of which was mitigated by the significantly higher Forex that averaged at Php57.96, 15% higher versus Php50.56 in 3Q2021. After smelting charges, the net revenues amounted to Php2.044 billion for 3Q2022, compared with Php2.473 billion in 3Q2021.

While metal prices were favorable early this year, the downtrend of current level could significantly impact the Company's financial results especially that Padcal is presently catching up in its production program. Padcal continues to focus on achieving higher production by targeting higher ore grade sources to cushion the impact on tonnage of downtimes from the unexpected repairs of ageing mill equipment.

#### *Copper*

Copper production in 9M2022, slightly decreased to 19,024,995 pounds compared with the production of 19,745,345 pounds in 9M2021, due mainly to the 7% decrease in tonnage, despite slightly higher metal recovery and higher ore grades. Realized copper prices for 9M2022 averaged at US\$3.91 per pound, 6% lower against US\$4.14 per pound in 9M2021. Forex that averaged higher by 10% for the period was not sufficient to offset the impact of lower copper price resulting to copper revenues slightly lower at Php4.022 billion compared with Php4.038 billion in 9M2021. While the nonattainment of copper production targets and declining copper prices negatively affect copper revenues, the favorable level of Forex has remained as Padcal's cushion bringing copper revenues close to last year's performance. Copper accounted for 52% of total revenues for the period.

In 3Q2022, copper production was 2% lower at 6,382,380 pounds compared with 6,539,863 pounds for 3Q2021 due mainly to lower tonnage while copper grades and metal recovery remained higher compared with the performance in 3Q2021. Copper prices which started strong in the first quarter of 2022 decreased further in 3Q2022 averaging US\$3.61 per pound compared with US\$4.24 per pound in 3Q2021. As a result, copper revenues significantly decreased by 18% at Php1.098 billion from Php1.343 billion in 3Q2021.

#### *Gold*

Gold production in 9M2022 was slightly lower at 37,357 ounces compared with 41,295 ounces in 9M2021 from lower tonnage, ore grade and recovery. On the other hand, gold averaged at US\$1,794 per ounce, slightly higher than the US\$1,786 per ounce gold price realized in 9M2021. Like in copper, Forex played a significant role in boosting gold revenues to minimize the impact of lower gold production resulting to gold revenues of Php3.595 billion, slightly lower compared with Php3.635 billion in 9M2021. Higher average gold prices also contributed positively to gold revenues which represent 47% of total revenues. The Company benefited from higher than expected gold prices in the first half of 2022 but current and changing global situation gradually

drives gold prices below expectation in 3Q2022 threatening the confidence in the contribution of gold in the Company's revenues.

For 3Q2022, gold production was at 12,144 ounces, lower by 15% than the gold production of 14,270 ounces for 3Q2021 due to lower tonnage, ore grade and gold recovery. Consequently, gold revenues for 3Q2022 was lower by 18% at Php1.098 billion from Php1.343 billion in 3Q2021 from lower gold output and gold prices that averaged at US\$1,701 per ounce in 3Q2022 versus US\$1,761 per ounce in 3Q2021, despite the positive impact of higher Peso to US\$ exchange rate that increased by 15%. The drop in gold output as a major concern and the unstable direction of gold price forecast remain the main focus in the Company's strategy to meet or even exceed expectations in this year's performance.

#### *Silver*

Revenues from silver made up the remaining 1% of the Company's total revenues and amounted to Php60 million for 9M2022, lower by 13% against the Php69 million in 9M2021, mainly from lower production and lower realized prices, despite higher forex. For 3Q2022, revenues from silver amounted to Php17 million, 24% lower than the P22 million in 3Q2021 due to the impact of lower production and realized prices which was offset by the significant increase in Forex by 15%.

#### *Hedging Strategy*

Seeing how volatile copper and gold prices are to this day, the Company is intensifying programs to monitor and assess the impact of prevailing and the constantly changing forecasted prices in the Company's revenues and eventually affecting medium to long-term plans. As part of the risk management strategy, the Company monitors the prices of gold and copper in the world market as a basis of assessing the need to enter into hedging contracts to mitigate the risk of the potential impact of fluctuations of the metal prices to the Company's revenues. Based on the Company's outlook of the movement of gold and copper prices, the Company entered into gold and copper hedging contracts for the full year 2022, as follows:

2022 Gold Collar Hedge							
Deal Date	Quantity (Ounces)	Gold Prices (US\$ Per Ounce)			Period Covered	Settlement Date	Realized Gain (Loss) (in Php Millions)
		Put	Call	Settlement			
10/01/21	1,900	1,700	1,800	1,817	Jan. 2022	02/02/22	(2)
10/01/21	1,900	1,700	1,800	1,857	Feb. 2022	03/02/22	(6)
10/01/21	1,900	1,700	1,800	1,948	Mar. 2022	04/02/22	(15)
01/14/22	1,900	1,725	1,922	1,934	Apr. 2022	05/09/22	(1)
01/14/22	1,900	1,725	1,922	1,850	May 2022	06/09/22	-
01/14/22	1,900	1,725	1,922	1,835	June 2022	07/08/22	-
01/14/22	1,900	1,725	1,922	1,738	July 2022	08/05/22	-
01/14/22	1,900	1,725	1,922	1,766	Aug. 2022	09/07/22	-
01/14/22	1,900	1,725	1,922	1,684	Sept. 2022	10/07/22	5
01/14/22	1,900	1,725	1,922	-	Oct. 2022	-	-
01/14/22	1,900	1,725	1,922	-	Nov. 2022	-	-
01/14/22	1,900	1,725	1,922	-	Dec. 2022	-	-
Total							(19)

2022 Copper Collar Hedge							
Deal Date	Quantity (Pounds)	Copper Prices (US\$ Per Pound)			Period Covered	Settlement Date	Realized Gain (Loss) (in Php Millions)
		Put	Call	Settlement			



10/04/21	992,081	3.90	4.51	4.43	Jan. 2022	02/02/22	-
10/04/21	992,081	3.90	4.51	4.51	Feb. 2022	03/02/22	-
10/04/21	992,081	3.90	4.51	4.64	Mar. 2022	04/02/22	(7)
11/24/21	992,081	3.75	4.95	4.62	Apr. 2022	05/09/22	-
11/24/21	992,081	3.75	4.95	4.25	May 2022	06/09/22	-
11/24/21	992,081	3.75	4.95	4.10	June 2022	07/08/22	-
11/24/21	992,081	3.75	4.95	3.42	July 2022	08/05/22	18
11/24/21	992,081	3.75	4.95	3.61	Aug. 2022	09/08/22	8
11/24/21	992,081	3.75	4.95	3.51	Sept. 2022	10/07/22	14
11/24/21	992,081	3.75	4.95	-	Oct. 2022	-	-
11/24/21	992,081	3.75	4.95	-	Nov. 2022	-	-
11/24/21	992,081	3.75	4.95	-	Dec. 2022	-	-
Total							33

The unrealized MTM gain (loss) for the outstanding contracts as of September 30, 2022 amounted to a gain of Php25 million for gold and Php72 million for copper.

