

S.E.C. Number 10044

File Number _____

PHILEX MINING CORPORATION

(Company's Full Name)

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

(Company's Address)

631-1381 to 88

(Telephone Numbers)

December 31

(Fiscal Year Ending)
(month & day)

SEC FORM 17-A Annual Report

Form Type

Amendment Delegation (If applicable)

December 31, 2017

Period Ended Date

(Secondary License Type and File Number)

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

ANNUAL REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SECTION 141 OF CORPORATION CODE OF THE PHILIPPINES

1. For the calendar year ended **December 31, 2017**
2. SEC Identification Number **10044**
3. BIR Tax Identification No. **000-283-731-000**
4. Exact name of issuer as specified in its charter: **PHILEX MINING CORPORATION**
5. **Philippines**
Province, Country or other jurisdiction of incorporation or organization
6. (SEC Use Only) Industry Classification Code:
7. **2nd Floor LaunchPad, Reliance Street corner Sheridan Street, Mandaluyong City,**
Metro Manila
Address of principal office Postal Code **1550**
8. **(632) 631-1381 to 88**
Issuer's telephone number, including area code
9. _____
Former name, former address, and former fiscal year, if changed since last report
10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sec. 4 & 8 of the RSA

<u>Title of Each Class</u>	<u>Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding</u>
Common shares, P1 par value (as of Dec. 31, 2017)	4,940,399,068
Debt Outstanding (as of December 31, 2017)	₱9,396,876,486
11. Are any or all of these securities listed on a Stock Exchange?
 Yes ☒ No ☐
 If yes, state the name of such stock exchange and the classes of securities listed therein:

Philippine Stock Exchange
Common Shares
12. Check whether the issuer:
 - (a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Section 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 that the issuer was required to file such reports).
 Yes ☒ No ☐
 - (b) has been subject to such filing requirements for the past 90 days.
 Yes ☒ No ☐
13. Aggregate market value of the voting stock held by non-affiliates: **₱29.395 billion** based on closing price at the Philippine Stock Exchange on April 10, 2018.



PART 1

BUSINESS AND GENERAL INFORMATION

Item 1. Business

CORPORATE PROFILE

Philex Mining Corporation (“PMC” or the “Company”) and its subsidiaries had been originally organized into two main business groupings: the mining business, which is directly under PMC, Philex Gold Philippines, Inc. (PGPI) Silangan Mindanao Exploration Co., Inc. (SMECI) and Silangan Mindanao Mining Co., Inc. (SMMCI), and the energy and hydrocarbon business under PXP Energy Corporation (PXP), formerly Philex Petroleum Corporation, not until July 15, 2016, when PXP and its subsidiaries ceased to be subsidiaries of PMC as a result of loss on control through property dividend distribution. Thus, currently, the Group focuses on its core mining business.

Mining Business

The Company was incorporated in the Philippines in 1955 and has been listed in the Philippine Stock Exchange since November 23, 1956. PMC, its wholly-owned subsidiaries namely, PGPI, SMECI and SMMCI (through SMECI), are primarily engaged in large-scale exploration, development and utilization of mineral resources in the Philippines.

PMC has been operating the Padcal Mine in Benguet for the past 60 years using the underground block-cave method, with a starter mine in 1958. It is one of the longest operating mines in the country and provides PMC its biggest source of revenue. In February 2016, the Company disclosed the results of exploration near the surface of Bumolo Project, which area is within Mineral Production Sharing Agreement (MPSA) 156-2000-CAR, with an estimated 21.7 million tonnes of inferred resources at 0.21% copper and 0.30 grams per tonne gold, at a cut-off of 0.274% copper equivalent. An additional drilling program, including metallurgical testing, was completed and yielded preliminary resources and grades of Indicated category at 11.4 million tonnes of 0.19% copper and 0.30 grams per tonne gold at 0.312% copper equivalent cut-off grade. The accessibility of the near-surface Bumolo ore to the existing Padcal mine and mill infra-structures makes it encouraging to pursue a mine feasibility study for the project.

PGPI, on the other hand, operated the Bulawan mine in Negros Occidental until the second quarter of 2002. The Company’s exploration strategy in the late 1980’s was focused on gold exploration, which resulted in the acquisition and staking of a number of primarily gold claim holdings throughout the Philippines. In July 1996, these gold assets were transferred to PGPI. These assets included the Bulawan mine in Negros Occidental, Negros Island, which operated commercially from January 1996 until 2002, when it was decommissioned due to unfavorable metal prices. The Bulawan mine currently has remaining resources of 23.9 million tonnes, including that of the Vista Alegre area. Exploration projects in the Vista Alegre area include the Nagtalay project and the Laburan/Skid 9 project, which have completed the geological modelling and preliminary resource estimation.

SMECI, through SMMCI, completed the acquisition of the Silangan Copper and Gold Project (the “Silangan Project”) covering the Boyongan and Bayugo deposits in Surigao del Norte, Northeastern Mindanao, Philippines in April 2010 and had been progressing with the project’s development since then. All mineral rights held by SMMCI with respect to the Silangan Project area remain valid and subsisting.

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

SMMCI has initiated further studies to demonstrate project feasibility in order to develop the Silangan Project in an environmentally sound, socially acceptable, technically compliant and economically viable manner. Based on latest results following these parameters, the project is envisioned to be an underground mine with (1) a starter mine (Phase 1) to initially extract the near surface ore and improve the groundwater condition of the ensuing underground mine; and (2) the main mine (Phase 2) to extract most of the deep seated ore for the planned mine life. These studies are being advanced to include more details in support of project financing requirements.

Meanwhile, community development and environment enhancement programs are continuing in compliance with the ECC conditions and environmental, social and governance (“ESG”) commitments to the local communities.

Energy and Hydrocarbon Business

On February 29, 2016, the Company’s Board of Directors approved a property dividend consisting of shares of stock of PXP at the ratio of seventeen PXP shares for every one hundred shares of PMC, which was approved by the Securities and Exchange Commission on June 22, 2016.

The transaction reduced PMC’s shareholdings in PXP, effective July 15, 2016, from 64.7% to approximately 19.8%, and allowed PMC to leverage on its key strengths and focus its resources on its core business of metals mining, particularly with respect to the extension of Padcal’s life of mine, commercial operations of the Silangan project and development of other Company mining tenements.

PXP’s market capitalization as of April 10, 2018 amounted to ₱29.395 billion.

CORPORATE OBJECTIVES

CORPORATE OBJECTIVES				
2018	2019	2020	2021	2022
Increase operational efficiency in Padcal				
Extend Padcal's life of mine through extensive exploration around Padcal and possible conversion of mineral resources under new parameters				
Manage Silangan under DAO-2017-10	Proceed with mine development of Silangan			
Pursue joint-venture and/or farm-in/out agreements for other tenements				
Support energy and hydro-carbon exploration activities of an affiliate				
Launch right and principled mining as enhancement to responsible mining				

PRODUCTS/SALES

For the past 60 years, the Company has operated the Sto. Tomas II deposit at Padcal, Tuba, Benguet Province – the first underground block caving operation in the Far East.

The Company's Padcal mine produces copper concentrates, containing copper, gold and silver. Total ore extracted and processed from start of operation to 2017 aggregated to 409.279 million tonnes, producing 2.278 billion pounds of copper, 6.183 million ounces of gold, and 6.660 million ounces of silver.

Based on the Sales Agreement entered into by the Company and Pan Pacific Copper Co., Ltd. (Pan Pacific), a major Japanese copper producer jointly established by JX Nippon Mining & Metals Corporation and Mitsui Mining & Smelting Co., Ltd., in March 2004, 60% of the Company's annual copper concentrate production, approximately 40,000 dry metric ton of current production level, is committed to Pan Pacific up to contract year April 2018 to March 2019. Starting contract year April 2019 and onwards, this volume can go from 40% to 70% at the discretion of PMC. Pan Pacific processes the concentrates through its smelter plants and produces products, such as refined copper and precious metals. Pan Pacific is one of the leading buyers of copper concentrates in the world, procuring approximately 1.7 million tonnes of copper concentrates annually from around the world. Compared to this huge volume, the Company's shipments to Pan Pacific is relatively insignificant.

Meantime, the remaining copper concentrate production at 40% is under contract with Louis Dreyfuss Commodities Metals Suisse SA (LDC) up to March 2018. Bidding for this volume for the next contract year was conducted. The Company is about to award the contract to the winning bidder.

All of the Parent Company's sales revenues for the years 2015 to 2016 were from copper concentrate shipments made to Japan. In 2017, besides Japan, copper concentrates were shipped through LDC to Korea and China. The 2017 consolidated revenue of the Company included the net realizable value of mine products inventory at the end of the financial reporting period.

The contributions over the past three years of the gold and copper produced from the Padcal mine to sales revenue are as follows:

For the Year Ended December 31						
(In Million Pesos)	2017		2016		2015	
	Amount	Percent to Total Revenue	Amount	Percent to Total Revenue	Amount	Percent to Total Revenue
Gold	5,432	54%	6,209	60%	5,670	62%
Copper	4,475	45%	3,976	39%	3,450	38%
	9,908	99%	10,185	99%	9,120	99%
Total Revenue	9,985	100%	10,272	100%	9,189	100%

COMPETITION

The Company's sales of copper concentrates are based on internationally accepted pricing in the world market available from the London Metal Exchange. Since no one mine can affect international metal prices, competition among mining companies is indirect.

SOURCES AND AVAILABILITY OF RAW MATERIALS AND SUPPLIES

As generally defined, raw materials for the production of copper concentrate containing copper, gold and silver come from the ore, which is a naturally occurring solid material from which a metal or valuable mineral can be profitably extracted. It therefore follows that the ore that the Company mines from the Padcal ore body, known as the Sto. Tomas II ore body, is deemed to be the basic raw material of the copper, gold, and silver minerals actually produced. In the process of producing copper concentrates for shipment to smelters, labor, materials and supplies, power, and other services are employed and utilized.

Labor is generally provided by the Company's regular employees, augmented by accredited contractors for certain activities and projects.

Sourcing of machinery and equipment, including Maintenance, Repair and Operating Supplies (MRO) is handled by the Company's Supply Chain Organization. To ensure efficient mechanical availability of these mining and milling equipment and prevent supply risk, various medium-to long-term supply chain and inventory management strategies are maintained with major mining equipment manufacturers and Original Equipment Manufacturers (OEMs). Also, major mining consumables are either ordered locally or imported. Locally sourced mining consumables are diesel fuel, ball mill liners, explosives, lime, oil and lubricants, cement and sand, while indent or imported items are grinding balls, copper flotation reagents, major equipment spare parts, and off-the-road (OTR) tires. To assure ample supply, high quality performance, and minimized costs, various inventory and supply chain management strategies, such as economic order quantity (EOQ), just-in-time (JIT) outsourcing, and partnerships with various suppliers, are implemented.

Electrical power to run the Padcal Mine is currently sourced from TeaM (Philippines) Energy Corporation under a two-year contract for the supply of electricity, which contract was renegotiated in early 2016 under new terms for five years or up to December 25, 2020. The Padcal mine, however, has the capacity to self-generate standby electricity principally for mine underground use in case of supply interruptions, using bunker fuel generating sets. The National Grid Corporation of the Philippines provides the transmission lines for the delivery of power to the mine. Diesel fuel is used mostly for the Load-Haul-Dump (LHDs) equipment and the Low Profile Trucks (LPTs) mostly acquired from Sandvik, Epiroc (Atlas Copco), Napean, Inland, and Peti/Aramine utilized underground, and for the mine's transportation fleet.

The maintenance of the Padcal mine's cable-haul conveyor system to transport the ore underground to the mill is contracted with Prince ACE Corporation, a Philippine company that

works closely with Conveyor Design Engineering (Australia) and JV Industries (Australia). The Company has its own drilling expertise and equipment to conduct its own drilling activities, but drilling contractors, such as DrillCorp Philippines, Inc., and Indodrill Philippines, Inc., were also utilized, particularly for exploration, in 2017. From time to time as may be needed, local and foreign consultants would also be engaged to provide the Company technical advice or assistance in doing specific engineering projects.

EMPLOYEES

The Company's total manpower complement, including those of subsidiaries, totaled 2,169 and 2,023, in 2017 and 2016, respectively.

The manpower complement of the Parent Company as of December 31, 2017 consisted of 2,119 full-time regular employees (2,021 from Padcal and 98 from Mandaluyong Head Office). Of the Company's employees, 1,791 were in operations while 328 were involved in support service functions. Employee classifications according to rank were as follows:

	Dec. 31, 2017	Dec. 31, 2016
Officers and Managerial	117	125
Supervisory	523	488
Rank & File	1,479	1,369
Total	2,119	1,982

The overall average tenure of employees is 12.5 years, with an average age of 41.5 years old. The employee population's gender distribution was 93% male and 7% female. The Parent Company anticipates no material change in the number and type of employees within the ensuing twelve months.

The Padcal employees belong to two collective bargaining agents: the Philex Rank-and-File Employees Union-Association of Labor Unions (Trade Union Congress of the Philippines) [PRFEU-ALU (TUCP)] for rank-and-file employees and the Philex Mining Supervisory Employees Union-Association of Professional Supervisory Office Technical Employees Union (Trade Union Congress of the Philippines) [PMSEU-APSOTEU (TUCP)] for supervisors. The five-year collective bargaining agreements (CBAs) with both unions were signed in January 2016 with effectivity up to January 2, 2020 for PRFEU-ALU (TUCP) and up to May 1, 2020 for PMSEU-APSOTEU (TUCP).

On the other hand, Head Office rank-and-file employees are members of the Philex Pasig Employees Union. The Collective Bargaining Agreement was signed by the Philex Pasig Employees Union and the Company on April 6, 2017 and was registered with DOLE on February 20, 2018. The Agreement will be renegotiated anew in 2019-2020.

There has been no major labor dispute or strike by any of the Company's unions in the past five years. In addition, the Company has no other supplemental benefits or incentive arrangements under its collective bargaining agreements with the unions other than the usual employee benefits, such as vacation and sick leave pays, among others.

MINING PROPERTIES / ROYALTY AGREEMENTS

PMC's mineral properties or tenements in the Padcal mine and its vicinity have a total area of 12,059 hectares located within the municipalities of Tuba and Itogon in Benguet Province. These are all covered by existing mineral agreements and applications.

Padcal Mine, where Sto. Tomas II deposit is situated, is covered by MPSA 276-2009-CAR¹, valid up to January 19, 2034, with an area of 81 hectares. MPSA-276-2009-CAR was issued under the names of the heirs of Baldomero Nevada, Sr., Trinidad Nevada and Baldomero Nevada, Jr. (the “Nevadas”). The Nevadas transferred their rights to explore, develop and utilize the mineral property under the mineral agreements covered by MPSA-276-2009-CAR to PMC by virtue of a royalty agreement executed on August 29, 1955 for an indefinite term, in consideration of royalty payments of 1% for copper and 4% for gold and silver based on the net revenue of minerals after deducting smelting charges.

Contiguous to the area covered by MPSA-276-2009-CAR are two other mineral agreements covered by MPSA-156-2000-CAR and MPSA-157-2000-CAR, both issued on April 10, 2000 and valid up to April 10, 2025, and mineral applications under EXPA-075-CAR, EXPA-078-CAR, and APSA-098-CAR.

A summary of the Padcal vicinity mining tenements and applications is shown in the table below:

Tenement	Operator / Contractor	Area ² (in Hectares)	MPSA Date of Expiration
MPSA-156-2000-CAR	PMC	3,848	April 10, 2025
MPSA-157-2000-CAR	PMC	2,958	April 10, 2025
MPSA-276-2009-CAR	PMC	81	January 19, 2034
EXPA-075-CAR	PMC	486	n/a
EXPA-078-CAR	PMC	4,561	n/a
APSA-098-CAR	PMC	125	n/a
Total		12,059	

Padcal Mine Mineral Resources As of December 31, 2017

Ore Sources	Classification	Tonnes (in million)	Copper %	Gold g/t	Contained Metals	
					Copper (in million lbs.)	Gold ('000 ozs.)
908-782ML						
908ML	Measured + Indicated	51.2	0.26	0.46	291.3	752.0
798ML	Measured + Indicated	27.9	0.21	0.37	127.5	333.0
782ML	Measured + Indicated	26.0	0.23	0.39	134.7	324.0
Subtotal	Measured + Indicated	105.1	0.24	0.42	553.5	1,409.0
800-600ML	Measured + Indicated	80.6	0.20	0.44	361.1	1,152.0
Total	Measured + Indicated	185.7	0.22	0.43	914.6	2,561.0

Notes:

1. Geovia GemsTM software was used to generate the resource estimate based on the assumed Padcal Mine economic parameters:

Metal Prices	Copper: US\$2.90 / lb	Forex	P51.00 to US\$1
	Gold: US\$1,280 / oz	Operating Cost	P948 per tonne
Metal Recovery	Copper: 80%	Conversion Factor for Gold to CuEq	0.644
	Gold: 80%	Break-even Grade	0.363% CuEq

2. Mineral Resource reported is based on the Resource block model prepared by R. C. Obial & Associates.

¹ Originally, mineral claims registered with the Mining Recorder of the City of Baguio and renewed as Lease Lode Claims No. V-163, V-164, V-323, V-324, V-325, V-326, and V-327.

² Excluded mineral applications that were already terminated and which areas were already included within approved MPSAs.

3. Mineral Resource Estimates followed the terminology and guidelines set forth in the Philippine Mineral Reporting Code ("PMRC").
4. Total resources include proved reserves.
5. All tonnage information has been rounded to reflect the relative uncertainty in the estimates; there may therefore be small differences in the totals.

This resource statement was prepared by Mr. Noel C. Oliveros, Exploration Division Manager of Philex Mining Corporation, who has sufficient experience relevant to the style of mineralization of Sto. Tomas II Porphyry Copper Deposit. Mr. Oliveros is a Competent Person for Exploration and Mineral Resource Estimation under the definition of the Philippine Mineral Reporting Code ("PMRC"). He is a professional Geologist with PRC License No. 1285 and accreditation number Geology CP-07-08-07. He has given his consent to the Public Reporting of this statement concerning Mineral Resource Estimation.

Padcal Mine Proved Reserves As of December 31, 2017

Ore Sources	Tonnes (in million)	Copper %	Gold g/t	Recoverable Metals	
				Copper (in million lbs.)	Gold (^{'000} ozs.)
908ML	0.1	0.20	0.42	0.4	1
798ML	20.8	0.20	0.34	71.2	183
782ML	8.3	0.21	0.27	30.4	56
760ML	12.1	0.21	0.49	44.0	152
730ML	7.1	0.19	0.46	23.7	84
700ML	3.9	0.20	0.44	13.8	44
Total	52.3	0.20	0.39	183.5	520

Notes:

1. Geovia PCBC™ software was used in the above estimate with the following parameters:

Metal Prices	Copper: US\$2.90 / lb	Forex	P51.00 to US\$1
	Gold: US\$1,280 / oz	Operating Cost per Tonne	Above 760ML: P837 per tonne Below 760ML: P948 per tonne
Metal Recovery	Copper: 80%	Conversion Factor for Gold to CuEq	0.644
	Gold: 80%	Break-even Grade (% CuEq)	Above 760ML: 0.321 Below 760ML: 0.363

2. The operating cost per MT of ~~P~~948 is based on the actual 2017 costs of ~~P~~837 and additional operating costs of ~~P~~111 at the lower levels.
3. Meanwhile, the FOREX rate of ~~P~~51/US\$1 is the conservative projection of the Company and is higher by 6% compared with last year's ~~P~~48/US\$1.
4. Additional reserves from 908ML are to be extracted from pillar robbing activities from mined out blocks.
5. Deliberation for additional mine life is in progress along with ongoing study to increase capacity of tailings storage facilities.

This Reserve Statement was prepared by Engr. Ricardo S. Dolipas II (BSEM) Mine Division Manager of Philex Mining Corporation. Engr. Dolipas is a Competent Person under the definition of the PMRC and has sufficient experience as to the type of deposit and style of mining in Padcal Mine. He is a licensed mining engineer with PRC registration number 0002513 and CP accreditation number EM 0002513-021/13. He has given his consent to the Public Reporting of this statement concerning Mineral Reserve Estimation.

On October 28, 2015, the declared life of mine of Padcal Mine has been extended to year 2022 from 2020 due to an additional 20 million tonnes declared proved reserves.

On February 22, 2016, the Company disclosed the results of exploration near the surface of Bumolo Project, which area is within MPSA 156-2000-CAR, with an estimated 21.7 million tonnes of inferred resources at 0.21% copper and 0.30 grams per tonne gold, at a cut-off of 0.312% CuEq. Thereafter, an additional drilling program, including metallurgical testing, was completed and yielded preliminary resources and grades of Indicated category at 11.4 million tonnes of 0.19% copper and 0.30 grams per tonne gold at 0.312% copper equivalent cut-off grade.

Other mineral agreements and/or applications of the Company, such as EXP-000004-VI for mineral property located in the Province of Negros Occidental, and mineral agreements and/or applications of its subsidiaries and affiliates are discussed in the Exploration and Development section of this report.

PATENTS, TRADEMARKS AND LICENSES

The Company has several areas targeted for exploration within the vicinity of the Padcal Mine, which has a total of 12,059 hectares covered by the mining agreements and applications identified in the table above and in the Exploration and Development section of this report. Also on September 27, 2017, the DENR issued an Environmental Compliance Certificate for the Company's Tailings Storage Facility No. 3, a pollution-control device. Apart from these mining properties and tenements, the Company holds no other patents, trademarks, copyrights, licenses, franchises and concessions from the government issued and granted to the Company by government authorities on which the Company's Padcal mine operations depend on.

GOVERNMENT REGULATIONS AND APPROVALS

Existing governmental regulations affect the Company's operations, particularly on the costs of compliance reflected either as expense or as capital asset under generally accepted accounting principles. In the case of new government regulations, the effect or impact of such new governmental regulations on the Company's operations could only be determined upon their passage and implementation.

The exploration, development and utilization of the country's natural resources is governed principally by the 1987 Constitution, which provides that the State may directly explore, develop, and utilize the country's natural resources, or it may enter into co-production, joint venture or production-sharing agreements with Filipino citizens or corporations or associations, at least sixty per centum of whose capital is owned by such citizens. The Constitution also authorizes the President of the Republic of the Philippines to enter into technical or financial assistance agreements with foreign-owned corporations for large-scale exploration, development, and utilization of minerals, petroleum, and other mineral oils in accordance with the general terms and conditions of applicable laws, based on real contributions to the economic growth and general welfare of the country. Several laws have since been enacted to implement these Constitutional principles and directives.

RA 7942: Mining Act of 1995, approved on March 3, 1995

Republic Act 7942 or the Mining Act of 1995 sets out the provisions governing mining and mining-related activities in the country. The Mining Act declares the areas open for mining operations and at the same time, enumerates those closed for mining applications. More importantly, said law sets forth the mining cycle and the corresponding permits needed for each phase: from exploration to the declaration of mining project feasibility, to the positive determination of commercial viability of a project, to the execution of mineral agreements with the government prior to actual operations, until the required rehabilitation after operating a mine.

RA 8371: Indigenous Peoples' Rights Act of 1997, approved on October 29, 1997

RA 8371 or the Indigenous Peoples' Rights Act of 1997 ("IPRA Law") introduced the requirement of "Free and Prior Informed Consent" (FPIC) which means the consensus of members of the concerned Indigenous People (IP) / Indigenous Cultural Community (ICC). Under this, all departments and governmental agencies are strictly enjoined from issuing, renewing, or granting any concession, license or lease or entering into a production sharing agreement, without prior certification from the National Commission on Indigenous Peoples (NCIP), which certification can only be issued after the FPIC with the IPs / ICCs concerned is secured and the process concluded.

PD No. 1586, Environmental Impact Assessment System (EIA), issued on June 11, 1978

Presidential Decree No. 1586 (PD No. 1586) introduced the Environmental Impact Assessment System (EIA) which mandates that "no person, partnership, or corporation shall undertake or operate any such declared environmentally critical project or area without first securing an Environmental Compliance Certificate issued by the President or his duly authorized representative". Hence, pursuant to PD No. 1586, the Mining Act of 1995 requires mining companies to secure an Environmental Compliance Certificate (ECC) in all phases of mining activities, except during the exploration stage.

EO 79 issued on July 6, 2012

Executive Order No. 79 was issued by President Benigno Aquino III creating the Mining Industry Coordinating Council (MICC) and instituting changes to ensure the practice of responsible mining in the country. EO No. 79 also provides that no new mineral agreements shall be entered into until a legislation rationalizing existing revenue sharing schemes and mechanisms shall have taken effect. The DENR may nevertheless, continue to grant and issue Exploration Permits under existing laws, rules, and guidelines.

DAO No. 2017-10 issued on April 27, 2017

Department Administrative Order (DAO) No. 2017-10, issued by the DENR, prohibited the use of the open pit mining method in the extraction of copper, gold, silver and/or complex ores. According to DAO No. 2017-10, open pits allegedly bring adverse impacts to the environment due to the generation of acidic and/or heavy metal-laden water, erosion of mine waste dumps and/or vulnerability of tailings dams to geological hazards.

RA 10963: Tax Reform for Acceleration and Inclusion (TRAIN) approved on December 19, 2017

Republic Act No. 10963 increased the excise tax on gold, copper and other metallic minerals from 2% (under the National Internal Revenue Code) to 4% based on the actual market value of the minerals gross output.

EXPLORATION AND DEVELOPMENT

Exploration and development (the equivalent of research and development for a mining company) are currently undertaken by the Company's in-house team, with or assisted by consultants and other service providers, like engineering and/or drilling contractors. Expenses related to exploration and development for 2017, 2016 and 2015 amounted to ₱691.3 million, ₱625.3 million and ₱2.488 billion, respectively.

Note 13 of the Notes to Consolidated Financial Statements of the Exhibits in Part V, Item 14 is also incorporated hereto by reference.

Padcal Projects in Benguet

The Padcal Mine, which Philex has been operating since 1958, is the first underground block cave operation in the Far East. The mine produces copper concentrates, with gold and silver as by-products.

Exploration activities in 2017 focused on four prospects in the vicinity of Padcal Mine, all within MPSA-156-2000-CAR. These are Southwest (with intensive drilling for porphyry copper-gold), Tapsan (with scout drilling for vein gold), North Midway (with scout drilling for porphyry copper-gold), and Oliva (with scout drilling for porphyry copper-gold).

Southwest Project

The Southwest prospect lies about 0.8 kilometers (kms) from the Santo Tomas II orebody, where active mining is being undertaken. In 2017, drilling resulted in a total of 10,311 meters (m) from 18 drill holes. Results from these holes provided an updated understanding of the mineralization in this prospect from historical drilling in the 1980s and in 2011 to 2012.

Significant hypogene copper mineralization of chalcopyrite and bornite, hosted in a phreatomagmatic breccia-intrusive pipe, was intersected during the drilling activities. Aside from hypogene mineralization, supergene mineralization, as tenorite and chalcantite, occurs in the northwest portion of the prospect and is limited within structures. Follow-up drilling of the early significant intercepts resulted in a narrow mineralized zone, which is currently the subject of ongoing mineral resource estimation.

Tapsan Project

Drilling in the Tapsan prospect for gold mineralization commenced in the third quarter of 2017. Mapping of outcrops and gold veins from a number of tunnels identified three main gold zones. No significant gold resource has yet been discovered due to the limited volume of the narrow gold veins intersected in the first two scout holes.

North Midway

North Midway lies three kms from Sto. Tomas II ore body. Scout drilling commenced in May 2017 and ended on January 22, 2018. Four (4) holes with an aggregate depth of 2,538 m were drilled in 2017. The best intersection is an 18 m interval of 0.16% Cu and 0.53 g/t Au. A review of the next phase of follow-up drilling is ongoing.

Oliva

Oliva lies 2 kms south of Sto. Tomas II ore body. The two drill holes yielded negative of mineralization and alteration. As such, no further exploration was conducted.

Support to Operations

Underground mapping and sampling was accomplished through 2,208 samples collected over 6,624 m of horizontal and vertical tunnel advance.

In addition, the Mine Geology team also provided geotechnical assistance to mine operations in the following:

- a) Hydrogeology study of Padcal Mine – The activity was conducted for the possible dewatering program of Padcal Mine, should mining proceed below the 800ML, where substantial mineral resources occur. A total of 1,922.20 m of core samples were logged for this study. The team worked closely with an SMEC consultant.
- b) Geotechnical drilling in the TSF-3 Spillway – The team conducted geo-mechanical core logging of the last five drill holes in close coordination with the geotechnical consultant, Golders Associate.

- c) Annual assessment of the stability of the Subsidence Area – Fifteen survey lines of 5.5 line-kilometers were surveyed over the subsidence floor over three months, utilizing the in-house induced polarization (IP) geophysical instrument. Geotecnica Corp. processed and interpreted the raw data in the memorandum report entitled “*Electric Resistivity Survey to Map Groundwater Distribution in the Subsidence Area*”. Furthermore, a report entitled “*Hydrology and Drainage of the Subsidence Area*” was also released by the consulting firm last January 2018.
- d) Geo-hazard assessment – The program was conducted along Philex-Kias Provincial Road and other road networks within and around the minesite to evaluate potential hazards.

The Mine Geology team also extended technical support to mill operations through petrographic analyses of mill-stream samples, like filter cake, copper middling, and final flotation tail samples, to monitor mineralogical changes.

Silangan Project

The Silangan Project, located in Surigao del Norte, consists of two deposits – wholly-owned Boyongan and Bayugo, a portion of which is the subject of a joint venture agreement with Manila Mining Corporation. The Boyongan and Bayugo deposits and sites for the proposed waste and storage facilities are located within the tenement areas covered by MPSA 149-99-XIII and EP 000013-XIII. As of to date, all mineral rights held by SMMCI with respect to the Silangan Project area are valid and subsisting.

SMMCI is registered with the Board of Investments (BOI) as a non-pioneer project entitled to four years of income tax holiday beginning 2017, extendable for another two years subject to certain conditions. In October 2016, SMMCI filed a request with the BOI on the movement of the start of the income tax holiday to the beginning of 2021. The approval of this request is currently pending with the BOI as of to date.

In July 2016, MPSA-149-99-XIII was reduced to 2,202 hectares after relinquishing 677 hectares that are outside the existing mine development and maintenance plan. It also relinquished 6,934 hectares from its EP-XIII-013 as part of government prescribed requirement for exploration permit renewal. EP-XIII-013 is now reduced to 5,000 hectares from the previous 11,934 hectares. These two tenements which are held by SMMCI are surrounded by other PMC tenements and applications within Surigao del Norte, as listed below:

Tenements	Operator / Contractor	Area (in Hectares)	MPSA Date of Expiration
MPSA-149-9-XIII	SMMCI	2,202	December 29, 2024
MPSA-034-95-X	SMMCI	405	February 1, 2021
EP-XIII-013 Lot-A&B	SMMCI	5,000	
EPA-XIII-012	SMMCI	2,330	
EPA-000039-XIII	SMMCI	6,683	
Total		16,620	

The reported resources for Boyongan and Bayugo as of August 5, 2011, were as follows:

	Tonnes (millions)	Copper %	Gold g/t	Contained	
				Copper (million lbs.)	Gold (000 ozs.)

BOYONGAN					
Measured	201	0.54	0.78	2,400	5,000
Indicated	72	0.46	0.57	720	1,300
Measured + Indicated	273	0.52	0.72	3,120	6,300
Inferred	26	0.41	0.49	240	400
BAYUGO					
Measured	99	0.64	0.65	1,390	2,100
Indicated	26	0.76	0.69	430	600
Measured + Indicated	125	0.66	0.66	1,820	2,700
Inferred	7	0.77	0.60	120	100

Mr. Noel C. Oliveros, Exploration Division Manager and Head of the Exploration and Resource Estimation Group of Philex Mining Corporation, has given his consent to the release of this resource estimate. The resource estimate is compliant with the rules and guidelines as set forth by the Philippine Mineral Reporting Code (PMRC). Mr. Oliveros has sufficient experience in resource evaluation relevant to the style of mineralization in the Surigao Mineral District. Mr. Oliveros is a Competent Person for Exploration and Mineral Resource Estimation under the definition of the PMRC. He has given his consent to the public reporting of this estimate following the PMRC guidelines concerning Mineral Resource Estimation.

BOYONGAN AND BAYUGO DEPOSITS

In November 2010, as part of the Project's pre-feasibility study, SRK Consulting – an independent leading international mining engineering consulting firm based in Canada – was engaged by SMMCI to make an independent evaluation of the project. SRK recommended the construction of an exploration decline or ramp to the bottom of the Boyongan deposit as part of a geotechnical investigation to provide more reliable and specific information on the area's ground condition for purposes of mine planning and design as well as to obtain bulk samples from the ore body.

The development of the decline started in April 2011 and advanced until January 2015, reaching a distance of 1,415m from the portal, with dimensions of 5m-high and 5m-wide. The center of the Boyongan deposit's eastern high grade zone was mapped and bulk sampled via a crosscut, called the Ore Characterization Drive (OCD), approximately 800 meters from the decline. Another bulk sampling program was conducted from the surface using large diameter bore holes from May to December 2014. The decline, together with the OCD, was decommissioned last November 2015 and the portal was closed before the end of 2015.

Under the supervision of Brisbane-based lead consultant AECOM, a total of 100+ tons of bulk ore samples were prepared and shipped to various laboratories in Australia for bench and pilot metallurgical tests. This would be used for the development of the pilot plant. Meanwhile, the process flow design of the pilot plant, which produced copper cathodes, would be a significant input to the Definitive Feasibility Study (DFS).

Value-engineering studies on the project was undertaken by AUSENCO, an independent engineering firm also based in Brisbane, Australia in early 2016. The study progressed into a full DFS and was recently completed. Furthermore, AUSENCO also completed an optimization study, up to PFS level, which included mining the remaining mineral resource of Boyongan and the Bayugo ore body using the underground method.

The project's amended ECC for the surface mining method was approved in May 2016 following the approval of the amended Mining Project Feasibility Study in connection with the approved Declaration of Mining Project Feasibility.

The total expenditure related to the project as of December 31, 2017 amounted to P17.485 billion, including the P1.438 billion incurred prior to 2009, when the project was under Anglo. The figure does not include the fair value adjustment amounting to P5.552 billion.

KALAYAAN PROJECT

In May 2011, the Company executed a Farm-In Agreement with Manila Mining Corporation (MMC), which involved the purchase of a 5% equity interest in Kalayaan Gold-Copper Resources Inc. (KGCRI), a subsidiary of MMC that assigns the right to explore the Kalayaan properties covering 286 hectares under EP-XIII-014B. This area is adjacent to EP-XIII-013 and is containing the Bayugo deposit.

Under the agreement, the Company was to conduct exploration activities in the property for three (3) years but was extended for an additional three years. Exploration of the area is currently on hold pending the approval of the Third Renewal of the Exploration Period. In the event the Company declares commercial feasibility of the area within the period, it will have the right to increase its holdings in KGCRI to 60% by subscribing to an additional 55% of KGCRI's outstanding capital stock for a minimal amount and will become an integral part of the Silangan Project.

The Company commenced drilling in December 2011 after ground preparations, environmental mitigating measures and community-relations initiatives had been conducted. This transpired for about seven (7) months after the signing of the Farm-In Agreement. By September 2013, a total of 73,520 meters had been drilled, of which 66,486 meters were for resource definition and 7,034 meters for scout drilling.

In 2014, detailed logging of 57 definition drill holes of East and West Bayugo, totaling 26,104.64 meters, was completed. This activity increased the confidence in the understanding of the mineralization. In addition, magnetotellurics (MT) survey from the surface was conducted, which provided preliminary data on the hydrologic model of the Boyongan and Bayugo deposits.

Other Significant Projects

During the course of the year, the Company's Exploration Group also evaluated proposals for possible joint-ventures and/or operating agreements. However, insufficient data and the overall challenging regulatory climate prevented the Company from pursuing the offers further.

The Company focused on more advanced exploration projects such as the Silangan Project and areas within Padcal vicinity. As a result, Exploration activities in each of the Company's various Mineral Production Sharing Agreements (MPSAs) located in Negros Occidental, Surigao del Norte and Zamboanga Del Norte have not been prioritized.