For 2021, the Company realized net hedging losses of Php29 million for gold and Php26 million for copper on the following contracts:

2021 Gold Collar Hedge							
Deal Date	Quantity (Ounces)	Gold Prices (US\$ Per Ounce)			Period Covered	Settlement Date	Realized Gain (Loss) (in Php Millions)
		Put	Call	Settlement			
01/04/21	1,900	1,830	2,050	1,868	Jan. 2021	02/02/21	-
01/04/21	1,900	1,830	2,050	1,811	Feb. 2021	03/02/21	2
01/04/21	1,900	1,830	2,050	1,720	Mar. 2021	04/06/21	10
03/10/21	1,900	1,680	1,733	1,760	Apr. 2021	05/05/21	(3)
03/10/21	1,900	1,680	1,733	1,850	May 2021	06/02/21	(11)
03/10/21	1,900	1,680	1,733	1,835	June 2021	07/02/21	(9)
03/10/21	1,900	1,680	1,733	1,806	July 2021	08/03/21	(7)
03/10/21	1,900	1,680	1,733	1,784	Aug. 2021	09/02/21	(5)
03/10/21	1,900	1,680	1,733	1,779	Sept. 2021	10/04/21	(4)
10/01/21	1,900	1,700	1,800	1,776	Oct. 2021	11/02/21	-
10/01/21	1,900	1,700	1,800	1,820	Nov. 2021	12/02/21	(2)
10/01/21	1,900	1,700	1,800	1,788	Dec. 2021	01/05/22	-
Total							(29)

2021 Copper Collar Hedge							
Deal Date	Quantity (Pounds)	Copper Prices (US\$ Per Pound)			Period Covered	Settlement Date	Realized Gain (Loss) (in Php Millions)
		Put	Call	Settlement			
01/04/21	740,752	3.25	3.95	3.62	Jan. 2021	02/02/21	-
01/04/21	740,752	3.25	3.95	3.84	Feb. 2021	03/02/21	-
01/04/21	740,752	3.25	3.95	4.08	Mar. 2021	04/06/21	(5)
03/10/21	992,081	3.80	4.27	4.23	Apr. 2021	05/05/21	-
03/10/21	992,081	3.80	4.27	4.62	May 2021	06/02/21	(17)
03/10/21	992,081	3.80	4.27	4.36	June 2021	07/02/21	(4)
03/10/21	992,081	3.80	4.27	4.28	July 2021	08/03/21	(0.5)
03/10/21	992,081	3.80	4.27	4.24	Aug. 2021	09/02/21	-
03/10/21	992,081	3.80	4.27	4.23	Sept. 2021	10/04/21	-
10/04/21	992,081	3.90	4.51	4.44	Oct. 2021	11/02/21	-
10/04/21	992,081	3.90	4.51	4.43	Nov. 2021	12/02/21	-

10/04/21	992,081	3.90	4.51	4.33	Dec. 2021	01/05/22	-
Total							(26)

## Operating Costs and Expenses

The Company's total operating costs and expenses (Opex), which included Production Costs, Excise Tax and Royalties, and Depletion, Depreciation and Amortization (DDA), and General and Administrative Expenses (G&A), amounted to Ph5.118 billion for 9M2022 from Ph4.843 billion in 9M2021. The 6% increase in Opex was due to higher DDA and Production Costs on account of higher power costs. As to DDA, the increase was due to the impact of the reversal of the 2019 impairment provision in September 2021, additional depreciation of recently acquired equipment, and amortization for additional costs incurred in maintaining the tailings storage facility but was partially offset by lower tonnage. Additionally, the significant jump of power rates starting end July 2022 brought about by the global increase in fuel price increased Production Costs, negatively affecting the Company's financial performance. On the other hand, revenue-related costs such as the Excise Tax and Royalties decreased on account of lower revenues.

Smelting Charges amounted to Ph619 million for 9M2022, 19% higher than the Ph521 million in 9M2021, due mainly to higher average treatment rates as well as higher freight charges for copper concentrate shipments, despite the lower copper concentrate production of 43,272 dry metric tons (DMT) in 9M2022 from 44,163 DMT in 9M2021. Higher Forex also contributed to the increase in Smelting Charges this period.

For 3Q2022, total Opex increased by 12% at Ph1.800 billion from Ph1.603 billion in 3Q2021 on account of higher Production Costs, and higher Depletion, Depreciation and Amortization. Smelting Charges for 3Q2022 increased by 9% at Ph200 million from Ph184 million mainly due to higher freight charges and Forex.

## Break-even Costs - Costs Per Tonne / Per Ounce / Per Pound

Total production costs (including depletion, depreciation and amortization) on a per unit basis increased by 15% to Ph807 per tonne (based on total production costs of Ph4.481 billion) for 9M2022 from Ph702 per tonne (based on total production costs of Ph4.191 billion) in 9M2021. Total Production Cost per Tonne increased due to higher production costs which reflected that the Company incurred higher costs to produce one tonne of ore.

Likewise, operating costs (consisting of total production costs, smelting charges, excise taxes, and royalties) also increased to Ph1,000 per tonne in 9M2022 from Ph868 per tonne in 9M2021. The increase in cost per tonne was mainly attributable to higher production costs, and smelting charges and royalties and lower tonnage. Total operating costs for purposes of computing the break-even costs amounted to Ph5.555 billion in 9M2022, higher compared with Ph5.183 billion in 9M2021.

For 3Q2022, total production cost per tonne was higher at Ph860 per tonne (based on total production cost of Ph1.611 billion) as against Ph690 per tonne (based on total production cost of Ph1.385 billion). Similarly, operating cost per tonne was higher at Ph1,037 per tonne (based on total operating costs of Ph1.943 billion) from Ph863 per tonne (based on total operating cost of Ph1.731 billion) in 3Q2021. Higher cost per tonne was realized for the third quarter on account of higher production costs and smelting charges.

The operating cost per ounce of gold and per pound of copper for 9M2022 based on co-production method were US\$1,296 per ounce and US\$2.82 per pound, compared with US\$1,209 per ounce gold and US\$2.80 per pound copper in 9M2021, respectively. Breakeven costs per ounce and per pound increased in 9M2022 on account of higher operating costs and lower metal output.

For 3Q2022, the operating cost per unit of gold increased to US\$1,305 per ounce (versus US\$1,140 per ounce in 3Q2021) on account of higher operating costs and lower metal output. Similarly, unit per copper also increased to US\$2.77 per pound (versus US\$2.75 per pound).

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

The Company recorded a Net Other Income of Php103 million in 9M2022 versus Net Other Charges of Php253 million in 9M2021. The Net Other Income in 9M2022 consisted mainly of the Company's realized gain on foreign exchange transactions due to the strengthening of the US Dollar against the Philippine Peso. It also included unrealized foreign exchange gain on the restatement of the Company's net foreign currency-denominated short-term cash investments at the closing rate of Php58.625 as of September 30, 2022 compared to Php51.00 as of December 31, 2021. Also included under Net Other Income were the Company's share in net losses of associates and various provisions and charges. In 9M2021, Net Other Charges included mainly provisions for losses, the Company's share in net losses of associates and losses from foreign exchange transactions, and reversal of previous year's impairment losses brought about by the extension of the life of Padcal Mine and the favorable metal prices.

For 3Q2022, the Company reported a Net Other Income of Php51 million mainly on account of gain from foreign exchange transactions with offset from various provisions and charges, compared with a lower Net Other Income of Php12 million in 3Q2021 which included reversal of previous year's impairment losses, but was offset by the Company's share in net losses of associates and loss from foreign exchange transactions.

### **Provision for (Benefit from) Income Tax**

The Company recorded a Provision for Income Tax of Php404 million for 9M2022, compared with Php244 million in 9M2021, net of the retroactive adjustment of Php174 million that the Company recorded following the passing of Republic Act No. 11534 known as "Corporate Recovery and Tax Incentives for Enterprises Act" or "CREATE" in 2021, that reduced the corporate income tax rate from 30% to 25% effective July 1, 2020. The Company recognized in the 1Q2021 a provision for income tax of Php128 M and a credit of Php174 million as retroactive adjustment on current and deferred income tax pertaining to the taxable income apportioned for the second half of 2020, or a net of Php46 million recorded in the 1Q2021. The provision for income tax pertaining to the 3Q2022 income amounted to Php56 million, 65% lower than the Php161 million in 3Q2021, on account of lower revenues in 3Q2022.

### **Core and Reported Net Income**

From an excellent performance early in the first half of 2022 with quarterly Core Net Income averaging Php667 million, the Company's earnings slowed down in the third quarter 2022 with Php210 million, bringing Core Net Income to Php1.543 billion for the 9M2022 from Php1.333 billion in 1H2022. The lower metal production in 9M2022, coupled with the impact of declining copper and gold prices that started in 3Q2022 prevented the Company from maintaining the good early performance resulting to a Core Net Income 17% lower than the Php1.865 billion in 9M2021.

The Core Net Income for 3Q2022 of Php210 million was 71% lower compared with Php716 million in 3Q2021.

Similarly, EBITDA was also lower by 7% at Php2.964 billion than the Php3.194 billion for 9M2021. EBITDA for 3Q2022 amounted to Php611 billion, 48% lower than the Php1.168 billion in 3Q2021. The Company's core net income and EBITDA exclude 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 as income attributable to non-controlling interest was nil) decreased in 9M2022 by 13% to Php1.639 billion from Php1.880 billion in 9M2021. For 3Q2022, Reported Net Income was 67% lower at Php240 million versus Php721 million for the same period in 2021.