COMPLIANCE WITH ENVIRONMENTAL AND SOCIAL LAWS

The Company's Padcal mine had been issued ISO14001 Certification since 2002 for Environmental Management System. This certification has been suspended because of the tailings spill accident in the second half of 2012. The Company developed an Integrated Management System (IMS) in 2014. Evaluation of TUV Rheinland resulted in two certifications,

ISO-14001 and Occupational Health and Safety Management, BS OSHAS 18001. Silangan is also ISO-14001 certified.

With the Company's commitment to its environmental and policy statement of protecting and enhancing the environment, it has spent total environmental expenses of P446 million in 2016, bringing the Company's expenditures from 1967 to date to P5.804 billion.

The Company and its subsidiaries have been consistent winners in environmental contests. Awards won for the last three years include; for the Padcal mine, First runner up in 2016 and as the Best Mining Forest champion in 2012 and 2011, and for the Silangan Project, as first runner-up in 2015, second runner-up in 2014 and 2013, first runner –up in 2011 and third runner-up in 2010-Best Mining Forest Contest (Exploration Category). Silangan Project won the Platinum Achievement Award in 2016 and the Presidential Award, the highest award from the Presidential Mineral Industry Environmental Award for Mineral Exploration category for two consecutive years in 2015 and 2014.

As a responsible mining company, PMC and its subsidiaries adhere to its corporate environmental stewardship implementing rehabilitation and restoration of areas affected by various mining and exploration operations.

Total Disturbed Areas Reforested and Maintained

Name of Project	Area disturbed (hectares)	Project Status	Area reforested (hectares)	Type of reforestation	Type of species planted
PMC Padcal Mine	580	MPSA-276 Operation	2,850	Forest Plantation Agro-forestry	Calliandra, Benguet Pine, Gmelina, Kupang, Alnus, Antsoan Dilau, Eucalyptus, Agoho, Narra, Teak, Coffee, Mango, Avocado, Bougainvillea, Dapdap, Guava, Jackfruit, etc.
PGPI Bulawan	146	MLC- MRD510 Care & Maintenance	821*	Forest Plantation Agro-forestry	Mangium, Auri, Mahogany, Gmelina, Rain tree Coffee
PGPI Sibutad	38	MPSA-063 Care & Maintenance	178.69	Forest Plantation Mangrove Plantation	Mangium and Auri Bakauan ((Rhizophora Mucronata)
PMC-LMC Surigao	37	MPSA-148- Exploration	5	Forest and Agro- forestry	Falcata, narra, mangium, coffee

SMMCI Surigao	24.41	MPSA-149	79	Agro-forestry	Mahogany, Mangium, Falcata, Narra, Cacao, Coffee, Palawan Cherry, Lanzones, Marang, Rambutan, etc.
Kalayaan, Surigao	140,750 sq.m		93,397 sq.m	Agro-forestry	Falcata, coffee

** Areas on assisted natural regeneration (ANR) are included.*

ENVIRONMENTAL COMPLIANCE TO DENR REGULATIONS

In compliance with Environmental Regulations, PMC and its subsidiaries have implemented environmental management measures, installed pollution control measures or devices for identified sources of air, water and toxic pollution, and have regularly reported the results of its inspection and monitoring to the Environmental Management Bureau of DENR. The following environmental policies are complied with:

PD 1586: Establishing an Environmental Impact Statement System including other environmental management related measures and for other purposes. No person, partnership or corporation shall undertake or operate any declared environmentally critical project or area without first securing an ECC.

RA 6969: Toxic, Hazardous and Nuclear Waste Act. Is the Act regulating the handling, treatment and disposal of generated chemical wastes and other toxic and hazardous substances.

RA 8749: Philippine Clean Air Act: Is the Act that provides for the management of point and non-point sources of pollution and quarterly monitoring and testing of pollution source device or facility.

RA 9275: Philippine Clean Water Act: Is the environmental law regulating discharges of effluent from processing and other operation of the company.

Name of Project	Registration/Permit No	Permit Type	Date
PMC-Padcal Mine	ECC-CO-1612-0025	ECC for the Raising of the Tailings Storage Facility No. 3 from elevation 610 to 640 MASL	September 27, 2017
	CAR-0702-014-213	ECC for the Sanitary Landfill Facility-Category 1	March 09, 2007
	CAR-0411-107-120	ECC for the Tailings Storage Facility 3 Open Spillway	November 16, 2004
	CAR-0202-011-120	ECC for Alang Cut Silt Pond	April 02, 2002

	CAR-0108-053-208	ECC for the Access Road from the Cyclone Area to the Main Dam Embankment of Tailings Storage Facility 3	August 29, 2001
	CAR-0108-52-302	ECC for Quarry "H" for Tailings Storage Facility 3	August 29, 2001
	CAR-0108-51-302	ECC for Quarry "G" for Tailings Storage Facility 3	August 29, 2001
	ECC-9901-002-12	ECC for Fuel and Lubrication Station	September 22, 2000
	RIC-8604-012-301C	ECC for Nevada Group of mineral claims and other adjoining mineral claims	November 09, 1987
Padcal Mine Discharge Permits	2004-DP-K-141105-050	Tailings Storage Facility No. 3	November 07, 2015
	2007-DP-D-14112-079 / CNC-CAR-1310-0011	Oil Water Separator at Compressed Air Plant	July 06, 2015
	2007-DP-14112-063 /CNC-CAR-1310-0011	Alang-Cut Silt Pond	April 25, 2015
	2007-DP-D-14112-058 / CNC-CAR-1310-0006	Oil Water Separator at 1015ML UG Equipment Wash Bay Area	April 25, 2015
	2007-DP-D-14112-059 / CNC-CAR-1310-0007	Oil Water Separator at Motor Pool Area	April 25, 2015
	2007-DP-D-14112-061 / CNC-CAR-1310-0009	Oil Water Separator at Oil Yard of Banget Sludge Pond Area	April 25, 2015
	2007-DP-D-14112-060 /CNC-CAR-1310-0008	Oil Water Separator, Banget Sludge Pond, Used Oil Impounding Area	April 25, 2015
RA6969 – Chemical Control Order (CCO)	CCO-2010-003-CAR	CCO for PCB	September 23, 2010
	CCO-2010-001-CAR	CCO for Asbestos	May 28, 2010
	CCO-99-0002-M	CCO Registry	July 26, 1999
	No. 14-11-0003	DENR Registry ID	August 28, 1995
RA8749- Permit to Operate	2015-POA-I-141112-147	Diesel Engine Generator Set	September 21, 2015
	2005-POA-G-141112-113	Banget Storage Area Used Oil Impounding System (New Site)	July 20, 2015
	2005-POA-G-141112-112	Banget Power Plant	July 18, 2015

	2005-POA-G-141112-111	Banget Storage Area Used Oil Impounding System (Old Site)	July 18, 2015
	2005-POA-D-141112-077	Assay Laboratory	April 04, 2015
	2005-POA-D-141112-097	Bumulo Fuel and Lubrication Station	April 04, 2015
	2005-POA-D-141112-099	Foundary/Machine Shop	April 04, 2015
	2014-POA-I-141112-146	Diesel Fuel Storage Tank-Main Bodega	September 15, 2014
	2014-POA-I-141112-147	Diesel Fuel Storage Tank-Motorpool	September 15, 2014
PMC-LMC	DENR I.D No. 16-67-0092	Hazwaste Generator DENR Registry ID	December 10, 2013
PMC-Kalayaan	2013-POA-J-1367-315	Permit to Operate Air Pollution Installation Device/Facility	October 21, 2013
	2013-WDP-J-1367-154	Waste Water Discharge Permit	October 21 2013
	DENR I.D No. 16-67-0084	Hazwaste Generator DENR Registry ID	Feb. 13 2013
PGPI-Bulawan	06-45-0014	Hazwaste Generator DENR Registry ID	January 29, 1999
	DENR I.D No. 98-TPW-J-0645-161	Permit to Operate Air Pollution Installation Device/Facility	1998
	ECC # 0698-0203-034-120A	Environmental Compliance Certificate	February 04, 1998
PGPI-Sibutad	DENR ID. # 09-72-0003	Hazwaste Generator DENR Registry ID	January 04, 1999
	CCO Registry # 99-0016	Chemical Control Order Registry	January 19, 1999
	ECC # 9503-003-301	Environmental Compliance Certificate	January 23, 1997

In addition, an Environmental Protection and Enhancement Program (EPEP) is required to provide the operational link between the mining company's environmental protection and enhancement commitments under DAO No. 2010-21, as well as those stipulated in the Environmental Compliance Certificate (ECC) under P.D. 1586 and the mining company's plan of operation. As mandated, and pursuant to the R.A. 7942, the minimum required budget for the Annual EPEP ranges from 3-5% of the Direct Mining and Milling Costs of the company. In 2017, the Company complied with the EPEP, spending 11.4% of direct mining and milling costs, with the breakdown shown in the table below.

2017 ANNUAL ENVIRONMENTAL PROTECTION AND ENHANCEMENT PROGRAM (EPEP)	
	Amount (in Million P)
Land Resource Management	82.9
Water Resources Management	323.8
Hazardous and Toxic Waste Management	2.3
Air Quality Management	1.6
MRFC Meetings and MMT Monitoring Activities	1.7
TOTAL	412.4
DIRECT MINING AND MILLING COSTS	3,608.6
% TO MINING AND MILLING COSTS	11.4%

DEVELOPMENT OF HOST AND NEIGHBORING COMMUNITIES (DHNC) COMPLIANCE TO DENR REGULATIONS

Pursuant to R.A. 7942's Implementing Rules and Regulations (IRR), DAO 2010-21 Sec.134:

- The amount of DHNC should be equivalent to at least 1.5% of a mining company's total operating costs, with allocation on Social Development and Management Program (SDMP), Information Education Communication (IEC) and Development of Mining Technology and Geo-Sciences (DMTG)
- The SDMP shall be, in consultation and in partnership with the host and neighboring communities, actively promoted and should cover and include all plans, projects, and activities of the Contractor/Permit Holder/Lessee towards enhancing the development of the host and neighboring communities.

In 2017, the Company complied with the DHNC requirement and spent 1.9% of its total operating expenses to fund its overall community development program, as shown in the table below.

2017 DEVELOPMENT OF HOST AND NEIGHBORING COMMUNITIES (DHNC)	
	Amount (in Million P)
Health	7.4
Education	15.3
Livelihood	6.9
Public Infrastructure	87.1
TOTAL SDMP	116.7
Information, Education, and Communication	11.7
Development of Mining Technology and Geosciences	6.9
TOTAL DHNC	135.3
TOTAL OPERATING EXPENSES	7,257.0
% TO TOTAL OPERATING EXPENSES	1.9%

CORPORATE SOCIAL RESPONSIBILITY

The Company's corporate social responsibility (CSR) initiatives in Padcal are housed under Philex Group Foundation, Inc. (PGFI). PGFI's primary mandate is to empower its partner-

communities to become socio-economically independent, which is an offshoot of PMC's commitment to its host and neighboring communities of the Padcal mine.

Padcal mine has been in operation for the past six decades and the current ore body is nearing its mine life based on latest reserve estimates of 52.3 million tonnes as at end-2017 of the total estimated mineral resources of 185.7 million tonnes. To sustain its operations, the Company will have to look for another source of ore that will generate revenue streams. The Company nonetheless complies with its post-mining rehabilitation plan and intends to ensure that the communities left behind will continue to have a sustainable source of income and livelihood once the mine life has ended. With this in mind, the implementation of PGFI's main programs came hand-in-hand with the establishment of a social enterprise to provide a market for their partners in their entrepreneurial endeavors.

Organic Vegetable Farming

In 2017, PGFI's organic vegetable farming program continued to expand with eight (8) new farmers joining the program. In addition to this, Ligay Elementary School and Torre Elementary School also set up vegetable gardens in their respective campuses, in compliance with the Department of Education's requirements.

The new partner-farmers and two elementary schools showed a good collective performance during the year, with average weekly production approximated at 100 kilograms. Likewise, the core partner-farmers shared with newly joined farmers techniques about organic farming training and showed them how to be trainers as well.

As a result, harvest of organic vegetables last year from of core partner-farmers at Balayan, Makalbung, and Torre, increased 54% to 3,823 kilograms while corresponding incomes grew 66%.

To provide continued support, Philex Group Foundation, Inc.'s (PGFI) social enterprise unit, Px Community Foods and Marketing, Inc. (PxCFMI), has renewed its certification from the Organic Certification Center of the Philippines (OCCP) for all the partner-farms.

KapeBuhayan: Coffee Farming and Roasting

Under the coffee farming program, PGFI received a grant from Metrobank Foundation, Inc. for the expansion of the KapeBuhayan program. The donation targeted four (4) communities in the host and neighboring communities around Padcal mine and involved farm-based training and simultaneous actual farm rehabilitation. The training will be conducted by trained core partner-farmers and will be kicked off in 2018 by the four targeted community farms located in Benguet.

Scholarship Grants

On top of the free and subsidized education benefitting approximately 2,000 students, composed of PMC employees' children and other deserving pupils within Padcal and its host and neighboring communities, the Company also granted scholarship packages for college students at the University of the Philippines (UP), St. Louis University (SLU) in Baguio, and University of Asia and the Pacific (UA&P). As of 2017, the number of students benefitting from PMC's scholarship programs are as follows:

- University of the Philippines – 12
- University of Asia & the Pacific – 8
- St. Louis University – Baguio – 34

RELATED PARTY TRANSACTIONS

PMC has extended loans and advances to some of its subsidiaries were presented under Part III, Item 12 of this report.

MAJOR BUSINESS RISKS

REGULATORY

Regulatory risks are changes in regulations, policies, and law that will affect the mining industry and Company in particular.

The local mining industry is undergoing a transformation under the current regime and several policy directions dictate the behavior of mining operations and investments into the sector. Under the present administration, the Department of Environment and Natural Resources (DENR) ordered the audit of all operating mines in the country in August 2016. PMC's Padcal Mine was one of the companies not recommended for suspension. However, other standing orders from the DENR continue to pose risks.

- *Issuance of DENR show cause order for the cancellation of 75 MPSAs.* In addition to the closure order on 23 operating mines, the DENR also issued a show cause order for the cancellation of 75 MPSAs across the country, which includes those that were awarded to PMC and its subsidiaries. As of this writing, the DENR has yet to respond to PMC's reply to the show cause letter, stating the validity of the Company's MPSAs.
- *Release of DAO-2017-10 banning the use of open-pit mining.* The DENR also ordered the ban on the use of open-pit mining method in the country under DENR Department Administrative Order ("DAO") 2017-10. The MICC, co-chaired by the Department of Finance and the DENR, recommended the lifting of DAO-2017-10. The Philippine Mining Act of 1995 allows surface mining, such as the open-pit mining method practiced in advanced economies like Canada, Australia, and the United States of America.

STRATEGIC

Strategic risks are internal and external events and scenarios that could impede the organization's ability to achieve its strategic objectives and long-term growth targets.

Mining operations are constrained by an ore body's life of mine and sustainability depends largely on the pipeline of commercially viable mining deposits. There can be no assurance that the exploration of mining tenements, where the Company has legal and valid interests in, will result in the establishment of commercially viable mining operations.

- *Failure to extend Padcal's life of mine beyond 2022.* The Company's only operating mine at Padcal has a declared life of mine of up to 2022, with still 98 million of unconverted resources. While PMC is aggressively exploring areas within and around Padcal to ensure steady volumes of ore for the years beyond, challenges are encountered in identified exploration sites, causing delays in exploration timetables. Nonetheless, the Company is expediting negotiations to secure approval and complete exploration works. In addition, engineering studies are also underway to increase the volume of available storage facilities to accommodate additional tailings and provide the basis for further mine life extension after 2022.
- *Delay in launching Silangan due to DAO-2017-10.* The Company's Silangan project has secured and currently maintains all major permits from the ("DENR") including environmental compliance certification ("ECC"), a tree-cutting permit and approved Declaration of Mining Project Feasibility. However, DAO-2017-10, which bans the use of open pit mining method, has yet to be lifted. In the meantime, community development and environment enhancement programs are continuing in compliance with the ECC conditions and environmental, social and governance ("ESG") commitments to the local communities.

FINANCIAL

Financial risks are events that could have an impact on the Company's financial performance, cash flows, and financial position.

- *Difficulty in raising funds due to industry sentiment.* The next step in Silangan's development is project financing, which is currently on hold due to DAO-2017-10. In addition, the regulatory environment in the mining industry has undermined the true value of the Silangan project. The Company is constantly engaging concerned parties and educating the public on the real benefits of mining. Likewise, the Chamber of Mines of the Philippines, through the initial steps taken by Philex, has formally signed an agreement with the Mining Association of Canada to adopt the Towards Sustainable Mining (TSM) Initiative in the local setting.
- *Write-off of idle assets.* The Company has a number of mining tenements in various areas nationwide. These assets are the subject of provisions, which can have material impact on the Company's financial position. PMC is constantly exploring joint ventures or farm-in/out agreements, with interested parties, to reflect their fair value in the balance sheet.

OPERATIONAL

Operational risks are developments that could disrupt normal operations and affect the overall occupational health and safety performance at Padcal Mine, whether natural or manmade.

- *Adverse underground conditions at Padcal Mine.* The unstable ground conditions in the current ore body, coupled with the presence of bouldery ore and risks of mud rush, has affected operations, resulting in lower tonnage and metal output in 2017. To improve operating performance, the Company has installed new equipment and enhanced work processes.
- *Acts of terrorism and insurgency threats.* An incident of terrorism transpired in 2017, which affected the transport of ore from the Padcal mine site to the Poro Port installation for shipment. The Company has since increased vigilance among residents within the camp and coordinated with various groups to identify and deter possible threats.

ENVIRONMENTAL, NATURAL AND SOCIAL

Being in a natural resource operation, the Company is inherently subject to potential environmental, natural and social concerns. The Company is also subject to Philippine laws and regulations governing the environmental and social impact of its operations.

- *Environmental incidents.* To manage the risk, the Company puts a great amount of effort and invests a substantial amount of resources into environmental protection and rehabilitation through its Environmental Protection and Enhancement Program. This is in addition to ensuring compliance with all applicable environmental laws and regulations. As a manifestation of its commitment to responsible and sustainable mineral resource development, the Company has adopted an environmental policy statement, which is consistent with ISO 14001 Certification on Environmental Management Systems. The Company has a pollution liability insurance to respond to possible claims against it in case of environmental pollution.
- *Natural calamities.* In addition, natural disasters, such as earthquakes, floods and landslides, could also hamper Company operations. Such natural disasters could, among other things, damage Company facilities and surrounding infrastructure, block access to its mining assets, injure personnel and result in a suspension of its operations for an undeterminable period of time, all of which could materially and adversely affect its business, financial condition, results of operations and prospects. The Company is covered by a comprehensive insurance policy, with a business interruption clause, to respond to such eventualities and disruptions.
- *Social License to Operate.* The Company ensures strict compliance with all the applicable social laws, rules, and regulations covering it as a mining company. In addition, the Company strongly adheres to its Social Development Management Program, and oftentimes

exceeds the requirements set by the government, through the provision of health, educational, livelihood, and public infrastructure services to its host and neighboring communities, to constantly secure community endorsement and public approval for its operations. In addition, the Company is aligning with ISO 26000 – Guidance on Social Responsibility standards to assess and address corporate social responsibility concerns and effectively strengthen its social license to operate.

Item 2. Properties

The Company's mineral properties are discussed in the sections for Mining Properties / Royalty Agreements, and Exploration and Development.

The Company owns real properties and support facilities in its Padcal mine site, a concentrate loading facility at Poro Point, San Fernando, La Union, which are used in operations, and various titled lands located at Barangay Tuding, Itogon, Benguet with a total area of 129 hectares. PGPI similarly owns real properties and support facilities in its Bulawan and Sibutad Projects, which are currently on care and maintenance. In September 2016, the Company transferred to its new office space located at the 2nd floor, LaunchPad, Reliance Street corner Sheridan Street, Mandaluyong City, thereafter registered as the Company's Head Office. The new office space is the subject of a Deed of Absolute Sale on June 15, 2016. Previously, the Company's registered Head Office was located at Pasig City, which property was the subject of a Deed of Absolute Sale in July 2014.

SMMCI has been acquiring real properties in Surigao del Norte, through direct purchase or land lease agreements, for the Silangan Project. The lease agreements are typically for a period of 25 years, with a right of first refusal and first option in favor of SMMCI in case the leased properties will be disposed, ceded or sold by the lessors. SMMCI has been in possession of these properties, where the components of the Silangan Project will be established. Due to the regulatory changes affecting the mining industry, the land acquisition negotiations are placed on hold while the Silangan Project is currently on pre-mine development phase.

The Company does not lease any significant real property nor has the intention at present to acquire any significant real property other than necessary for corporate purposes in the next 12 months. Machinery and equipment are routinely acquired month to month as needed by operation usually through direct purchase or through letters of credit, if imported, under supplier's or bank's credit terms.

Item 3. Legal Proceedings

A table that identifies material legal proceedings as of December 31, 2017 involving the Company, including its subsidiaries, is set out below:

	CASE TITLE / SUBJECT MATTER	VENUE	NATURE	AMOUNT INVOLVED	STATUS
PMC					
1	Butan Mining Exploration Company v. Philex Mining Corporation	Mines Adjudication Bureau	For rental fees for the 745 ML tunnel traversing Butan claims	Above ₱ 300 million	Pending the MAB's resolution
2	Philex Mining Corporation v. The Province of Benguet &	La Trinidad, Benguet Regional Trial Court	Local quarry tax on TP3	₱ 12.2 million	Pending decision

	Provincial Treasurer				
3	Heirs of Jose Marino v. Philex Mining Corporation	National Commission on Indigenous Peoples – Cordillera Administrative Region (NCIP-CAR)	Claim for enforcement of alleged ancestral rights, damages with prayer for injunction	N/A	Proceedings suspended
4	Cecilia Agbanlog et al. v. Philex Mining Corporation	Court of Appeals	Declaration that complainants as school teachers are regular employees of Philex	N/A	Pending resolution
5	IIPO v. IPO-APSSOL and Philex Mining Corporation	NCIP – CAR	Dispute between two (2) Indigenous Peoples' Groups; Philex is a nominal party	N/A	Proceedings suspended
6	Heirs of Sinak-ey v. IPO-APSSOL and Philex Mining Corporation	NCIP En Banc	Validity of NCIP-approved MOA entered into between IPO-APSSOL and Philex	N/A	Pending resolution
7	Heirs of Aritao v. Philex Mining Corporation	NCIP – CAR	Damages	₱ 60 / per square meter (₱600,000 up); injunction against the construction of the spillway.	Proceedings suspended
8	Sales Alipio, et al. v. Philex Mining Corporation, et al.,	NCIP En Banc	Injunction against construction of access roads	N/A	Appeal pending resolution
9	Basilio, et al. v. Philex Mining Corporation, et al.	NCIP – CAR	Damages	₱ 36 million	Archived by NCIP pending the resolution by the Supreme Court of the two motions for reconsideration
10	Philex Mining Corporation v. Benguet Corporation	National Water Resources Board (NWRB)	Cancellation of water permits issued by the NWRB to Benguet Corporation	N/A	Pending resolution
11	Albert Budod v. Philex Mining Corporation	National Labor Relations Commission	Correct computation of monetary award due to an illegally dismissed employee.	₱8.6 million	Pending
12	Various civil and	various	Various civil	N/A	Pending. PMC is a

	labor cases		and labor cases in the ordinary course of business		party to a number of cases in the ordinary course of business involving small amounts of claims which are disputed by PMC on various grounds
SMMCI					
13	ABAKATAF, et al., vs. DENR, et al.	Court of Appeals (Cagayan de Oro)	Action for injunction with urgent ex-parte application for temporary environmental protection order (TEPO) and/or environmental protection order under A.M. No. 09-6-8 SC	N/A	Submitted for decision

The Parent Company may be subject of lawsuits and claims arising out of the ordinary course of its business, which are either pending decision by the courts or are being contested, and the outcomes of which are not presently determinable. The Company expects that the resolution and/or decision of such lawsuits and claims would have no material effect to the Company.

Item 4. Submission of Matters to a Vote of the Security Holders

There were no matters covered under this item submitted in the fourth quarter of 2017 to the security holders for a vote.

PART II

OPERATIONAL AND FINANCIAL INFORMATION

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

Market Information

The registrant's common equity, which was initially classified into Class A and Class B common stock until it was declassified into a single class in 2006, is traded in the Philippine Stock Exchange under the code name PX.

The Company's public float as of December 31, 2017 is 33.51%

The average quarterly stock prices for the Company's common shares within the last two years and for the first two months of 2017 were as follows:

Year	Period	High	Low
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2018	February	7.05	6.01
	January	7.21	6.21
2017	1 st Quarter	10.50	8.38
	2 nd Quarter	9.49	8.00
	3 rd Quarter	9.38	8.25
	4 th Quarter	8.29	5.55
2016	1 st Quarter	6.57	3.75
	2 nd Quarter	9.35	5.14
	3 rd Quarter	9.18	8.06
	4 th Quarter	8.88	7.88

The Company's stock was traded at P5.95 per share as of April 10, 2018.

Holders

Of the Company's 44,072 shareholders as of December 31, 2017 with 4,940,399,068 common shares issued and outstanding of which 39.1% are owned by foreign nationals and institutions.

The top 20 shareholders are as follows:

	Name of Stockholder	Number of shares	% of ownership
1	ASIA LINK B.V.	1,023,275,990	20.71%
2	SOCIAL SECURITY SYSTEM Named account 864,444,930 Under PDTC Account 128,234,799	992,679,729	20.09%
3	PCD NOMINEE CORPORATION (Filipino/non-Filipino)	1,031,244,374	20.87%
4	TWO RIVERS PACIFIC HOLDINGS CORP.	738,871,510	14.96%
5	KIRTMAN LIMITED	242,011,062	4.90%
6	MAXELLA LIMITED	239,479,900	4.85%
7	ARTINO LIMITED	37,822,400	0.77%
8	THE FIRST NATIONAL INVESTMENT CO. INC.	12,195,042	0.25%
9	MAKATI SUPERMARKET CORP.	8,353,226	0.17%
10	ESTATE OF EUDALDO BOIX	5,025,422	0.10%
11	PHILIPPINE REMNANTS CO., INC.	4,875,000	0.10%
12	MANUEL V. PANGILINAN	4,655,000	0.09%
13	FRANK PAO	3,639,260	0.07%
14	ESTATE OF EUDALDO BOIX & PETRA HERNANDO	3,093,203	0.06%
15	PAULINO DE UGARTE &/OR ELENA E. DE UGARTE	3,068,143	0.06%
16	CAROL JOAN REIF	2,974,086	0.06%
17	ROBIN JOHN PETTYFER	2,644,747	0.05%
18	ESTATE OF JOSE TAN YAN DOO	2,569,251	0.05%
19	VICTOR SY	2,437,500	0.05%
20	LUCIO W. YAN &/OR CLARA YAN	2,437,500	0.05%
Total		4,363,352,345	88.32%

Dividends

Beginning 2010, the Company's Board of Directors has adopted a policy to declare cash dividend of up to 25% of the Company's core net income should the circumstances allow for its declaration.

In 2017, 2016 and 2015, the following dividends were declared:

1. On November 7, 2017, regular cash dividend of ₱0.04 per share based on the first semester of 2017 core net income; for record date of November 24, 2017; paid on December 6, 2017.
2. On February 28, 2017 regular cash ₱0.04 per share based on the second semester of 2016 core net income; record date of March 14, 2017; paid March 27, 2017
3. On July 27, 2016, a regular cash dividend of ₱0.03 per share based on the first semester of 2016 core net income; for record date of August 10, 2016; paid on August 24, 2016.
4. On February 29, 2016, a property dividend of 17 PXP shares for every 100 Philex Mining shares held; for record date of March 15, 2016; paid on July 15, 2016.
5. On February 25, 2015, a regular cash dividend of ₱0.02 per share based on the fourth quarter 2014 core net income; for record date of March 11, 2015; paid on March 25, 2015.

Recent Sale of Unregistered or Exempt Securities

No securities were sold by the Company within the past three years which were not registered under the Code.

On June 23, 2006, the Company's stockholders approved and adopted a Stock Option Plan (2007 SOP) which provides for the granting of options to the Company's directors, officers, managers and key consultants to purchase common shares of the Company at specified exercise price. The aggregate number of shares initially approved for grant was 88,733,707 shares or 3% of then total outstanding shares of the Company. On March 8, 2007, the SEC resolved that the issuance of the 88,733,707 shares under the plan is exempt from the registration requirements under Section 10.2 of the Code.

As adjustment to the shares reserved for stock option due to the effect of the declaration of stock dividend of 30% in 2007 and 25% in 2009, additional 22,882,037 shares and 17,180,737 shares were respectively made available for grant which were similarly granted exemption from registration by the SEC. The exercise prices for the outstanding option shares were correspondingly adjusted to avoid a dilution of their option value.

No additional option shares were granted from the 2007 SOP following the expiration of the 5-year term of the Plan in 2012. However, unexercised options remain outstanding over their five-year term subject to provisions of the Plan. With the expiration of the 5-year term of the January 5, 2011 grant which was the last grant under the Plan, the 2007 SOP and all outstanding options granted under the plan expired on January 5, 2016. The total option shares granted under the 2007 SOP up to its expiry amounted to 150,728,832, of which 118,713,332 option shares have been exercised and 32,015,500 option shares were either expired or forfeited.

On June 29, 2011, the Company's stockholders approved a new stock option plan covering up to 246,334,118 shares equivalent to 5% of the Company's outstanding shares of 4,926,682,368 as of June 29, 2011. This plan was approved by the SEC on February 22, 2013, which approval was received by the Company on March 5, 2013.

As of December 31, 2017, the total option shares granted under the 2011 SOP totaled to 46,660,000 (with 28,640,000 option shares forfeited), of which 18,020,000 options shares have vested and are outstanding but none have been exercised.

Item 6. Management Discussion and Analysis of Financial Position and Results of Operations

For the years ended December 31, 2017, 2016 and 2015

Information on the Company's results of operations and financial condition presented in the 2017 Audited Consolidated Financial Statements and accompanying Notes to the Consolidated Financial Statements are incorporated herein by reference.

REVIEW OF FINANCIAL RESULTS

On June 23, 2016, the Philippine Securities and Exchange Commission (SEC) approved the Company's property dividend declaration, for the distribution to Company shareholders of 17 PXP Energy Corporation (PXP) shares for every 100 Philex Mining shares held at record date. Following the distribution of the property dividend on July 15, 2016, which reduced the

Company's interest in PXP from 64.7% to 19.8%, the Company deconsolidated PXP and presented it as investment in an associate accounted under equity method.

Revenues

	For the Year Ended December 31			% Change	
	2017	2016	2015	2017 vs 2016	2016 vs 2015
Gold					
Revenue (P millions)	P5,432	P6,209	P5,670	(13)	10
Ounces produced	84,638	103,304	107,887	(18)	(4)
Average realized price	\$1,273	\$1,254	\$1,147	2	9
Copper					
Revenue (P millions)	P4,475	P3,976	P3,450	13	15
Pounds produced	30,118,206	34,961,062	34,104,049	(14)	3
Average realized price	\$2.96	\$2.35	\$2.29	26	3
Other revenues (P millions)	P77	P86	P70	(11)	24
Total Revenues (P millions)	P9,985	P10,272	P9,189	(3)	12

Total operating revenues for the year 2017 amounted to ₱9.985 billion compared with ₱10.272 billion in 2016 (₱9.189 billion in 2015).

Gold production reached 84,638 ounces in 2017 from 103,304 ounces in 2016 due to lower ore grade as a result mainly of declining ore grades at 908 ML and 840 ML as these ore sources get depleted (107,887 ounces in 2015). Following gold output performance, gold revenues – comprising 54% of the total in 2017 – amounted to ₱5.432 billion from ₱6.209 billion in 2016, mainly from lower metal production, partially offset by favorable gold prices and foreign exchange rate (₱5.670 billion in 2015).

Copper production totaled 30,118,206 pounds in 2017 from 34,961,062 pounds in 2016 due to lower tonnage, ore grades and recovery (34,104,049 pounds in 2015). However, favorable copper prices and foreign exchange rate resulted in higher copper revenues to ₱4.475 billion in 2017 – accounting for 45% of the total in 2017 – from ₱3.976 billion in 2016 and ₱3.450 billion in 2015.

Realized gold prices for the years ended December 31, 2017, 2016 and 2015 were \$1,273 per ounce, \$1,254 per ounce and \$1,147 per ounce, respectively. The further recovery in realized gold price in 2017 was due to perceived geopolitical risk (between U.S. and North Korea) and unexpected weakness in the U.S. dollar prior to any Fed rate hikes. Similarly, realized copper prices in 2017 recovered at an average of \$2.96 per pound from \$2.35 per pound in 2016 as a result of strong demand outlook from China. In 2016, copper prices improved from \$2.29 per pound in 2015 due to supply side constraints from the temporary closure of major copper producing mines.

Other revenues, which came from sales of silver, made up the remaining 1% of the Company's total revenue in 2017. Revenue from silver in 2017 amounted to ₱77.2 million, compared with ₱86.5 million in 2016 (higher than the ₱69.7 million in 2015). Metal production and silver prices were lower in 2017.

To protect part of its revenues from unfavorable metal price fluctuations, the Company continues to evaluate entering into metal hedging contracts in the form of forwards, purchased put options

and sold call options. The gains or losses from these transactions are reflected in revenue as addition or deduction in deriving the realized metal prices for the Company's metal production during the respective reporting periods. As hedge contracts entered into by the Company are those qualifying under Hedge Accounting and are designated as cash flow hedges, the unrealized mark-to-market (MTM) gains or losses on the outstanding hedges are recorded under equity with the recognition of potential derivative asset or liability. MTM gains or losses are reversed and actual gains or losses, if any, are realized and recorded through revenue upon maturity of the hedge.

At the start of 2017, the Company expected the behavior of metal prices to favor the Company's position, thus no hedges were entered into for the early part of 2017. In September and October 2017, however, the Company entered into collar hedging contracts for gold and copper, respectively, with breakdown as follows:

GOLD COLLAR HEDGE 2017

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

COPPER COLLAR HEDGE 2017

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

The net realized MTM gain on these gold hedges amounted to ₱8.7 million while no gains nor losses were realized on the copper hedges that matured within 2017. For the outstanding copper hedge as of December 31, 2017, no unrealized gain or loss was also recorded.

The Company entered into gold collar hedging contracts in 2016 and 2015 as follows:

GOLD COLLAR HEDGE 2016

Deal Date	Quantity (In Ounces)	Gold Prices - US\$ per Ounce			Period Covered	Settlement Date	Realized Gain (Loss) (P' Million)
		Put	Call	Settlement			
02/11/16	3,000	1,170	1,242	1,197	Feb. 2016	03/02/16	-
02/11/16	3,000	1,170	1,242	1,246	Mar. 2016	04/04/16	(0.6)
02/11/16	3,000	1,170	1,242	1,242	Apr. 2016	05/04/16	(0.0)
02/11/16	3,000	1,170	1,242	1,260	May 2016	06/02/16	(2.5)
02/11/16	3,000	1,170	1,242	1,275	June 2016	07/05/16	(4.7)
02/11/16	3,000	1,170	1,242	1,337	July 2016	08/02/16	(13.5)
06/30/16	3,000	1,300	1,350	1,341	Aug. 2016	09/02/16	-
06/30/16	3,000	1,300	1,350	1,326	Sept. 2016	10/04/16	-
06/30/16	3,000	1,300	1,350	1,267	Oct. 2016	11/02/16	4.7
06/30/16	3,000	1,300	1,350	1,238	Nov. 2016	12/02/16	9.2
06/30/16	3,000	1,300	1,350	1,152	Dec. 2016	01/04/16	22.0
	33,000						14.7

GOLD COLLAR HEDGE 2015

Deal Date	Quantity (In Ounces)	Gold Prices - US\$ per Ounce			Period Covered	Settlement Date	Realized Gain (loss) (P' Million)
		Put	Call	Settlement			
12/05/14	3,000	1,170	1,242	1,197	Jan. 2015	02/03/15	(5.4)
12/05/14	3,000	1,170	1,242	1,246	Feb. 2015	03/03/15	(2.5)
12/05/14	3,000	1,170	1,242	1,242	Mar. 2015	04/02/15	2.7
05/15/15	3,000	1,170	1,242	1,260	May 2015	06/02/15	0.2
05/15/15	3,000	1,170	1,242	1,275	June 2015	07/02/15	2.4
05/15/15	3,000	1,170	1,242	1,337	July 2015	08/04/15	9.6
05/15/15	3,000	1,300	1,350	1,341	Aug. 2015	09/02/15	11.6
05/15/15	3,000	1,300	1,350	1,326	Sept. 2015	10/02/15	10.5
	24,000						29.1

Net realized gain recognized for the year 2016 amounted to ₱14.7 million (as against ₱29.1 million in 2015). As of December 31, 2016 and 2015, there were no outstanding gold hedging contracts thus no unrealized MTM gain or loss recognized.

Operational Overview

	For the Year Ended December 31			% Change	
	2017	2016	2015	2017 vs 2016	2016 vs 2015
Tonnes milled	8,673,474	9,359,161	9,198,540	(7)	2
Copper concentrates	64,710	73,107	69,987	(11)	4
Gold					
Ounces	84,638	103,304	107,887	(18)	(4)
Head grade - grams/tonne	0.377	0.417	0.438	(10)	(5)
Recovery - %	81	82	83	(2)	(1)
Copper					
Pounds	30,118,206	34,961,062	34,104,049	(14)	3
Head grade - %	0.192	0.206	0.205	(7)	0.5
Recovery - %	82	82	82	0.1	0.1

Gold production reached 84,638 ounces in 2017 compared with 103,304 ounces in 2016 and 107,887 ounces in 2015. Gold production performance in 2017 was mainly due to the lower tonnage and ore grade by 7% and 10%, respectively. Tonnage in 2017 reached 8.673 million from 9.359 million in 2016 (9.199 million in 2015). Ore grades are expected to remain within these levels, with a bias towards further decline, as mining operations move towards the fringes of the ore body as it approaches the end of mine life.

Copper production, similarly, totaled 30,118,206 pounds in 2017 from 34,961,062 pounds in 2016 (3% higher versus 34,104,049 ounces in 2015). The tonnage performance, coupled with lower average copper head grade, resulted in reduced copper production in 2017 against 2016. In 2016, better tonnage and copper head grade resulted in higher copper production versus 2015. Similar to gold, lower copper grades are expected and within program under the mine's development plan.

Total tonnes milled from the Company's Padcal mine for the year ended December 31, 2017 reached 8.67 million tonnes compared with 9.36 million tonnes in 2016 (9.20 million tonnes in 2015) mainly due to low mine delivery brought about by equipment availability issues, limited flexibility related to ore handling and persistent bouldery ore at the earlier part of the year.

Operating Costs and Expenses

The Company and its subsidiaries' (the Group) total operating costs and expenses (including General and Administrative Expenses or GAE) decreased further by 2% to ₱6.778 billion in 2017 from 2016's ₱6.900 billion (2% lower versus ₱7.011 billion in 2015) due mainly to the Company's continuing cost management and expense reduction programs.

Total production costs (consisting of cash production costs and depreciation, depletion and amortization) amounted to ₱5.962 billion in 2017, 2% lower than 2016's ₱6.075 billion (1% lower than ₱6.160 billion in 2015). Cash production costs substantially declined to ₱4.412 billion in 2017 or ₱202.7 million lower than the ₱4.614 billion in 2016 (almost the same as that in 2015 of ₱4.615 billion).

Depreciation, depletion and amortization, however, was higher by 6% at ₱1.550 billion against ₱1.460 billion in 2016 (6% lower than ₱1.546 billion in 2015) due to lower block amortization cost

in 2016 on account of fully-amortized drawpoints compared with some newly commissioned and higher-cost drawpoints in 2017.

GAE continued to drop in 2017 with a 3% reduction to ₱363.1 million from ₱373.1 million in 2016 (10% lower than ₱414.3 million in 2015) due to continuous management of overhead expenses at Philex head office, Silangan, and across the entire organization.

Excise tax and royalties remained at ₱452.4 million in 2017 from 2016 (higher by 4% than in 2015).

Costs Per Tonne / Per Ounce / Per Pound

	For the Year Ended December 31			% Change	
	2017	2016	2015	2017 vs 2016	2016 vs 2015
Padcal Mine					
Cash Production cost	4,412	4,614	4,615	(4)	(0)
Depreciation, Depletion & Amortization	1,551	1,460	1,546	6	(6)
Total Production Cost	5,962	6,075	6,160	(2)	(1)
Excise tax & Royalties	452	452	437	(0)	4
Smelting Charges	842	893	837	(6)	7
Total Operating cost (P million)	7,257	7,421	7,434	(2)	(0)
Production cost per tonne	P 687	P 649	P 670	6	(3)
Operating cost per tonne	P 837	P 793	P 808	6	(2)
Operating cost per ounce of Gold	\$ 929	\$ 919	\$ 933	1	(2)
Operating cost per pound of Copper	\$ 2.16	\$ 1.72	\$ 1.86	25	(7)

Despite lower total production costs, the production cost per tonne in 2017 rose to ₱687 compared with 2016's ₱649 per tonne (versus 2015's ₱670 per tonne) due to higher block amortization and lower tonnage output, which represented a lower denominator, and translated to an increase in the unit production cost. The decrease in production cost per tonne in 2016 against 2015 was due primarily to higher tonnage and lower power rate in 2016.

Operating cost (including smelting charges) per tonne similarly went up to ₱837 per tonne in 2017 from ₱793 per tonne in 2016 (lower than 2015's ₱808 per tonne). The increase in operating cost per tonne was attributed mainly to the higher block amortization cost and lower tonnage in 2017, while the lower operating cost per tonne in 2016 versus 2015 was also realized from higher tonnage and lower power rates.

Despite lower total smelting charges, excise tax and royalties, operating cost on a per tonne basis increased due to a lower denominator as a result of lower tonnage. Smelting charges were lower in 2017 due to lower production of copper concentrates and pounds of copper, as well as lower average treatment and refining charges (TC/RC) following the decrease in rates for the period from April 2016 to March 2018. Smelting charge and TC/RC rates were lower by US\$4.85 per DMT of copper concentrate and 0.485 cents per pound copper, respectively, which normally follow the trend of TC/RC rates based on the Japanese Benchmark. Total smelting charges amounted to ₱842.3 million in 2017, lower by 6% than ₱893.3 million in 2016 (7% higher versus ₱836.6 in 2015).

Operating cost (using a co-production method) per ounce of gold and per pound of copper were \$929 per ounce and \$2.16 per pound in 2017, both higher than the 2016 levels as a result of lower gold and copper output. In 2016, operating cost per ounce and

per pound were lower, compared with 2015 mainly due to the higher tonnage and lower power cost.

Net Other Income (Charges)

(P millions)	For the Year Ended December 31		
	2017	2016	2015
Share in net losses of associates	(40)	(45)	(13)
Foreign exchange losses-net	(39)	(145)	(159)
Gain on disposal of AFS financial assets	22	-	107
Interest income	2	2	4
Others	58	(14)	6
	2	(202)	(55)

Net Other Income in 2017 amounted to ₱2.0 million from net other charges of ₱202.1 million in 2016 and ₱55.1 million in 2015. The 2017 Net Other Income included gains on sale of AFS financial assets and sale of property, plant and equipment, net of share in net losses of associates and foreign exchange losses.

In 2017, the Company recognized its share in the combined net losses of Lepanto Consolidated Mining Corporation (Lepanto) and PXP amounting to ₱40.3 million, slightly lower than ₱44.6 million in 2016 (versus ₱13.2 million in 2015 for share in net losses of Lepanto only). The Company started the recognition of losses of PXP following the reclassification of PXP from a subsidiary to an associate in July 2016.

The foreign exchange losses primarily on the restatement of dollar-denominated liabilities in 2017 amounted to ₱39.5 million, an improvement from ₱145.2 million in 2016 and ₱158.7 million in 2015 partly due to the continuous reduction of loan balances and partly due to lower foreign exchange rate differentials between December 31, 2017 and 2016. The Group recognized unrealized foreign exchange losses based on the yearend closing rates of ₱49.93 in 2017, ₱49.72 in 2016, and ₱47.06 in 2015.

In 2017, a gain of ₱21.8 million was recorded on the sale of shares in Phil. Realty & Holdings Corp. (PhilRealty) and Philodrill Corporation (Philodrill) as against nil in 2016 and ₱107.1 million in 2015, which the Company recognized from the sale of its holdings in Indophil Resources NL (Indophil) under an acquisition scheme offered by Indophil's major shareholder, Alsons Prime Investments Corporation, to Indophil's other shareholders, where AUD0.30 was offered for every share held.

The Group realized interest income of ₱1.9 million, ₱2.1 million and ₱4.1 million in 2017, 2016 and 2015, respectively, mostly coming from short-term money market placements. Interest rates ranged from 1.0% to 2.0% for the past three years.

In 2017, the Group recognized net other income of ₱58.1 million as against net other charges of ₱14.4 million in 2016 (versus net other income of ₱5.6 million in 2015), which consisted mainly of gains on disposal of various assets.

Provisions for Impairment Losses

The Company continues to assess the viability of its existing mine exploration projects and other investments. The 2017 assessment resulted in a conclusion that previous impairment made were more than sufficient to comply with the required yearly impairment test. In 2016, provision for impairment losses was recognized amounting to ₱2.505 billion from nil in 2015.

Income (Loss) on Deconsolidated Subsidiary Group

In 2016, the result from deconsolidation of PXP was shown as a separate line item under 'Income (Loss) on Deconsolidated Subsidiary Group' as required by PFRS 5 following SEC's approval of declaration of PXP shares as property dividend. The Income on Deconsolidated Subsidiary Group amounted to ₱2.494 billion, consisting of the non-recurring gain from the loss of control over PXP of ₱2.523 billion and share of the operating loss of PXP of ₱29.1 million up to June 2016, while comparative amount in 2015 posted a share of operating loss of ₱144.0 million. Starting third quarter of 2016, the Company's share in the earnings or losses of PXP is recognized under share in net losses of associates.

Core and Reported Net Income

Net income attributable to the equity holders of the Company in 2017 increased to ₱1.658 billion, compared with ₱1.589 billion in 2016 and ₱896.2 billion in 2015. The 2017 net income reflected the impact of higher realized metal prices and foreign exchange rate as well as lower cash cost and other charges. Similarly, the 2016 net income was largely driven by higher metal prices and foreign exchange rate, while unfavorable metal prices in the prior year caused a lower net income in 2015. The Company's results of operations resulted in a consolidated net income of ₱1.658 billion, 6% higher than 2016's ₱1.567 billion (more than two times that of the ₱775.6 million in 2015), due to favorable metal prices and foreign exchange rate coupled with lower cash costs and other charges.

The Company's core net income was ₱1.685 billion in 2017, slightly higher than the ₱1.657 billion in 2016 (83% higher versus ₱905.2 million in 2015) due primarily to the sustained improvement of metal prices and foreign exchange rates from 2016 to 2017.

In 2017, EBITDA amounted to ₱3.977 billion, higher compared with ₱3.854 billion in 2016 and ₱2.779 billion in 2015. The Company's EBITDA, similar to core net income, excludes non-recurring transactions to clearly provide results based on normal operating parameters of the business. The core net income reflects the Company's overall operating performance without the net effect of non-recurring transactions.

Reconciliation of Core Net Income to Consolidated Net Income

(P millions)	For the Year Ended December 31		
	2017	2016	2015
Core net income	1,686	1,657	905
Non-recurring gains (losses):			
Foreign exchange losses	(39)	(145)	(144)
Gain on sale of assets / AFS financial assets	-	-	107
Net Provision for write-down of asset	-	-	(2)
Provisions for impairment of assets	-	(2,505)	-
Gain from loss of control over a subsidiary group	-	2,538	-
Others	-	-	(13)
Net tax effect of aforementioned adjustments	12	44	43
Net income attributable to equity holders of the Parent Company	1,658	1,589	896
Net income attributable to NCI	-	(22)	(121)
Consolidated net income	1,658	1,567	776

FINANCIAL CONDITION REVIEW

(P millions, except ratios)	As of December 31		
	2017	2016	2015
Cash and Cash equivalents	584	458	1,009
Current assets excluding cash and cash equivalents	5,683	6,035	3,820
Non-current assets	33,412	32,169	38,699
Total Assets	39,679	38,662	43,527
Short-term loans	2,447	3,083	3,318
Current liabilities excluding short-term loans	2,410	2,495	2,397
Non-current liabilities	10,090	9,685	10,528
Equity attributable to Equity Holders of the Parent Company	24,732	23,400	24,563
Non-Controlling interests	(0.3)	(0.3)	2,721
Total Equity	24,732	23,399	27,284
Current/Liquidity ratios			
Current ratio	1.29	1.16	0.84
Quick ratio	0.32	0.17	0.33
Solvency ratios and debt to equity ratios			
Debt-to-equity ratio	0.60	0.65	0.60
Solvency ratio	0.22	0.20	0.14
Financial leverage ratios			
Asset-to equity ratio	1.60	1.65	1.60
Profitability ratios			
Return on assets	4.23%	3.81%	1.76%
Return on equity	6.89%	6.18%	2.86%
Net profit margin	18.14%	16.71%	9.29%

Current Assets

As of December 31, 2017, Current Assets of the Group stood at ₱6.267 billion from ₱6.493 billion in 2016 (₱5.271 billion in 2015), primarily due to lower amount of inventories (₱1.517 billion in 2017 compared with ₱2.319 billion in 2016 and ₱1.887 billion in 2015). The increase in Current Assets in 2016 was due mainly to higher amount of inventories and Advances to a related party. With the deconsolidation of PXP in 2016, the Advances to a related party were since then presented as a separate item in the Balance Sheet, thus resulting in the increase in the Current Assets for the year.

Cash and Cash Equivalents

In 2017, Cash and Cash Equivalent amounted to ₱583.5 million, slightly higher than the ₱457.9 million in 2016 (versus ₱1.009 billion in 2015). These amounts included the cash balance of Silangan Mindanao Exploration Co., Inc. of ₱86.1 million, ₱25.5 million in 2016 and ₱279.5 million in 2015. The 2015 cash balance included that of PXP's subsidiaries, until PXP was deconsolidated in mid-2016.

Current Assets excluding Cash and Cash Equivalents

Current Assets, excluding Cash and Cash Equivalents, was down to ₱5.683 billion mainly due to lower Inventories.

Accounts Receivable

Accounts Receivables consisted essentially of Trade Receivables from sales of the Company's copper concentrates or bullion and Other Receivables. As at year-end 2017, Accounts Receivable amounted to ₱990.6 million (against ₱486.5 million in 2016 and ₱897.5 million in 2015), with Trade Receivables amounting to ₱903.2 million (₱411.8 million in 2016 and ₱701.3 million in 2015) and Other Receivables amounting to ₱87.4 million (₱74.7 million in 2016 and ₱196.2 million in 2015).

Outstanding receivables from copper concentrates as of December 31, 2017 consisted of 100% of the value of shipment no. 50-LDM which was shipped to Japan on December 31, 2017 (of which 90% was subsequently collected in early 2018) and the remaining 10% of four other shipments, while the 2016 receivables consisted mainly of the remaining 10% of five shipments in the last quarter of 2016 that remained outstanding awaiting final pricing. In 2015, receivables consisted of 100% of the value of shipment no. 38-LDM which was shipped to Japan on December 24, 2015 and the remaining 10% of four other shipments.

There were a total of fourteen copper concentrates shipments in 2017, including two shipments to Pan Pacific Corporation (PPC) that were scheduled for actual shipment in January and February 2018 (due to port congestion) covered by duly signed holding certificates, compared with fourteen shipments in 2016 and in 2015. Proceeds from these two shipments were collected in 2017 following the regular terms with PPC. The Padcal mine's copper concentrates shipments were provisionally valued based on prices in the second calendar week and first calendar week immediately prior to the week of shipment to PPC and Louis Dreyfus Commodities Metals Suisse SA (LDM), respectively. These were then adjusted to the applicable final prices based on their "quotational period (QP)", which under PPC for the contract years 2017 and 2016 were the calendar months following the month of the shipment's arrival in Japan for gold and silver, and the third calendar month following the month of arrival for copper, while shipments under LDM have QP terms of "month of scheduled shipment (MOSS)".

Inventories

Inventories, lower at ₱1.517 billion in 2017 compared with ₱2.319 billion in 2016 (higher than ₱1.887 billion in 2015), comprised mostly of materials and supplies at 74% of total value, with the 26% remainder from mine products inventories. Materials and supplies decreased by 11% to ₱1.127 billion in 2017 from ₱1.260 billion 2016 (6% lower than ₱1.334 billion in 2015). On the other hand, mine product inventories, corresponding to 2,940 DMT of copper concentrates that remained unshipped as of December 31, 2017, were lower at ₱390.4 million, compared with ₱1.059 billion representing 8,053 DMT of unshipped copper concentrates in 2016 (from ₱543.2 million covering ending inventory of 5,136 DMT in 2015). Petroleum product inventories totaled ₱9.0 million in 2015.

Advances to a Related Party

Advances to a related party amounting to ₱2.169 billion in 2017 and ₱2.194 billion in 2016 (also ₱2.194 billion in 2015 but eliminated during consolidation) represented advances to PXP. These advances are secured by a pledge agreement between the Company and PXP.

Other Current Assets

Other Current Assets slightly decreased to ₱1.007 billion in 2017 from ₱1.035 billion in 2016 and ₱1.479 billion in 2015, consisting mainly of input value-added tax claims on purchases of materials and supplies and equipment pending with the Bureau of Customs and the Bureau of Internal Revenue.

Non-current Assets

As of December 31, 2017, Non-Current Assets of the Company increased to ₱33.412 billion from ₱32.169 billion in 2016 (declined from ₱38.256 billion in 2015), consisting mainly of property, plant and equipment, and deferred exploration costs. With property, plant and equipment of ₱6.721 billion – representing 17% – and deferred exploration costs of ₱24.361 billion – comprising 61% of total assets, these portions reflect the capital intensive nature of the mining business. In the Company's case, these were attributed to internal exploration and development activities as well as sustaining capital expenditures of the operating mine.

Property, Plant and Equipment

Property, plant and equipment ("PPE") as of December 31, 2017 amounted to ₱6.721 billion, slightly lower compared with ₱6.736 billion in 2016 (also lower than the ₱6.828 billion in 2015). The decline in 2016 was mainly from the deconsolidation of PXP.

Available-for-Sale (AFS) Financial Assets

AFS financial assets, recorded at fair value, slightly declined to ₱76.0 million in 2017 from ₱104.6 million in 2016 (from ₱106.7 million in 2015). This account consisted mainly of shares in Wackwack Golf and Country Club, Manila Polo Club, Pacific Global One Aviation Company. In 2017, a gain of P21.8 million was recorded on the sale of shares of stock in PhilRealty and Philodrill and P107.1 million in 2015 for the sale of its holdings in Indophil under an acquisition scheme offered by Indophil's major shareholder, Alsons Prime Investments Corporation, to Indophil's other shareholders. There was no sale of shares in 2016. The changes in the fair value of all investments under AFS financial assets were taken up under equity in 2017, 2016 and 2015.

Investment in Associates

The Investment in Associates amounting to ₱1.416 billion as of December 31, 2017 decreased from ₱1.456 billion in 2016 (from ₱659.4 million in 2015) due to the following the:

- reclassification of investment in Lepanto from AFS Financial Assets to Investment in an Associate in 2015 arising from the signing of the Joint Voting Agreement between the Company and another Lepanto shareholder in July 2015; and
- deconsolidation of PXP following the decrease in interest ownership from 64.7% to 19.8% in 2016.

The Investment in Associates was net of equity share in the net loss of associates and the provision for impairment of investment in Lepanto amounting to ₱220.3 million in 2016.

Deferred Exploration Costs

Deferred Exploration Costs amounted to ₱24.361 billion in 2017, 6% higher compared with ₱23.072 billion in 2016 following a 20% decrease from ₱28.963 billion in 2015. The 2017 and 2016 balances consisted solely of exploration costs covering mining projects, while the 2015 balances still included oil exploration projects under PXP. The latter was

subsequently derecognized as a result of the Company's loss of control over PXP in 2016. Additions in the balances were mainly on account of the on-going pre-development activities in the Silangan Project and other exploration activities.

The Company provided impairment losses of P2.285 billion in 2016 (nil in 2017 and 2015) on various mine exploration projects of the Company and PGPI.

In 2015, under the energy and hydrocarbon business of PPC, the Company recorded impairment losses of P41.2 million for SC 53 and Peru Block XXVII, net of reversal for SC 40.

Deferred Exploration Costs

(P millions)	2017	2016	2015
Silangan Project	23,234	21,139	19,701
Kalayaan Project	2,742	2,731	2,706
Bulawan and Vista Alegre Projects	632	632	630
Lascogon Project	289	299	300
Sibutad Project	235	235	231
Bumolo Project	209	208	77
Clifton Project	134	133	110
Southwest Prospect	100	100	100
Sanfran/Tambis Project	92	92	92
Other exploration costs	472	1,281	1,536
Total	28,139	26,850	25,483
Less: Impairment Losses	(3,778)	(3,778)	(1,493)
Deferred mine exploration costs - net	24,361	23,072	23,990
Deferred oil exploration costs - net	-	-	4,974
Total Deferred exploration costs - net	24,361	23,072	28,963

Pension Asset

Pension Asset amounted to P373.8 million in 2017 from P312.6 million in 2016 and P263.9 million in 2015, representing the excess of the fair value of plan assets against the present value of defined benefit obligation under the Company's retirement plan, net of SMMCI's pension obligation.

Other Noncurrent Assets

As of December 31, 2017, Other Noncurrent Assets amounted to P464.5 million, down from P488.3 million in 2016 (versus P189.7 million in 2015). This consisted mainly of the non-current portion of SMMCI's input VAT amounting to P399.7 million in 2017 and P402.0 million in 2016 with the balance pertaining to the Mine Rehabilitation Funds maintained by the Company (P5.7 million) and PGPI (P6.9 million) pursuant to the requirements of the Philippine Mining Act of 1995.

Total Assets

At year-end 2017, Total Assets of the Company stood at ₱39.679 billion compared with ₱38.662 billion in 2016 and ₱43.527 billion in 2015.

Current Liabilities

As of December 31, 2017, Total Current Liabilities decreased to ₱4.857 billion from ₱5.578 billion in 2016, also lower than ₱5.715 billion in 2015, primarily due to the regular repayment of loans with local banks.

Loans Payable

Loans Payable went down to ₱2.447 billion (US\$49.0 million) in 2017 from ₱3.083 billion (US\$62.0 million) in 2016 and ₱3.318 billion (US\$70.5 million) in 2015. The Company paid off ₱655.0 million (US\$13.0 million) in 2017, ₱402.3 million (US\$8.5 million) in 2016 and ₱1.176 billion (US\$25.8 million) in 2015.

The Loans Payable consisted of short-term loans from local banks as follows: Philippine National Bank for US\$22 million, Banco de Oro (BDO) for US\$24 million and Bank of the Philippine Islands (BPI) for US\$3 million.

Current Liabilities excluding Loans Payable

Current Liabilities, excluding Loans Payable, was slightly down to ₱2.410 billion in 2017 against ₱2.495 billion in 2016 (versus ₱2.397 billion in 2015) due mainly to an decrease in Accounts Payable and Accrued Liabilities, partly offset by an increase in Income Tax Payable.

Accounts Payable and Accrued Liabilities

Accounts Payable and Accrued Liabilities, mainly payables to suppliers and contractors, decreased by ₱181.0 million to ₱1.652 billion in 2017 from ₱1.833 billion in 2016 (down from ₱1.904 billion in 2015). No significant amount of the Company's trade payables have been left unpaid within their acceptable terms agreed upon with suppliers.

Income Tax Payable

Income Tax Payable amounted to ₱229.7 million from ₱164.3 million in 2016 (higher than ₱13.0 million in 2015) due to the continued improvement in earnings).

Dividends Payable

Dividends Payable amounted to ₱528.8 million in 2017 compared with ₱498.1 million in 2016 and ₱479.7 million in 2015. The Company declared cash dividends of four centavos per share (equivalent to ₱197.6 million) to shareholders on record as of March 14, 2017 with payment date of March 27, 2017, covering the Company's core net income for the second half of 2016. Total dividend payment covering the 2016 results was seven centavos per share, representing 21% of the 2016 core net income, including the three centavos per share cash dividend paid in August 2016.

In November 2017, the Company also declared cash dividend of four centavos per share (equivalent to ₱198.0 million) to shareholders as of record date of November 24, 2017, with payment date of December 6, 2017, representing 17% of the Company's core net income for the nine months ended September 30, 2017.

In February 2016, the Company declared its shares of stock in PXP as property dividends to its shareholders at record date of March 15, 2016 at a ratio of 17 PXP shares for every 100 PX shares held. The dividend declaration was approved by the Philippine Securities and Exchange Commission (SEC) on June 22, 2016, with payment date of July 15, 2016. In July 2016, the Company also declared cash dividend of three centavos per share (equivalent to ₱148.2 million) to shareholders at record date of August 10, 2016, with payment date of August 24, 2016, representing 19% of the Company's core net income for the first half of 2016.

In February 2015, the Company declared a cash dividend of two centavos per share (equivalent to ₱98.8 million) in addition to the three centavos per share (equivalent to ₱148.2 million) dividend declared in October 2014 or a total of five centavos per share, representing 22% of the 2014 core net income.

Non-current Liabilities

Total Non-Current Liabilities at year-end 2017 increased to ₱10.090 billion from ₱9.685 billion in 2016 (₱10.528 billion in 2015), comprising mainly of Deferred Income Tax Liabilities and Loans and Bonds Payable.

Deferred Income Tax Liabilities

Deferred Income Tax Liabilities (DTL) increased to ₱3.005 billion in 2017 from ₱2.958 billion in 2016 (significantly lower versus ₱3.939 billion in 2015), which consisted mainly of the following: ₱1.665 billion arising from the acquisition of the remaining 50% of Silangan from Anglo in 2009; and ₱1.340 billion for accelerated depreciation and deferred exploration costs. The DTL balances in 2015 also included ₱980.0 million from PXP's acquisition of additional interest in Pitkin.

Loans and Bonds Payable

As of December 31, 2017, Bonds Payable amounted to ₱6.950 billion, which increased from ₱6.593 billion in 2016 (from ₱6.259 billion in 2015), due to the amortization of deferred transaction costs (DTC). This amount represented the carrying amount of the convertible notes issued by SMECI, net of the unamortized DTC.

Provisions for Losses and Mine Rehabilitation Costs

Provision for Losses and Mine Rehabilitation Costs amounted to ₱135.1 million in 2017 and ₱134.1 million in 2016 (from ₱330.0 million in 2015, comprising mainly of FEP's contingent liability of ₱192.8 million, which was derecognized following the deconsolidation of PXP in 2016). Provision for Mine Rehabilitation increased to ₱132.7 million in 2017 from ₱129.2 million in 2016 and ₱125.7 million in 2015 (excluding ₱9.2 million under PXP) representing the amortized value of the Company's estimated mine closure costs.

Total Liabilities

As of December 31, 2017, Total Liabilities of the Company decreased to ₱14.947 billion from ₱15.263 billion in 2016 and ₱16.243 billion in 2015, consisting mainly of short-term bank loans, deferred income tax liabilities and the convertible bond issuance with a face value of ₱7.200 billion but with carrying amount of ₱6.950 billion, net of ₱250.0 million deferred transaction costs. The decrease in Total Liabilities in 2017 was primarily due to the repayment of short-term bank loans of US\$13.0 million and Accounts Payable and Accrued Expenses of ₱181.0 million.

Shareholders' Equity

	As of December 31		
	2017	2016	2015
Common shares	4,940,399,068	4,940,399,068	4,940,399,068
Stock options	18,020,000	21,090,000	27,385,000

Total Equity as of December 31, 2017 amounted to ₱24.732 billion, 6% higher than ₱23.399 billion in 2016 (₱27.284 billion in 2015). The increase in the Capital Stock and Additional Paid-in Capital from 2015 to 2016 was from the amortization of share-based compensation on stock options under the Company's stock option plan (SOP). No amortization was reflected in 2017 as the SOP cost was fully amortized in 2016.

Retained Earnings amounted to ₱15.771 billion from ₱14.442 billion in 2016 and ₱15.496 billion in 2015, after recording the Company's Net Income Attributable to the Equity Holders of the Parent Company of ₱1.658 billion in 2017 (₱1.589 billion in 2016 and ₱896.2 million in 2015), net of cash and property dividends. A total of ₱364.5 million in cash dividend was declared in 2017 compared with ₱235.1 million in 2016 and ₱108.0 million in 2015.

On February 27, 2018, the Company's Board of Directors (BOD) approved the declaration of cash dividend of P0.04 per share as regular dividend to all stockholders at record date of March 13, 2018, payable on March 26, 2018.

Of the Company's Retained Earnings, ₱10.500 billion was approved by the Company's Board of Directors for appropriation for the Company's share in the Silangan mine development and construction from 2016 to 2018. This comprised of approved appropriation of ₱10.0 billion in 2013 and additional ₱500.0 million appropriated in February 2017.

Equity Conversion Options amounted to ₱1.226 billion corresponding to the carrying amount of the conversion options of the 8-year convertible bonds issued by SMECI, with PMC as the co-issuer, in December 2014 with a face value of ₱7.200 billion. Net Revaluation Surplus remained at ₱1.572 billion in 2017 and 2016 from a balance of ₱1.611 billion from the year 2015. Balances of Net Unrealized Loss on AFS Financial Assets, representing the temporary decline in the fair value of AFS Financial Assets, the Effect of Transactions with Non-controlling Interests and the Non-controlling Interests were insignificant for the past three years.

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary objectives are to fund existing operations and maintain a healthy pipeline of exploration projects to further extend mine life and for potential expansion. Despite the risks inherent in the business associated with metal prices, foreign exchange rates, regulatory environment, and the changing economic and market conditions, the Company generated net cash flows from operating activities of ₱3.454 billion in 2017, ₱2.747 billion in 2016 and ₱1.541 billion in 2015. The cash generated in 2017 and 2016 significantly increased due to higher metal prices and foreign exchange.

Internally generated funds remain as the Company's principal source of cash primarily to finance the capital expenditures of the Padcal mine, the development of Silangan project and exploration initiatives of various mine sites, and to refinance existing loans.

Net cash used in investing activities, principally for capital expenditures and exploration costs, amounted to ₱2.311 billion from ₱2.665 billion in 2016 and ₱4.483 billion in 2015. Capital expenditures decreased to ₱2.438 billion in 2017 from ₱2.360 billion in 2016 and ₱3.878 billion in 2015, which were attributed to higher sustaining capital expenditure of Padcal mine and Silangan

Project, amounting to ₱1.747 billion as against ₱1.735 billion in 2016 and ₱1.390 billion in 2015. Expenditure for the continuing exploration activities at the Silangan, Kalayaan, and other projects amounted to ₱691.3 million in 2017, as against ₱625.3 million in 2016 and ₱2.488 billion in 2015. Most of the capital-intensive activities in Silangan were completed.

The net cash used in investing activities also reflected the proceeds from the sale of AFS financial assets of ₱32.2 million and sale of property, plant and equipment of ₱12.1 million in 2017, while the 2016 amount reflected the cash from deconsolidated subsidiary group of ₱606.6 million and net proceeds from the sale of Company assets of ₱33.3 million. The net proceeds from the sale of Indophil shares of ₱297.5 million and the share buyback of Pitkin of ₱646.7 million were also reflected under net cash used in investing activities in 2015.

Net cash used in financing activities amounted to ₱1.020 billion in 2017 as against ₱637.5 million in 2016 and ₱1.284 billion in 2015, on account of lower loan availment of ₱50.2 million in 2017 and ₱236.2 million in 2016 compared with ₱3.016 billion in 2015. Loan repayments made in 2017, 2016 and 2015 were ₱705.2 million, ₱638.5 million and ₱4.192 billion, respectively, while payments for cash dividends amounted to ₱364.5 million in 2017, ₱235.1 million in 2016 and ₱108.0 million in 2015.

Capital Expenditures and Exploration Costs³

(P millions)	For the Year Ended December 31		
	2017	2016	2015
<u>By Project:</u>			
Padcal and Others			
Mine Development	694	601	623
Tailings Pond Structures	320	342	258
Machinery & Equipment	735	693	643
	<u>1,749</u>	<u>1,636</u>	<u>1,524</u>
Silangan and Kalayaan Project			
Deferred Exploration	497	415	2,380
Machinery & Equipment, net of asset disposal and reclassification	(3)	99	(134)
	<u>495</u>	<u>514</u>	<u>2,246</u>
Mine Exploration Projects	<u>194</u>	<u>210</u>	<u>108</u>
	<u>2,438</u>	<u>2,360</u>	<u>3,879</u>
<u>By Recording:</u>			
Deferred Exploration costs	691	625	2,488
Property, plant and equipment	1,747	1,735	1,390
	<u>2,438</u>	<u>2,360</u>	<u>3,879</u>

Capital expenditures in 2017 amounted to ₱2.438 billion from ₱2.360 billion in 2016 and ₱3.879 billion in 2015 as the Company focused on the Silangan project and mining projects within the vicinity of Padcal. The Company, however, continues to invest in new technologies to expand capacities, improve efficiencies and accelerate the development of the Silangan Project.

Padcal operations accounted for 72% of capital outlays in 2017 at ₱1.749 billion compared with ₱1.636 billion in 2016 and ₱1.524 billion in 2015. Cost incurred in raising the spillway at TSF3 for 2017 amounted to ₱320 million, ₱342.3 million for 2016 and ₱258.1 million for 2015.

³ Excluded the Company's energy and hydrocarbon business capex in 2015 amounting to ₱181.8 million. No capex reflected in 2017 and 2016 following the deconsolidation of investment in PXP in 2016.

Upgrade of equipment and machinery continued as well, with outlays amounting to ₱735.2 million in 2017, ₱693.4 million in 2016 and ₱643.4 million in 2015, which enabled the Company to maintain the inventory level at 8.8 months.

Investments in exploration projects, meanwhile, amounted to ₱194.0 million in 2017 from ₱210.1 million in 2016 and ₱108.0 million in 2015. These projects are for extensive exploration within the Padcal vicinity to further extend Padcal mine life.

Expenditures for the Silangan Project accounted for the second largest chunk of capital investments at 20% of capital outlays in 2017 at ₱494.7 million compared with ₱513.9 million in 2016 and ₱2.246 billion in 2015. Deferred exploration costs amounted to ₱497.3 million in 2017 against ₱415.2 million and ₱2.380 billion in 2016 and 2015, respectively.

Following the issuance of DENR DAO-2017-10 banning the use of open-pit mining, the Company focused on completing additional studies for the Silangan Project to identify and present the best option that would be acceptable to all shareholders. Part of this program was the evaluation of the usefulness of assets, which resulted to the disposal of machinery and equipment, reducing the Property, Plant and Equipment account by ₱15.1 million in 2017, ₱134.1 million in 2016 and ₱39.8 million in 2015.

Top Five Key Financial and Non-Financial Performance Indicators

Safety Performance

The Company believes that operational excellence can only be achieved unless personnel health and safety remains an utmost priority. In 2017, the Company reported for its Padcal Mine one (1) Lost Time Accident-Fatal (LTA-F) from three (3) LTA-F, caused by mud rush in 2016 (down from four (4) LTA-F in 2015, due largely to Typhoon Lando). Meanwhile, there were nine (9) Lost Time Accident-Non Fatal (LTA-NF) recorded in 2017, the same as in 2016 and seven (7) in 2015.

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

Earnings Per Share

The earnings per share (EPS) represent the net income attributable to equity holders of the Company, expressed in the amount per share of the Company’s average outstanding capital stock. 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.

The basic earnings per share in 2017 was 4% higher at ₱0.336, based on 4,940,399,068 weighted average shares outstanding for the period, compared with ₱0.322, based on 4,940,399,068 weighted average shares and ₱0.181 in 2015 based on the 4,940,399,068 weighted average shares.