## **FINANCIAL CONDITION REVIEW**

### **Current Assets**

The Company's Current Assets as of September 30, 2022 increased to Php9.517 billion from Php5.722 billion as of December 31, 2021. The increase of Php3.795 billion was mainly due to higher cash and cash equivalents arising from the proceeds of the recently concluded Stock Rights Offer ("SRO") amounting to Php2.652 billion.

#### Cash and Cash Equivalents

The Cash and Cash Equivalents amounted to Php6.837 billion as of September 30, 2022 from Php2.891 billion as of December 31, 2021. The SRO proceeds and the high value of shipment proceeds accounted for the increase in cash and cash equivalent for the period on account of the strong copper and gold prices mostly in the first half of 2022 and continuously favorable foreign exchange rates. Cash reserves were maintained for planned cash outflow programs in the later part of the year.

#### Accounts Receivable

The Company's Accounts Receivable slightly increased to Php434 million as of September 30, 2022 from Php467 million as of December 31, 2021. This account consisted of Trade Receivables from sales of the Company's copper concentrates or bullion and Other Receivables that include loan to an associate and advances to employees for conduct of transactions in the ordinary course of business. As of September 30, 2022, Trade Receivables amounted to Php321 million and Other Receivables of Php113 million.

Under the existing sales agreement with the two major Company's Customers ("Offtakers"), the Company receives 90% of the total US\$ value of the copper concentrates within 3-4 days after presentation of sales and shipping documents, with the balance payable upon final pricing determination based on agreed quotational period ("QP"). QP is determined either Prior Month of Shipment Schedule ("MOSS") or Month After Month of Arrival ("MAMA") in destination. Trafigura Pte. Ltd., the third offtaker for contract year 2022-2023 follows the same QP of MOSS or MAMA.

The Trade Receivables as of September 30, 2022 consisted of the remaining value of five shipments (versus four shipments also in the fourth quarter of 2021 as of December 31, 2021 with IXM S.A.) awaiting final pricing, were with IXM S.A. and Trafigura Pte. Ltd. The QP for both

offtakers is MOSS for copper and gold, except for the June 2022 and July 2022 shipments with IXM S.A. that follow 3MAMA for copper.

In March 2022, the Company granted loans to its associate, PXP Energy Corporation, where Philex owns 30.4% interest, through the issuance of the later of covering Promissory Notes (PNs). Under the PNs, total loans to PXP Energy amounted to US\$600,000, payable on demand and subject to an interest of 3.5% p.a. over LIBOR (6 months) that is payable quarterly. Total accrued interests as of September 30, 2022 amounted to Php812 thousand.

### Inventories

Total Inventories, consisting of materials and supplies and mine products, amounted to Php1.497 billion as of September 30, 2022, a decrease of 22% from Php1.926 billion as of December 31, 2021.

As of September 30, 2022, mine products inventory, which is valued at net realizable value, amounted to Php809 million or 54% of total inventory, while inventory for materials and supplies amounted to Php687 million or about 46% of total inventory. On the other hand, mine products inventory amounted to Php1.264 billion, while materials and supplies inventory was Php663 million as of December 31, 2021. Mine products inventory slightly increased due to higher value of mine products inventory corresponding to 5,353 DMT of copper concentrates against 7,257 DMT as of December 31, 2021. On the other hand, materials and supplies slightly increased due to the build-up of critical and insurance inventories amidst the pandemic. The Company continues to implement inventory reduction programs to consume its existing inventory over Padcal remaining mine life which is expected to end by December 2024.

### Other Current Assets

Other Current Assets, composed primarily of input Value-Added Tax ("VAT") claims for refund on purchases of materials, supplies and equipment, increased to Php653 million as of September 30, 2022 from Php438 million as of December 31, 2021, due mainly to additional VAT receivable on Company purchases. Based on the recently issued guidelines on VAT zero-rating which retroacts to December 10, 2021, all purchases of goods and services by Philex Mining shall be subject to 12% VAT but can still be refunded to Philex, being an exporter, by the Bureau of Internal Revenue for VAT on local purchases and by Bureau of Customs for VAT on importations.

### **Non-Current Assets**

Non-Current Assets of Php36.705 billion as of September 30, 2022 slightly increased from Php36.134 billion as of December 31, 2021. This comprised mainly of Deferred Exploration Costs, Investment in Associates, and Property, Plant and Equipment. Deferred Exploration Costs and Property, Plant and Equipment represent 70% of total assets, signifying the capital intensive nature of the business.

### Deferred Exploration Costs

Deferred Exploration Costs increased to Php29.039 billion as of September 30, 2022 from Php28.100 billion in 2021, on account of the pre-development and initial development expenditures related to Silangan Project with cumulative amount of Php26.732 billion or 92% of

total deferred exploration costs. Initial expenditures on early works program for the Silangan Project were also included in the deferred exploration costs of the Project.

#### Investment in Associates

Investment in Associates decreased to Php3.619 billion as of September 30, 2022 from Php3.632 billion as of December 31, 2021, mainly from the Company's share in the net losses of associates in 9M2022 of Php14 million.

#### Property, Plant and Equipment

Property, Plant and Equipment ("PPE") decreased to Php3.166 billion as of September 30, 2022 from Php3.429 billion in 2021 due to higher amount of depreciation, depletion and amortization compared to the regular additions to PPE which were the actual expenditures on Padcal's mine development activities and acquisition of mine equipment for the period. The depreciation, depletion and amortization already considered the impact of the life extension of Padcal effective the second quarter of 2021. PPE included the total reversal of impairment of Php802 million in 2021 and 2020 as a result of higher metal price assumptions both in 2021 and 2020 and due to the mine life extension in 2021. The reversals were related to the 2019 impairment provision amounting to Php1.442 billion which was on top of the impairment of Php1.331 billion in 2018.

#### Pension Asset

Pension Asset slightly decreased to Php241 million as of September 30, 2022 from Php353 million in 2021, which represents the excess of the fair value of plan assets against the present value of defined benefit obligations under the Company's retirement plan, net of SMMCI pension obligation.

#### Financial Assets Measured at FVOCI

Financial Assets Measured at FVOCI, consisting mainly of shares in gold and country clubs, remained at Php125 million as of September 30, 2022 from 2021.

#### Other Non-Current Assets

Other Non-Current Assets slightly increased to Php515 million as of September 30, 2022 from Php495 million as of December 31, 2021. This consisted mainly of the non-current portion of SMMCI Input Value-Added Tax amounting to Php454 million.

### **Total Assets**

Total Assets of the Company increased to Php46.222 billion as of September 30, 2022 from Php41.856 billion as of December 31, 2021, primarily from the higher cash balance and deferred exploration costs.

### **Current Liabilities**

Current Liabilities slightly increased to Php13.878 billion as of September 30, 2022 from Php13.324 billion as of December 31, 2021, due mainly to the increase in income tax payable and dividends payable.

#### Loans and Bonds Payable

Loans and Bonds Payable increased from Php10.721 billion as of September 30, 2022 from Php10.131 billion as of December 31, 2021, consisting of loans payable and bonds payable. The balance of Loans Payable remained at US\$29 million or at Php1.700 billion as of September 30, 2022 based on the closing forex of Php58.625 and Php1.479 billion as of December 31, 2021 based on closing forex of Php51.00. The loan reduction program was reassessed to preserve cash for the Silangan Project while funding exercise is ongoing. Total outstanding loan of the Parent Company amounted to US\$23 million while SMMCI amounted to US\$6 million.

Bonds Payable increased to Php9.021 billion as of September 30, 2022 from Php8.652 billion as of December 31, 2021. The yearly changes in the amounts correspond to the amortization of deferred transaction costs, accretion of interest from the discounting of the face value of the Convertible Note (CN) and accrual of the 3% redemption premium. The bonds payable pertains to the 8-year convertible bonds issued by SMECI, with Philex Mining as the co-issuer, on December 18, 2014, with a face value of Php7.2 billion at 1.5% coupon rate p.a. payable semi-annually. The bonds are convertible into 400,000 common shares of SMECI at Php18,000 per share 12 months after the issue date ("Standstill Period"). On the last day of Standstill Period, the Issuer shall have a one-time right to redeem the bonds from the holders in whole or in part. After the Standstill Period, the noteholders may exercise the conversion right, in whole but not in parts, at any time but no later than the maturity date. At redemption/maturity date, the bonds can be redeemed together with the principal or face value of the bonds at a premium, payable at a rate of 3% per annum compounded semi-annually based on the face value of the bonds and unpaid accrued interest (if there be any). The proceeds of the bonds were used to repay the SMECI's advances from Philex Mining and fund the exploration works of SMMCI. The bonds maturity date is on December 18, 2022 thus the reclassification to current liability starting 2021. The Company management is in the process of negotiations with noteholders to extend its maturity up to 2028, without changing all the other terms and conditions of the original CN agreement.

#### Accounts Payable and Accrued Liabilities

As of September 30, 2022, Accounts Payable and Accrued Liabilities slightly increased to Php2.620 billion from Php2.556 billion as of December 31, 2021. This composed primarily of payables to suppliers and contractors of which no material amount has been left unpaid within terms acceptable and agreed upon with suppliers and contractors. The strategy of building up critical inventories under the current challenging supply chain environment due to the COVID-19 pandemic has also increased the Company's outstanding liabilities to suppliers.

#### Subscription Payable

Subscription Payable remained at Php2.8 million as of September 30, 2022 which consisted of outstanding payables to Philodrill Corporation and Kalayaan Copper Gold Resources, Inc.

#### Income Tax Payable

As of September 30, 2022, Income Tax Payable amounted to Php156 million, which included the tax payable pertaining for 3Q2022 that is due in November 2022. The income tax payable for

3Q2022 decreased compared to the first two quarters due mainly to lower revenues brought about by the impact of lower metal output and declining metal prices for gold and copper.

#### Dividends Payable

Dividends Payable decreased to Php378 million as of September 30, 2022 from Php452 million as of December 31, 2021. The Philex Board of Directors approved on March 4, 2022 the declaration of regular cash dividend of 5 centavos to shareholders on record date of March 21, 2022, payable on April 3, 2022.

#### **Non-Current Liabilities**

As of September 30, 2022, Non-Current Liabilities amounted at Php1.602 billion, slightly lower than the Php1.834 billion as of December 31, 2021, comprising mainly of Deferred Income Tax Liabilities.

#### Deferred Income Tax Liabilities

Deferred Income Tax Liabilities, mainly consisting of Php1.388 billion arising from the acquisition of Anglo's 50% stake in the Silangan companies and Php211 million mainly for accelerated deductions, substantially decreased to Php1.599 billion as of September 30, 2022 from Php1.816 billion as of December 31, 2021 which considered the impact of the CREATE Law that reduced corporate income tax rate to 25% from 30% effective July 2020.

#### Provision for Losses and Mine Rehabilitation Costs

Provision for Losses and Mine Rehabilitation Costs decreased to Php2 million as of September 30, 2022 from Php17 million as of December 31, 2021. The amount of Php137 million that is required under the Company's MGB-approved Final Mine Rehabilitation and Development Program has been fully funded.

#### **Total Liabilities**

As of September 30, 2022, Total Liabilities amounted to Php15.480 billion, higher than the Php15.157 billion as of December 31, 2021, mainly due to higher current liabilities particularly income tax and dividends payables.

#### **Total Equity**

The Company's Total Equity as of September 30, 2022 increased to Php30.743 billion from Php26.698 billion as of December 31, 2021 on account mainly of the 9M2022 net income of Php1.639 billion, net of the cash dividend declared in March 2022.

Capital Stock and Additional Paid in Capital increased to Php5.782 billion and Php2.900 billion, respectively, as of September 30, 2022 from Php4.940 billion and Php1.144 billion, respectively, as of December 31, 2021, due to the issuance of new Philex shares under the Stock Rights Offer ("SRO") that was completed on August 3, 2022. Retained Earnings increased to Php18.769 billion as of September 30, 2022, consisting of Php8.269 billion unappropriated amount and Php10.500



million appropriated of which Php10,000 million and Php500 million was approved for appropriation by the Board of Directors on December 13, 2013 and February 28, 2017, respectively, for the development and construction of the Silangan Project which appropriated amount remained the same compared with the Dec. 31, 2021 balance. Total Retained Earnings increased from Php17.444 billion as of December 31, 2021. The unappropriated amount is inclusive of the 9M2022 Net Income of Php1.639 billion and net of cash dividend declared on March 4, 2022.

The Company recorded Net Unrealized Gain on Financial Assets Measured at FVOCI and derivative of Php139 million as of September 30, 2022 from Php17 million as of December 31, 2021. These amounts were inclusive of gain related to the fair value of derivative instruments of Php97 million as of September 30, 2022 from a loss of Php24 million as of December 31, 2021.

There were no changes on the balances of Equity Conversion Options, Net Revaluation Surplus and Effect of Transactions with Non-controlling Interests as of June 30, 2022 from their December 31, 2021 balances at Php1.226 billion, Php1.850 billion and Php78 million, respectively. Equity Conversion Options corresponded to the value of the conversion options of the 8-year convertible bonds issued by SMECI, with Philex Mining as the co-issuer, in December 2014 with a face value of Php7.200 billion. Net Revaluation Surplus related to the step acquisition of the Silangan Project companies in 2009.

Total Liabilities and Equity amounted to Php46.222 billion as of September 30, 2022 from Php41.856 billion as of December 31, 2021 due mainly to the increase in Equity as a result of the 9M2022 net income of Php1.639 billion and the issuance of Philex shares under the SRO in August 2022 while Total Liabilities increased only by 2%.

### **Liquidity and Capital Resources**

The Company's existing liquidity position and capital resources are primarily used for the funding of its existing operations and exploratory drilling works within and around the Sto. Tomas ore body with the aim to further extend the mine life of Padcal and for pre-development works of the Silangan Project. Despite the risks inherent in the business associated with metal prices, foreign exchange rates, regulatory environment, and the changing economic and market conditions as well as the global impact of the COVID-19 pandemic, the Company's net cash generated in operating activities amounted to Php2.979 billion for the nine months ended September 30, 2022 (9M2022), compared with Php2.585 billion in the nine months of 2021 (9M2021). This allowed the Company to have sufficient liquidity to meet working capital needs, finance any strategic supply chain activities in anticipation of global supply chain disruptions and any unscheduled operating disruptions.

Internally generated funds remain as the Company's principal source of cash to finance the capital expenditures of the Padcal Mine, the pre-development works and initial cash requirement for the development of the Silangan Project, exploration initiatives of various mine sites, and for the repayment of existing loans when programmed.

Net cash used in investing activities, principally for capital expenditures and deferred exploration costs, amounted to Php1.342 billion in 9M2022 as against Php982 million in 9M2021. Capital expenditures mainly for Padcal were higher at Php795 million 9M2022 compared with Php727 million in 9M2021, inclusive of Php172 million other capitalized non-cash costs. Similarly, expenditures on deferred exploration costs were higher at Php547 million 9M2022 compared with

Php164 million in 9M2021, pertaining substantially to Silangan Project primarily the capitalized interests on loans and convertible notes, and activities to start the pre-development for Silangan Project.

<i>(in Php Millions)</i>	<b>9M2022</b>	<b>9M2021</b>
Padcal		
Mine Development	336	401
Tailings Pond Structures	138	141
Machinery and Equipment	320	190
Total	794	732
Silangan Project		
Deferred Exploration Costs	544	159
Machinery and Equipment	1	(5)
Total	545	154
Mine Exploration Projects	3	5
Total	1,342	891
Consolidated		
Property, Plant and Equipment	795	727
Deferred Exploration Costs	547	164
Total (*Adjusted 2021)	1,342	891

Total Padcal Capital Expenditures and Deferred Exploration Costs totalled to Php1.342 billion 9M2022 and Php891 million.

Padcal operations accounted for 59% of total expenditures at Php794 million in 9M2022 compared with Php732 million in 9M2021.

Silangan Project comprised of 41% of the total expenditures amounting to Php545 million in 9M2022 and Php154 million for 9M2021.