There were outstanding stock options for the period that could have resulted in additional common shares had the exercise price been higher than market. However for years 2017, 2016 and 2015, the outstanding stock options were considered anti-dilutive based on the lower market

price of the Company's shares compared with to the exercise price, thus the diluted earnings per share in 2017, 2016 and 2015 were the same as the basic earnings per share of the Company in the said periods.

Tonnes Milled and Metal Produced

Tonnes milled and ore grade determine the volume of concentrates produced and sold. Tonnes milled totaled 8,673,474 in 2017, compared with 9,359,161 tonnes in 2016 and 9,198,540 tonnes in 2015. Padcal mined less tonnage in 2017 mainly due to issues related to a bouldery ore.

Copper production reached 30,118,206 pounds in 2017 from 34,961,062 pounds in 2016 and 34,104,049 pounds in 2015, due mainly to lower tonnage and ore grade. Gold production totaled 84,638 ounces in 2017, compared with 103,304 ounces in 2016 and 107,887 ounces in 2015, as a result of lower tonnage, grade and metal recovery.

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

The Company's average cost per tonne is a key measure of the Company's operating performance. At the same cost level, the higher the production volume, the lower the cost per tonne becomes, which will also be similar if the same production volume incurs a lower operating cost. Thus, a lower cost per tonne would generally reflect an improvement in operating efficiency.

The same essentially applies to cost expressed in per 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 2017, the total production cost (mine site cost and expenses excluding marketing charges, excise tax and royalties) per tonne of ore milled was ₱687, with total production cost of ₱5.962 billion over ore milled of 8.673 million tonnes. This was higher than the cost per tonne of ₱649 from the total production cost of ₱6.075 billion over ore milled of 9.359 million tonnes in 2016 (versus the cost per tonne of ₱670 from the total production cost of ₱6.160 billion over ore milled of 9.199 million tonnes in 2015).

The operating costs and expenses (all cost and expenses excluding corporate overhead) per tonne of ore milled in 2017 was ₱837 from the total operating cost and expenses of ₱7.257 billion, lower than the ₱793 from the operating costs and expenses of ₱7.421 billion in 2016 (2% lower than the ₱808 from the operating costs and expenses of ₱7.434 billion in 2015).

As the mine produces both gold and copper (and silver) together in one operating process, no physical basis can be used in allocating costs between the two metals, thus, the cost may be allocated proportionately based on the revenue contribution of each product. In 2017, the operating cost applicable to gold produced amounted to US\$929 per ounce compared with US\$919 per ounce in 2016 (versus US\$933 per ounce in 2015). Likewise, operating cost applicable to copper produced was at US\$2.16 per pound in 2017 compared with US\$1.72 per pound in 2016 (against US\$1.86 per pound in 2015).

Exploration Activities

The Company is cognizant that exploration in itself is a speculative endeavor, and mineral exploration and mining operations can be hampered by force majeure and other unforeseen circumstances beyond the Company's control. To mitigate the impact of these external factors and other contingencies, the Company banks on its ability to successfully explore and/or acquire reserves, design and construct efficient processing facilities, operate and manage its projects, and provide 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 2017, the amount spent on exploration was ₱691.3 million compared with ₱625.3 million in 2016 and ₱2.488 billion in 2015. As of December 31, 2017, total exploration costs amounted to ₱24.361 billion, 61% of the Company's Total Assets, compared with ₱23.072 billion in 2016 and ₱28.963 billion in 2015. The 2015 balance included costs related to oil and gas exploration.

Subsidiaries and Related Party Transactions

Philex Mining Corporation (PMC) has extended loans and advances to some of its subsidiaries, as described under Part III, Item 12 of this Report.

Furthermore, Note 2 of the Notes to the Consolidated Financial Statements is likewise incorporated hereto by reference for discussions on the new and revised accounting standards that the Company adopted in 2017.

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 cyclical 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.

Subsidiaries and Related Party Transactions

Philex Mining Corporation (PMC) has extended loans and advances to some of its subsidiaries, as described under Part III, Item 12 of this Report.

Furthermore, Note 2 of the Notes to the Consolidated Financial Statements is likewise incorporated hereto by reference for discussions on the new and revised accounting standards that the Company adopted in 2016.

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.

Item 7. Financial Statements

The audited financial statements are presented in Part V, Exhibits and Schedules.

Item 8. Information on Independent Accountants and other Related Matters

External Audit Fees and Services

Audit and Audit-Related Fees

For the past three years, the Company's external auditors were engaged primarily to express an opinion on the financial statements of the Company and its subsidiaries. The audit, however, included the auditors providing assistance to the Company in the review of its income tax return in as far as ensuring the agreement of the reported income and costs and expenses in the return with the recorded amounts in the books. The procedures conducted for this engagement included those that are necessary under auditing standards generally accepted in the Philippines but did not include detailed verification of the accuracy and completeness of the reported income and costs and expenses. The audit fees for these services for the entire Philex group (excluding PXP group) were ₱5.03 million for 2017, and the same at ₱5.27 million for 2016 and 2015.

Tax Fees

The Company has not engaged the external auditors for any tax-related services for 2015 to 2017. They were, however, engaged by Silangan in 2016 to verify the documentary compliance of Silangan for value-added input tax claims purposes for a fee of ₱330 thousand.

All Other Fees

The external auditors were engaged to review and propose a job classification framework that reflects the relative worth of specified positions and levels in the Company's table of organization. The external auditors were paid the amount of ₱880 thousand for their services.

All audit and non-audit engagements were approved by the Company's Audit Committee.

Audit Committee's Approval of Policies and Procedures

Prior to the commencement of this year-end audit work, the external auditors presented their program and schedule to the Company's Audit Committee, which included discussion of issues and concerns regarding the audit work to be done. At the completion of this audit works, the Company's audited financial statements for the year were likewise presented by the external auditors to the Audit Committee for committee approval and endorsement to the full Board for final approval.

Changes in and Disagreements with Accountants on Accounting and Financial Disclosures

There was no change in the Company's independent auditors during the two most recent calendar years or in any subsequent interim period. For 2017 audit, the Company's audit engagement partner was Mr. Alexis C. Zaragoza, previously was Mr. Jose Pepito E. Zabat III.

There has been no disagreement with the independent accountants on accounting and financial disclosure.

PART III

CONTROL AND COMPENSATION INFORMATION

Item 9. Directors and Executive Officers of the Registrant

Board Attendance

			Committees					
	Total	%	Audit	CG	Finance	Nominations	Risk Oversight	Silangan Project
Directors								
Manuel V. Pangilinan	9/9	100				2/2		
Eulalio B. Austin, Jr.	9/9	100			2/2			2/2
Robert C. Nicholson	9/9	100	4/5		2/2	2/2	2/3	2/2
Marilyn A. Victorio-Aquino	8/9	89	5/5	4/4		2/2	3/3	2/2
Barbara Anne C. Migallos	8/9	89						
Edward A. Tortorici	5/9	56						1/2
Oscar J. Hilado	6/9	67	5/5	4/4			3/3	
Wilfredo A. Paras	8/8	100	5/5	4/4	2/2	1/1	3/3	
Jose Gabriel M. La Vina*	7/8	88			2/2	2/2		
Michael G. Regino*	7/8	88	3/4				2/2	1/1
Anita B. Quitain*	8/8	100						

*Appointed February 28, 2017

Directors

The following are the present directors of the Company whose terms of office are for one (1) year or until their successors are elected and qualified:

MANUEL V. PANGILINAN, Chairman, Non-Executive Director

Age: 71

Date of First Appointment: November 28, 2008

Academic Background:

Mr. Pangilinan graduated cum laude from the Ateneo de Manila University with a Bachelor of Arts degree in Economics. He received his Master of Business Administration degree from Wharton School of the University of Pennsylvania in 1968.

Business and Professional Background/ Experience:

Mr. Pangilinan founded First Pacific Company Limited, a corporation listed on the Hong Kong Stock Exchange, in May 1981. He served as Managing Director of First Pacific Company Limited since its founding in 1981 until 1999. He was appointed Executive Chairman until June 2003, after which he was named Managing Director and Chief Executive Officer. In May 2006, the Office of the President of the Philippines awarded Mr. Pangilinan the Order of Lakandula, rank of Komandante, in recognition of his

contributions to the country. He was named Management Man of the Year 2005 by the Management Association of the Philippines.

Mr. Pangilinan was awarded Honorary Doctorates in Science by Far Eastern University in 2010; in Humanities by Holy Angel University in 2008; by Xavier University in 2007; and by San Beda College in 2002 in the Philippines. He was formerly Chairman of the Board of Trustees of the Ateneo de Manila University and was a member of the Board of Overseers of the Wharton School. He is a member of the ASEAN Business Advisory Council. Mr. Pangilinan has been a Director of PMC and Philex Gold Philippines, Inc. (PGPI) since November 2008. He is also Managing Director and Chief Executive Officer of First Pacific Company Limited, and Chairman of the PLDT Inc. (PLDT) since 2004, after serving as its President and Chief Executive Officer (CEO) since 1998. He reassumed the position of President and CEO of PLDT effective December 2015. He is also Chairman of Smart Communications, Inc., PLDT Communications and Energy Ventures, Inc. (Digitel), Metro Pacific Investments Corporation, Silangan Mindanao Mining Co., Inc., Landco Pacific Corporation, Medical Doctors Inc. (Makati Medical Center), Colinas Verdes Corporation (Cardinal Santos Medical Center), Asian Hospital, Inc., Davao Doctors, Inc., Riverside Medical Center Inc., Our Lady of Lourdes Hospital, Central Luzon Doctors' Hospital, Inc., Maynilad Water Services Corporation, Mediaquest, Inc., Associated Broadcasting Corporation (TV5) and Manila North Tollways Corporation. Mr. Pangilinan is also Chairman of the Manila Electric Company (MERALCO), after serving as its President and Chief Executive Officer from July 2010 to May 2012. In December 2013, Roxas Holdings, Inc., Incorporated, the largest sugar producer in the Philippines, announced the election of Mr. Pangilinan as Vice Chairman.

Directorship in other Listed Companies in the Philippines:

1. PLDT Inc. - Chairman
2. Metro Pacific Investments Corporation - Chairman
3. Roxas Holdings, Inc. - Vice Chairman and Non-Executive Director
4. Manila Electric Company – Chairman
5. PXP Energy Corporation - Chairman

EULALIO B. AUSTIN, JR. President & CEO, Executive Director

Age: 56

Date of First Appointment : June 29, 2011

Academic Background:

Mr. Austin graduated from Saint Louis University-Baguio City, with a Bachelor of Science degree in Mining Engineering and placed eight at the 1982 Professional Board Examination for mining engineers. He took his Management Development Program at the Asian Institute of Management in 2005 and his Advance Management Program at Harvard Business School in 2013.

Business and Professional Background/ Experience:

Mr. Austin has been a Director of PMC and PGPI since June 29, 2011 and was re-elected on June 28, 2017. He became President and Chief Operating Officer on January 1, 2012 and President and CEO of the Company on April 3, 2013. He previously served the Company as its Senior Vice President for Operations and Padcal Resident Manager in 2011, Vice President & Resident Manager for Padcal Operations from 2004 to 2010, Mine Division Manager (Padcal) from 1999 to 2003, Engineering Group Manager in 1998 and Mine Engineering & Draw Control Department Manager from 1996 to 1998. Mr. Austin concurrently serves as Director of PXP Energy Corporation and Silangan Mindanao Mining Co., Inc.

Outside of Philex Mining, he is a member of the Chamber of Mines of the Philippines' Board of Trustees. Mr. Austin also sits as a member of the Executive Committee of the Board of Trustees and serves as the Chairman of the Membership Committee as well as the Towards Sustainable Mining Initiative Committee. He is a Competent Person on Mining. He was awarded Most Outstanding Engineer of the Philippine Society of Mining Engineers (PSEM) in 2016, aside from being the Founding President of PSEM's Philex Chapter. He was also recognized as the CEO of the Year on Mining by The Asset last December 14, 2015 in Hong Kong and was recently an Asia Pacific Entrepreneurship Awardee by the Enterprise Asia, awarded November 2016.

Directorship in OTHER Listed Companies in the Philippines:

1. PXP Energy Corporation - Non - Executive Director

OSCAR J. HILADO, Independent Director

Age : 80

Date of First Appointment : December 7, 2009

Academic Background:

Mr. Hilado, a Certified Public Accountant, completed his undergraduate studies at the De La Salle College-Bacolod in 1958 and obtained his Masters in Business Administration from the Harvard School of Business Administration (Smith Mundt/Fulbright Scholar) in 1962. He received a Doctorate in Business Management, Honoris Causa, from the De La Salle University and a Doctorate of Laws, Honoris Causa, from the University of St. La Salle in 1992.

Business and Professional Background/ Experience:

Mr. Hilado has been an Independent Director of PMC since December 7, 2009, and was last re-elected on June 24, 2015. He was the Chairman & Chief Executive Officer of Philippine Investment Management (PHINMA), Inc. (January 1994 to August 2005), and currently the Chairman of the Board. He is currently also Chairman of PHINMA Corp, PHINMA Property Holdings Corp., Vice Chairman of Union Galvasteel Corporation, Phinma Energy Corporation and Phinma Power Generation Corporation. Director of Phinma Renewable Energy Corporation and Phinma Solar Energy Corporation. Mr. Hilado is also an Independent Director of Smart Communications, Inc. and Digital Telecommunications Phils., Inc, and A. Soriano Corporation. He is also a Director of United Pulp and Paper Company, Inc., Beacon Property Ventures, Inc., Manila Cordage Company, Pueblo de Oro Development Corporation, Seven Seas Resorts and Leisure, Inc., Asian Eye Institute, Araullo University, Cagayan de Oro College, University of Iloilo, University of Pangasinan, Southwestern University, St. Jude College, Manila & Microtel Inns & Suites (Pilipinas) Inc.

Directorship in Other Listed Companies in the Philippines :

1. PHINMA Corporation - Non-Executive Director
2. PHINMA Energy Corporation – Non-Executive Director
3. A. Soriano Corporation – Independent Director
4. Rockwell Land Corporation – Independent Director
5. Roxas Holdings, Inc. – Independent Director

MARILYN A. VICTORIO-AQUINO, Non-Executive Director

Age: 62

Date of First Appointment : December 7, 2009

Academic Background:

Ms. Victorio-Aquino graduated cum laude (class salutatorian) from the University of the Philippines College of Law in 1980 and placed second in the Philippine Bar Examinations.

Business and Professional Background/ Experience:

She has been a Director of PMC and PGPI since December 7, 2009 and was re-elected on June 28, 2017. She is an Assistant Director of First Pacific Company Limited since July 2012, following her 32-year law practice at SyCip Salazar Hernandez and Gatmaitan Law Offices, where she was Partner from 1989 to 2012. She is also a Director of Philippine Indofood Distribution Corporation since August 2014, Light Rail Manila Corporation since July 2014, Silangan Mindanao Mining Co., Inc., and Lepanto Consolidated Mining Company since October 2012, and of Maynilad Water Services Corporation since December 2012.

Directorship in Other Listed Companies in the Philippines:

1. PXP Energy Corporation - Non-Executive Director
2. Lepanto Consolidated Mining Company – Non-Executive Director

BARBARA ANNE C. MIGALLOS Corporate Secretary, Executive Director

Age: 63

Date of First Appointment: June 26, 2013

Academic Background:

Ms. Migallos graduated cum laude from the University of the Philippines, with a Bachelor of Arts degree, and finished her Bachelor of Laws degree as cum laude (salutatorian) also at the University of the Philippines. She placed third in the 1979 Philippine Bar Examination.

Business and Professional Background/ Experience

Ms. Migallos was elected to the Board of Directors of PMC and PGPI on June 28, 2017. She is also the Company's Corporate Secretary since July 1998. She is also Director and Corporate Secretary of PXP Energy Corporation, and Corporate Secretary of Silangan Mindanao Mining Co., Inc. She is the Managing Partner of the Migallos & Luna Law Offices. Ms. Migallos is also a Director of Mabuhay Vinyl Corporation since 2000 and Philippine Resins Industries since 2001, and Corporate Secretary of Eastern Telecommunications Philippines, Inc. since 2005 and Nickel Asia Corporation since 2010. She is a professorial lecturer in Corporations Law, Insurance, Securities Regulation and Credit Transactions at the De La Salle University College of Law. She was a Senior Partner of Roco Kapunan Migallos and Luna Law Offices from 1988 to 2006.

Directorship in other Listed Companies in the Philippines

1. Mabuhay Vinyl Corporation - Non-Executive Director

ROBERT C. NICHOLSON, Non-Executive Director

Age: 62

Date of First Appointment : November 8, 2008

Academic Background:

Mr. Nicholson graduated from the University of Kent in 1976 and qualified as a solicitor in England and Wales and in Hong Kong.

Business and Professional Background/ Experience

Mr. Nicholson has been a Director of PMC and PGPI since November 28, 2008, and was re-elected on June 28, 2017. He is an Executive Chairman of Forum Energy Plc, a Chairman of Goodman Fielder Pty Limited (since March 2015), a Commissioner of PT Indofood Sukses Makmur Tbk. He is also a Director of Metro Pacific Investments Corporation, PXP Energy Corporation and Silangan Mindanao Mining Co, Inc., Executive Director of Pitkin Petroleum Plc and Pacific Light Power Pte. Ltd., all of which are First Pacific Group subsidiaries or associates.

Mr. Nicholson is also an Independent Non-executive Director of Pacific Basin Shipping Limited and Lifestyle Properties Development Limited. Previously, he was a senior partner of Reed Smith Richards Butler from 1985 to 2001 where he established the corporate and commercial department, and was also a senior advisor to the board of directors of PCCW Limited between August 2001 and September 2003.

Mr. Nicholson has wide experience in corporate finance and cross-border transactions, including mergers and acquisitions, regional telecommunications, debt and equity capital markets, corporate reorganizations and privatizations in China.

Directorship in other Listed Companies in the Philippines

1. PXP Energy Corporation - Non-Executive Director
2. Metro Pacific Investment Corporation - Non-Executive Director

WILFREDO A. PARAS, Independent Director

Age : 71

Date of First Appointment : June 29, 2011

Academic Background

Mr. Paras completed his undergraduate studies at the University of the Philippines in 1969 with Bachelor of Science, Industrial Pharmacy and his Master in Business Administration at the De La Salle University in 1991. He also completed an Executive Program at the University of Michigan at Ann Arbor, Michigan, USA.

Business and Professional Background/ Experience

Mr. Paras has been an Independent Director of PMC since June 29, 2011 and was re-elected on June 28, 2017. He is currently Independent Director of GT Capital Holdings, Inc. since May 2013, President of WAP Holdings, Inc., and a Director of CIIF Oil Mills Group of Companies. He is also a member of the Board of Trustees of Dualtech Training Foundation Inc. Mr. Paras was previously the Executive VicePresident, Chief Operating Officer and Director of JG Summit Petrochemical Corporation, President and Director of PT Union Carbide Indonesia, Managing Director of Union Carbide Singapore, and Business Director for Union Carbide Asia Pacific.

Directorship in Other Listed Companies in the Philippines

1. GT Capital Holdings, Inc. - Non-Executive Director

EDWARD A. TORTORICI Non-Executive Director

Age: 78

Date of First Appointment : December 7, 2009

Academic Background

Mr. Tortorici received a Bachelor of Science degree from New York University and a Master of Science degree from Fairfield University.

Business and Professional Background/ Experience

Mr. Tortorici has been a Director of PMC and PGPI since December 7, 2009, and was last re-elected on June 28, 2017. Mr. Tortorici has served in a variety of senior and executive management positions, including Corporate Vice President for Crocker Bank and Managing Director positions at Olivetti Corporation of America and Fairchild Semiconductor Corporation. Mr. Tortorici subsequently founded EA Edwards Associates, an international management and consulting firm specializing in strategy formulation and productivity improvement with offices in USA, Europe and Middle East. In 1987, Mr. Tortorici joined First Pacific Company Limited and served as an Executive Director up to 2017. Mr. Tortorici was also appointed a Commissioner of Indofood Sukses Makmur Tbk in 2001 and re-elected in 2004, 2009, 2012 and 2015. He also served as Director of Metro Pacific Investments Corporation, Maynilad Water Services, Inc., and FEC Resources Inc. of Canada. He previously served as Director of AIM-listed Forum Energy plc. Mr. Tortorici serves as a Trustee of the Asia Society Philippines and is on the Board of Advisors of the Southeast Asia Division of the Center for Strategic and International Studies, a Washington D.C. non-partisan think tank. He also served as a Commissioner of the U.S. ASEAN Strategy Commission.

Directorship in Other Listed Companies in the Philippines

1. None

MICHAEL G. REGINO, Non-Executive Director

Age: 56

Date of First Appointment : February 28, 2017

Academic Background:

Michael G. Regino graduated Cum Laude and Salutatorian from the Ateneo de Zamboanga University in 1981, with a degree of Bachelor of Science, Major in Economics. He later obtained his Masters in Business Administration in 1985 from the Ateneo de Manila University.

Business and Professional Background/ Experience:

Mr. Regino was appointed last October 27, 2017 as Member of the Board of the Social Security Commission (SSC) and since February 28, 2017, a Director of Philex Mining Corporation. Last March 07, 2018, he was duly appointed as Director of Unionbank of the Philippines. Prior to these current positions, he engaged in multifarious activities which marked the significant milestones in his career.

He served as the President and member of the Board of Directors of San Agustin Services, Inc., Agata Mining Ventures, Inc. and Exploration Drilling Corp.; as the Senior Vice President and Chief Operating Officer of St. Augustine Gold and Copper Ltd.; and, as the Executive Director of TVI Resources Development Phils., Inc. He also became one of the members of the Board of Directors of Nationwide Development Corporation and KingKing Mining Corp., where he took charge of the Davao operations.

He also gained expertise in the field of real estate development and property management when he served as the President of Golden Haven Memorial Parks, Inc., Camella Homes, and MGS Group of Companies. He also once shared his competence in other industries such as Northern Foods, Corp., Kilusang Kabuhayan at Kaunlaran, and the Ateneo de Zamboanga University, where he served as Finance and Treasury Manager, Chief Financial Specialist, and Instructor in Economics, respectively.

Directorship in Other Listed Companies in the Philippines:

1. Union Bank of the Philippines

ANITA BUMPUS QUITAIN, Non-Executive Director

Age: 71

Date of First Appointment: February 28, 2017

Academic Background:

Ms. Quitain has BSE Education Degree holder from the University of Mindanao in Davao City and Bachelor of Science Degree in Commerce, Major in Accounting. She also completed two (2) years of Masters in Public Administration (37 units) for her Career Civil Service Eligibility

Business and Professional Background/ Experience:

As newly-appointed SSS Commissioner, Ms. Quitain notched a major achievement by voting yes on the increase of the pension of SSS pensioners, despite being a neophyte member of the Social Security Commission.

As an employee of the SSS (for 31 years) assigned to the Main Office of Region 09 in Davao City, one of her major achievements was taking charge of the operations of the then newly-opened SSS Representative Office in Digos City, Davao del Sur as Office-in-Charge. She stayed there for five (5) years where she conducted seminars and coverage drives, especially in rural areas, aside from discharging management and leadership functions in the Representative Office.

As a BSE Education Degree holder, she worked with the Department of Education as an elementary classroom teacher for ten (10) years and served worked as a classroom teacher in the Philippine Women's College of Davao for one year. After this, she moved to SSS office in Region 09, Davao City, where she eventually retired in July, 2009 after 31 years of dedicated service.

Ms. Quitain was, at one time or another, headed different sections, namely: Membership, Real Estate, Operations Accounting, Member Assistance Center, and Sickness, Maternity and Disability Sections.

Directorship in Other Listed Companies in the Philippines:

1. None

¹ JOSE GABRIEL M. LA VIÑA, Non-Executive Director

Age: 59

Date of First Appointment: February 28, 2017

Academic Background:

Mr. La Viña graduated at the Ateneo de Manila University with a degree of BA Philosophy (Magna Cum Laude) and an Ateneo Full Scholar & Insular Life Educational Foundational Scholar. He was also an AFS Scholar, Master in Entrepreneurship (Superior Performance) at the Asian Institute of Management; a Valedictorian at Corona del Mar High School, Newport Beach, California, Xavier University High School, and Xavier University Grade School.

Business and Professional Background/ Experience:

Mr. La Viña was appointed Commissioner of the Social Security System (SSS) on November 2016. Prior to this, he was Social Media Director, *Duterte 2016 Presidential Campaign* and a member of its Media Central & Communications Group. Mr. La Viña has 32 years of experience as Founder & CEO in various industries, including Home Mortgage Brokerage, Real Estate, Cooperative Banking, Technology, Auto Sales, Supply Chain Management, Hospitality and Music Entertainment. Elected February 2016 to the Board of Directors of the Alumni Association of the Asian Institute of Management. Served as Treasurer & Trustee of AFS Intercultural Services, which sends around 30 to 40 Filipino Muslim youth scholars to the United States every year under the Kennedy-Lugar Youth Exchange and Study program funded by the U.S. State Department.

As composer, Mr. La Viña's songs have been recorded by Lea Salonga, Chad Borja, Joey Albert, Iza Calzado, Gino Padilla, Anna Fegi, Renz Verano, Jinky Llamanzares, Kaye Abad, Toti Fuentes, Raymond Lauchenco, Iwi Laurel, Tillie Moreno, Louie Reyes, Eugene Villaluz, Teresa Loyzaga, and other Filipino and international artists. One of his compositions won Third Prize in the Metro Manila Popular Music Festival in 1984 and two other received Honorable Mention at the 10th Billboard International Song Contest, 2002.

Directorship in Other Listed Companies in the Philippines:

1. None

² **GONZALO T. DUQUE**, Non-Executive Director

Age: 66

Date of First Appointment: February 27, 2018

Academic Background:

Dr. Gonzalo T. Duque graduated Bachelor of Arts in Political Science in 1972 and Bachelor of Law in 1976 at San Beda College Manila. He completed his Doctor of Educational Management (2010, meritissimus) at the University of the Visayas and Doctor of Humanities (2011, honoris causa) at the University of Baguio.

Business and Professional Background/ Experience:

Dr. Duque began his professional career by working as a hearing officer in the Securities and Exchange Commission (1980-1981). He was later elected and served as Pangasinan Vice-Governor (1987-1992). He served in the Philippine Overseas Employment Administration (POEA) as Director IV (1994-1996) before becoming Deputy Administrator (1996-1998), and acted as consultant of the House of Representatives Committee on Education (2005) and of the Commission on Higher Education (2009).

Dr. Duque is currently the Chancellor of Lyceum Northwestern University (LNU) and the Chairman of the Dagupan City Water District. He is also the Chairman of Dagupan City Peace and Order Council; Policy Advisory Council Province of Pangasinan, Pangasinan Historical Culture Commission; and Dagupan City Historical, Cultural, and Arts

Commission. Likewise, he sits as a member of the Philippine Constitution Association and a consultant of the Dangerous Drugs Board.

Dr. Duque's previous affiliations include holding key positions in the Coordinating Council for Private Educational Associations, Philippine Association of Colleges and Universities, Private Schools Athletic Association of the Philippines, Young Men's Christian Association of the Philippines, Anti-Drug Abuse Foundation of Pangasinan, Pangasinan Press Club Inc., Pangasinan Chapter of the Integrated Bar of the Philippines, and Vice Governors League of the Philippines, among many other organizations.

Directorship in Other Listed Companies in the Philippines:

None

¹ *Mr. Jose Gabriel M. La Vina resigned from the Philex Board effective 22 February 2018*

² *Appointed to the Philex Board of Directors effective 27 February 2018*

Executive Officers

The following persons are the present executive officers of the Company:

EULALIO B. AUSTIN, JR. – 56, Filipino citizen. Mr. Austin has been a Director of PMC and PGPI since June 29, 2011 and was re-elected on June 24, 2015. He became President and Chief Operating Officer on January 1, 2012 and President and Chief Executive Officer of the Company on April 3, 2013. He previously served the Company as its Senior Vice President for Operations and Padcal Resident Manager in 2011, Vice President & Resident Manager for Padcal Operations from 2004 to 2010, Mine Division Manager (Padcal) from 1999 to 2003, Engineering Group Manager in 1998 and Mine Engineering & Draw Control Department Manager from 1996 to 1998. Mr. Austin concurrently serves as Director of PXP Energy Corporation and Silangan Mindanao Mining Co., Inc. Outside of Philex Mining, he is a member of the Chamber of Mines of the Philippines' Board of Trustees. Mr. Austin also sits as a member of the Executive Committee of the Board of Trustees and serves as the Chairman of the Membership Committee as well as the Towards Sustainable Mining Initiative Committee. Mr. Austin is a Competent Person on Mining. He was awarded Most Outstanding Engineer in Mine Management by the Philippine Society of Mining Engineers (PSEM) in 2016, aside from being the Founding President of PSEM's Philex Chapter. He was also recognized as the CEO of the Year on Mining by The Asset last December 14, 2015 in Hong Kong and was recently an Asia Pacific Entrepreneurship Awardee by the Enterprise Asia, awarded November 2016.

BARBARA ANNE C. MIGALLOS – 63, Filipino citizen. Ms. Migallos has been a Director of the Company and PGPI since June 26, 2013 and was re-elected on June 24, 2015. She is also the Company's Corporate Secretary since July 1998. Ms. Migallos is also Director and Corporate Secretary of PXP Energy Corporation, and Corporate Secretary of Silangan Mindanao Mining Co., Inc. and Lascogon Mining Corporation. She is the Managing Partner of the Migallos & Luna Law Offices. Ms. Migallos has also been a Director of Mabuhay Vinyl Corporation since 2000 and the Philippine Resins Industries since 2001, and Corporate Secretary of Eastern Telecommunications Philippines, Inc. since 2005 and Nickel Asia Corporation since 2010. She is also a professorial lecturer in insurance law and securities regulation law at the De La Salle University College of Law. Ms. Migallos graduated cum laude from the University of the Philippines, with a Bachelor of Arts degree, and finished her Bachelor of Laws degree as cum laude (salutatorian) also at the University of the Philippines. She placed third in the 1979 Philippine Bar Examination.

DANNY Y. YU. – 56, Filipino citizen. Mr. Yu was appointed Senior Vice President for Finance and Chief Financial Officer ("CFO") on September 2, 2013. He is also the Company's Compliance Officer and Corporate Governance Officer. Prior to joining the Company, Mr. Yu was CFO of

Digitel Communications, Inc. (subsidiary of PLDT) and of Digitel Mobile Philippines, Inc. (Sun Cellular) from November 2011 to July 2013. He was also Group CFO of ePLDT, Inc. and subsidiaries (November 2010 to December 2011); CFO of PLDT Global Corporation (June 2004 to November 2010) and of Mabuhay Satellite Corporation (March 1999 to May 2004). Mr. Yu was also Vice President-Corporate Development of Fort Bonifacio Development Corporation (March 1997 to March 1999). A CPA, he was previously connected with Sycip, Gorres and Velayo & Co. Mr. Yu obtained a Bachelor of Science Degree in Commerce, Major in Accounting (Magna Cum Laude) from the San Carlos University in Cebu City. In 1995, he completed a Master in Management at the Asian Institute of Management. In 2016, Mr. Yu was named as the ING Finex CFO of the Year.

MICHAEL T. TOLEDO – 57, Filipino citizen. Mr. Toledo has been Senior Vice President for Public and Regulatory Affairs since February 15, 2012. He is the Chief Operating Officer of Silangan Mindanao Mining Company, Inc. and also heads the Media Bureau of the MVP group of companies. He currently sits as a Member of the Executive Council and Chairman of the Standing Committee on Legal Information of the ASEAN Law Association of the Philippines (ALA); Chairman of the Committee on Public Relations and Publicity and Co-Chair of the Committee on Business Law Reforms of the Philippine Bar Association (PBA); Chairman of the Sub-Committee on Natural Resources Development and Member of the National Issues Committee and Women Empowerment Committee of the Management Association of the Philippines (MAP); Member of the Board of Trustees of the UP College of Law Alumni Foundation (UPLAF); and member of the Board of trustees of the Philippine Disaster Recovery Foundation (PDRF). He is also a print journalist and writes a fortnightly column in The Standard. Mr. Toledo was named 2014 CEO (Communication Excellence in Organizations) Excel Awardee by the International Association of Business Communicators (IABC) and was conferred the Lifetime Achievement Award by the British Government and the British Alumni Association. Before joining the Company, he was President and Chief Executive Officer of the Weber Shandwick Manila office since 2006. Mr. Toledo was also Press Secretary and Presidential Spokesperson for former President Joseph Ejercito Estrada and was Director and/or Legal and Financial Consultant for various government owned and controlled corporations such as the Government Service Insurance System (GSIS), Department of Transportation and Communications (DOTC), and the Cagayan Economic Zone Authority (CEZA). Mr. Toledo finished a Bachelor of Arts Degree in Philosophy in 1981 and completed a Bachelor of Laws Degree at University of the Philippines in 1985. In 1994, he obtained a Masters of Law degree at the London School of Economics and Political Science as a Chevening Scholar and was accepted at the Fletcher School of Law and Diplomacy at Tufts University.

REDEMPTA P. BALUDA – 62, Filipino citizen. Ms. Baluda has been Vice President for Exploration since January 2, 2009. She was formerly Assistant Vice President for Exploration from 2007 to 2009, Division Manager for Environment and Community Relations and Geology for Padcal Operations from 1998 to 2007 and Department Manager for Geology from 1996 to 1998. Ms. Baluda finished with a Bachelor of Science Degree in Geology at the University of the Philippines in 1976. She also completed the academic units under the Masters in Environment & Natural Resource Management at the University of the Philippines campus in Los Banos, Laguna in 2007.

VICTOR A. FRANCISCO – 53, Filipino citizen. Mr. Francisco has been Vice President for Environment and Community Relations since January 2, 2009. He was previously Group Manager for Corporate Environment and Community Relations in 2007, Department Manager–Corporate Environment and Community Relations in 1999 and Assistant Manager –Corporate Environmental Affairs in 1997. Mr. Francisco completed a Bachelor of Science Degree in Community Development at the University of the Philippines in 1987. He also received a Masters in Environmental Science and Management at the University of the Philippines campus in Los Banos, Laguna in 1995.

JOAN A. DE VENECIA – 37, Filipino citizen. Joan A. de Venecia is currently the Vice President and General Counsel of Philex Mining Corporation, having joined the company on August 1, 2015. Prior to this, Ms. De Venecia was the Vice President for the Public Relations and Information Services Group at Pag-IBIG Fund, a government owned and controlled corporation. Before joining public service, Ms. De Venecia was a senior associate at SyCip Salazar Hernandez & Gatmaitan. She obtained her Master of Laws in International Legal Studies degree (Hugo Grotius scholar & Fulbright scholar, 2010) from the New York University School of Law; Bachelor of Laws degree (valedictorian, cum laude, Academic Excellence awardee, 2005) from the University of the Philippines College of Law; and BS–Legal Management (hon. mention, 2001) from the Ateneo de Manila University. She ranked 1st in the 2005 Bar Examinations. She teaches law at the UP College of Law, and is a regular Mandatory Continuing Legal Education lecturer on Investor-State Arbitration.

While all employees are expected to make a significant contribution to the Company, there is no one particular employee, not an executive officer, expected to make a significant contribution to the business of the Company on his own.

The Company is not aware of any adverse events or legal proceedings during the past five (5) years that are material to the evaluation of the ability or integrity of its directors or executive officers. Note 31 of the Notes to the Consolidated Financial Statements of the Exhibits in Part V, Item 14 is also hereto incorporated by reference.

There are no family relationships up to the fourth civil degree of consanguinity among any of the directors and executive officers.

No director has resigned or declined to stand for re-election because of disagreement with the Company on any matter relating to the Company's operations, policies or practices.

Item 10. Executive Compensation

There are no arrangements for additional compensation of directors other than that provided in the Company's by-laws which provides compensation to the directors, at the Board's discretion to determine and apportion as it may deem proper, an amount up to one and a half (1 ½ %) percent of the Company's net income before tax of the preceding year. Payments made in 2017, 2016 and 2015 amounted to ₱16.9 million ₱7.4 million and ₱10.5 million, respectively. In 2016, 2015 and 2014, the payments represented only 1% of the Company's net income before tax.