Other mining exploration projects constituted a total amount of Php3 million in 9M2022 compared with Php5 million in 9M2021. These activities focused on complying with minimum regulatory requirements.

Net cash from financing activities amounted to Php2.309 billion in 9M2022 compared with net cash used from financing activities of Php745 million in 9M2021. The significant cash from financing activities this year came from the proceeds of Stock Rights Offering (SRO) amounted to Php2.580 billion net of SRO expenses. No loan repayment was programmed in 2022.

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

### Safety Performance

Personnel health and safety is of paramount concern and regarded with utmost priority. In 9M2022, the Company recorded one Lost Time Accident-Fatal (“LTA-F”) compared with zero in 9M2021. In terms of Lost Time Accident Non-Fatal events, there were seven recorded in 9M2022 compared with six in 9M2021.

Though it is a difficult task to maintain a “zero-harm” record due to the presence of uncertainties that could contribute to the level of risk in terms of health and safety, the Company is constantly reviewing safety policies and procedures. Various initiatives are being reassessed based on the present situation and implemented to minimize the occurrence of accidents and injuries in the workplace. Third-party experts are likewise engaged to assess existing safety performance and identify risk areas.

### Earnings Per Share

Earnings Per Share (“EPS”) represents the net income attributable to equity holders of the Company, expressed in the amount per share of the Company’s weighted average number of shares outstanding. Assuming a constant outstanding number of shares, the earnings per share correspondingly rises as the Company’s earnings increase. The EPS ultimately reflects the Company’s financial and operational growth as a result of its performance in cost management, technical efficiency and productivity.

	<b>9M2022</b>	<b>9M2021</b>
Earnings Per Share	Php0.320	Php0.381
Weighted Average Number of Outstanding Shares	5,127,510,179	4,940,399,068
Total Outstanding Shares	5,782,399,068	4,940,399,068

### Tonnes Milled and Metals Produced

Tonnes milled and ore grade determine the volume of concentrates to be produced and sold. Tonnes milled were 5,554,056 tonnes in 9M2022, 7% lower compared with 5,973,659 tonnes in 9M2021.

Copper output reached 19,024,995 pounds in 9M2022, 4% lower compared with 19,745,345 pounds in 9M2021 due mainly to lower tonnage. Gold production was 10% lower at 37,357 ounces in 9M2022, compared with 41,295 ounces in 9M2022, as a result of lower tonnage and ore grade.

### Break-even Production and Operating Cost Per Unit

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 unit of metal, which incorporates the metal grade, as it affects metal production, and the exchange rate, as it affects the conversion from peso to dollar.

In 9M2022, the total production cost (mine site cost and expenses including depletion, depreciation and amortization but excluding smelting charges, excise tax and royalties) per tonne of ore milled was Php807, with total production cost of Php4.481 billion over ore milled of 5,554,056 tonnes. This was 15% higher than the cost per tonne of Php702 from the total production cost of Php4.191 billion over ore milled of 5,973,659 tonnes in 9M2021. The higher

cost per tonne in 9M2022 was primarily due to higher production cost mainly on account of higher power costs attributed to higher power rates.

The operating costs and expenses (all cost and expenses excluding G&A) per tonne of ore milled in 9M2022 was Php1,000 from the total operating cost and expenses of Php5.555 billion, 15% higher than the Php868 from the operating costs and expenses of Php5.183 billion in 9M2021. In addition to the impact of lower tonnage, the increase in production cost on account of higher power rates also contributed to the higher operating cost per tonne.

Using co-production method, the operating cost applicable to gold produced amounted to US\$1,296 per ounce in 9M2022 compared with US\$1,209 per ounce in 9M2021, while operating cost applicable to copper produced amounted to US\$2.82 per pound in 9M2022 compared with US\$2.80 per pound in 9M2021. Under co-production method, the total cost is allocated proportionately based on the revenue contribution of each product considering there is no physical basis that can be used in allocating costs between the two metals. Due to the significant increase in copper prices, costs allocated to copper based on its revenue contribution consequently increased against last year.

### Exploration Activities

The Company is cognizant that exploration in itself is a speculative endeavour, 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 effective 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 recent years, exploration activities focused mostly on regulatory requirements under the exploration permits or confirmatory drilling related to possible mine life extension.

In 9M2022, the amount spent on mining exploration including that of Silangan Project amounted to Php547 million compared with Php164 million in 9M2021. As of September 30, 2022, total deferred exploration costs amounted to Php29.039 billion, comprising 63% of the Company's Total Assets, compared with Php28.100 billion (67% of the Company's Total Assets) as of December 31, 2021.

### **Subsidiaries and Related Party Transactions**

The Company's significant related party transactions as of September 30, 2022 and December 31, 2021, which are under terms that are no less favorable than those arranged with third parties, and account balances are as follows:

a) **Advances from Philex Mining to SMMCI and SMECI**

Philex Mining, owning directly and indirectly 100% of SMMCI and SMECI, provides the funds to SMMCI, through SMECI since 2011 and directly thereafter, for the Silangan project's expenditures since the Company's acquisition of Anglo American's interest in the Silangan Project in 2009.

These advances, which were intended to be converted into equity, amounting to Php3.106 billion as of September 30, 2022 from Php2.527 billion as of December 31, 2021.

b) Issuance of Convertible Bonds to Asia Link B.V. and SSS by SMECI

In December 2014, SMECI and Philex Mining, as the co-issuer, issued 8-year convertible bonds with a face value of Php7.2 billion at 1.5% coupon rate p.a. payable semi-annually. The bonds are convertible into 400,000 common shares of SMECI at Php18,000 per share one year after the issue date. The carrying value of loans payable amounted to Php9.021 billion and Php8.652 billion as of September 30, 2022 and December 31, 2021, respectively.

c) Loans Granted by Philex Mining to PXP Energy Corporation

In March 2022, PXP Energy Corporation (PXP Energy) issued Promissory Notes covering two loans from Philex Mining amounting to US\$375,000 and US\$225,000 or a total of US\$600,000. The loans are payable on demand and subject to an interest of 3.5% p.a. over LIBOR (6 months), payable quarterly. As of September 30, 2022, total loans receivable from PXP Energy amounted to Php31 million.

### **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)



\_\_\_\_\_  
**EULALIO B. AUSTIN, JR.**  
President and CEO



\_\_\_\_\_  
**ROMEO B. BACHOCO**  
Chief Finance Officer



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**PARALUMAN M. NAVARRO**  
Assistant Vice President  
Corporate Finance

Date: November 9, 2022

PHILEX MINING CORPORATION  
AND SUBSIDIARIES

UNAUDITED  
CONSOLIDATED  
FINANCIAL STATEMENTS  
September 30, 2022

Pasig City, Philippines

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

(Amounts in Thousands, except Par Value per Share)

		September 30 2022 (Unaudited)		December 31 2021 (Audited)
<b>Current Assets</b>				
Cash and cash equivalents	P	6,836,796	P	2,890,763
Accounts receivable - net		433,757		466,922
Inventories - net		1,496,509		1,926,464
Derivative assets		97,319		-
Other current assets - net		652,684		437,585
<b>Total Current Assets</b>		<b>9,517,065</b>		<b>5,721,734</b>
<b>Noncurrent Assets</b>				
Deferred exploration costs		29,039,301		28,099,836
Investment in associates - net		3,618,506		3,632,480
Property, plant and equipment - net		3,166,405		3,428,552
Pension asset - net		241,069		352,609
Financial assets measured at fair value through other comprehensive income (FVOCI)		125,212		125,212
Other non current assets		514,644		495,424
<b>Total Noncurrent Assets</b>		<b>36,705,137</b>		<b>36,134,113</b>
<b>TOTAL ASSETS</b>	<b>P</b>	<b>46,222,202</b>	<b>P</b>	<b>41,855,847</b>
<b>LIABILITIES AND EQUITY</b>				
<b>Current Liabilities</b>				
Loans and bonds payable	P	10,721,282	P	10,131,071
Accounts payable and accrued liabilities		2,619,878		2,556,347
Subscription payable		2,767		2,767
Income tax payable		155,728		181,243
Dividends payable		378,346		452,413
<b>Total Current Liabilities</b>		<b>13,878,001</b>		<b>13,323,841</b>
<b>Noncurrent Liabilities</b>				
Deferred tax liabilities - net		1,599,158		1,816,070
Provision for losses and mine rehabilitation costs		2,342		17,496
<b>Total Noncurrent Liabilities</b>		<b>1,601,500</b>		<b>1,833,566</b>
<b>Total Liabilities</b>		<b>15,479,501</b>		<b>15,157,407</b>
<b>Equity Attributable to Equity Holders of the Parent Company</b>				
Capital Stock - P1 par value		5,782,399		4,940,399
Additional paid-in capital		2,899,906		1,143,981
Retained Earnings				
Unappropriated		8,268,617		6,943,648
Appropriated		10,500,000		10,500,000
Net unrealized gain (loss) on financial assets measured at FVOCI and derivative		138,686		17,319
Equity conversion option		1,225,518		1,225,518
Net revaluation surplus		1,849,971		1,849,971
Effect of transactions with non-controlling interests		77,892		77,892
		30,742,988		26,698,728
Non-controlling Interests		(288)		(288)
<b>Total Equity</b>		<b>30,742,701</b>		<b>26,698,440</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>P</b>	<b>46,222,202</b>	<b>P</b>	<b>41,855,847</b>