Effective March 2015, the Directors' per diem increased to P40,000 per board meeting attendance and P30,000 per committee participation, and are deductible from the annual directors' compensation provided under Section 7 of the Company's By-laws. Previously, the rate per attendance for both board and committee meeting was P8,000. In the event that financial results warrant the payment of the annual directors' compensation under the Company's by-laws, such directors' compensation shall be inclusive of the annual total per diem paid to directors. The total amount of per diem paid in 2017, 2016 and 2015 were ₱6.6 million, ₱5.4 million and ₱4.4 million, respectively

There is no executive officer with contracts or with compensatory plan or arrangement having terms or compensation significantly dissimilar to the regular compensation package, or separation benefits under the Company's group retirement plan, for the managerial employees of the Company.

On June 23, 2006, the Company's stockholders approved the stock option plan of the Company which was thereafter duly approved by the Securities and Exchange Commission on March 8, 2007. This Plan and all outstanding option shares granted under this plan expired in 2016.

On June 29, 2011, the Company's stockholders approved a new stock option plan covering up to 246,334,118 shares equivalent to 5% of the Company's outstanding shares of 4,926,682,368 as of June 29, 2011. This plan was approved by the SEC on February 22, 2013, which approval was received by the Company on March 5, 2013. Note 27 of the Notes to Consolidated Financial Statements of the Exhibits in Part V, Item 14 on the Company's Stock Option Plan is hereby incorporated for reference.

The following table shows the compensation of the directors and officers for the past three years and estimated to be paid in the ensuing year. Starting 2008, stock option exercises of the Company's non-management directors, consisting of the difference between the market and exercise prices at the time of option exercise, are considered as director's fee for purposes of the table.

SUMMARY OF COMPENSATION TABLE
(In Thousands)

DIRECTORS

<u>Year</u>	<u>Directors' Fee</u>
2018 (Estimated)	P 22,898
2017	P 21,331
2016	P 11,666
2015	P 13,544

CEO AND FOUR MOST HIGHLY COMPENSATED OFFICERS

<u>Year</u>	<u>Salary</u>	<u>Bonus/Others</u>
2018 (Estimated)	P 63,247	P 5,271
2017	P 68,554	P 19,978
2016	P 67,544	P 17,553
2015	P 60,918	P 14,774

The aggregate amount of compensation paid in 2017, 2016 and 2015 and estimated amount expected to be paid in 2018 as presented in the above table are for the following executive officers:

2018 (Estimate) - Eulalio B. Austin, Jr. (CEO), Danny Y. Yu, Michael T. Toledo, Redempta P. Baluda and Joan De Venecia-Fabul

2017, 2016 and 2015 - Eulalio B. Austin, Jr. (CEO), Danny Y. Yu, Manuel A. Agcaoili, Michael T. Toledo and Redempta P. Baluda

<u>Year</u>	<u>Total Officers'</u>	
	<u>Salary</u>	<u>Bonus/Others</u>
2018 (Estimated)	P 63,247	P 5,271
2017	P 77,553	P 22,192
2016	P 76,754	P 22,101
2015	P 77,938	P 29,971

ALL DIRECTORS & OFFICERS AS A GROUP

<u>Year</u>	<u>Total Amount</u>
2018 (Estimated)	P 91,416
2017	P 121,075
2016	P 110,521
2015	P 121,453

Remuneration of Each Director

In 2017, a total of P 23.5 million was paid to all executive and non-executive directors, details of which are as follows:

Name	Position	Amount in (P Million)
Manuel V.Pangilinan	Chairman	2.07
*Eulalio B. Austin, Jr.	President &CEO	2.13
Marilyn A. Victorio-Aquino	Non-Executive Director	2.42
Oscar J. Hilado	Independent Director	2.32
Barbara Anne C. Migallos	Executive Director	2.01
Robert C. Nicholson	Non-Executive Director	2.37
Wilfredo A. Paras	Independent Director	2.43
Edward A. Tortorici	Non-Executive Director	1.98
**Bienvenido E. Laguesma	Non-Executive Director	1.61
**Juan B. Santos	Non-Executive Director	1.35
**Michael Victor Alimurung	Non-Executive Director	1.48
**Jose Gabriel M. La Vina	Non-Executive Director	0.41
**Michael G. Regino	Non-Executive Director	0.50
**Anita B. Quitain	Non-Executive Director	0.36
Total		23.47

There are no arrangements for additional compensation of directors other than that provided in the Company's by-laws, which provides compensation to the directors, at the Board's discretion to determine and apportion as it may deem proper, an amount up to one and a half (1 ½ %) percent of the Company's net income before tax of the preceding year. Payments made in 2017, 2016 and 2015 amounted to P16.9 million, P7.4 million and P10.5 million, respectively, and represented only 1% of the Company's net income before tax since 2012.

Effective March 2015, the Directors' per diem increased to P40,000 per board meeting attendance and P30,000 per committee participation, and are deductible from the annual directors' compensation provided under Section 7 of the Company's By-laws. The total amount of per diem paid in 2017, 2016 and 2015 were P6.6 million, P5.4 million and P4.4 million, respectively.

* The amount paid to Mr. Eulalio B. Austin, Jr. was included under the Compensation of Officers

**A total of P5.7 million was paid directly to SSS, which covers the fees paid to SSS nominee directors.

Item 11. Security Ownership of Certain Beneficial Owners and Management

Security Ownership of Certain Record and Beneficial Owners

The list of registered stockholders owning five (5%) percent or more of the Company's stock as of December 31, 2017 follows:

Title of Class	Name and Address of Record Owner and Relationship to Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	Number of Shares	Percentage
Common	Asia Link B.V. <i>Prins Bernhardplein 200, 1097 JB Amsterdam, The Netherlands</i>	Asia Link B.V. <i>See Note 1 below</i>	Dutch	1,023,275,990	20.71%
Common	Social Security System <i>c/o Loans and Investment Office, 7/F SSS Building, Diliman, Quezon City</i>	Social Security System <i>See Note 2 below</i>	Filipino	992,679,729	20.09%
Common	PCD Nominee Corp. <i>37/F, Tower I, The Enterprise Center, 6766 Ayala Avenue, Makati City</i>	<i>See Note 3 below</i>	Filipino/Other Alien	1,031,244,374	20.87%
Common	Two Rivers Pacific Holdings Corp. <i>10/F Net One Center, 26th St. corner 3rd Avenue, Bonifacio Global City, Taguig City</i>	Two Rivers Pacific Holdings Corp. <i>See Note 4 below</i>	Filipino	738,871,510	14.96%

¹ Asia Link B.V., a wholly-owned subsidiary of First Pacific Company Limited (FPC), is the registered owner of 1,023,275,990 shares. In its SEC Form 23-A dated December 3, 2009, FPC disclosed that it beneficially owns 1,542,590,602 shares inclusive of the shares held by Asia Link B.V. FPC is represented by Messrs. Manuel V. Pangilinan, Robert C. Nicholson and Edward A. Tortorici on the Company's Board of Directors.

² The total shares held by the Social Security System (SSS) presented above is inclusive of 128,234,799 shares lodged with the PCD Nominee Corporation as the record owner as of December 31, 2017. Messrs. Michael G. Regino, Gonzalo T. Duque, and Ms. Anita B. Quitain currently represent the SSS in the Company as members of the Board of Directors.

³ PCD Nominee Corporation (PCD), the nominee of the Philippine Depository & Trust Corp., is the registered owner of the shares in the books of the Company's transfer agent. The beneficial owners of such shares are PCD's participants who hold the shares on their own behalf or in behalf of their clients. The 1,031,244,374 shares shown above as of December 31, 2017 are exclusive of the 128,234,799 shares owned by SSS which shares were included as part of the total holdings of SSS as indicated above. PCD is a private company organized by the major institutions actively participating in the Philippine capital markets to implement an automated book-entry system of handling securities transaction in the Philippines. Other than SSS whose shares under the PCD which were excluded and presented separately in the table above, there are no participants under the PCD account owning more than 5% of the voting securities of the Company.

⁴ Two Rivers Pacific Holdings Corporation is represented by Ms. Marilyn A. Victorio-Aquino and Mr. Eulalio B. Austin Jr. on the Company's Board of Directors.

Security Ownership of Management

The beneficial ownership of the Company's directors and executive officers as of December 31, 2017 follows:

<u>Title of class</u>	<u>Name of Beneficial Owner</u>	<u>Nature of Ownership</u>	<u>Citizenship</u>	<u>Number of Shares</u>	<u>Percentage</u>
COMMON	Manuel V. Pangilinan	Direct	Filipino	4,655,000	0.09%
COMMON	Eulalio B. Austin, Jr.	Direct	Filipino	1,360,937	0.03%
COMMON	Barbara Anne C. Migallos	Direct	Filipino	203,875	0.00%
COMMON	Edward A. Tortorici	Direct	American	3,285,100	0.07%
COMMON	Robert C. Nicholson	Direct	British	1,250	0.00%
COMMON	Marilyn A. Victorio-Aquino	Direct	Filipino	500,100	0.01%
COMMON	Oscar J. Hilado	Direct	Filipino	173	0.00%
COMMON	Wilfredo A. Paras	Direct	Filipino	1	0.00%
COMMON	Anita B. Quitain	Direct	Filipino	1	0.00%
COMMON	Michael G. Regino	Direct	Filipino	1	0.00%
COMMON	Jose Gabriel M. La Vina	Direct	Filipino	1	0.00%
COMMON	Danny Y. Yu	Direct	Filipino	40,000	0.00%
COMMON	Redempta P. Baluda	Direct	Filipino	20	0.00%
COMMON	Victor A. Francisco	Direct	Filipino	50,000	0.00%
COMMON	Michael T. Toledo		Filipino		0.00%
COMMON	Joan A. De Venecia		Filipino		0.00%
Directors and Officers as a Group				10,096,459	0.20%

The above directors and executive officers have no indirectly owned shares other than the above.

Voting Trust/Changes in Control

There is no voting trust holder of 5% or more of the Company's stock. There are no arrangements which may result in a change in control of the Company.

Item 12. Certain Relationships and Related Transactions

The Company's significant related party transactions as of December 31, 2017, 2016 and 2015, which are under terms that are no less favorable than those arranged with third parties, and account balances are as follows:

a) Advances from PMC to SMMCI and SMECI

PMC, owning directly and indirectly 100% of SMMCI and SMECI, provides the funds to SMMCI, through SMECI since 2011 and directly thereafter, for the Silangan project's expenditures since the Company's acquisition of Anglo American's interest in the Silangan Project in 2009. These advances, which were intended to be converted into equity, amounted to ₱1.295 billion, ₱650.6 million, and nil as of December 31, 2017, 2016, and 2015, respectively. In February 2015, the Company infused all outstanding advances amounting to ₱7.208 billion as equity.

b) Advances from PMC to PXP

PMC made cash advances to PXP Energy Corporation (PXP) for its additional working capital requirements, and for the acquisition of equity in FEP, PERC and Pitkin. As of December 31, 2017, advances from PMC amounted to ₱2.169 billion from ₱2.194 billion as at end 2016 and 2015. In August 2015, PX and PXP entered into a pledge agreement to secure the advances against certain shares of stocks owned by PXP.

c) Receivable from Anglo

PMC was reimbursed by Anglo American for expenses incurred by PMC on behalf of Northern Luzon Exploration & Mining Co. Inc. ("NLEMCI") except in 2015 when no reimbursement was received. In 2017 and 2016, PMC received reimbursement of ₱253 thousand and ₱2.7 million, respectively. As of December 31, 2017, 2016, and 2015, the Company's receivables from these transactions amounted to ₱321 thousand, ₱557 thousand and ₱2.4 million, respectively.

d) Issuance of Convertible Bonds to FPC and SSS by SMECI

In December 2014, SMECI and PMC, as the co-issuer, issued 8-year convertible bonds with a face value of ₱7.2 billion at 1.5% coupon rate p.a. payable semi-annually. The bonds are convertible into 400,000 common shares of SMECI at ₱18,000 per share one year after the issue date. The carrying value of loans payable amounted to ₱6.950 billion, ₱6.593 billion, and ₱6.259 billion as of December 31, 2016, 2015 and 2014, respectively.

Note 14 and 24 of the Notes to Consolidated Financial Statements of the Exhibits in Part V, Item 14 on Related Party Transactions, is incorporated hereto by reference.

PART IV

CORPORATE GOVERNANCE

Item 13. Corporate Governance

As a publicly-listed Philippine corporation, PMC conforms to the corporate governance rules, requirements, and regulations of the Philippine Securities and Exchange Commission (SEC), the Philippine Stock Exchange (PSE) and all pertinent government regulatory bodies. The Company is committed to the highest standards of corporate governance and continues to benchmark its procedures against internationally-recognized and globally-accepted best practices.

To ensure constant improvement, PMC monitors developments in corporate governance to elevate the Company's corporate governance structures, processes, and practices to global standards. The Company also advocates an ethical corporate culture, guided by its core values of integrity, teamwork, respect for individuals, work excellence, corporate as well as social and environment responsibility.

PMC has adopted a Manual of Corporate Governance (CG) and complies with the Code of Corporate Governance of the SEC and Corporate Governance Guidelines and listing rules of the PSE, and endeavors to raise its corporate governance practices in line with global best practices.

Based on SEC Memo Circular 20 Series of 2016, publicly-listed companies shall not be required to post on their websites the Consolidated Changes in the ACGR for 2016 on or before January 10, 2017. Likewise, they shall not be required to attach the same to their 2016 Annual Report (SEC Form-17A)

PART V

EXHIBITS AND SCHEDULES

Item 14. Exhibits and Reports on SEC Form 17-C

(a) Exhibits and Schedules

Statement of Management's Responsibility for Financial Statements

Report of Independent Auditors

Audited Consolidated Financial Statements and Notes for the year ended December 31, 2017

Schedule I : Reconciliation of Retained Earnings Available for Dividends Declaration

Schedule II : Schedule of Financial Soundness Indicators

Schedule III : Chart Showing Ownership and Relationship between the Parent Company and its Subsidiaries

Schedule IV : Schedule of All Effective Standards and Interpretations

Schedule V: Schedules as Required by SRC Rule 68, As Amended

Schedule A. Financial Assets

Schedule B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)

Schedule C. Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements

Schedule D. Intangible Assets – Other Assets (Deferred Mine Exploration Costs and Other Noncurrent Assets)

Schedule E. Long Term Debt

Schedule F.	Indebtedness to Related Parties (Long-term Loans from Related Companies)
Schedule G.	Guarantees of Securities of Other Issuers
Schedule H.	Capital Stock

-

(b) Reports on SEC Form 17-C

There were thirty-three reports filed by the Company under SEC Form 17-C during the first quarter of 2018 and the last nine months of 2017 covered up to filing of this report, part of which follows:

<u>Report Date</u>	<u>Item Reported</u>
February 28, 2018	Philex Mining Corporation's 2017 Consolidated Audited Financial Statements
February 27, 2018	Press release on Philex Mining's 2017 Financial and Operating Results;
	Declaration of Cash Dividend;
	Announcement of Annual Stockholders' Meeting on June 27, 2018;
	Appointment of Gonzalo T. Duque to the Philex Board of Directors
February 22, 2018	Resignation of Jose Gabriel M. La Vina as member of the Philex Board of Directors
February 22, 2018	Notice of Analysts' Briefing on the Results for the Full Year 2017 Financial and Operating Performance
November 7, 2017	Press Release on Results of Nine Months of 2017 Operating and Financial Performance
	Declaration of Cash Dividend
November 3, 2017	Notice of Analysts' Briefing on the Results for the First Nine months ended September 30, 2017
October 9, 2017	Resignation of Manuel A. Agcaoili
August 3, 2017	Appointment of Lead Independent Director and Data Protection Officer
August 2, 2017	Press Release on Results of First Half 2017 Operating and Financial Performance;
	Philex Board Committees and Members
	Approval of Disclosure Policy

July 27, 2017	Notice of Analysts' Briefing on the Results for the first half ended June 30, 2017
July 24, 2017	Philex 2017 Sustainability Report
June 28, 2017	Results of Philex 2017 Annual Stockholders' Meeting Results of Organizational Meeting of Board of Directors; Amendment of Articles of Incorporation
May 20, 2017	Approval of Corporate Governance Manual and Committee Charters
May 2, 2017	PSE Clarification on Manila Bulletin Article
April 26, 2017	Financial and operating results for the First Quarter ended March 31, 2017 Approval of Corporate Governance Policies and Committee Charter Statement of Padcal Proved Reserves and Mineral Resources as of December 31, 2016
April 21, 2017	Notice of Analysts' Briefing on the Results for the First Quarter ended March 31, 2017


SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Mandaluyong on _____, 2018.


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


BARBARA ANNE C. MIGALLOS
Corporate Secretary


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


PARALUMAN M. NAVARRO
Asst. Vice President – Corporate Finance

APR 11 2018

SUBSCRIBED AND SWORN TO before me this _____ day of _____ 2018 at Mandaluyong City. Affiants exhibiting to me their Competent Evidence of Identity indicated opposite their names:

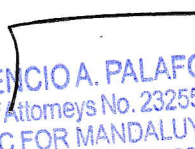
Name

Eulalio B. Austin, Jr.
Danny Y. Yu
Barbara Anne C. Migallos
Paraluman M. Navarro

Competent Evidence of Identity

Passport No. EC1070933; valid until May 12, 2019
Passport No. EC0261993; valid until February 9, 2019
Passport No. EC0356963; valid until February 19, 2019
Passport No. EC0588618; valid until March 17, 2019

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Page No. 67
Book No. 87
Series of 2018 51


GAUDENCIO A. PALAFOX
(Roll of Attorneys No. 23255)
NOTARY PUBLIC FOR MANDALUYONG CITY
UNTIL DECEMBER 31, 2018
IBP # 017508 / 11-22-17 / Manila 2
PTR # 3391734 / 01-05-18 / MAND. CITY
MCLE Compliance No. V-0017891/03-03-16/Pasig City



**STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS**

SECURITIES AND EXCHANGE COMMISSION

Roxas Boulevard, Pasay City

The management of Philex Mining Corporation is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, for the years ended December 31, 2017, 2016 and 2015, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

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

SyCip, Gorres, Velayo & Co., the independent auditors appointed by the stockholders, has audited the consolidated financial statements of the company in accordance with Philippine Standards on Auditing, and in its report to the stockholders or members, has expressed its opinion on the fairness of presentation upon completion of such audit.

MANUEL V. PANGILINAN
Chairman of the Board

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


DANNY Y. YU
Chief Financial Officer and
Senior Vice President-Finance

Philex Mining Corporation
Statement of Management's Responsibility for Financial Statements
Page 2

Subscribed and sworn to before me this APR 05 2018 at Mandaluyong City
affiants exhibiting to me their respective Social Security ID No. indicated opposite their names:

Name	SSS No.
Manuel V. Pangilinan	03-1881608-3
Eulalio B. Austin, Jr.	01-0618335-5
Danny Y. Yu	06-0896968-2

Doc. No. 158
Page No. 37
Book No. 1
Series of 2018


JOSE AURELIO B. ALBAN
NOTARY PUBLIC FOR AND IN THE CITY OF MANDALUYONG
APPOINTMENT NO. 0491-17 (2017-2018)
COMMISSION EXPIRES ON DECEMBER 31, 2018
2nd Floor, LaunchPad, Reliance St. cor. Sheridan St.,
Mandaluyong City, 1550
PTR No. 2692605; 01/05/18; Mandaluyong City
Lifetime IBP No. 025276; RSM Chapter
Roll of Attorneys No. 60411

COVER SHEET

for

AUDITED FINANCIAL STATEMENTS

SEC Registration Number

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COMPANY NAME

P	H	I	L	E	X		M	I	N	I	N	G		C	O	R	P	O	R	A	T	I	O	N		A	N	D	
S	U	B	S	I	D	I	A	R	I	E	S																		

PRINCIPAL OFFICE (No. / Street / Barangay / City / Town / Province)

2	n	d		f	l	o	o	r		L	a	u	n	c	h	P	a	d	,		R	e	l	i	a	n	c	e		
S	t	r	e	e	t		c	o	r	n	e	r		S	h	e	r	i	d	a	n		S	t	r	e	e	t	,	
M	a	n	d	a	l	u	y	o	n	g		C	i	t	y	,		M	e	t	r	o		M	a	n	i	l	a	

Form Type

1	7	-	A
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Department requiring the report

N	/	A	
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Secondary License Type, If Applicable

N	/	A	
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COMPANY INFORMATION

Company's Email Address

philex@philexmining.com.ph

Company's Telephone Number

(632) 631-1381

Mobile Number

N/A

No. of Stockholders

44,072

Annual Meeting (Month / Day)

06/25

Fiscal Year (Month / Day)

12/31

CONTACT PERSON INFORMATION

The designated contact person **MUST** be an Officer of the Corporation

Name of Contact Person

Danny Y. Yu

Email Address

dyyu@philexmining.com.ph

Telephone Number/s

(632) 631-1381

Mobile Number

N/A

CONTACT PERSON'S ADDRESS

2nd floor LaunchPad, Reliance Street corner Sheridan Street, Mandaluyong City, Metro Manila

NOTE 1: In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

2: All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.



INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
Philex Mining Corporation
2nd floor LaunchPad,
Reliance Street cor Sheridan Street
Mandaluyong City, Metro Manila

Opinion

We have audited the consolidated financial statements of Philex Mining Corporation and its subsidiaries (the Group) which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2017, in accordance with accounting principles generally accepted in the Philippines applied on the basis described in Note 2 to the consolidated financial statements.

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audits of the consolidated financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.



We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Recoverability of Deferred Exploration Costs

As at December 31, 2017, the carrying value of the Group's deferred exploration costs amounted to ₱24.36 billion. Under PFRS 6, Exploration for and Evaluation of Mineral Resources, these deferred exploration costs shall be assessed for impairment when facts and circumstances suggest that the carrying amounts exceed the recoverable amounts. The ability of the Group to recover its deferred exploration costs would depend on the commercial viability of the reserves. We considered this as a key audit matter because of the materiality of the amount involved, and the significant management judgment required in assessing whether there is any indication of impairment.

The Group's disclosures about deferred exploration cost are included in Note 13 to the consolidated financial statements.

Audit response

We obtained management's assessment on whether there is any indication that deferred exploration costs may be impaired. We reviewed the summary of the status of each exploration project as of December 31, 2017. We reviewed contracts and agreements, and budget for exploration and development costs. We inspected the licenses/permits of each exploration project to determine that the period for which the Group has the right to explore in the specific area has not expired, will not expire in the near future, and will be renewed accordingly. We also inquired about the existing concession areas that are expected to be abandoned or any exploration activities that are planned to be discontinued in those areas.

Estimation of Ore Reserves

Reserves are key inputs to depletion, amortization and decommissioning provisions. The Group's mining properties, amounting to ₱3.69 billion as of December 31, 2017, are amortized using the units of production method. Under the units of production method, cost is amortized based on the ratio of the volume of actual ore extracted during the year over the estimated volume of mineable ore reserves for the remaining life of the mine. This matter is significant to our audit because estimation of ore reserves is affected by various factors such as market price of metals and the production costs, among others.

The disclosures in relation to mining properties are included in Note 10 to the consolidated financial statements.

Audit response

We evaluated the competence, capabilities and objectivity of the Group's mining engineer who performed a technical assessment of its ore reserves by considering their qualifications, experience and reporting responsibilities. We reviewed the summary of remaining proved ore reserves report of the mining engineer and obtained an understanding of the nature, scope and objectives of their work and basis of the estimates including any changes in the reserves during the year. In addition, we tested the reserves estimates applied to the relevant areas of the consolidated financial statements including depletion, amortization and decommissioning provisions.



Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2017, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2017 are expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the Philippines applied on the basis described in Note 2 to the consolidated financial statements, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audits of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.



As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Alexis Benjamin C. Zaragoza III.

SYCIP GORRES VELAYO & CO.



Alexis Benjamin C. Zaragoza III
Partner

CPA Certificate No. 109217

SEC Accreditation No. 1627-A (Group A),
April 4, 2017, valid until April 3, 2020

Tax Identification No. 246-663-780

BIR Accreditation No. 08-001998-129-2017,
February 9, 2017, valid until February 8, 2020

PTR No. 6621351, January 9, 2018, Makati City

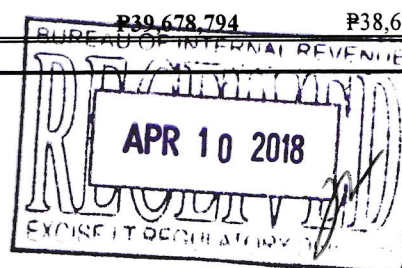
February 27, 2018



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

	December 31	
	2017	2016
ASSETS		
Current Assets		
Cash and cash equivalents (Note 6)	P583,538	P457,937
Accounts receivable - net (Note 7)	990,604	486,497
Inventories - net (Note 8)	1,517,097	2,318,850
Advances to a related party (Note 25)	2,168,632	2,193,829
Other current assets - net (Note 9)	1,007,000	1,035,718
Total Current Assets	6,266,871	6,492,831
Noncurrent Assets		
Property, plant and equipment - net (Note 10)	6,721,022	6,735,578
Available-for-sale (AFS) financial assets (Note 11)	76,036	104,615
Investment in associates - net (Notes 12 and 33)	1,415,604	1,455,876
Deferred exploration costs (Notes 1, 13, 19 and 31 and 32)	24,360,954	23,072,040
Pension asset - net (Note 20)	373,849	312,570
Other noncurrent assets (Note 14)	464,458	488,319
Total Noncurrent Assets	33,411,923	32,168,998
TOTAL ASSETS	P39,678,794	P38,661,829
LIABILITIES AND EQUITY		
Current Liabilities		
Loans payable (Note 15)	P2,446,570	P3,082,640
Accounts payable and accrued liabilities (Notes 16 and 31)	1,651,710	1,832,661
Income tax payable (Note 26)	229,679	164,265
Dividends payable (Note 27)	528,836	498,129
Total Current Liabilities	4,856,795	5,577,695
Noncurrent Liabilities		
Deferred tax liabilities - net (Notes 3 and 26)	3,004,830	2,957,896
Loans and bonds payable (Note 15)	6,950,306	6,592,854
Provision for losses and mine rehabilitation costs (Notes 10 and 31)	135,086	134,124
Total Noncurrent Liabilities	10,090,222	9,684,874
Total Liabilities	14,947,017	15,262,569
Equity Attributable to Equity Holders of the Parent Company		
Capital stock - P1 par value (Note 27)	4,940,399	4,940,399
Additional paid-in capital	1,143,981	1,143,981
Retained earnings (Note 27)		
Unappropriated	5,271,302	4,442,436
Appropriated	10,500,000	10,000,000
Net unrealized gain (loss) on AFS financial assets (Note 11)	558	(3,094)
Equity conversion option (Note 15)	1,225,518	1,225,518
Net revaluation surplus (Note 4)	1,572,385	1,572,385
Effect of transactions with non-controlling interests	77,892	77,892
	24,732,035	23,399,517
Non-controlling interests (Note 27)	(258)	(257)
Total Equity	24,731,777	23,399,260
TOTAL LIABILITIES AND EQUITY	P39,678,794	P38,661,829

See accompanying Notes to Consolidated Financial Statements.



PHILEX MINING CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Amounts in Thousands, Except Earnings per Share)

	Years Ended December 31		
	2017	2016	2015
REVENUE			
Gold	₱5,432,429	₱6,209,006	₱5,669,860
Copper	4,475,177	3,976,184	3,449,799
Silver and others	77,187	86,475	69,723
	9,984,793	10,271,665	9,189,382
Less smelting charges	842,333	893,278	836,597
	9,142,460	9,378,387	8,352,785
COSTS AND EXPENSES (Note 17)			
Production costs (including depletion and depreciation)	5,962,224	6,074,862	6,160,352
General and administrative expenses	363,071	373,123	414,255
Excise taxes and royalties	452,407	452,415	436,856
	6,777,702	6,900,400	7,011,463
OTHER INCOME (CHARGES)			
Share in net losses of associates (Note 12)	(40,272)	(44,572)	(13,200)
Foreign exchange losses - net (Note 22)	(39,451)	(145,213)	(158,697)
Gain on disposal of AFS financial assets (Note 11)	21,773	—	107,088
Interest income (Note 6)	1,861	2,081	4,085
Others - net	58,117	(14,439)	5,642
	2,028	(202,143)	(55,082)
INCOME BEFORE PROVISIONS FOR IMPAIRMENT LOSSES	2,366,786	2,275,844	1,286,240
PROVISIONS FOR IMPAIRMENT LOSSES - NET (Notes 4, 12, and 13)	—	(2,504,850)	—
INCOME (LOSS) BEFORE INCOME TAX	2,366,786	(229,006)	1,286,240
PROVISION FOR INCOME TAX (Note 26)			
Current	664,806	586,483	245,550
Deferred	43,894	110,742	121,030
	708,700	697,225	366,580
	1,658,086	(926,231)	919,660
INCOME (LOSS) ON DECONSOLIDATED SUBSIDIARY GROUP, NET OF TAX (Note 33)			
Loss from deconsolidated subsidiary group	—	(29,102)	(144,025)
Gain from loss of control over a subsidiary group	—	2,522,704	—
	—	2,493,602	(144,025)
NET INCOME	₱1,658,086	₱1,567,371	₱775,635
Net Income (Loss) Attributable to:			
Equity holders of the Parent Company	₱1,658,087	₱1,589,045	₱896,181
Non-controlling interests (Note 27)	(1)	(21,674)	(120,546)
	₱1,658,086	₱1,567,371	₱775,635
Basic Earnings Per Share (Note 29)	₱0.336	₱0.322	₱0.181
Diluted Earnings Per Share (Note 29)	₱0.336	₱0.322	₱0.181

See accompanying Notes to Consolidated Financial Statements.



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

	Years Ended December 31		
	2017	2016	2015
NET INCOME	₱1,658,086	₱1,567,371	₱775,635
OTHER COMPREHENSIVE INCOME (LOSS)			
<i>Items to be reclassified to profit or loss in subsequent periods:</i>			
Unrealized gain (loss) on AFS financial assets - net of related deferred income tax (Note 11)	3,652	(2,072)	(23,023)
Reversal of fair value changes in AFS investment subsequently accounted for as an associate (Note 11)	—	—	193,099
Gain on translation of foreign subsidiaries	—	—	147,278
Realized gain on sale of AFS financial assets (Note 11)	—	—	(107,088)
Realized loss on fair value of hedging instruments transferred to the consolidated statements of income - net of related deferred income tax (Note 22)	—	—	(7,766)
	3,652	(2,072)	202,500
<i>Items not to be reclassified to profit or loss in subsequent periods:</i>			
Remeasurement gains (losses) on pension obligation plans (Note 20)	94,301	(98,319)	(22,316)
Income tax effect	(28,290)	29,496	6,695
	66,011	(68,823)	(15,621)
OTHER COMPREHENSIVE INCOME (LOSS)	69,663	(70,895)	186,879
TOTAL COMPREHENSIVE INCOME	₱1,727,749	₱1,496,476	₱962,514
Total Comprehensive Income (Loss) Attributable to:			
Equity holders of the Parent Company	₱1,727,750	₱1,518,150	₱1,033,019
Non-controlling interests (Note 27)	(1)	(21,674)	(70,505)
	₱1,727,749	₱1,496,476	₱962,514

See accompanying Notes to Consolidated Financial Statements.



PHILEX MINING CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(Amounts in Thousands)

	Equity Attributable to Equity Holders of the Parent Company											
	Capital Stock (Note 27)	Additional Paid-In Capital	Retained Earnings (Note 27)		Net Unrealized Gain (Loss) on AFS Financial Assets (Notes 11)	Equity Conversion Option (Note 15)	Cumulative Translation Adjustments	Net Revaluation Surplus (Note 4)	Effect of Transactions with Non- controlling Interests	Subtotal	Non- controlling Interests (Note 27)	Total
			Unappropriated	Appropriated								
BALANCES AT DECEMBER 31, 2014	₱4,940,399	₱1,117,627	₱4,712,032	₱10,000,000	(₱64,010)	₱1,225,518	₱37,370	₱1,611,397	₱19,084	₱23,599,417	₱3,442,403	₱27,041,820
Net income (loss)	—	—	896,181	—	—	—	—	—	—	896,181	(120,546)	775,635
Other comprehensive income (loss):												
Items to be reclassified to profit or loss in subsequent periods:												
Unrealized loss on AFS financial assets - net of related deferred income tax (Note 11)	—	—	—	—	(23,023)	—	—	—	—	(23,023)	—	(23,023)
Reversal of fair value changes in AFS investment subsequently accounted for as an associate (Note 11)	—	—	—	—	193,099	—	—	—	—	193,099	—	193,099
Realized gain on sale of AFS financial assets (Note 11)	—	—	—	—	(107,088)	—	—	—	—	(107,088)	—	(107,088)
Realized loss on fair value of hedging instruments (Note 22)	—	—	—	—	—	—	(7,766)	—	—	(7,766)	—	(7,766)
Gain on translation of foreign subsidiaries	—	—	—	—	—	—	94,730	—	—	94,730	52,548	147,278
Items not to be reclassified to profit or loss in subsequent periods:												
Remeasurements of pension obligation, net of tax (Note 20)	—	—	(13,114)	—	—	—	—	—	—	(13,114)	(2,507)	(15,621)
Total comprehensive income	—	—	883,067	—	62,988	—	86,964	—	—	1,033,019	(70,505)	962,514
Increase in additional paid-in capital due to stock option plan (Note 28)	—	25,095	—	—	—	—	—	—	—	25,095	—	25,095
Share buyback transaction	—	—	—	—	—	—	—	—	4,080	4,080	(650,779)	(646,699)
Declaration of cash dividends (Note 27)	—	—	(98,828)	—	—	—	—	—	—	(98,828)	—	(98,828)
BALANCES AT DECEMBER 31, 2015	₱4,940,399	₱1,142,722	₱5,496,271	₱10,000,000	(₱1,022)	₱1,225,518	₱124,334	₱1,611,397	₱23,164	₱24,562,783	₱2,721,119	₱27,283,902



	Equity Attributable to Equity Holders of the Parent Company											
	Capital Stock (Note 27)	Additional Paid-In Capital	Retained Earnings (Note 27)		Net Unrealized Losses AFS Financial Assets (Notes 11)	Equity Conversion Option (Note 15)	Cumulative Translation Adjustments	Net Revaluation Surplus (Notes 4 and 33)	Effect of Transactions with Non- controlling Interests	Subtotal	Non- controlling Interests (Note 27)	Total
			Unappropriated	Appropriated								
BALANCES AT DECEMBER 31, 2015	₱4,940,399	₱1,142,722	₱5,496,271	₱10,000,000	(₱1,022)	₱1,225,518	₱124,334	₱1,611,397	₱23,164	₱24,562,783	₱2,721,119	₱27,283,902
Net income (loss)	—	—	1,589,045	—	—	—	—	—	—	1,589,045	(21,674)	1,567,371
Other comprehensive income (loss):												
Items to be reclassified to profit or loss in subsequent periods:												
Unrealized loss on AFS financial assets - net of related deferred income tax (Note 11)	—	—	—	—	(2,072)	—	—	—	—	(2,072)	—	(2,072)
Items not to be reclassified to profit or loss in subsequent periods:												
Remeasurements of pension obligation, net of tax (Note 20)	—	—	(68,823)	—	—	—	—	—	—	(68,823)	—	(68,823)
Total comprehensive income	—	—	1,520,222	—	(2,072)	—	—	—	—	1,518,150	(21,674)	1,496,476
Increase in additional paid-in capital due to stock option plan (Note 28)	—	1,259	—	—	—	—	—	—	—	1,259	—	1,259
Deconsolidation of a subsidiary group (Note 33)	—	—	121,946	—	—	—	(124,334)	(39,012)	54,728	13,328	(2,699,702)	(2,686,374)
Declaration of dividends (Note 27)	—	—	(2,696,003)	—	—	—	—	—	—	(2,696,003)	—	(2,696,003)
BALANCES AT DECEMBER 31, 2016	₱4,940,399	₱1,143,981	₱4,442,436	₱10,000,000	(₱3,094)	₱1,225,518	₱—	₱1,572,385	₱77,892	₱23,399,517	(₱257)	₱23,399,260



Equity Attributable to Equity Holders of the Parent Company

	Capital Stock (Note 27)	Additional Paid-In Capital	Retained Earnings (Note 27)		Net Unrealized Gain (Loss) on AFS Financial Assets (Notes 11)	Equity Conversion Option (Note 15)	Net Revaluation Surplus (Note 4)	Effect of Transactions with Non- controlling Interests	Subtotal	Non- controlling Interests (Note 27)	Total
			Unappropriated	Appropriated							
BALANCES AT DECEMBER 31, 2016	₱4,940,399	₱ 1,143,981	₱ 4,442,436	₱10,000,000	(₱3,094)	₱1,225,518	₱1,572,385	₱77,892	₱23,399,517	(₱257)	₱23,399,260
Net income (loss)	—	—	1,658,087	—	—	—	—	—	1,658,087	(1)	1,658,086
Other comprehensive income (loss):											
Items to be reclassified to profit or loss in subsequent periods:											
Unrealized loss on AFS financial assets - net of related deferred income tax (Note 11)	—	—	—	—	3,652	—	—	—	3,652	—	3,652
Items not to be reclassified to profit or loss in subsequent periods:											
Remeasurements of pension obligation, net of tax (Note 20)	—	—	66,011	—	—	—	—	—	66,011	—	66,011
Total comprehensive income (loss)	—	—	1,724,098	—	3,652	—	—	—	1,727,750	(1)	1,727,749
Appropriation of Retained Earnings (Note 27)	—	—	(500,000)	500,000	—	—	—	—	—	—	—
Declaration of dividends (Note 27)	—	—	(395,232)	—	—	—	—	—	(395,232)	—	(395,232)
BALANCES AT DECEMBER 31, 2017	₱4,940,399	₱1,143,981	₱5,271,302	₱10,500,000	₱558	₱1,225,518	₱1,572,385	₱77,892	₱24,732,035	(₱258)	₱24,731,777

See accompanying Notes to Consolidated Financial Statements



PHILEX MINING CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands)

	Years Ended December 31		
	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Income (loss) before income tax from continuing operations	₱2,366,786	(₱229,006)	₱1,286,240
Income (loss) before income tax from discontinued operations (Note 33)	–	2,464,064	(144,009)
Income before income tax	2,366,786	2,235,058	1,142,231
Adjustments for:			
Depletion and depreciation (Note 19)	1,572,311	1,481,405	1,564,253
Unrealized foreign exchange losses and others - net	107,584	268,353	204,142
Movement in pension assets - net	(61,279)	(48,703)	32,942
Share in net losses of associates (Note 12)	40,272	44,572	13,200
Gain on disposal of AFS financial assets (Note 11)	(21,773)	–	(107,088)
Interest income (Notes 6 and 33)	(1,861)	(3,980)	(11,529)
Gain on loss of control over a subsidiary group (Note 33)	–	(2,522,704)	–
Impairment losses on deferred exploration costs and other assets - net (Notes 13,14 and 33)	–	2,504,850	41,218
Share-based compensation expense (Note 28)	–	1,259	25,095
Operating income before working capital changes	4,002,040	3,960,110	2,904,464
Decrease (increase) in:			
Accounts receivable - net	(504,107)	295,002	156,711
Inventories - net	801,753	(441,350)	(28,324)
Other current assets - net	28,718	50,760	(27,538)
Advances to a related party	25,197	–	–
Decrease in accounts payable and accrued liabilities	(180,951)	(55,086)	(685,502)
Cash generated from operations	4,172,650	3,809,436	2,319,811
Income taxes paid	(599,392)	(435,232)	(279,975)
Interest paid	(121,341)	(631,374)	(512,719)
Interest received	1,861	3,973	13,497
Net cash flows from operating activities	3,453,778	2,746,803	1,540,614
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment (Note 10)	(1,746,712)	(1,735,034)	(1,389,710)
Increase in deferred exploration costs and other noncurrent assets	(608,430)	(356,576)	(2,743,943)
Net proceeds from sale of:			
AFS financial assets	32,231	–	297,462
Property, plant and equipment	12,089	33,287	–
Cash from deconsolidated subsidiary group (Note 33)	–	(606,585)	–
Share buyback of Pitkin	–	–	(646,699)
Net cash flows used in investing activities	(2,310,822)	(2,664,908)	(4,482,890)



	Years Ended December 31		
	2017	2016	2015
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from availment of short-term loans (Note 15)	₱50,240	₱236,190	₱3,015,505
Payments of:			
Short-term bank loans (Note 15)	(705,230)	(638,518)	(4,191,825)
Dividends (Note 27)	(364,525)	(235,139)	(107,994)
Net cash flows used in financing activities	(1,019,515)	(637,467)	(1,284,314)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	2,160	4,823	3,384
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	125,601	(550,749)	(4,223,206)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	457,937	1,008,686	5,231,892
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)	₱583,538	₱457,937	₱1,008,686

See accompanying Notes to Consolidated Financial Statements.



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

1. Corporate Information, Business Operations and Authorization for Issuance of the Consolidated Financial Statements

Corporate Information

Philex Mining Corporation and its subsidiaries (collectively referred to as “the Group”) are organized into two main business groupings: the mining and metals business under Philex Mining Corporation (“the Parent Company” or “PMC”), and the energy and hydrocarbon business under PXP Energy Corporation “PXP” (formerly Philex Petroleum Corporation), but not until July 15, 2016, where PXP and its subsidiaries (collectively referred to as “PXP Group”) ceased to be subsidiaries as a result of loss on control through property dividend declaration (see Note 33). Thus, the Group’s mining and metals business remains as its only business segment.

Philex Mining Corporation was incorporated on July 19, 1955 in the Philippines and is listed in the Philippine Stock Exchange on November 23, 1956. Having reached the end of its 50 years corporate life, the Parent Company’s Philippine Securities and Exchange Commission (SEC) registration was renewed on July 23, 2004. The Parent Company, Philex Gold Philippines, Inc. (PGPI, a wholly-owned subsidiary incorporated in the Philippines), Lascogon Mining Corporation (LMC, a subsidiary of PGPI and incorporated in the Philippines), and Silangan Mindanao Exploration Co., Inc. (SMECI, a wholly-owned subsidiary directly by the Parent Company and incorporated in the Philippines) and its subsidiary, Silangan Mindanao Mining Co. Inc. (SMMCI, a wholly-owned subsidiary by the Parent Company through SMECI, and incorporated in the Philippines) are all primarily engaged in large-scale exploration, development and utilization of mineral resources. The Parent Company operates the Padcal Mine in Benguet. PGPI operated the Bulawan mine in Negros Occidental until the second quarter of 2002. Because of low metal prices prevailing at the time, Bulawan mine was decommissioned and has since been kept under care and maintenance. LMC conducts exploration work in Taganaan, Surigao del Norte. SMMCI owns the Silangan Project covering the Boyongan and Bayugo deposits.

PXP Energy Corporation (a 19.8% owned associate from a 64.7% owned subsidiary of the Parent Company until July 15, 2016 as a result of the property dividend and incorporated in the Philippines) and its subsidiaries: Forum Energy Plc (FEP, 75.9% owned and registered in England and Wales) and its subsidiaries, Pitkin Petroleum Plc. (PPP, 53.4% owned and incorporated and registered in United Kingdom of Great Britain and Northern Ireland) and its subsidiaries, and FEC Resources, Inc. (FEC, 54.99% owned and incorporated in Canada) are engaged primarily in oil and gas operation and exploration activities, holding participations in oil and gas production and exploration activities through their investee companies.

The Group’s income is derived mainly from the Padcal Mine.

The Parent Company’s registered business address is 2nd floor LaunchPad, Reliance Street corner Sheridan Street, Mandaluyong City, Metro Manila.

Status of Business Operations

Padcal Mine Operations

The Parent Company has the Padcal Mine as its main source of revenue from its metals business segment. The Padcal Mine produces copper concentrates containing gold, copper and silver.



On August 27, 2014, the Parent Company received an order from Mines and Geosciences Bureau (MGB) for the permanent lifting of the cease-and-desist order as the result of the Parent Company's compliance to its environmental obligations, such as payments of required fees, the carrying out of immediate remediation measures, and the submission of proof on the safety and integrity of its tailings dam.

This followed the Parent Company's voluntary suspension of Padcal Mine operations after the Tailings Storage Facility (TSF) No. 3 incident in the mine arising from unabated and historically unprecedented heavy rains during the last two weeks of July 2012 from the two typhoons that brought unusual and heavy accumulation of rain water in TSF No. 3. The sealing of the underground tunnel in November 2012 allowed Padcal Mine to start conducting the necessary remediation and rehabilitation program (which included the rehabilitation of TSF No. 3 and the construction of an open spillway in place of the existing penstock system for water management, and the undertaking of remediation and rehabilitation measures in the areas affected by the tailings spill) relative to the resumption of its operations.

On February 18, 2013, the Parent Company paid ₱1,034,358 Mine Waste and Tailings Fee to MGB in connection with the TSF No. 3 as provided for under Department Administrative Order (DAO) No. 2010-21 implementing the provisions of the Philippine Mining Act of 1995. In an Order dated February 25, 2013, the Pollution Adjudication Board (PAB) lifted its Cease and Desist Order dated November 28, 2012 effective for four months and imposed compliance on certain reportorial matters. On July 5, 2013, the MGB advised the Parent Company that it was authorized to continue implementing such remediation measures in the meantime that the former was thoroughly reviewing the pertinent technical details, subject to the Mineral Industry Coordinating Council's (MICC) guidance. On the same date, the PAB issued an Order extending the temporary lifting of the issued Cease and Desist Order issued last November 28, 2013 to allow the Parent Company to implement its Pollution Control Program.

The Group continues to look for sources of funding to finance its exploration activities and working capital requirements. On December 18, 2014, SMECI and PMC (co-issuer) have issued convertible bonds amounting to ₱7,200,000. The proceeds of the bonds were intended primarily to finance SMMCI's exploration activities and payment of its advances from the Parent Company (see Note 15).

PGPI

PGPI operated the Bulawan mine in Negros Occidental from 1996-2002, when it was decommissioned due to unfavorable metal prices. Exploration projects in the Vista Alegre area include the Nagtalay project and the Laburan/Skid 9 project, which have completed the geological modeling and preliminary resource estimation. PGPI is now looking for possible joint venture partners to explore further and operate the Bulawan and Vista Alegre projects. PGPI currently holds 98.9% of LMC.

SMMCI

SMMCI is currently conducting the definitive feasibility study of the Silangan Project covered by Mineral Production Sharing Agreement (MPSA) 149-99-XIII following completion of its pre-feasibility study in late 2014. The Declaration of Mining Project Feasibility (DMPF) for underground mining operations was approved in April 2015. The Environmental Compliance Certificate (ECC) of Silangan Project has been amended to change the operation of mine from underground mining to surface mining and was approved in May 2016. Correspondingly, the Amended Mining Project Feasibility Study in connection with the approved DMPF was approved in April 2016 but was received in May 2016. Adjacent to the Silangan deposits is the Kalayaan Project, the exploration of which is being undertaken by the Parent Company by virtue of a Farm-in Agreement



with Kalayaan Gold & Copper Resources, Inc., a subsidiary of Manila Mining Corporation (MMC) (see Note 30).

Recovery of Deferred Exploration Costs

The Group's ability to realize its deferred exploration costs with carrying value amounting to ₱24,360,954 and ₱23,072,040 as at December 31, 2017 and 2016, respectively (see Note 13), depends on the success of exploration and development work in proving the viability of its mining properties to produce minerals in commercial quantities, and the success of converting the Group's Exploration Permits (EPs) or Application for Production Sharing Agreements to new mineral agreements, which cannot be determined at this time. The consolidated financial statements do not include any adjustment that might result from these uncertainties.

Authorization for Issuance of the Consolidated Financial Statements

The consolidated financial statements are authorized for issuance by the Parent Company's Board of Directors (BOD) on February 27, 2018.

2. Summary of Significant Accounting Policies and Financial Reporting Practices

Basis of Preparation

The consolidated financial statements of the Group have been prepared using the historical cost basis, except for mine products inventories that are measured at net realizable value (NRV), and for AFS financial assets and derivative financial instruments that are measured at fair value. The 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 consolidated financial statements of the Group have been prepared in accordance with accounting principles generally accepted in the Philippines. The Group prepared its consolidated financial statements in accordance with Philippine Financial Reporting Standards (PFRSs), except for the Parent Company's mine products inventories that are measured at NRV which was permitted by the Philippine SEC. The significant accounting policies followed by the Group are disclosed below.

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except that the Group has adopted the following new accounting pronouncements starting January 1, 2017. Adoption of these pronouncements did not have any significant impact on the Group's financial position or performance.

- Amendments to PFRS 12, *Disclosure of Interests in Other Entities*, *Clarification of the Scope of the Standard* (Part of *Annual Improvements to PFRSs 2014 - 2016 Cycle*)
- Amendments to PAS 7, *Statement of Cash Flows*, *Disclosure Initiative*
The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

Adoption of these amendments will result in additional disclosures in the 2017 consolidated financial statements of the Group.



The Group has provided the required information in Note 32 to the consolidated financial statements. As allowed under the transition provisions of the standard, the Group did not present comparative information for the year ended December 31, 2016.

- Amendments to PAS 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses* Republic Act (RA) No.10963 or the Tax Reform for Acceleration and Inclusion Act (TRAIN) was signed into law on December 19, 2017 and took effect January 1, 2018, making the new tax law enacted as of the reporting date. Although the TRAIN changes existing tax law and includes several provisions that will generally affect businesses on a prospective basis, the management assessed that the same will not have any significant impact on the consolidated financial statement balances as of the reporting date.

Future Changes in Accounting Policies

Pronouncements issued but not yet effective are listed below. The Group intends to adopt the following pronouncements when they become effective. Adoption of these pronouncements is not expected to have a significant impact on the Group's consolidated financial statements unless otherwise indicated.

Effective beginning on or after January 1, 2018

- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*

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

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

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

- PFRS 9, *Financial Instruments*

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

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



- Amendments to PFRS 4, *Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4*
- PFRS 15, *Revenue from Contracts with Customers*
PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue.

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

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

- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs 2014 - 2016 Cycle*)
- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*
- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*
Effective beginning on or after January 1, 2019
- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*
- PFRS 16, *Leases*
PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two recognition exemptions for lessees – leases of ‘low-value’ assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of twelve (12) months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under PFRS 16 is substantially unchanged from today’s accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases.

PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17.



Early application is permitted, but not before an entity applies PFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

The Group is currently assessing the impact of adopting PFRS 16.

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*
- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*

Deferred effectivity

- Amendments to PFRS 10 and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

Summary of Significant Accounting Policies

Presentation of Consolidated Financial Statements

The Group has elected to present all items of recognized income and expenses in two statements: a statement displaying components of profit or loss in the consolidated statements of income and a second statement beginning with profit or loss and displaying components of other comprehensive income (OCI) in the consolidated statements of comprehensive income.

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at December 31, 2017 and 2016. The Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee),
- Exposure or rights to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee,
- Rights arising from other contractual arrangements,
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of OCI are attributed to the equity holders of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.



Subsidiary

Subsidiary is an entity over which the Group has control.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any non-controlling interests
- Derecognizes the cumulative translation differences recorded in equity
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

The Parent Company's subsidiaries and their respective natures of businesses are as follows:

Subsidiaries	Nature of Business
PGPI	Incorporated in the Philippines on August 9, 1996 as a wholly-owned subsidiary of PGI and became a wholly-owned subsidiary of PGHI on April 27, 2010. In 2015, PGPI was acquired and 100% owned by the Parent Company. PGPI was primarily engaged in the operation of the Bulawan mine and the development of the Sibutad Project both on care and maintenance status since 2002. PGPI currently owns 98.9% of the outstanding shares of LMC.
LMC	Incorporated in the Philippines on October 20, 2005 to engage in exploration, development and utilization of mineral resources, particularly the Lascogon Project in Surigao.
SMECI	Incorporated in the Philippines on October 12, 1999 primarily to engage in the business of large-scale exploration, development and utilization of mineral resources; currently the holding company of SMMCI.
SMMCI	Incorporated in the Philippines on January 4, 2000 primarily to engage in the business of large-scale exploration, development and utilization of mineral resources, principally the Silangan Project.
Fidelity Stock Transfers, Inc. (FSTI)	Incorporated in the Philippines on December 28, 1981 to act as a stock transfer agent and/or registrar of client corporations. The company is currently in dormant status.
Philex Land, Inc. (PLI)	Incorporated in the Philippines on February 26, 2007 to own, use, develop, subdivide, sell, exchange, lease, and hold for investment or otherwise, real estate of all kinds including buildings, houses, apartments and other structures. The company is currently in dormant status.
Philex Insurance Agency, Inc. (PIAI)	Incorporated in the Philippines on May 20, 1987 to act as a general agent for and in behalf of any domestic and/or foreign non-life insurance company or companies authorized to do business in the Philippines. PIAI is currently in dormant status.
Philex Gold Holdings, Inc. (PGHI)	Incorporated in the Philippines on August 28, 1996 to serve as an intermediary holding company through which its subsidiaries and the Parent Company conduct large-scale exploration, development and utilization of mineral resources. PGHI owned 100% of the outstanding shares of PGPI effective April 27, 2010. In 2015, PGHI sold 100% of its ownership in PGPI to the Parent Company.



On July 15, 2016, PXP Group ceased to be a subsidiary of the Parent Company. PMC lost its control through declaration of its shares through property dividend (see Note 33). Prior to the property dividend declaration, intermediary entities, which were basically holding companies established for the aforementioned operating entities, were included as part of the Parent Company's subsidiaries. The following are the intermediary entities of the Group: Forum Philippine Holdings Limited (FPHL), Forum FEI Limited (FFEIL), Pitkin Peru LLC (PPR), Pitkin Petroleum Peru 2 LLC (PP2) and Pitkin Petroleum Peru 3 LLC (PP3).

The ownership of the Parent Company and subsidiaries over the foregoing companies in 2017 and 2016 are summarized as follows:

	Percentages of Ownership			
	2017		2016	
	Direct	Indirect	Direct	Indirect
PGHI	100.0	—	100.0	—
PGI	—	—	—	100.0
PGPI*	100.0	—	100.0	—
LMC	—	98.9	—	98.9
SMECI	100.0	—	100.0	—
SMMCI	—	100.0	—	100.0
FSTI	100.0	—	100.0	—
PLI	100.0	—	100.0	—
PIAI	100.0	—	100.0	—
PXP	19.8	—	19.8	—
BEMC	—	—	—	—
FEP and subsidiaries	—	—	—	—
FEC	—	—	—	—
LMC	—	—	—	—
FEP	—	—	—	—
PPP	—	—	—	—

*Awaiting certificate authorizing registration from Bureau of Internal Revenue (BIR)

NCI

NCI represents interest in a subsidiary that is not owned, directly or indirectly, by the Parent Company. Profit or loss and each component of OCI (loss) are attributed to the equity holders of the Parent Company and to the NCI. Total comprehensive income (loss) is attributed to the equity holders of the Parent Company and to the NCI even if this results in the NCI having a deficit balance.

NCI represents the portion of profit or loss and the net assets not held by the Group. Transactions with NCI are accounted for as an equity transaction.

Business Combination and Goodwill

Business combinations, except for business combination between entities under common control, are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any NCI in the acquiree. For each business combination, the acquirer measures the NCI in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs incurred are expensed and included in general and administrative expenses.

When the Group acquires a business, it assesses the financial assets and financial liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic



circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date and any gain or loss on remeasurement is recognized in the consolidated statement of income.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognized in accordance with PAS 39 either in the consolidated statement of income, or in the consolidated statement of comprehensive income. If the contingent consideration is classified as equity, it is not remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for NCI over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in profit or loss. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the Cash Generating Unit (CGU) or group of CGUs to which the goodwill relates. Where the recoverable amount of the CGU or group of CGUs is less than the carrying amount of the CGU or group of CGUs to which goodwill has been allocated, an impairment loss is recognized in the consolidated statement of income. Impairment losses relating to goodwill cannot be reversed in future periods. The Group performs its impairment test of goodwill annually every December 31.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's CGUs that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the CGU retained.

Foreign Currency Translation of Foreign Operations

The Group's consolidated financial statements are presented in Philippine peso, which is also the Group's functional currency. Each subsidiary in the Group determines its own functional currency and items included in the consolidated financial statements of each subsidiary are measured using that functional currency. The Group has elected to recognize the translation adjustment that arises from the direct method of consolidation, which is the method the Group uses to complete its consolidation. Transactions in foreign currencies are initially recorded in the functional currency rate on the date of the transaction. Outstanding monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the end of the reporting period. All exchange differences are recognized in the consolidated statement of income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at



the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Cash and Cash Equivalents

Cash includes cash on hand and with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from dates of acquisition and that are subject to insignificant risk of change in value.

Financial Instruments

Date of recognition

The Group recognizes a financial asset or a financial liability in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the trade date.

Initial recognition and classification of financial instruments

Financial instruments are recognized initially at fair value. The initial measurement of financial instruments, except for those designated at fair value through profit or loss (FVPL), includes transaction cost.

On initial recognition, the Group classifies its financial assets in the following categories: financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments, and AFS financial assets. The classification depends on the purpose for which the investments are acquired and whether they are quoted in an active market. Financial liabilities, on the other hand, are classified into the following categories: financial liabilities at FVPL and other financial liabilities, as appropriate. Management determines the classification of its financial assets and financial liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

As at December 31, 2017 and 2016, the Group's financial assets and financial liabilities consist of loans and receivables, AFS financial assets and other financial liabilities.

Determination of fair value

The Group measures financial instruments, such as derivatives, and non-financial assets such as investment properties, at fair value at each statement of financial position date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.



A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Derivatives and Hedging

The Group uses currency and commodity derivatives such as forwards, swaps and option contracts to economically hedge its exposure to fluctuations in gold and copper prices. For accounting purposes, such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Derivatives are accounted for as at FVPL, where any gains or losses arising from changes in fair value on derivatives are taken directly to consolidated statement of income, unless hedge accounting is applied.

For the purpose of hedge accounting, hedges are classified as:

- a. fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability; or
- b. cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a forecast transaction; or
- c. hedges of a net investment in a foreign operation.

A hedge of the foreign currency risk of a firm commitment is accounted for as a cash flow hedge.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.



Hedges that meet the strict criteria for hedge accounting are accounted for as follows:

Cash flow hedges

Cash flow hedges are hedges of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction and could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognized in the consolidated statement of comprehensive income, while the ineffective portion is recognized in the consolidated statement of income.

Amounts taken to equity are transferred to the consolidated statement of income when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognized or when a forecast sale or purchase occurs. When the hedged item is the cost of a non-financial asset or liability, the amounts recognized as OCI are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognized in equity are transferred to the consolidated statement of income. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognized in equity remain in equity until the forecast transaction or firm commitment occurs. If the related transaction is not expected to occur, the amount is taken to the consolidated statement of income.

Embedded derivatives

An embedded derivative is separated from the host financial or non-financial contract and accounted for as a derivative if all of the following conditions are met:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristic of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the hybrid or combined instrument is not recognized as at FVPL.

The Group assesses whether embedded derivatives are required to be separated from host contracts when the Group first becomes a party to the contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

The Parent Company has embedded derivatives, which is represented by price exposure relative to its provisionally priced commodity sales contracts. Bifurcated embedded derivatives are measured at fair value. Mark-to-market gains and losses from open or provisionally priced sales are recognized through adjustments to revenue in the consolidated statements of income and to trade receivables in the consolidated statements of financial position. The Parent Company determines mark-to-market prices using the forward price for quotational periods after the consolidated statements of financial position date stipulated in the contract.

Subsequent Measurement

The subsequent measurement of financial instruments depends on their classification as follows:

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest rate (EIR) method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes transaction costs and fees that are an integral part of the EIR and transaction costs. Gains



and losses are recognized in the consolidated statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process. These financial assets are included in current assets if maturity is within twelve (12) months from the consolidated statement of financial position date. Otherwise, these are classified as noncurrent assets.

As of December 31, 2017 and 2016, the Group's cash and cash equivalents, accounts receivable and advances to a related party are included under loans and receivables.

AFS Financial Assets

AFS financial assets are non-derivative financial assets that are designated as AFS or are not classified in any of the three other categories. The Group designates financial instruments as AFS financial assets if they are purchased and held indefinitely and may be sold in response to liquidity requirements or changes in market conditions. After initial recognition, AFS financial assets are measured at fair value with unrealized gains or losses being recognized in the consolidated statements of comprehensive income as "Net unrealized gain (loss) on AFS financial assets."

When the investment is disposed of, the cumulative gains or losses previously recorded in equity are recognized in the consolidated statement of income. Interest earned on the investments is reported as interest income using the EIR method. Dividends earned on investments are recognized in the consolidated statements of income as "Dividend income" when the right of payment has been established. The Group considers several factors in making a decision on the eventual disposal of the investment. The major factor of this decision is whether or not the Group will experience inevitable further losses on the investment. These financial assets are classified as noncurrent assets unless the intention is to dispose of such assets within twelve (12) months from the consolidated statements of financial position date.

Note 11 discuss the details of the Group's AFS financial assets as of December 31, 2017 and 2016.

Other Financial Liabilities

Other financial liabilities are initially recorded at fair value, less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any issue costs and any discount or premium on settlement. Gains and losses are recognized in the consolidated statements of income when the liabilities are derecognized as well as through the amortization process.

As at December 31, 2017 and 2016, included in other financial liabilities are the Group's accounts payable and accrued liabilities, dividends payable, and loans and bonds payable.

Debt Issuance Costs

Debt issuance costs are amortized using EIR method and unamortized debt issuance costs are included in the measurement of the related carrying value of the debt in the consolidated statements of financial position. When loan is repaid, the related unamortized debt issuance costs at the date of repayment are charged in the consolidated statements of income.

Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.



The Group assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Group and all of the counterparties.

“Day 1” Difference

Where the transaction price in a non-active market is different from the fair value from other observable current market in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a “Day 1” difference) in the statement of comprehensive income unless it qualifies for recognition as some other type of asset or liability.

Impairment of Financial Assets

The Group assesses at each consolidated statements of financial position date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the contracted parties or a group of contracted parties are/is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument, that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted at the current market rate of return of a similar financial asset.

Loans and receivables

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If there is objective evidence that an impairment loss on financial assets carried at amortized cost has been incurred, the amount of loss is measured as a difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original EIR (i.e., the EIR computed at initial recognition). The carrying amount of the asset shall be reduced through the use of an allowance account. The amount of loss is recognized in the consolidated statements of income.

If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in the group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the



consolidated statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

AFS financial assets

For AFS financial assets, the Group assesses at each consolidated statements of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired. In case of equity investments classified as AFS financial assets, this would include a significant or prolonged decline in the fair value of the investments below its cost. The determination of what is “significant” or “prolonged” requires judgment. The Group treats “significant” generally as 20% or more and “prolonged” as greater than 12 months for quoted equity securities. When there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statements of income is removed from equity and recognized in the consolidated statements of income.

Impairment losses on equity investments are recognized in the consolidated statements of income. Increases in fair value after impairment are recognized directly in the consolidated statements of comprehensive income.

Derecognition of Financial Assets and Financial Liabilities

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay. Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group’s continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on asset measured at fair value, the extent of the Group’s continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statements of income.



Inventories

Mine products inventory, which consist of copper concentrates containing copper, gold and silver, are stated at NRV. Materials and supplies are valued at the lower of cost and NRV.

NRV for mine products and coal inventory is the selling price in the ordinary course of business, less the estimated costs of completion and estimated costs necessary to make the sale. In the case of materials and supplies, NRV is the value of the inventories when sold at their condition at the consolidated statements of financial position date.

Costs of materials and supplies comprise all costs of purchase and other costs incurred in bringing the materials and supplies to their present location and condition. The purchase cost is determined on a moving average basis.

Value-added Tax (VAT)

Input VAT represents VAT imposed on the Group by its suppliers and contractors for the acquisition of goods and services required under Philippine taxation laws and regulations, which can be recovered as tax credit against future tax liabilities of the Group upon approval by the BIR and/or the Philippine Bureau of Customs.

Deferred input VAT represents input VAT on purchase of capital goods exceeding one (1) million pesos. The related input VAT is recognized over five (5) years or the useful life of the capital goods, whichever is shorter.

Property, Plant and Equipment

Property, plant and equipment, except land, are stated at cost less accumulated depletion and depreciation and accumulated impairment in value, if any.

The initial cost of property, plant and equipment consists of its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use and any estimated cost of dismantling and removing the property, plant and equipment item and restoring the site on which it is located to the extent that the Group had recognized the obligation to that cost. Such cost includes the cost of replacing part of the property, plant and equipment if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciation. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of property, plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the consolidated statements of income as incurred.

When assets are sold or retired, the cost and related accumulated depletion and depreciation, and accumulated impairment in value are removed from the accounts and any resulting gain or loss is recognized in the consolidated statements of income.

Depletion or amortization of mine and mining properties is calculated using the units-of-production method based on estimated recoverable reserves. Depreciation of other items of property, plant and equipment is computed using the straight-line method over the estimated useful lives of the assets as follows:

	No. of Years
Buildings	10 to 40
Building improvements	5 to 10
Machinery and equipment	2 to 20
Surface structures	10



Depreciation or depletion of an item of property, plant and equipment begins when it becomes available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation or depletion ceases at the earlier of the date that the item is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with PFRS 5, and the date the asset is derecognized.

The estimated recoverable reserves, useful lives, and depreciation and depletion methods are reviewed periodically to ensure that the estimated recoverable reserves, periods and methods of depletion and depreciation are consistent with the expected pattern of economic benefits from the items of property, plant and equipment.

Property, plant and equipment also include the estimated costs of rehabilitating the Parent Company's Padcal Mine for which the Group is constructively liable. These costs, included under land, buildings and improvements, are amortized using the units-of-production method based on the estimated recoverable mine reserves until the Group actually incurs these costs in the future.

Level and block development (included as part of mine and mining properties) and construction in progress are stated at cost, which includes the cost of construction, plant and equipment, other direct costs and borrowing costs, if any. Block development and construction in progress are not depleted nor amortized until such time as these are completed and become available for use.

Deferred Exploration Costs

Expenditures for exploration works on mining properties (i.e., acquisition of rights to explore, topographical, geological, geochemical and geophysical studies, exploratory drilling, trenching, sampling, and activities in relation to evaluating the technical feasibility and commercial viability of extracting mineral resource) are deferred as incurred and included under "Deferred exploration costs" account in the consolidated statements of financial position. If and when recoverable reserves are determined to be present in commercially producible quantities, the deferred exploration expenditures, and subsequent mine development costs are capitalized as part of the mine and mining properties account classified under property, plant and equipment.

A valuation allowance is provided for unrecoverable deferred exploration costs based on the Group's assessment of the future prospects of the exploration project. Full provision is made for the impairment unless it is probable that such costs are expected to be recouped through successful exploration and development of the area of interest, or alternatively, by its sale. If the project does not prove to be viable or when the project is abandoned, the deferred exploration costs associated with the project and the related impairment provisions are written off. Exploration areas are considered permanently abandoned if the related permits of the exploration have expired and/or there are no definite plans for further exploration and/or development.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for intended use or sale are capitalized as part of the asset. Borrowing costs consist of interest on borrowed funds used to finance the construction of the asset and other financing costs that the Company incurs in connection with the borrowing of funds. The capitalization of borrowing costs: (i) commences when the activities to prepare the assets are in progress and expenditures and borrowing costs are being incurred; (ii) is suspended during the extended periods in which active development, improvement and construction of the assets are interrupted; and (iii) ceases when substantially all the activities necessary to prepare the assets are completed.

Other borrowing costs are recognized as an expense in the period in which they are incurred.



Impairment of Noncurrent Non-financial Assets

The Group's noncurrent non-financial assets include property, plant and equipment and other noncurrent assets. The Group assesses at each reporting date whether there is indication that a noncurrent non-financial asset or CGU may be impaired. If any indication exists, or when an annual impairment testing for such items is required, the Group makes an estimate of their recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use (VIU), and is determined for an individual item, unless such item does not generate cash inflows that are largely independent of those from other assets or group of assets or CGUs. When the carrying amount exceeds its recoverable amount, such item is considered impaired and is written down to its recoverable amount. In assessing VIU, the estimated future cash flows to be generated by such items are discounted to their present value using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks specific to the asset or CGU. Impairment losses of continuing operations are recognized in the consolidated statements of income in the expense categories consistent with the function of the impaired asset.

An assessment is made at least on each consolidated statements of financial position date as to whether there is indication that previously recognized impairment losses may no longer exist or may have decreased. If any indication exists, the recoverable amount is estimated and a previously recognized impairment loss is reversed only if there has been a change in the estimate in the asset's or CGU's recoverable amount since the last impairment loss was recognized. If so, the carrying amount of the item is increased to its new recoverable amount which cannot exceed the impairment loss recognized in prior years. Such reversal is recognized in the consolidated statements of income unless the asset or CGU is carried at its revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount less any residual value on a systematic basis over its remaining estimated useful life.

Provision for Mine Rehabilitation Costs

The Group records the present value of estimated costs of legal and constructive obligations required to restore the mine site upon termination of the mine operations. The nature of these restoration activities includes dismantling and removing structures, rehabilitating mines and settling ponds, dismantling operating facilities, closure of plant and waste sites, and restoration, reclamation and re-vegetation of affected areas. The obligation generally arises when the asset is constructed or the ground or environment is disturbed at the mine site. When the liability is initially recognized, the present value of the estimated cost is capitalized as part of the carrying amount of the related mining assets.

Changes to estimated future costs are recognized in the consolidated statements of financial position by either increasing or decreasing the rehabilitation liability and asset to which it relates if the initial estimate was originally recognized as part of an asset measured in accordance with PAS 16, *Property, Plant and Equipment*. Any reduction in the rehabilitation liability and, therefore, any deduction from the asset to which it relates, may not exceed the carrying amount of that asset. If it does, any excess over the carrying value is taken immediately to consolidated profit or loss.

If the change in estimate results in an increase in the rehabilitation liability and, therefore, an addition to the carrying value of the asset, the Group considers whether this is an indication of impairment of the asset as a whole, and if so, tests for impairment in accordance with PAS 36. If, for mature mines, the estimate for the revised mine assets net of rehabilitation provisions exceeds the recoverable value, that portion of the increase is charged directly to expense.

For closed sites, changes to estimated costs are recognized immediately in consolidated profit or loss.



Capital Stock

Ordinary or common shares are classified as equity. The proceeds from the increase of ordinary or common shares are presented in equity as capital stock to the extent of the par value issued shares and any excess of the proceeds over the par value or shares issued less any incremental costs directly attributable to the issuance, net of tax, is presented in equity as additional paid-in capital.

Dividends on Common Shares

Cash and property dividends on common shares are recognized as a liability and deducted from equity when approved by the respective shareholders of the Parent Company. Stock dividends are treated as transfers from retained earnings to capital stock.

Retained Earnings

Retained earnings represent the cumulative balance of periodic net income or loss, dividend contributions, prior period adjustments, effect of changes in accounting policy and other capital adjustments. When the retained earnings account has a debit balance, it is called “deficit.” A deficit is not an asset but a deduction from equity.

Unappropriated retained earnings represent that portion which is free and can be declared as dividends to stockholders. Appropriated retained earnings represent that portion which has been restricted and, therefore, not available for dividend declaration.

Revenue Recognition

Revenue is recognized upon delivery to the extent that it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of revenue can be reliably measured, regardless of when the payment is being made. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as principal in all of its revenue arrangements. Revenue includes only the gross inflows of the economic benefits received and receivable by the Group on its own account. Amounts collected on behalf of third parties, such as reimbursable transactions, are not economic benefits which flow to the Company and do not result in increase in equity; therefore, they are excluded from revenue. The following specific recognition criteria must also be met before revenue is recognized.

Revenue from sale of mine products

Revenue from sale of mine products is measured based on shipment value price, which is based on quoted metal prices in the London Metals Exchange (LME) and London Bullion Metal Association (LBMA) and weight and assay content, as adjusted for marketing charges to reflect the NRV of mine products inventory at the end of the financial reporting period. Contract terms for the Group’s sale of metals (i.e., gold, silver and copper) in concentrates and bullion allow for a price adjustment based on final assay results of the metal content by the customer.