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

(Amounts in Thousands, except Earnings Per Share)

	Nine Months ended	
	September 30	
	2022	2021
<b>REVENUES (Note 5)</b>	<b>P 7,058,117</b>	<b>P 7,220,228</b>
<b>COSTS AND EXPENSES</b>		
Production costs	3,431,437	3,301,390
Depletion, depreciation and amortization	1,049,371	889,609
Excise taxes and royalties	455,388	470,301
General and administrative expenses	182,000	181,672
	<b>5,118,196</b>	<b>4,842,972</b>
<b>INCOME FROM OPERATIONS</b>	<b>1,939,921</b>	<b>2,377,256</b>
<b>OTHER (CHARGES) INCOME</b>		
Foreign exchange gains (losses) - net	127,995	(53,526)
Interest income	10,817	1,374
Share in net losses of associates	(13,974)	(510,306)
Reversal of Impairment - net		374,241
Others - net	(21,757)	(64,949)
	<b>103,081</b>	<b>(253,166)</b>
<b>INCOME BEFORE INCOME TAX</b>	<b>2,043,002</b>	<b>2,124,090</b>
<b>PROVISION FOR (BENEFIT FROM) INCOME TAX</b>		
Current	590,825	378,265
Deferred	(186,727)	(134,598)
	404,098	243,667
<b>NET INCOME</b>	<b>P 1,638,904</b>	<b>P 1,880,423</b>
<b>Net Income Attributable to:</b>		
Equity holders of the Parent Company	1,638,904	1,880,423
Non-controlling interests	-	-
	<b>P 1,638,904</b>	<b>P 1,880,423</b>
<b>BASIC/DILUTED EARNINGS PER SHARE</b>	<b>P 0.320</b>	<b>P 0.381</b>

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

(Amounts in Thousands, except Earnings Per share)

	<b>3rd Quarter ended September 30</b>	
	<b>2022</b>	<b>2021</b>
<b>REVENUES</b>	<b>2,044,445</b>	<b>2,472,756</b>
<b>COSTS AND EXPENSES</b>		
Production costs	1,250,432	1,105,076
Depletion, depreciation and amortization	360,475	279,705
Excise taxes and royalties	131,601	162,307
General and administrative expenses	57,573	56,036
	1,800,081	1,603,124
<b>INCOME FROM OPERATIONS</b>	<b>244,364</b>	<b>869,632</b>
<b>OTHER (CHARGES) INCOME</b>		
Foreign exchange gains (losses) - net	39,792	(35,162)
Share in net losses of associates	(5,428)	(494,630)
Interest income	8,742	406
Reversal of Impairment - net	-	524,241
Others - net	8,262	17,445
	<b>51,368</b>	<b>12,300</b>
<b>INCOME BEFORE INCOME TAX</b>	<b>295,732</b>	<b>881,932</b>
PROVISION (BENEFIT FROM) FOR INCOME TAX		
Current	155,730	191,616
Deferred	(99,665)	(31,006)
	56,065	160,610
<b>NET INCOME</b>	<b>P 239,669</b>	<b>P 721,322</b>
<b>Net Income Attributable to:</b>		
Equity holders of the Parent Company	239,669	721,322
Non-controlling interests	-	-
	<b>P 239,669</b>	<b>P 721,322</b>
<b>BASIC/DILUTED EARNINGS PER SHARE</b>	<b>P 0.047</b>	<b>P 0.146</b>

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

	<b>Nine Months ended September 30</b>	
	<b>2022</b>	<b>2021</b>
<b>NET INCOME</b>	P 1,638,904	P 1,880,423
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>		
<i>Items to be reclassified to profit or loss in subsequent periods:</i>		
Unrealized gain (loss) on fair value of hedging instruments	121,367	9,508
Adjustment on 2020 tax provision due to implementation of CREATE bill	-	15,757
<i>Items not to be reclassified to profit or loss in subsequent periods:</i>		
Remeasurement of pension obligation (net of tax)	(66,936)	-
2020 net effect of CREATE bill on deferred income tax	-	277,586
	54,431	302,851
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>P 1,693,335</b>	<b>P 2,183,274</b>
<b>Total Comprehensive Income Attributable to:</b>		
Equity holders of the Parent Company	1,693,335	2,183,274
Non-controlling interests	-	-
	<b>P 1,693,335</b>	<b>P 2,183,274</b>

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

	Nine Months ended	
	September 30	
	2022	2021
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	P 2,043,002	P 2,124,090
Adjustments for:		
Depletion, depreciation and amortization	1,057,243	900,093
Interest expense	-	-
Unrealized foreign exchange losses and others - net	221,154	79,017
Share in net losses of associates	13,974	510,306
Movement in pension assets-net	-	18,911
Reversal of impairment - net	-	(374,241)
Interest income	(10,817)	(1,374)
Operating income before working capital changes	3,324,556	3,256,802
Decrease (increase) in:		
Accounts receivable	43,982	31,755
Inventories	429,955	(706,384)
Other current assets	(234,320)	122,683
Increase (Decrease) in:		
Accounts payable and accrued liability	106,860	305,984
Non current liabilities	(267,904)	(126,494)
Cash generated from operations	3,403,129	2,884,346
Income taxes paid	(435,062)	(260,958)
Interest paid	-	(40,160)
Interest received	10,817	1,374
<b>Net cash flows generated from operating activities</b>	<b>2,978,884</b>	<b>2,584,602</b>
<b>CASHFLOWS FROM INVESTING ACTIVITIES</b>		
Additions to property, plant and equipment	(795,096)	(726,591)
Increase in deferred exploration costs and other noncurrent assets	(546,790)	(134,580)
Payment of subscription payable	-	(121,114)
<b>Net cash flows used in investing activities</b>	<b>(1,341,886)</b>	<b>(982,285)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from:		
Stock Rights Offerring	2,579,653	-
Payments of:		
Capitalized interest expenses	(23,618)	(29,196)
Short-term bank loans	-	(386,600)
Dividends	(247,000)	(329,232)
Net cash flows used in financing activities	2,309,036	(745,028)
<b>EFFECT OF EXCHANGE RATE CHANGES</b>		
<b>ON CASH AND CASH EQUIVALENTS</b>	-	586
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>3,946,033</b>	<b>857,875</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD</b>	<b>2,890,763</b>	<b>1,191,479</b>
<b>CASH AND CASH EQUIVALENTS AT END THE PERIOD</b>	<b>P 6,836,796</b>	<b>P 2,049,354</b>

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

	Attributable to Equity Holders of the Parent Company								Non-controlling Interest	Total
	Capital Stock	Additional Paid-in Capital	Retained Earnings		Unrealized Gain (Loss) on financial assets measured at FVOCI and Derivative	Equity Conversion Option	Net revaluation Surplus	Effect of transaction with Non-controlling Interest	Sub-total	
			Unappropriated	Appropriated						
<b>BALANCES AT DECEMBER 31, 2021</b>	4,940,399	1,143,981	6,943,648	10,500,000	17,319	1,225,518	1,849,971	77,892	26,698,728	26,698,440
<b>Net income</b>			1,638,904						1,638,904	1,638,904
Other comprehensive income (loss):										
<i>Items to be reclassified to profit and loss in subsequent periods:</i>										
Net Unrealized Gain on financial assets measured at FVOCI and Derivative					121,367				121,367	121,367
<i>Items not to be reclassified to profit and loss in subsequent periods:</i>										
Remeasurement of pension obligation (net of tax)	-	-	(66,936)		-	-	-	-	(66,936)	(66,936)
Income tax effect on revaluation surplus	-	-	-		-	-	-	-	-	-
Total comprehensive income	-	-	1,571,967		121,367	-	-	-	1,693,334	1,693,334
Increase in capital stock due to Stock Rights Offering	842,000	-	-		-	-	-	-	842,000	842,000
Increase in additional paid-in capital due to Stock Rights Offering - net	-	1,755,925	-		-	-	-	-	1,755,925	1,755,925
Dedation of dividends			(247,000)						(247,000)	(247,000)
<b>BALANCES AT SEPTEMBER 30, 2022 (Unaudited)</b>	<b>5,782,399</b>	<b>2,899,906</b>	<b>8,268,616</b>	<b>10,500,000</b>	<b>138,686</b>	<b>1,225,518</b>	<b>1,849,971</b>	<b>77,892</b>	<b>30,742,987</b>	<b>30,742,699</b>
<b>BALANCES AT DECEMBER 31, 2020</b>	4,940,399	1,143,981	4,734,470	10,500,000	31,859	1,225,518	1,572,385	77,892	24,226,504	24,226,220
<b>Net income</b>			1,880,423						1,880,423	1,880,423
Other comprehensive income (loss):										
<i>Items to be reclassified to profit and loss in subsequent periods:</i>										
Net Unrealized Gain on financial assets measured at FVOCI and Derivative					9,508				9,508	9,508
Adjustment on 2020 tax provision due to implementation of CREATE bill			15,757						15,757	15,757
<i>Items not to be reclassified to profit and loss in subsequent periods:</i>										
2020 net effect of CREATE bill on deferred income tax							277,586		277,586	277,586
Total comprehensive income	-	-	1,896,180		9,508	-	277,586	-	2,183,274	2,183,274
Dedation of dividends			(291,485)						(291,485)	(291,485)
<b>BALANCES AT SEPTEMBER 30, 2021 (Unaudited)</b>	<b>4,940,399</b>	<b>1,143,981</b>	<b>6,339,165</b>	<b>10,500,000</b>	<b>41,367</b>	<b>1,225,518</b>	<b>1,849,971</b>	<b>77,892</b>	<b>26,118,293</b>	<b>26,118,010</b>

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

		Nine Months Ended September 30	
		2022	2021
Current Ratio	Current Assets over Current Liabilities	0.69	1.12
Debt-to-equity Ratio	Total Liabilities over Total Equity	0.50	0.57
Asset-to-equity Ratio	Total Assets over Equity	1.50	1.57
Net Income Ratio	Net Income over Net Revenue	0.23	0.26

**PHILEX MINING CORPORATION AND SUBSIDIARIES**

**SCHEDULE OF ACCOUNTS RECEIVABLE**

As of September 30, 2022

(In Thousands)

Accounts Receivable- Trade	P 302,155
Others	131,602
	<b>P 433,757</b>

**AGING OF ACCOUNTS RECEIVABLE - TRADE**

As of September 30, 2022

	<b>0-30 days</b>	<b>31-60 days</b>	<b>Total</b>
IXM S.A.	P -	P 212,122	P 212,122
Trafigura Pte Ltd	90,033		90,033
	<b>P 90,033</b>	<b>P 212,122</b>	<b>P 302,155</b>

**PHILEX MINING CORPORATION AND SUBSIDIARIES**

**SCHEDULE OF LOANS AND BONDS PAYABLE**

As of September 30, 2022

(In thousands)

Bonds Payable	P 9,021,157
Loans Payable:	
Banco de Oro	P 234,500
Philippine National Bank	351,750
Bank of the Philippine Islands	351,750
Security Bank	762,125
<b>Total</b>	<b>P 10,721,282</b>



## PHILEX MINING CORPORATION AND SUBSIDIARIES

### NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2022

(Amounts in Thousands, Except Amounts Per Unit and Number of Shares)

#### **1. Basis of Preparation, Statement of Compliance, Changes in Accounting Policies and Disclosures and Significant Accounting Policies and Financial Reporting Practices**

##### Basis of Preparation

The unaudited consolidated financial statements of the Group have been prepared using the historical cost basis, except for mine products inventories that are measured at net realizable value (NRV), and for financial assets measured at fair value through other comprehensive income (FVOCI) and derivative financial instruments that are measured at fair value through profit or loss (FVTPL). The consolidated financial statements are presented in Philippine Peso, which is the Group's functional and presentation currency, rounded off to the nearest thousands, except when otherwise indicated.

##### Statement of Compliance

The unaudited consolidated financial statements of the Group have been prepared in accordance with accounting principles generally accepted in the Philippines. The Group prepared its consolidated financial statements in accordance with Philippine Financial Reporting Standards (PFRSs), except for the Parent Company's mine product 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 in the preparation of the unaudited interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements as at and for the year ended December 31, 2021, except for the adoption of new standards that is effective January 1, 2022.

Unless otherwise indicated, adoption of these new standards did not have any material impact on the consolidated financial statements of the Group.

##### Effective beginning on or after January 1, 2022

- Amendments to PFRS 3, Reference to the Conceptual Framework
- Amendments to PAS 16, Plant and Equipment: Proceeds before Intended Use
- Amendments to PAS 37, Onerous Contracts - Cost of Fulfilling a Contract
- Annual Improvements to PFRSs 2018-2020 Cycle
  - Amendments to PFRS 1, First-time Adoption of Philippines Financial Reporting Standard,
  - Subsidiary as a first-time adopter
  - Amendments to PFRS 9, Financial Instruments, Fees in the '10 per cent' test for derecognition of financial liabilities
  - Amendments to PAS 41, Agriculture, Taxation in fair value measurements

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

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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 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.

### **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.

#### *Valuation of Financial Instruments*

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

#### *Valuation of Financial Assets measured at FVOCI*

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

#### *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 LBMA 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 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.

#### *Impairment of Mine and Mining Properties*

The Group assesses, at each reporting date, whether there is an indication that mine and mining properties may be impaired. If any indication exists, or when annual impairment testing for mine and mining properties is required, the Group estimates the mine and mining properties' recoverable amount. An asset's recoverable amount is the higher of asset's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Assessments require the use of estimates and assumptions such as future cash flows, discount rates, estimated ore reserves, forecasted metal prices, and production quantities. 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.

#### *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 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 properties.

#### *Estimation of Ore Reserves*

Ore reserves were determined using various factors such as market price of metals and production costs among others. These are economically mineable reserves based on the current market condition and concentration of mineral resource. Reserves are key inputs to depletion, amortization and decommissioning provisions. On June 25, 2021, the Padcal Mine life has been extended for another two (2) years, extending its life until December 31, 2024. The extension of the mine life is due to additional reserves from mineral resources delineated below the current mining level.

#### *Impairment of Deferred Exploration Costs*

The Group reviews the carrying values of its deferred exploration costs whenever events or changes in circumstances indicate that their carrying values may exceed their estimated net recoverable amounts. The ability of the Group to recover its deferred exploration costs would depend on the commercial viability of the reserves and future plans of the prospective mine project.

An impairment loss is recognized when the carrying values of these assets are not recoverable and their historical cost exceeds their fair value.

#### *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 and Hedging Activities**

#### Financial Risks Management Objectives and Policies

The Group's principal financial instruments, other than derivatives, comprise mainly of cash and cash equivalents, accounts receivable, financial assets measured at FVOCI, short-term bank loan 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 BOD is mainly responsible for the overall risk management and approval of the risk strategies and principles of the Group. The BOD has approved its formalized hedging policy in relation to entering into commodity derivatives in order to manage its financial performance.

#### 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, 67% of the Parent Company's annual production of concentrates is sold to IXM.

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.