The terms of metal in copper concentrates sales contracts with third parties contain provisional arrangements whereby the selling price for the metal is based on prevailing spot prices on a specified future date after shipment to the customer (the quotation period). Mark-to-market adjustments to the sales price occur based on movements in quoted market prices up to the date of final settlement, and such adjustments are recorded as part of revenue. The period between provisional invoicing and final settlement can be between one (1) and three (3) months. Ninety percent (90%) of the provisional shipment value is collected within a week from shipment date, while the remaining ten percent (10%) is collected upon determination of the final shipment value on final weight and assay for metal content and prices during the applicable quotation period less deduction for smelting charges. This qualifies as an embedded derivative.



Interest income

Interest income is recognized as the interest accrues, taking into account the effective yield of the asset.

Cost and Expense Recognition

Costs and expenses are recognized in the consolidated statements of income in the year they are incurred. The following specific cost and expense recognition criteria must also be met before costs and expenses are recognized:

Production costs

Production costs, which include all direct materials, power and labor costs, handling, hauling and storage, and other costs related to the mining and milling operations, and all direct expenses incurred for logistics and store room costs for mine and mining inventories, are expensed as incurred.

Excise taxes and royalties

Excise taxes pertain to the taxes paid or accrued by the Parent Company for its legal obligation arising from the production of copper concentrates. Also, the Parent Company is paying for royalties which are due to the claim owners of the land where the mine site operations were located. These excise taxes and royalties are expensed as incurred.

General and administrative expenses

General and administrative expenses constitute the costs of administering the business and are expensed as incurred.

Retirement Costs

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in consolidated profit or loss.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to consolidated profit or loss in subsequent periods.



Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Parent Company, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The Parent Company's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

Termination benefits

Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either an entity's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment.

A liability and expense for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of those benefits and when the entity recognizes related restructuring costs. Initial recognition and subsequent changes to termination benefits are measured in accordance with the nature of the employee benefit, as either post-employment benefits, short-term employee benefits, or other long-term employee benefits.

Employee leave entitlement

Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled wholly before twelve months after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period.

Share-based Payments

Certain officers and employees of the Group receive additional remuneration in the form of share-based payments of the Parent Company, whereby equity instruments (or "equity-settled transactions") are awarded in recognition of their services.

The cost of equity-settled transactions with employees is measured by reference to their fair value at the date they are granted, determined using the acceptable valuation techniques. Further details are given in Note 28.

The cost of equity-settled transactions, together with a corresponding increase in equity, is recognized over the period in which the performance and/or service conditions are fulfilled ending on the date on which the employees become fully entitled to the award ("vesting date"). The cumulative expense recognized for equity-settled transactions at each reporting date up to and until the vesting date reflects the extent to which the vesting period has expired, as well as the Group's best estimate of the number of equity instruments that will ultimately vest. The consolidated statements of income charge or credit for the period represents the movement in cumulative expense recognized at the beginning and end of that period. No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which awards are treated as vesting irrespective of



whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum, an expense is recognized as if the terms had not been modified. An additional expense is likewise recognized for any modification which increases the total fair value of the share-based payment arrangement or which is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. If a new award, however, is substituted for the cancelled awards and designated as a replacement award, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Foreign-Currency-Denominated Transactions and Translations

Transactions denominated in foreign currencies are recorded using the exchange rate at the date of the transaction. Outstanding monetary assets and monetary liabilities denominated in foreign currencies are restated using the rate of exchange at the consolidated statements of financial position date. Non-monetary items that are measured at fair value in a foreign currency shall be translated using the exchanges rates at the date when the fair value was determined.

When a gain or loss on a non-monetary item is recognized in other comprehensive income, any foreign exchange component of that gain or loss shall be recognized in the consolidated statements of comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss shall be recognized in the consolidated statements of income.

Income Taxes

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the consolidated statements of financial position date.

Current income tax relating to items recognized directly in the statement of changes in equity is recognized in equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided, using the balance sheet liability method, on all temporary differences at the financial reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.



Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits in the form of minimum corporate income tax (MCIT) and unused tax losses in the form of net operating loss carryover (NOLCO), to the extent that it is probable that future taxable income will be available against which the deductible temporary differences, and the carryforward benefits of MCIT and NOLCO can be utilized, except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss; and
- in respect of deductible temporary differences associated with investments in foreign subsidiaries and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable income will be available against which the temporary differences can be utilized.

In business combinations, the identifiable assets acquired and liabilities assumed are recognized at their fair values at acquisition date. Deferred tax liabilities are provided on temporary differences that arise when the tax bases of the identifiable assets acquired and liabilities assumed are not affected by the business combination or are affected differently.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off the current income tax assets against the current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statements of income, net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but are disclosed in the notes to financial statements when an inflow of economic benefits is probable.



Basic Earnings Per Share

Basic earnings per share is computed by dividing the net income attributable to equity holders of the Parent Company by the weighted average number of common shares outstanding during the year after giving retroactive effect to stock dividends declared and stock rights exercised during the year, if any.

Diluted Earnings Per Share

Diluted earnings per share amounts are calculated by dividing the net income attributable to equity holders of the Parent Company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all dilutive potential ordinary shares into ordinary shares.

Other Comprehensive Income

Other comprehensive income comprises items of income and expense (including items previously presented under the consolidated statements of changes in equity) that are not recognized in the consolidated statement of income for the year in accordance with PFRSs.

Events After the Reporting Period

Events after the consolidated statement of financial position date that provide additional information about the Group's position at the consolidated statement of financial position date (adjusting events) are reflected in the consolidated financial statements. Events after the consolidated statement of financial position date that are not adjusting events, if any, are disclosed when material to the consolidated financial statements.

3. Significant Judgments, Accounting Estimates and Assumptions

The preparation of the 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. As at December 31, 2017 and 2016, deferred income tax assets recognized in the consolidated statements of financial position amounted to ₱285,003 and ₱322,023, respectively (see Note 26). As at December 31, 2017 and 2016, no deferred income tax assets were recognized on deductible temporary differences amounting to about ₱2,794,938 and ₱2,730,995, respectively (see Note 26), because management believes that it is not probable that future taxable income will be available to allow all or part of the benefit of the deferred income tax assets to be utilized.

Classification of Financial Instruments

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

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

The Group determines the classification at initial recognition and re-evaluates this classification, where allowed and appropriate, at every reporting date (see Note 21).

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. The final shipment values are subsequently determined based on final weights and assays for metal content and prices during the applicable quotational period. Total mine products revenue, gross of smelting charges, amounted to ₱9,984,793, ₱10,271,665 and ₱9,189,382 in 2017, 2016 and 2015, respectively.

Impairment of Loans and Receivables

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

The Group did not assess its loans and receivables for collective impairment due to few counterparties that can be specifically identified. Outstanding trade receivables are mainly from the Parent Company's main customers. Other receivables of the Group are not material. The amount of loss is recognized in



the consolidated statements of income with a corresponding reduction in the carrying value of the loans and receivables through an allowance account. Total carrying value of loans and receivables amounted to ₱3,726,331 and ₱3,123,522 as at December 31, 2017 and 2016, respectively (see Note 22). Allowance for impairment on these financial assets amounted to ₱1,405 and ₱1,747 as at December 31, 2017 and 2016, respectively (see Note 7).

Valuation of AFS Financial Assets

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

Any change in fair value of its AFS financial assets is recognized in the consolidated statements of comprehensive income. As at December 31, 2017 and 2016, the Group has net cumulative unrealized gain or loss on its AFS financial assets amounting to a gain of ₱558 and loss of ₱3,094, respectively (see Note 11). As at December 31, 2017 and 2016, the carrying value of the Group's AFS financial assets amounted to ₱76,036 and ₱104,615, respectively (see Note 11).

Impairment of AFS Financial Assets

The Group treats AFS financial assets as impaired when there has been a significant or prolonged decline in fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgment. The Group treats "significant" generally as 20% or more and "prolonged" as greater than twelve (12) months for quoted equity securities. In addition, the Group evaluates other factors including normal volatility in share price for quoted equities, and the future cash flows and the discount factors for unquoted securities. As at December 31, 2017 and 2016, the carrying value of the Group's AFS financial assets amounted to ₱76,036 and ₱104,615, respectively (see Note 11). No impairment loss was recognized in 2017, 2016 and 2015.

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. The NRV of mine products inventory as at December 31, 2017 and 2016 amounted to ₱390,446 and ₱1,059,280, respectively, which were also reflected as part of mine products revenue for the years then ended (see Note 8).

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. Related allowance for inventory obsolescence on materials and supplies amounted to ₱70,126 and ₱100,126 as at December 31, 2017 and 2016, respectively. The carrying value of materials and supplies inventories amounted to ₱1,126,651 and ₱1,259,570 as at December 31, 2017 and 2016, respectively (see Note 8). Additional provision for materials and supplies obsolescence amounted to nil and ₱30,000 in 2017 and 2016, respectively (see Note 8).

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. The estimated useful lives of the Group's property, plant and equipment are disclosed in Note 2 to the consolidated financial statements.

As at December 31, 2017 and 2016, net book value of property, plant and equipment amounted to ₱6,721,022 and ₱6,735,578 respectively (see Note 10).

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 30, 2011, the Padcal Mine life had been extended from 2017 to 2020. On March 20, 2015, the Padcal Mine life has been extended from 2020 to 2022. The extension of mine life is due to the additional reserves from the mineral resources delineated below the current mining level.

As at December 31, 2017 and 2016, the carrying value of the mine and mining properties of the Parent Company amounted to ₱3,691,744 and ₱3,574,005, respectively, net of related accumulated depletion amounting to ₱10,312,268 and ₱9,415,853, respectively.

Estimation of Provision for Mine Rehabilitation Costs

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

Those uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision at each end of the reporting period represents management's best estimate of the present value of the future rehabilitation costs required. Changes to estimated future costs are recognized in the consolidated statements of financial position by adjusting the rehabilitation asset and liability. If the net rehabilitation provisions of revised mine assets for mature mines exceed the carrying value, that portion of the increase is charged directly to the consolidated statements of income. For closed sites, changes to estimated costs are recognized immediately in the consolidated statements of income. Provision for mine rehabilitation costs amounted to ₱132,744 and ₱129,434 as at December 31, 2017 and 2016, respectively (see Note 10).

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.

An impairment loss is recognized when the carrying values of these assets are not recoverable and exceeds their fair value. Impairment loss amounting to nil, ₱2,284,557 and nil were recognized in 2017, 2016 and 2015, respectively. Deferred exploration costs amounted to ₱24,360,954 and ₱23,072,040 as at December 31, 2017 and 2016 (see Note 13).



Impairment of Non-financial Assets

The Group's non-financial assets include input tax recoverable, property, plant and equipment, other noncurrent asset and investment in associates. The Group assesses whether there are indications of impairment on its current and noncurrent non-financial assets, at least on an annual basis. If there is objective evidence, an impairment testing is performed. This requires an estimation of the value in use of the CGUs to which the assets belong. Assessments require the use of estimates and assumptions such as VAT disallowance rate, long-term commodity prices, discount rates, future capital requirements, exploration potential and operating performance. In assessing value in use, the estimated future cash flows are discounted to their present value using a suitable discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses amounting to nil, ₱220,293 and nil were recognized in 2017, 2016 and 2015, respectively. As at December 31, 2017 and 2016, the carrying value of non-financial assets amounted to ₱9,518,440 and ₱9,632,697, respectively (see Notes 9, 10, 12 and 14).

Valuation of Financial Instruments

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

The carrying values and corresponding fair values of financial assets and financial liabilities as well as the manner in which fair values were determined are discussed in Note 21.

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 (see Note 15).

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 (see Note 31).

Estimation of Retirement Costs

The Group's net retirement costs are actuarially computed using certain assumptions with respect to future annual salary increases and discount rates per annum, among others. The Parent Company's net excess retirement plan asset amounted to ₱377,033 and ₱328,118 as at December 31, 2017 and 2016, respectively (see Note 20). SMMCI's retirement liability amounted to ₱3,184 and ₱15,548 as at December 31, 2017 and 2016, respectively (see Note 20).



4. Business Combinations

Acquisition of SMECI and SMMCI

On February 6, 2009, the Parent Company acquired control over SMECI and SMMCI from Anglo American Exploration (Philippines), Inc. which qualified as a step acquisition. Accordingly, a revaluation surplus amounting to ₱1,572,385 was recognized.

5. Segment Information

The Group is organized into business units on their products and activities and has 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. The operating businesses are organized and managed separately through the Parent Company and its subsidiaries according to the nature of the products provided, with each segment representing a strategic business unit that offers different products to different markets.

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

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

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

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



The following tables present revenue and profit and certain asset and liability information regarding the Group's previous business segments for 2017, 2016 and 2015:

December 31, 2017					
	Metals	Energy and Hydrocarbon	Unallocated Corporate Balances	Eliminations	Total
Revenue					
External customers	₱9,142,460	₱-	₱-	₱-	₱9,142,460
Consolidated revenue	₱9,142,460	₱-	₱-	₱-	₱9,142,460
Results					
EBITDA	₱3,976,687	₱-	₱-	₱-	₱3,976,687
Interest income (expense) – net	1,861	-	-	-	1,861
Income tax benefit (expense)	(708,700)	-	-	-	(708,700)
Depreciation and depletion	(1,572,311)	-	-	-	(1,572,311)
Non-recurring items	(39,451)	-	-	-	(39,451)
Consolidated net income (loss)	₱1,658,086	₱-	₱-	₱-	₱1,658,086
Core net income (loss)	₱1,685,703	₱-	₱-	₱-	₱1,685,703
Consolidated total assets	₱39,677,700	₱-	₱9,129	₱8,035	₱39,678,794
Consolidated total liabilities	₱14,945,803	₱-	₱1,214	₱-	₱14,947,017
Other Segment Information:					
Capital expenditures and other non-current assets	₱2,355,142	₱-	₱-	₱-	₱2,355,142
December 31, 2016					
	Metals	Energy and Hydrocarbon*	Unallocated Corporate Balances	Eliminations	Total
Revenue					
External customers	₱9,378,387	₱-	₱-	₱-	₱9,378,387
Consolidated revenue	₱9,378,387	₱-	₱-	₱-	₱9,378,387
Results					
EBITDA	₱3,429,066	(₱30,840)	₱979	₱455,020	₱3,854,225
Interest income (expense) – net	1,997	1,899	84	-	3,980
Income tax benefit (expense)	(697,224)	436	-	-	(696,788)
Depreciation and depletion	(1,481,405)	-	-	-	(1,481,405)
Non-recurring items	(112,044)	(597)	-	-	(112,641)
Consolidated net income (loss)	₱1,140,390	(₱29,102)	₱1,063	₱455,020	₱1,567,371
Core net income (loss)	₱1,665,195	(₱7,567)	(₱224)	₱-	₱1,657,404
Consolidated total assets	₱41,860,372	₱-	₱9,129	(₱3,207,672)	₱38,661,829
Consolidated total liabilities	₱13,735,121	₱-	₱443	₱1,527,005	₱15,262,569
Other Segment Information:					
Capital expenditures and other non-current assets	₱2,091,610	₱-	₱-	₱-	₱2,091,610

*January 1 to July 15, 2016.



December 31, 2015					
	Metals	Energy and Hydrocarbon	Unallocated Corporate Balances	Eliminations	Total
Revenue					
External customers	₱8,352,785	₱172,250	₱—	₱—	₱8,525,035
Consolidated revenue	₱8,352,785	₱172,250	₱—	₱—	₱8,525,035
Results					
EBITDA	₱3,379,577	(₱132,367)	₱204	(₱468,561)	₱2,778,853
Interest income – net	4,085	7,444	—	—	11,529
Income tax benefit (expense)	(366,580)	(16)	—	—	(366,596)
Depreciation and depletion	(1,563,972)	(4,175)	(284)	—	(1,568,431)
Non-recurring items	(64,809)	(14,911)	—	—	(79,720)
Consolidated net income (loss)	₱1,388,301	(₱144,025)	(₱80)	(₱468,561)	₱775,635
Core net income (loss)	₱939,930	(₱34,893)	₱205	₱—	₱905,242
Consolidated total assets	₱39,469,736	₱4,057,188	₱132	₱—	₱43,527,056
Consolidated total liabilities	₱14,924,608	₱1,317,339	₱1,207	₱—	₱16,243,154
Other Segment Information:					
Capital expenditures and other non-current assets	₱3,844,397	₱214,787	₱—	₱—	₱4,059,184
Non-cash expenses other than depletion and depreciation	173,828	362,354	—	41,187	577,369

The following table shows the Group's reconciliation of core net income to the consolidated net income for the years ended December 31, 2017, 2016 and 2015:

	2017	2016	2015
Core net income	₱1,685,703	₱1,657,404	₱905,242
Non-recurring gains (losses):			
Foreign exchange losses and others	(39,451)	(145,040)	(157,095)
Gain on sale of assets	—	—	107,088
Net tax effect of aforementioned adjustments	11,835	43,512	43,168
Provisions for impairment of assets – net	—	(2,504,850)	(2,222)
Gain from loss of control over a subsidiary group	—	2,538,019	—
Net income attributable to equity holders of the Parent Company	1,658,087	1,589,045	896,181
Net income attributable to NCI (Note 27)	(1)	(21,674)	(120,546)
Consolidated net income	₱1,658,086	₱1,567,371	₱775,635

Core net income per share is computed as follows:

	2017	2016	2015
Core net income	₱1,685,703	₱1,657,404	₱905,242
Divided by weighted average number of common shares outstanding during year (Note 29)	4,940,399,068	4,940,399,068	4,940,399,068
Core net income per share	₱0.341	₱0.335	₱0.183



Sales of the Parent Company are made to Pan Pacific Copper Co., Ltd. (Pan Pacific), which is covered by a Sales Agreement (signed on March 11, 2004), and to Louis Dreyfuss Commodities Metals Suisse SA (LD Metals) for the remaining copper concentrates. Gross revenue, excluding provisional pricing adjustments, from Pan Pacific and LD Metals for the years ended December 31, 2017, 2016 and 2015 are presented below:

	2017	2016	2015
LD Metals	₱5,206,863	₱3,287,548	₱6,109,840
Pan Pacific	5,475,492	6,377,937	3,128,525
	₱10,682,355	₱9,665,485	₱9,238,365

6. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	2017	2016
Cash on hand	₱2,421	₱2,208
Cash with banks	356,832	272,345
Short-term deposits	224,285	183,384
	₱583,538	₱457,937

Cash with banks and short-term deposits earn interest at bank deposit rates. Short-term deposits are made for varying periods, usually of up to three months depending on the cash requirements of the Group. Interest income arising from cash with banks and short-term deposits amounted to ₱1,861, ₱2,081 and ₱4,085 in 2017, 2016 and 2015, respectively.

7. Accounts Receivable - net

Accounts receivable consist of:

	2017	2016
Trade	₱903,176	₱411,795
Others	88,833	76,449
	992,009	488,244
Less allowance for impairment losses	1,405	1,747
	₱990,604	₱486,497

The Group's trade receivables consist of the Parent Company's trade receivables arising from shipments of copper concentrates which are initially paid based on 90% of their provisional value, currently within one week from shipment date. The 10% final balance does not bear any interest until final settlement, which usually takes around three months from shipment date for Pan Pacific or after a month for LD Metals. The Group has US dollar (US\$) accounts receivable amounting to US\$18,003 and US\$7,838 as at December 31, 2017 and 2016, respectively (see Note 24).

Other receivables include advances to employees, and other non-trade receivables. These advances are non-interest bearing cash advances for business-related expenditures that are subject to liquidation. Other non-trade receivables are non-interest bearing and are generally collectible on demand.



The following table is a rollforward analysis of the allowance for impairment losses recognized on other receivables:

	2017	2016
January 1	₱1,747	₱1,747
Write-off during the year	(342)	—
December 31	₱1,405	₱1,747

The impaired receivables were specifically identified as at December 31, 2017 and 2016.

8. Inventories - net

Inventories consist of:

	2017	2016
Mine products - at NRV	₱390,446	₱1,059,280
Materials and supplies:		
On hand - at cost	1,042,263	1,195,456
In transit - at cost	84,388	64,114
	₱1,517,097	₱2,318,850

As at December 31, 2017 and 2016, the cost of materials and supplies inventories amounted to ₱1,126,651 and ₱1,259,570 respectively.

The following table is a rollforward analysis of the allowance for impairment losses recognized on materials and supplies inventories:

	2017	2016
January 1	₱100,126	₱116,185
Provisions during the year	—	30,000
Write-off during the year	(30,000)	(46,059)
December 31	₱70,126	₱100,126

Materials and supplies recognized as expense amounted to ₱1,767,494, ₱1,640,583 and ₱1,557,628 in 2017, 2016 and 2015, respectively (see Note 17).

9. Other Current Assets - net

Other current assets consist of:

	2017	2016
Input tax recoverable - net	₱917,356	₱952,924
Prepaid expenses and others	89,644	82,794
	₱1,007,000	₱1,035,718

In 2017, the Parent Company reversed its allowance for impairment losses on input tax amounting to ₱37,397 which was recorded under “Other income (charges)” on the consolidated statements of income. Allowance for impairment losses on input tax amounted to ₱9,045 and ₱56,474 as at December 31, 2017 and 2016, respectively.



10. Property, Plant and Equipment - net

Property, plant and equipment consist of:

December 31, 2017							
	Mine, And Mining Properties	Land, Buildings and Improvements	Machinery And Equipment	Surface Structures	Construction in Progress	Non-operating Property and Equipment at Bulawan Mine	Total
Cost:							
January 1	₱13,047,060	₱756,741	₱8,575,209	₱190,830	₱292,986	₱2,088,913	₱24,951,739
Additions	1,014,154	37,059	678,742	—	16,757	—	1,746,712
Disposals	—	(7,332)	(632,686)	—	—	—	(640,018)
Reclassifications	—	(110,522)	110,522	—	—	—	—
December 31	14,061,214	675,946	8,731,787	190,830	309,743	2,088,913	26,058,433
Accumulated Depletion and Depreciation:							
January 1	9,479,609	278,305	6,211,087	158,247	—	2,088,913	18,216,161
Depletion and depreciation for the year (Note 19)	896,415	53,014	788,936	10,814	—	—	1,749,179
Disposals	—	(4,460)	(623,469)	—	—	—	(627,929)
December 31	10,376,024	326,859	6,376,554	169,061	—	2,088,913	19,337,411
Net Book Values	₱3,685,190	₱349,087	₱2,355,233	₱21,769	₱309,743	₱—	₱6,721,022

December 31, 2016							
	Mine, Mining and Oil and Gas Properties	Land, Buildings and Improvements	Machinery And Equipment	Surface Structures	Construction in Progress	Non-operating Property and Equipment at Bulawan Mine	Total
Cost:							
January 1	₱12,637,305	₱459,279	₱8,701,320	₱188,675	₱343,693	₱2,088,913	₱24,419,185
Additions	1,224,273	161,457	516,371	2,155	90,013	—	1,994,269
Disposals	—	(4,715)	(609,301)	—	—	—	(614,016)
Reclassifications	—	140,720	—	—	(140,720)	—	—
Effect of deconsolidation due to loss of control (Note 33)	(814,518)	—	(33,181)	—	—	—	(847,699)
December 31	13,047,060	756,741	8,575,209	190,830	292,986	2,088,913	24,951,739
Accumulated Depletion and Depreciation:							
January 1	9,196,340	241,071	5,917,698	147,111	—	2,088,913	17,591,133
Depletion and depreciation for the year (Note 19)	760,263	41,949	900,170	11,136	—	—	1,713,518
Disposals	—	(4,715)	(575,581)	—	—	—	(580,296)
Effect of deconsolidation due to loss of control (Note 33)	(476,994)	—	(31,200)	—	—	—	(508,194)
December 31	9,479,609	278,305	6,211,087	158,247	—	2,088,913	18,216,161
Net Book Values	₱3,567,451	₱478,436	₱2,364,122	₱32,583	₱292,986	₱—	₱6,735,578

Mine and mining properties as at December 31, 2017 and 2016 include mine development costs of the 908 Meter Level, 782 Meter Level and 798 Meter Level project amounting to ₱7,734,781 and ₱7,213,316, respectively. In 2015, with the discovery of additional resources, the estimated mine life of the Padcal Mine was extended until 2022, or an additional five years from the original estimated mine life of up to 2017. Correspondingly, the extensions in mine life were considered as a change in estimate and the effect on the amortization of the depletion costs was taken up prospectively.

Total depreciation cost of machinery and equipment used in exploration projects amounting to ₱176,868, ₱232,113 and ₱254,032 in 2017, 2016 and 2015, respectively, are capitalized under deferred exploration costs, which relate to projects that are currently ongoing for PMC, SMMCI and PGPI (see Note 32).

Land, buildings and improvements include the estimated costs of rehabilitating the Parent Company's Padcal Mine from 2023 up to 2030, discounted at a rate of 2.79%. In 2015, the Parent Company performed a reassessment of its provision for mine rehabilitation costs which increased the liability and



related asset by ₱100,459. Accretion of interest amounted to ₱3,510 were recorded in 2017 and 2016 and ₱3,414 in 2015.

The Group's provision for mine rehabilitation costs amounted to ₱132,744 and ₱129,434 as at December 31, 2017 and 2016, respectively.

Non-operating property and equipment in the Bulawan mine pertains to PGPI's fully-depreciated property and exploration equipment that are presently not in use. These assets do not qualify as assets held for sale under PFRS 5 and are thus retained as property, plant and equipment.

In September 2016, the Parent Company acquired building and improvements amounting to ₱161,457 which is now the Parent Company's registered business office.

11. Available-for-sale (AFS) Financial Assets

The Group's AFS financial assets consist of quoted and unquoted investment in share of stock as follows:

	2017	2016
Investments in quoted shares	₱3,345	₱31,924
Investments in unquoted shares of stock	72,691	72,691
	₱76,036	₱104,615

AFS financial assets in quoted shares of stock are carried at fair value with cumulative changes in fair values presented as a separate account in equity. Meanwhile, AFS financial assets in unquoted shares of stock are carried at cost because fair value bases (i.e., quoted market prices) are neither readily available nor is there an alternative basis of deriving a reliable valuation at the end of the reporting period.

In 2015, the Parent Company sold its investment in quoted shares in Indophil for a consideration of ₱297,462. The transaction resulted in a gain amounting to ₱107,088 recorded under "Other income (charges)" on the consolidated statements of income.

In 2017, the Parent Company sold portion of its investment in quoted shares which resulted in a gain amounting to ₱21,773 recorded under "Other income (charges)" on the consolidated statements of income.

As at December 31, 2017 and 2016, the cumulative change in value of AFS financial assets amounted to a ₱558 gain and ₱3,094 loss, respectively. These changes in fair values in the same amounts have been recognized and shown as "Net unrealized gain (loss) on AFS financial assets" account in the equity section of the consolidated statements of financial position and are also shown in the consolidated statements of comprehensive income.

The following table shows the movement of the "Net unrealized gain (loss) on AFS financial assets" account:

	2017	2016
January 1	(₱3,094)	(₱1,022)
Increase (Decrease) in fair value of AFS financial assets	3,652	(2,072)
December 31	₱558	(₱3,094)



12. Investment in Associates - net

Investment in associates consist of:

	2017	2016
Lepanto Consolidated Mining Company (Lepanto)	₱597,056	₱626,038
PXP (Note 33)	1,038,841	1,050,131
	1,635,897	1,676,169
Less allowance for impairment loss	220,293	220,293
	₱1,415,604	₱1,455,876

Lepanto

The Parent Company entered into a Joint Voting Agreement (the Agreement) with another Lepanto shareholder to jointly vote their share on all matters affecting their right on Lepanto for five years from the effectivity of the Agreement. By virtue of the Agreement, the shareholding and board representation of the combined interest of PMC and the other Lepanto shareholder resulted in significant influence over Lepanto.

Lepanto is involved on the exploration and mining of gold, silver, copper, lead, zinc and all kinds of ores, metals, minerals, oil, gas and coal and their related by products. Lepanto is listed on the Philippine Stock Exchange (PSE). The Group's interest in Lepanto is accounted for using the equity method on the consolidated financial statements.

The following table summarizes the financial information of Lepanto:

	2017*	2016
Current assets	₱2,146,683	₱1,735,075
Non-current assets	14,989,676	14,743,856
Current liabilities	(2,240,591)	(1,611,859)
Non-current liabilities	(8,110,210)	(7,986,180)
Equity	₱6,785,558	₱6,880,892

	2017*	2016	2015
Revenue	₱1,102,614	₱1,534,056	₱1,212,902
Cost and expenses	(1,651,544)	(2,224,485)	(1,974,714)
Finance costs	(15,945)	(101,634)	(110,901)
Other income (expenses)	(7,787)	48,825	31,367
Loss before income tax	(572,662)	(743,238)	(841,346)
Income tax expense (benefit)	(112)	9,669	(18,030)
Loss for the year	₱572,774	₱733,569	₱859,376

Total comprehensive loss	₱572,774	₱545,899	₱578,085
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Group's share of loss for the year (annualized)	₱28,982	₱33,370	₱13,200
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*Balances are based on unaudited September 30, 2017 interim financial statements submitted by Lepanto to PSE.



The following table is a rollforward analysis of the allowance for impairment loss recognized on investment in Lepanto:

	2017	2016
January 1	₱220,293	₱—
Provision during the year	—	220,293
December 31	₱220,293	₱220,293

PXP

The Parent Company declared its shares of stock in PXP as property dividends to its shareholders on March 15, 2016 record date at a ratio of 17 shares for every 100 shares held. The dividend declaration was approved by the Philippine Securities and Exchange Commission (SEC) on June 22, 2016. The Group ceased to have control over PXP on July 15, 2016 (see Notes 25 and 33).

The following table illustrates the summarized financial information of the Group's investment in PXP:

	2017*	2016*
Current assets	₱525,759	₱625,695
Non-current assets	6,702,853	6,679,041
Current liabilities	(2,925,930)	(2,955,578)
Non-current liabilities	(1,300,566)	(1,312,809)
Equity	₱3,002,116	₱3,036,349

	2017*	2016*
Revenue	₱104,445	₱78,354
Cost and expenses	(158,227)	(122,228)
Other income (expenses)	(1,105)	4,961
Loss before income tax	(54,887)	(38,913)
Income tax expense	(2,256)	(457)
Loss for the year	(57,143)	(₱39,370)
Total comprehensive loss	(₱57,143)	(₱39,370)
Group's share of loss for the year (actual)	₱11,290	₱11,202

*Balances are based on audited December 31, 2017 and 2016 consolidated financial statements.

13. Deferred Exploration Costs - net

Deferred exploration costs consist of:

	2017	2016
Deferred exploration costs	₱28,138,847	₱26,849,933
Less allowance for impairment losses	3,777,893	3,777,893
	₱24,360,954	₱23,072,040

Deferred exploration costs attributable to the Group's Silangan Project amounted to ₱22,233,814 and ₱21,138,908 as of December 31, 2017 and 2016, respectively.



The following table is a rollforward analysis of the allowance for impairment losses recognized on deferred exploration costs:

	2017	2016
January 1	₱3,777,893	₱1,493,336
Provisions during the year	–	2,284,557
December 31	₱3,777,893	₱3,777,893

Deferred exploration costs relate to projects that are ongoing. The recovery of these costs depends upon the success of exploration activities and future development of the corresponding mining properties. Allowances have been provided for those deferred costs that are specifically identified to be unrecoverable. Allowances recognized are included under “Provision for impairment losses – net” in the consolidated statements of income amounting to nil, ₱2,284,557 and nil in 2017, 2016 and 2015, respectively.

14. Other Noncurrent Assets

Other noncurrent assets consist of:

	2017	2016
Input tax – noncurrent portion	₱399,735	₱402,034
Others	64,723	86,285
	₱464,458	₱488,319

Noncurrent portion of input VAT pertains to SMMCI’s input VAT that cannot be realized within twelve (12) months after the date of the reporting period.

Others include bank accounts that the Parent Company and PGPI maintain with Land Bank of the Philippines to establish their respective Mine Rehabilitation Funds (MRF), pursuant to the requirements of Republic Act (RA) No. 7942, otherwise known as “The Philippine Mining Act of 1995.” The MRF shall be used for the physical and social rehabilitation of areas and communities affected by the Padcal, Bulawan and Sibutad Mines, and for research in the social, technical and preventive aspects of their rehabilitation.

15. Loans and Bonds Payable

	2017	2016
Current Loans:		
Bank loans:		
Banco de Oro (BDO)	₱1,198,320	₱1,541,320
Philippine National Bank (PNB)	1,098,460	1,292,720
Bank of the Philippine Islands (BPI)	149,790	248,600
	2,446,570	3,082,640
Noncurrent Loans:		
Bonds payable	6,950,306	6,592,854
	₱9,396,876	₱9,675,494



BDO Loans

On November 6, 2013, the Parent Company obtained unsecured short-term loans from BDO amounting to US\$20,000. The original loan term carries 2.5% interest per annum and will mature on February 4, 2014. The loan was renewed upon maturity for an additional 90 days until May 5, 2014 under the same terms and was subsequently renewed several times with last renewal maturing April 28, 2015 under the same terms. Upon maturity, the Parent Company renegotiated the loan to reduce the interest rate to 2.3% per annum and new maturity date on July 27, 2015. The Parent Company renewed the loan several times with new maturity date on March 24, 2016. Partial payments amounting to US\$3,000 were made in 2015 which reduced the outstanding balance to US\$17,000. On 2016, partial payments were made amounting to US\$2,000, US\$1,500 and US\$3,500 in April, June and August, respectively, which reduced the outstanding balance to US\$10,000. The Parent Company renewed the loan on the same terms for several times with the latest maturity date on April 10, 2018. Partial payment of US\$1,000 was made during the year which decreased the outstanding balance to US\$9,000.

On July 1, 2014, the Parent Company obtained unsecured short term loan from BDO amounting to US\$10,000. The loan carries 2.5% interest per annum and will mature on September 29, 2014. The loan was renewed several times with the Parent Company renegotiating on June 17, 2015 for a lower interest rate per annum of 2.3%. The loan was rolled several times with new maturity date on March 11, 2016. Partial payments amounting to US\$4,000 were made in 2015 which reduced the outstanding balance to US\$6,000. Partial payment was made during February 2016 amounting to US\$1,000 which reduced the outstanding balance to US\$5,000. The unsecured loan was subsequently renewed for several times upon maturity with the latest maturity date on March 1, 2018. Partial payment of US\$2,000 was made during the year which decreased the outstanding balance to US\$3,000.

On April 27, 2015, the Parent Company obtained a new unsecured short term loan from BDO amounting to US\$17,000. The loan carries 2.3% interest per annum and will mature on July 24, 2015. The loan was renewed several times upon maturity wherein the new maturity was set on March 20, 2016. Partial payment was made during February 2016 amounting to US\$1,000 which reduced the outstanding balance to US\$16,000. After several maturity and renewals, the new maturity date of the loan is set at April 12, 2017. Partial payments amounting to US\$1,000 each on March and August 2017 and US\$2,000 on September 2017 reduced the outstanding balance to US\$12,000. After several maturity and renewals, the latest maturity date of the loan is set at April 6, 2018.

PNB Loans

On November 6, 2013, the Parent Company obtained unsecured short-term loans from PNB amounting to US\$20,000. The loan carries 2.5% interest per annum and will mature on February 4, 2014. The loan was renewed several times upon maturity for an additional 90 days or until May 5, 2014 under the same terms. Subsequent renewal followed with last renewal maturing on April 15, 2015. The loan was fully paid in 2015.

On March 19, 2014, the Parent Company obtained an unsecured short-term loan from PNB amounting to US\$10,000. The loan carries 2.5% interest per annum but subject to repricing every 30 days. The loan will mature on June 19, 2014. Partial payments amounting to \$1,000 was made in 2015 which reduced outstanding balance to \$9,000. When the partial payment was made in July 2015, the rate was also renegotiated to 2.3%. On 2016, partial payments were made amounting to US\$1,000 each in February, September and December which reduced the outstanding balance to US\$6,000. The outstanding balance was further reduced to US\$3,000 due to partial payment of US\$3,000 on May 2017. After several maturity and renewals, the latest maturity date of the loan is set at May 21, 2018.