The table below summarizes the Group's exposure to credit risk for the components of the unaudited consolidated balance sheet as of September 30, 2022:

Cash and cash equivalents	
Cash in banks	4,071,961
Short-term deposits	2,763,891
Accounts receivable:	
Trade	320,745
Others	110,551
Financial assets measured at FVOCI	
Quoted equity investments	72,177
Unquoted equity investments	53,035
	<u>7,392,360</u>

The table below summarizes the Group's exposure to credit risk for the components of the consolidated statements of financial position as of September 30, 2022.

	Neither Past Due nor Impaired		Past Due and	Total
	High-Grade	Standard	Individually Impaired	
Cash and cash equivalents:				
Cash with banks	4,071,961	-	-	4,071,961
Short-term deposits	2,763,891	-	-	2,763,891
Accounts receivable:				
Trade	320,745	-	-	320,745
Others	110,551	-	-	110,551
Financial assets measured at FVOCI				
Quoted equity investments	72,177			72,177
Unquoted equity investments	53,035			53,035
<b>Total</b>	<b>7,392,360</b>	<b>-</b>	<b>-</b>	<b>7,392,360</b>

Credit quality of cash and cash equivalents and accounts receivable 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 September 30, 2022:

	On Demand	Within 1 Year	More than 1 Year	Total
Other financial liabilities:				
Loans payable - current				
Principal		1,700,125		1,700,125
Interest		2,108		2,108
Loans payable- noncurrent				
Principal		7,200,000		7,200,000
Interest		540,000		540,000
Accounts payable and accrued liabilities		2,365,049		2,365,049
Dividends payable	378,346			378,346
<b>Total undiscounted financial liabilities</b>	<b>378,346</b>	<b>11,807,282</b>	<b>-</b>	<b>12,185,628</b>

	On Demand	Within 1 Year	More than 1 Year	Total
Loans and receivables:				
Cash and cash equivalents	4,084,176			4,084,176
Accounts receivable:				
Trade		320,745		320,745
Others		110,551		110,551
Advances to related parties				-
Financial assets measured at FVOCI				
Quoted equity investments	72,177			72,177
Unquoted equity investments	53,035			53,035
<b>Total undiscounted financial assets</b>	<b>4,209,388</b>	<b>431,296</b>	<b>-</b>	<b>4,640,684</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 and loans payable.

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%	₱41,922
(4%)	( 41, 922)

### *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 in the value of individual stocks. Management monitors the movement of the share prices pertaining to the Group's investments. The Group is exposed to equity securities price risk because of investments held by the Parent Company, which are classified in the consolidated statements of financial position as financial assets measured at FVOCI.

The effect on equity, as a result of a possible change in the fair value of the Group's quoted equity instruments held as financial assets measured at FVOCI as at September 30, 2022 that could be brought by changes in equity indices with all other variables held constant is as follows:

Currency	Change in Quoted Prices of Investments Carried at Fair Value	Effect on Equity
Peso	Increase by 3%	₱82.42
	Decrease by 3%	(82.42)

### *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 September 30, 2022:

Effect on Income before Income Tax		
Change in Metal Price - Gold		
Increase by 13%	13%	₱ 467,362
Decrease by 13%		(467,362)
Change in Metal Price - Copper		
Increase by 25%	25%	₱ 1,005,623
Decrease by 25%		(1,005,623)



#### 4. Segment Information

The Group is organized into business units on their products and activities and had two reportable business segments: the mining and metals segment, and the energy and hydrocarbon segment until July 15, 2016, when the deconsolidation of the energy and hydrocarbon took place.

Core net income (loss) is presented because the Group believes it is an important measure of its 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 (losses) gains that, through occurrence or size, are not considered usual operating items, such as foreign exchange (losses) gains, (losses) gains on derivative instruments, (losses) gains on disposal of investments, and other non-recurring (losses) gains.

Core net income (loss) is not a uniform or legally defined financial measure. The Group relies primarily on the results in accordance with PFRSs and uses core net income (loss) only as supplementary information.

The following table shows the Group's reconciliation of core net income to the consolidated net income for the nine months ended September 30, 2022 and 2021.

	YTD September 30	
	2022	2021
Core Net Income	P 1,542,908	P 1,864,796
Non-Recurring gains (losses) :		
Foreign exchange gains (losses)	127,995	(53,526)
Share in provision for impairment of PXP assets	-	(541,875)
Reversal of impairment loss - net of provisions		374,241
Retroactive income tax provision adjustment on income attributable to second half of 2020	-	223,406
Net tax effect on foreign exchange losses	(31,999)	13,381
Net income attributable to parent company	1,638,905	1,880,423
Net income attributable to non-controlling interests	-	-
Net income	P 1,638,905	P 1,880,423

Core net income per share is computed as follows:

	2022	2021
Core net income	₱1,542,908	₱1,864,796
Divided by weighted average number of common shares outstanding	5,127,510,179	4,940,399,068
Core net income per share	₱0.300	₱0.377

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## 5. Revenues

Adoption of PFRS 15 using modified retrospective approach as of September 30, 2022 and September 30, 2021:

	2022		
	Revenue from contracts with customers	Provisional pricing adjustments	Total Revenue
Gold	₱ 3,384,967	(79,767)	₱ 3,305,200
Copper	3,941,523	(243,391)	3,698,132
Silver	59,246	(4,461)	54,785
Total			<b>₱ 7,058,117</b>

	2021		
	Revenue from contracts with customers	Provisional pricing adjustments	Total Revenue
Gold	₱ 3,035,390	355,103	₱ 3,390,493
Copper	3,332,930	432,720	3,765,650
Silver	59,344	4,741	64,085
Total			<b>₱ 7,220,228</b>

All revenue from sale of gold, copper and silver are recognized at a point in time when control transfers.

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## 6. Income Taxes

President Rodrigo Duterte signed into law on March 26, 2021 the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act to attract more investments and maintain fiscal prudence and stability in the Philippines. Republic Act (RA) 11534 or the CREATE Act introduces reforms to the corporate income tax and incentives systems. It takes effect 15 days after its complete publication in the Official Gazette or in a newspaper of general circulation or April 11, 2021.

The following are the key changes to the Philippine tax law pursuant to the CREATE Act which have an impact on the Company:

- Effective July 1, 2020, regular corporate income tax (RCIT) rate is reduced from 30% to 25% for domestic and resident foreign corporations. For domestic corporations with net taxable income not exceeding Php5 million and with total assets not exceeding Php100 million (excluding land on which the business entity's office, plant and equipment are situated) during the taxable year, the RCIT rate is reduced to 20%.

- Minimum corporate income tax (MCIT) rate reduced from 2% to 1% of gross income effective July 1, 2020 to June 30, 2023.
- Imposition of improperly accumulated earnings tax (IAET) is repealed.

Applying the provisions of the CREATE Act, the Group have been subjected to lower regular corporate income tax rate of 25% or the reduced MCIT rate of 1% of gross income effective July 1, 2020. Likewise, the impact on the December 31, 2020 consolidated financial statements had the CREATE Act been substantially enacted as of then, that were adjusted in 2021.

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## 7. Basic/Diluted Earnings Per Share

Basic and diluted earnings per share as of September 30, 2022 and 2021 are computed as follows:

	2022	2021
Net income attributable to equity holders of the Parent Company	₱ 1,638,904	₱ 1,880,423
Divided by weighted average number of common shares outstanding during year	5,127,510,179	4,940,399,068
Basic and Diluted Earnings Per Share	₱0.320	₱0.381

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## 8. Events After End of Reporting Period

### **Stock Rights Offering**

In November 2021, the Board of Directors of the Parent Company approved the Stock Rights Offering (SRO) wherein eligible shareholders of record, as of the date to be set in accordance with existing law and regulations (the "Record Date") will have the opportunity to participate and to subscribe to common shares that will be issued in connection with the proposed SRO, subject to the approval by the SEC, and compliance with the listing requirements of the PSE.

Together with debt being arranged by a leading local financial adviser and internally generated cash of the Group, the SRO proceeds will be utilized for the development of the Silangan Project.

On June 28, 2022, a Comfort Letter related to the proposed SRO was issued to BDO Capital & Investment Corporation (the "Issue Manager and Lead Underwriter").

Based on the terms and conditions of the SRO, total offered shares of 842 million were priced at Php3.15 per share, with expected proceeds to be at Php2.652 billion. Listing date was on August 3, 2022.