On June 3, 2014, the Parent Company obtained unsecured loan from PNB amounting to US\$10,000. The loan carries 2.5% interest per annum and was renegotiated to 2.3% in June 2015. After several maturity and renewals, the latest maturity date of the loan is set at March 14, 2018.

On November 24, 2015, the Parent Company obtained unsecured loan from PNB amounting to US\$10,000. The loan carries 2.3% interest per annum with original maturity on February 22, 2016 and was later extended for another 90 days. After several maturity and renewals, the new maturity date of the loan is set at May 15, 2017. The outstanding balance of the loan was reduced to US\$9,000 due to partial payment of US\$1,000 on March 2017. The loan was renewed several times with the latest maturity date of the loan is set at May 4, 2018.

BPI Loans

On May 12, 2014, PMC obtained an unsecured short-term loan from BPI amounting to US\$10,000. The loan carries 2.5% interest per annum and will mature on June 1, 2014. After several maturity and renewals, the loan was fully settled on November 25, 2015.

On November 24, 2014, the Parent Company obtained an unsecured short-term loan from BPI amounting to US\$5,000. The loan carries 2.5% interest per annum but subject to repricing every 30 days and last renewal to mature on January 23, 2015. After several maturity and renewals, the loan was fully settled on September 18, 2015.

On November 27, 2014, the Parent Company obtained an unsecured short-term loan from BPI amounting to US\$3,500. The loan carries 2.5% interest per annum but subject to repricing every 30 days. Partial payments amounting to US\$2,000 were made in 2015 which reduced the outstanding balance to US\$1,500. After several maturity and renewals, the loan was fully settled on March 16, 2017.

On July 11, 2016, the Parent Company obtained an unsecured short-term loan from BPI amounting to US\$3,500. The loan carries 2.25% interest per annum. Partial payment of US\$500 was made during the year which reduced the outstanding balance to US\$3,000. The latest maturity date is set at May 3, 2018 after several maturity and renewals.

LBP Loans

On July 14, 2014, the Parent Company obtained an unsecured short-term loan from LBP amounting to ₱100,000. The loan carries 4.5% interest per annum which will start on the date of initial borrowing and having a duration not exceeding 88 days, and will mature on October 10, 2014. This loan was renewed for another 88 days to mature on January 8, 2015. The Parent Company renewed the loan under the same terms in 2015 with partial payment amounting to ₱50,000 made on February 26, 2015 and full settlement made on March 9, 2015.

On July 28, 2014, the Parent Company obtained an unsecured short-term loan from LBP amounting to ₱250,000. The loan carries 4.5% interest per annum but subject to repricing every 90 days, and will mature on October 27, 2014. This loan was renewed for another 88 days to mature on January 23, 2015. The Parent Company renewed the loan under the same terms in 2015 with partial payment amounting to ₱100,000 made on January 23, 2015 and full settlement made on February 10, 2015.

Bonds Payable

On December 18, 2014, SMECI, with PMC as the co-issuer, issued 8-year convertible bonds with a face value of ₱7,200,000 at 1.5% coupon rate p.a. payable semi-annually. The bonds are convertible into 400,000 common shares of SMECI at ₱18 per share 12 months after the issue date (“Standstill Period”). On the last day of the Standstill Period, the Issuer shall have a one-time right to redeem the



bonds from the holders in whole or in part. After the Standstill Period, the noteholders may exercise the conversion right, in whole but not in parts, at any time but no later than the maturity date. At redemption/maturity date, the bonds can be redeemed together with the principal or face value of the bonds at a premium, payable at a rate of 3% per annum compounded semi-annually based on the face value of the bonds and unpaid accrued interest (if there be any). The proceeds of the bonds were used to repay the SMECI's advances from PMC and fund further exploration works of SMMCI.

At the date of issuance, the carrying amount of the bonds payable and equity conversion options amounted to ₱5,974,482 and ₱1,225,518, respectively. The carrying value of convertible bonds payable amounted to ₱6,950,306 and ₱6,592,854 as at December 31, 2017 and 2016, respectively.

Interest amortization amounted to ₱357,452 and ₱333,791 in 2017 and 2016, respectively while finance charges paid amounted to ₱121,342 both in 2017 and 2016, respectively. Accrued interest amounting to ₱41,647 as at December 31, 2017 and 2016 is presented in "Accounts payable and accrued liabilities" in the consolidated statements of financial position. Bonds amortization is calculated on the effective interest basis by applying EIR rate of 6.97% per annum (compounded semi-annually) for an equivalent non-convertible bonds at the date of issue of the convertible bond to the liability component of the convertible bonds.

Finance expense pertaining to the convertible bonds amounting to ₱478,793 and ₱455,133 in 2017 and 2016, respectively, was capitalized as deferred exploration costs. The rate used to determine the amount of borrowing costs eligible for capitalization was 5.61%.

As at December 31, 2017 and 2016, the Group is compliant with its loan covenants.

16. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of:

	2017	2016
Trade	₱611,226	₱643,847
Provisions (Note 31)	377,121	410,592
Accrued expenses	336,551	458,659
Accrued royalties and excise taxes	135,512	121,723
Withholding taxes	43,747	36,049
Other nontrade liabilities	147,553	161,791
	₱1,651,710	₱1,832,661

Trade payables are non-interest bearing and are generally settled within 30-60 day terms. Accrued expenses consist of accrued operating and administrative expenses are settled monthly, while contracted and outside services are settled within the terms of their respective contracts. Other nontrade liabilities include payroll-related liabilities.

Accrued royalties are due to the claim owners of the land where the mine site operations were located while excise taxes pertain to the taxes paid or accrued by the Parent Company for its legal obligation arising from the production of copper concentrates. These excise taxes and royalties are expensed as incurred. Royalties are paid monthly while obligation to pay excise taxes are made quarterly.



Withholding taxes pertain to statutory deductions and withheld taxes by the Parent Company from its employees for compensation and suppliers for expanded withholding taxes that are to be remitted to the BIR fourteen days following the end of month.

17. Costs and Expenses

Costs and expenses include the following:

	2017	2016	2015
Production costs			
Materials and supplies (Note 8)	₱1,767,494	₱1,640,583	₱1,557,628
Depletion and depreciation (Notes 10 and 19)	1,550,530	1,460,439	1,545,778
Communications, light and water	1,290,747	1,468,000	1,664,852
Personnel (Note 18)	878,161	875,705	822,254
Contracted services	249,635	303,817	290,567
Hauling, handling and storage	63,697	64,190	72,312
Others	161,960	262,128	206,961
	₱5,962,224	₱6,074,862	₱6,160,352
General and administrative expenses			
Personnel (Note 18)	₱224,888	₱216,552	₱261,430
Depreciation (Notes 10 and 19)	21,781	20,966	18,478
Contracted services	21,221	34,875	29,187
Taxes and licenses	15,586	24,928	28,924
Communications, light and water	9,119	10,579	16,153
Travel and transportation	8,069	7,166	5,033
Office supplies	3,425	4,666	3,048
Repairs and maintenance	2,312	3,318	5,513
Donations	1,457	4,961	9,465
Others	55,213	45,112	37,024
	₱363,071	₱373,123	₱414,255
Excise taxes and royalties			
Royalties	₱268,944	₱269,758	₱269,380
Excise taxes	183,463	182,657	167,476
	₱452,407	₱452,415	₱436,856

Other general and administrative expenses include security, janitorial and other outside services, and general miscellaneous expenses.



18. Personnel Cost

Details of personnel costs are as follows:

	2017	2016	2015
Production costs (Note 17)			
Salaries and wages	₱621,837	₱606,171	₱562,458
Employee benefits	232,573	224,900	216,887
Retirement costs (Note 20)	23,751	44,634	42,909
	₱878,161	₱875,705	₱822,254
General and administrative expenses (Note 17)			
Salaries and wages	₱154,392	₱149,243	₱167,684
Employee benefits	66,629	60,043	86,761
Retirement costs (Note 20)	3,867	7,266	6,985
	224,888	216,552	261,430
	₱1,103,049	₱1,092,257	₱1,083,864

The Parent Company recognized retirement costs amounting to ₱27,618, ₱51,900 and ₱49,894 in 2017, 2016 and 2015, respectively. (see Note 20).

19. Depletion and Depreciation

Details of depletion and depreciation expense are as follows:

	2017	2016	2015
Production costs (Note 17)	₱1,550,530	₱1,460,439	₱1,545,778
General and administrative (Note 17)	21,781	20,966	18,478
	₱1,572,311	₱1,481,405	₱1,564,256

Total depreciation cost of machinery and equipment used in exploration projects amounting to ₱176,868, ₱232,113 and ₱254,032 in 2017, 2016 and 2015, respectively, is capitalized under deferred exploration costs, which relate to projects that are currently ongoing for PMC, SMMCI and PGPI (see Note 10).

20. Retirement Costs

Under the existing regulatory framework, Republic Act 7641 requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided, however, that the employees retirement benefit under the collective bargaining and other agreements shall not be less than provided under the law. The law does not require minimum funding of the plan.

Parent Company Retirement Fund

The Parent Company has a funded, noncontributory, defined benefits retirement plan covering all of its regular employees. The pension funds are being administered and managed through the Retirement Gratuity Plan of Philex Mining Corporation, with BDO and Union Bank of the Philippines as Trustee. The retirement plan provides for retirement, separation, disability and death benefits to its members.



Changes in the net defined benefit liability (asset) of funded funds of the Parent Company are as follows:

2017												
Net benefit cost in charged to consolidated statements of income							Remeasurements in other comprehensive income					
	January 1, 2017	Current service cost	Net interest	Settlement/ Curtailment	Subtotal	Benefits paid	Return on plan assets (excluding amount included in net interest	Actuarial changes arising from changes in Experience Adjustments	Actuarial changes arising from changes in financial Assumptions	Subtotal	Contribution by employer	December 31, 2017
Present value of defined benefit obligation	₱ 872,953	₱ 42,843	₱ 39,161	₱–	₱ 954,957	(₱21,943)	₱–	(₱12,197)	(₱46,706)	(₱58,903)	₱–	₱874,111
Fair value of plan assets	(1,201,071)	–	(54,386)	–	(1,255,457)	21,943	(17,630)	–	–	(17,630)	–	(1,251,144)
	<u>(₱328,118)</u>				<u>(₱300,500)</u>	<u>₱–</u>	<u>(₱17,630)</u>	<u>(₱12,197)</u>	<u>(₱46,706)</u>	<u>(₱76,533)</u>	<u>₱–</u>	<u>(₱377,033)</u>
2016												
Net benefit cost in charged to consolidated statements of income							Remeasurements in other comprehensive income					
	January 1, 2016	Current service cost	Net interest	Settlement/ Curtailment	Subtotal	Benefits paid	Return on plan assets (excluding amount included in net interest	Actuarial changes arising from changes in Experience Adjustments	Actuarial changes arising from changes in financial Assumptions	Subtotal	Contribution by employer	December 31, 2016
Present value of defined benefit obligation	₱878,093	₱65,563	₱35,046	₱–	₱978,702	(₱40,352)	₱–	(₱37,392)	(₱28,005)	(₱65,397)	₱–	₱872,953
Fair value of plan assets	(1,163,928)	–	(48,709)	–	(1,212,637)	40,352	(28,786)	–	–	(28,786)	–	(1,201,071)
	<u>(₱285,835)</u>				<u>(₱233,935)</u>	<u>₱–</u>	<u>(₱28,786)</u>	<u>(₱37,392)</u>	<u>(₱28,005)</u>	<u>(₱94,183)</u>	<u>₱–</u>	<u>(₱328,118)</u>



2015

	Net benefit cost in charged to consolidated statements of income						Remeasurements in other comprehensive income					December 31, 2015
	January 1, 2015	Current service cost	Net interest	Settlement/ Curtailment	Subtotal	Benefits paid	Return on plan assets (excluding amount included in net interest)	Actuarial changes arising from changes in Experience Adjustments	Actuarial changes arising from changes in financial Assumptions	Subtotal	Contribution by employer	
Present value of defined benefit obligation	₱798,089	₱63,240	₱25,466	₱—	₱886,795	(₱13,092)	₱—	₱55,575	(₱51,185)	₱4,390	₱—	₱878,093
Fair value of plan assets	(1,162,041)	—	(38,812)	—	(1,200,853)	13,092	23,833	—	—	23,833	—	(1,163,928)
	<u>(₱363,952)</u>				<u>(₱314,058)</u>	<u>₱—</u>	<u>₱23,833</u>	<u>₱55,575</u>	<u>(₱51,185)</u>	<u>₱28,223</u>	<u>₱—</u>	<u>(₱285,835)</u>



The fair value of net plan assets of the Parent Company by each classes as at the end of the reporting period are as follows:

	2017	2016
Assets		
Cash and cash equivalents	₱187,547	₱140,724
Receivables	10,656	7,766
Investment in debt securities	731,833	710,437
Investment in equity securities	269,845	224,939
Other investments	52,041	117,961
	1,251,922	1,201,827
Liabilities		
Accrued trust fees payables	780	756
	₱1,251,142	₱1,201,071

The cost of defined benefit pension plans as well as the present value of the pension obligation is determined using actuarial valuations. The actuarial valuation involves making various assumptions. The principal assumptions used in determining pension and post-employment medical benefit obligations for the defined benefit plans are shown below:

Actuarial valuation assumptions	2017	2016
Discount rate	4.84%	4.64%
Future salary increases	4.00%	5.00%
Expected rate of return on plan assets	6.00%	6.00%

The overall expected rate of return of assets is determined based on market expectation prevailing on that date, applicable to the period over which the obligation is expected to be settled.

The sensitivity analysis below has been determined based on reasonable possible changes of each significant assumption of the defined benefit obligation as of the reporting period, assuming all other assumptions were held constant:

	Increase (decrease)	Effect on defined benefit obligation
Discount rates	1.00% (1.00%)	(₱30,772) 32,424
Future salary increases	1.00% (1.00%)	₱34,746 (33,581)

Shown below is the maturity analysis of the Company's undiscounted benefit payments:

	Expected benefit payments
Less than one year	₱99,835
One to less than five years	1,147,158

The average duration of the defined benefit obligation at the end of the reporting period is 3.27 years.



The Parent Company's actuarial funding requirement in 2017 and 2016 is nil, however, the intention is to continue regular contributions to the fund.

Pension expense from the defined benefit retirement plan is actuarially determined using the projected unit credit method. The latest actuarial valuation report was made as at December 31, 2017.

SMMCI Retirement Fund

SMMCI has unfunded, noncontributory defined benefit retirement plan covering its regular and full-time employees. The Company also provides additional post employment healthcare benefits to certain senior employees in the Philippines.

The cost of defined benefit pension plans and other post-employment medical benefits as well as the present value of the pension obligation is determined using actuarial valuations. The actuarial valuation involves making various assumptions. The principal assumptions used in determining pension and post-employment medical benefit obligations for the defined benefit plans are shown below:

Actuarial valuation assumptions	2017	2016
Discount rates	5.75%	5.56%
Future salary increases	4.00%	10.00%

Changes in the defined benefit liability of SMMCI are as follows:

	2017	2016	2015
January 1	₱15,548	₱21,968	₱19,033
Current service cost	6,471	13,100	10,907
Past service cost	(1,922)	(16,498)	-
Interest cost	864	1,114	870
	5,413	(2,284)	11,777
Remeasurements in other comprehensive income			
Experience adjustments	(12,892)	(3,229)	(2,460)
Actuarial changes from changes in demographic assumptions	(35)	-	(4,879)
Actuarial changes from changes in financial assumptions	(4,850)	(907)	(1,503)
	(17,777)	(4,136)	(8,842)
December 31	₱3,184	₱15,548	₱21,968

Retirement expense amounting to ₱7,335, ₱14,214, and ₱11,777 in 2017, 2016, and 2015, respectively, were capitalized as part of the deferred exploration costs. In 2017 and 2016, there were reversals of past service costs amounting to ₱1,922 and ₱16,498, respectively.



The sensitivity analysis below has been determined based on reasonable possible changes of each significant assumption on the defined benefit obligation as of the end of the reporting period, assuming if all other assumptions were held constant:

	Increase (decrease)	Present Value of Obligation
Discount rates	1.00%	(₱13,958)
	(1.00%)	17,491
Future salary increases	1.00%	₱17,447
	(1.00%)	(13,954)

Shown below is the maturity analysis of the undiscounted benefit payments:

	2017	2016
Less than 1 year	₱—	₱—
More than 1 year to 5 years	1,809	9,555
More than 5 years to 10 years	3,944	13,424
More than 10 years to 15 years	4,095	4,055
More than 15 years to 20 years	1,148	62,915
More than 20 years	42,733	243,336

The average duration of the defined benefit obligation at the end of the reporting period is 22.07 years.

21. Financial Instruments

The carrying values of cash and cash equivalents, accounts receivable, short-term bank loan, accounts payable and accrued liabilities, and dividends payable, approximate their fair values because of their short-term nature. Non-current bonds payable also approximate its fair values as it bears interest at market rate. Quoted AFS financial assets are carried at fair value based on the quoted values of the securities. Unquoted AFS financial assets are carried at book value since fair value cannot be readily determined based on observable market data.

The fair value measurement of the quoted financial assets is categorized as under Level 1 under fair value hierarchy.

22. Financial Risk Management Objectives and Policies and Hedging Activities

Financial Risk Management Objectives and Policies

The Group's principal financial instruments, other than derivatives, comprise mainly of cash and cash equivalents, accounts receivable, AFS financial assets, 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, interest rate risk, equity price risk and commodity price risk. The BOD reviews and approves the policies for managing these risks and they are summarized as follows:

Credit and Concentration Risks

Credit risk is the risk where the Group could incur a loss if its counterparties fail to discharge their contractual obligations. To avoid such losses, the Group's primary credit risk management strategy is to trade only with recognized, creditworthy third parties. At present, 60% of the Parent Company's annual production of concentrates is sold to Pan Pacific Copper Co., Ltd. The balance of the Parent Company's annual production of concentrates is contracted with LD Metals which is covered by several short-term agreements up to March 2018.

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

The table below summarizes the Group's exposure to credit risk for the components of the consolidated statements of financial position as of December 31, 2017 and 2016:

	2017	2016
Cash and cash equivalents		
Cash with banks	₱356,832	₱272,345
Short-term deposits	224,285	183,384
Accounts receivable		
Trade	903,176	411,795
Others	73,406	62,169
Advances to a related party	2,168,632	2,193,829
Gross maximum credit risk exposure	₱3,726,331	₱3,123,522

The following tables show the credit quality of the Group's financial assets by class as at December 31, 2017 and 2016 based on the Group's credit evaluation process:

	December 31, 2017			Total
	Neither Past Due nor High-Grade	Impaired Standard	Past Due and Individually Impaired	
Cash and cash equivalents				
Cash with banks	₱356,832	₱—	₱—	₱356,832
Short-term deposits	224,285	—	—	224,285
Accounts receivable				
Trade	903,176	—	—	903,176
Others	73,406	—	1,405	74,811
Advances to a related party	2,168,632	—	—	2,168,632
Total	₱3,726,331	₱—	₱1,405	₱3,727,736



December 31, 2016				
	Neither Past Due nor Impaired		Past Due and Individually Impaired	Total
	High-Grade	Standard		
Cash and cash equivalents				
Cash with banks	₱272,345	₱—	₱—	₱272,345
Short-term deposits	183,384	—	—	183,384
Accounts receivable				
Trade	411,795	—	—	411,795
Others	62,169	—	1,747	63,916
Advances to a related party	2,193,829	—	—	2,193,829
Total	₱3,123,522	₱—	₱1,747	₱3,125,269

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 tables below summarize 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 at December 31, 2017 and 2016, respectively:

December 31, 2017				
	On Demand	Within 1 Year	More than 1 Year	Total
Loans and receivables				
Cash and cash equivalents	₱583,538	₱—	₱—	₱583,538
Accounts receivable				
Trade	—	903,176	—	903,176
Others	—	73,406	—	73,406
Advances to a related party	2,168,632	—	—	2,168,632
AFS financial assets				
Quoted equity investments	3,345	—	—	3,345
Unquoted equity investments	72,691	—	—	72,691
Total undiscounted financial assets	₱2,828,206	₱976,582	₱—	₱3,804,788



December 31, 2017				
	On Demand	Within 1 Year	More than 1 Year	Total
Other financial liabilities				
Short-term loans				
Principal	₱—	₱2,446,570	₱—	₱2,446,570
Interest	—	2,842	—	2,842
Long-term loans				
Principal	—	—	7,200,000	7,200,000
Interest	—	—	540,000	540,000
Accounts payables and accrued liabilities	—	1,091,913	—	1,091,913
Dividends payable	528,836	—	—	528,836
Total undiscounted financial liabilities	₱528,836	₱3,541,325	₱7,740,000	₱11,810,161

December 31, 2016				
	On Demand	Within 1 Year	More than 1 Year	Total
Loans and receivables				
Cash and cash equivalents	₱457,937	₱—	₱—	₱457,937
Accounts receivable				
Trade	—	411,795	—	411,795
Others	—	62,169	—	62,169
Advances to a related party	2,193,829	—	—	2,193,829
AFS financial assets				
Quoted equity investments	31,924	—	—	31,924
Unquoted equity investments	72,691	—	—	72,691
Total undiscounted financial assets	₱2,756,381	₱473,964	₱—	₱3,230,345

Other financial liabilities				
Short-term loans				
Principal	₱—	₱3,082,640	₱—	₱3,082,640
Interest	—	2,613	—	2,613
Long-term loans				
Principal	—	—	7,200,000	7,200,000
Interest	—	—	756,000	756,000
Accounts payables and accrued liabilities	—	1,242,302	—	1,242,302
Dividends payable	498,129	—	—	498,129
Total undiscounted financial liabilities	₱498,129	₱4,327,555	₱7,956,000	₱12,781,684

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, trade receivables and loans payable. For the years ended December 31, 2017, 2016 and 2015, the Group recognized net foreign exchange losses of ₱39,451, ₱145,213 and ₱158,697, respectively, arising from the translation of these foreign currency-denominated financial instruments.



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

The following tables summarize the impact on income before income tax of reasonable possible changes in the exchange rates of US dollar against the Peso. The reasonable movement in exchange rates was determined using 1-year historical data.

Year Ended December 31, 2017		
US\$ Appreciate (Depreciate)	Effect on Income before Income Tax	
4%		(P56,631)
(4%)		56,631
Year Ended December 31, 2016		
US\$ Appreciate (Depreciate)	Effect on Income before Income Tax	
4%		(P97,088)
(4%)		97,088

There were no outstanding currency derivatives as of December 31, 2017 and 2016.

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 and PXP, which are classified in the consolidated statements of financial position as AFS financial assets (see Note 11). Investment in quoted shares totaling P3,345 and P31,924 represent 0.01% and 0.08% of the total assets of the Group as at December 31, 2017 and 2016, respectively. Reasonable possible changes were based on an evaluation of data statistics using 1-year historical stock price data.

The effect on equity, as a result of a possible change in the fair value of the Group's quoted equity instruments held as AFS financial assets as at December 31, 2017 and 2016 that could be brought by changes in equity indices with all other variables held constant is as follows:

December 31, 2017		
Currency	Change in Quoted Prices of Investments Carried at Fair Value	Effect on Equity
Peso	Increase by 33%	P1,103
	Decrease by 33%	(1,103)
December 31, 2016		
Currency	Change in Quoted Prices of Investments Carried at Fair Value	Effect on Equity
Peso	Increase by 21%	P7,020
	Increase by 41%	14,040
	Decrease by 21%	(7,020)
	Decrease by 41%	(14,040)



Commodity Price Risk

The Parent Company's mine products revenues are valued based on international commodity quotations (i.e., primarily on the LME and LBMA 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 Parent Company enters into derivative transactions as a means to mitigate the risk of fluctuations in the market prices of its mine products.

The following table 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 Company as at December 31, 2017. The change in metal prices is based on 1-year historical price movements.

December 31, 2017	
Change in Metal Prices	Effect on Income before Income Tax
Gold	
Increase by 12%	₱651,891
Decrease by 12%	(651,891)
Copper	
Increase by 17%	₱760,780
Decrease by 17%	(760,780)

Derivative Financial Instruments

Gold Derivatives

In February 2016, the Parent Company entered into gold collar hedging contracts covering 3,000 ounces of monthly gold production from February to July 2016 at a strike price of US\$1,170 per ounce for the put options and US\$1,242 per ounce for the call options. Further in June 2016, the Company entered into gold collar hedging contracts covering 3,000 ounces of monthly production from July to December 2016 at a strike price of US\$1,300 per ounce for the put options and US\$1,350 per ounce for the call options. These contracts were also designated as cash flow hedges.

In September 2017, the Parent Company entered into gold collar hedging contracts covering 2,300 ounces of monthly gold production from September to December 2017 at a strike price of US\$1,300 per ounce for the put options and US\$1,395 per ounce for the call options. This contract was also designated as cash flow hedge.

Realized net mark-to-market gains from gold collar amounted to ₱8,650, ₱14,680 and ₱29,136 in 2017, 2016 and 2015, respectively.

There were no outstanding gold derivatives as at December 31, 2017, 2016 and 2015.

Copper Derivatives

In October 2017, the Parent Company entered into a copper collar hedging contract covering 330 metric tons per month for the month of November 2017 to January 2018 at a strike price of US\$7,500 per metric ton for the call options and US\$6,615 per metric ton for the put options.

The effect of the fair value adjustments arising from the outstanding copper derivatives as at December 31, 2017 amounted to nil. There were no outstanding copper derivatives as at December 31, 2016 and 2015.

Mark-to-market gains from copper collar amounted to nil.



The following table summarizes the impact on equity of reasonably possible change in the prices of copper.

December 31, 2017	
Change in Metal Prices	Effect on Other Comprehensive Income before Tax
Copper	
Increase by 17%	(P312)
Decrease by 17%	206

Embedded Derivatives

As at December 31, 2017 and 2016, the Parent Company has embedded derivatives, which is represented by price exposure relative to its provisionally priced commodity sales contracts. Mark-to-market gains and losses from open or provisionally priced sales are recognized through adjustments to revenue in the consolidated statements of income and to trade receivables in the consolidated statements of financial position. The Parent Company determines mark-to-market prices using the forward price for quotational periods after the consolidated statements of financial position date stipulated in the contract. Open or provisionally priced commodity sales contract amounted to P3,615,321 and P3,379,254 as at December 31, 2017 and 2016, respectively. Fair value adjustments for these open or provisionally priced sales contract at yearend amounted to net gain (loss) of P8,433, P51,776 and (P152,906) in 2017, 2016 and 2015, respectively, which was included under revenue and adjusted against receivables.

23. Capital Management

The Group maintains a capital base to cover risks inherent in the business. The primary objective of the Group's capital management is to optimize the use and earnings potential of the Group's resources, ensuring that the Group complies with externally imposed capital requirements, if any, and considering changes in economic conditions and the risk characteristics of the Group's activities. No significant changes have been made in the objectives, policies and processes of the Group from the previous years.

The following table summarizes the total capital considered by the Group:

	2017	2016
Capital stock	P4,940,399	P4,940,399
Additional paid-in capital	1,143,981	1,143,981
Retained earnings		
Unappropriated	5,271,302	4,442,436
Appropriated	10,500,000	10,000,000
	P21,855,682	P20,526,816



24. Foreign-Currency-Denominated Monetary Assets and Liabilities

The Group's foreign-currency-denominated monetary assets and liabilities as at December 31, 2017 and 2016 are as follows:

	2017		2016	
	US\$	Peso Equivalent	US\$	Peso Equivalent
Assets				
Cash and cash equivalents	\$2,642	₱131,915	\$5,404	₱268,687
Trade receivables	18,003	898,890	7,838	389,705
	\$20,645	₱1,030,805	\$13,242	₱658,392
	2017		2016	
	US\$	Peso Equivalent	US\$	Peso Equivalent
Liabilities				
Accounts payable	\$-	₱-	\$-	₱-
Bank loans	49,000	2,446,570	62,000	3,082,640
	49,000	2,446,570	62,000	3,082,640
Liabilities - net	(\$28,355)	(₱1,415,765)	(\$48,758)	(₱2,424,248)

The exchange rates of Peso to US dollar were ₱49.93 to US\$1 as at December 31, 2017 and ₱49.72 to US\$1 as at December 31, 2016.

25. Related Party Transactions

Related party relationships exist when the party has the ability to control, directly or indirectly, through one or more intermediaries, or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting entity and its key management personnel, directors or stockholders. In considering each possible related party relationship, attention is directed to the substance of the relationships, and not merely to the legal form.

Companies within the Group in the regular conduct of business, enter into transactions with related parties which consists of advances, loans, reimbursement of expenses, regular banking transactions, leases and management and administrative service agreements.

Intercompany transactions are eliminated in the consolidated financial statements.

On July 15, 2016, the Parent Company ceases to have control over PXP (Notes 12 and 33). Previously, advances to PXP are eliminated in the consolidated financial statements.

	Amount/ Volume	Outstanding Balance	Terms	Conditions
Related party				
<i>Advances to PXP</i>				
2017	₱-	₱2,168,632	On demand	Secured
2016	₱2,193,829	₱2,193,829		



On August 17, 2015, the Parent Company and PXP entered into a pledge agreement to secure the advances against certain shares of stocks owned by PXP.

Compensations of Key Management Personnel

Compensations of the members of key management personnel are as follows:

	2017	2016	2015
Short-term employee benefits	₱99,745	₱98,854	₱107,909
Pension costs	1,924	5,240	5,240
	₱101,669	₱104,094	₱113,149

26. Income Taxes

- a. The provision for income tax consists of:

	2017	2016	2015
Current	₱664,806	₱586,483	₱245,550
Deferred	43,894	110,742	121,030
	₱708,700	₱697,225	₱366,580

The Group is subject to regular corporate income tax (RCIT) or MCIT, whichever is higher. The provision for current income tax in 2017, 2016, and 2015 represent RCIT.

- b. The components of the Group's net deferred tax assets (liabilities) are as follows:

	2017	2016
Deferred tax assets on:		
Provision for losses and others	₱149,424	₱149,424
Unrealized foreign exchange losses - net	101,256	114,548
Accumulated accretion of interest on provision for mine rehabilitation costs	19,690	8,533
Unamortized past service costs	14,633	29,299
Allowances for:		
Inventory obsolescence	—	9,000
Disallowable claims receivable	—	11,219
Total deferred tax assets	285,003	322,023
Deferred tax liabilities on:		
Difference in fair value and carrying value of the net assets of subsidiary acquired	(1,665,513)	(1,665,513)
Accelerated depreciation	(1,449,311)	(1,399,638)
Net retirement plan assets	(96,485)	(75,769)
Mine inventory at year-end	(47,074)	(100,624)
OCI portion of retirement liability	(22,960)	(28,255)
Unrealized foreign exchange gain	(8,490)	(10,120)
Total deferred tax liabilities	(3,289,833)	(3,279,919)
Net deferred tax liabilities	(₱3,004,830)	(₱2,957,896)



- c. The reconciliation of the Group's provision for income tax computed at the statutory income tax rates based on income before income tax is as follows:

	2017	2016	2015
Income tax at statutory income tax rate of 30%	₱717,331	₱601,916	₱386,847
Additions to (reductions in) income tax resulting from:			
Unrecognized DTA, NOLCO and excess MCIT	19,183	22,714	8,533
Nondeductible expenses and non-taxable income - net	(27,260)	72,633	(35,103)
Stock-based compensation expense	—	—	7,529
Interest income already subjected to final tax	(554)	(38)	(1,226)
	₱708,700	₱697,225	₱366,580

- d. As at December 31, 2017 and 2016, no deferred tax assets were recognized on deductible temporary differences amounting to ₱2,794,938 and ₱2,730,995, respectively.
- e. As at December 31, 2017, significant NOLCO and MCIT of the Parent Company's subsidiaries for which no deferred income taxes were recognized are as follows:

SMMCI

As at December 31, 2017, SMMCI's NOLCO and excess MCIT that can be claimed as deduction from future taxable income are as follows:

Year Incurred	Available Until	NOLCO		Excess MCIT
		Amount	Tax Effect	
2015	2018	₱26,960	₱16,977	₱—
2016	2019	11,970	3,591	—
2017	2020	—	—	167
		₱38,930	₱20,568	₱167

The following are the movements of the SMMCI's NOLCO and excess MCIT for the years ended December 31:

	NOLCO		Excess MCIT	
	2017	2016	2017	2016
At January 1	₱50,079	₱62,296	₱71	₱71
Additions	—	11,970	167	—
Application	(534)	—	—	—
Expirations	(10,615)	(24,187)	(71)	—
At December 31	₱38,930	₱50,079	₱167	₱71



PGPI

As at December 31, 2017, PGPI's NOLCO and excess MCIT that can be claimed as deduction from future taxable income are as follows:

Year Incurred	Available Until	NOLCO	Excess MCIT
2015	2018	₱—	₱188
2016	2019	1,119	203
2017	2020	—	464
		₱1,119	₱855

The following are the movements in NOLCO and excess MCIT for the years ended December 31:

	NOLCO		Excess MCIT	
	2017	2016	2017	2016
Beginning balance	₱33,686	₱125,449	₱391	₱210
Additions	—	1,119	464	203
Applications	(5,503)	—	—	—
Expirations	(27,064)	(92,882)	—	(22)
Ending balance	₱1,119	₱33,686	₱855	₱391

27. Equity

Capital Stock

The details of the Parent Company's capital stock follow:

	Number of Shares	
	2017	2016
Authorized common stock - ₱1 par value	8,000,000,000	8,000,000,000
Issued, outstanding and fully paid:		
January 1	4,940,399,068	4,940,399,068
Issuance during the year	—	—
December 31	4,940,399,068	4,940,399,068

Below is a summary of the capital stock movement of the Parent Company:

Year	Date of Approval	Change in Number of Authorized Capital Stock	New Subscriptions/ Issuances***
1956	November 26, 1956	60,000,000	20,590,250
1957			30,539,750
1958			107,035
1959			1,442,500
1960	September 12, 1960	30,000,000	10,997,397
1961			1,238,500
1962			9,737,294
1963	December 16, 1993	90,000,000*	103,258,378

(Forward)



Year	Date of Approval	Change in Number of Authorized Capital Stock	New Subscriptions/ Issuances***
1964	March 6, 1964	220,000,000	65,339,520
1965			61,546,755
1966			60,959,182
1969	September 22, 1969	600,000,000	182,878,280
1970			274,317,420
1971	August 20, 1971	1,000,000,000	411,476,131
1973		4,000,000,000****	2,623,160,332
1974			1,543,035,476
1978			540,062,420
1981	August 4, 1981	5,000,000,000	1,485,171,655
1983			742,006,977
1985			815,707,473
1986			3,923,841,215
1987	August 14, 1987	9,000,000,000	3,867,787,326
1989	July 11, 1989	20,000,000,000	5,028,123,524
1990	June 27, 1990	(38,000,000,000)**	(20,549,744,536)
1991			375,852,233
1992			162,869,258
1993			179,156,183
1995			403,849
1997			985,928,483
1999	May 23, 1997	3,000,000,000	—
2007			10,781,250
2008			912,279,662
2009	May 22, 2009	3,000,000,000	1,019,753,789
2010			21,525,999
2011			7,619,783
2012			3,276,075
2013			3,969,250
2014			3,403,000
2015			—
2016			—
2017			—
		8,000,000,000	4,940,399,068

*This is the result of the change in par value from ₱0.10 to ₱0.05.

**This is the result of the change in par value from ₱0.05 to ₱1.00.

***Information on issue/offer price on public offering not available or information not applicable since the shares were not issued in relation to a public offering.

****Information on date of approval not available.

As at December 31, 2017 and 2016, the Parent Company's total stockholders is 44,072 and 44,219 respectively.



Retained Earnings

Retained earnings consist of the following:

	2017	2016
Retained earnings:		
Unappropriated	₱5,047,889	₱4,285,040
Cumulative actuarial gains	223,413	157,396
Total unappropriated	5,271,302	4,442,436
Appropriated	10,500,000	10,000,000
Ending balance	₱15,771,302	₱14,442,436

On February 25, 2015, the BOD of the Parent Company approved the declaration of cash dividend of ₱0.02 per share as regular dividend to all stockholders at record date of March 11, 2015.

On February 29, 2016, the Parent Company declared its shares of stock in PXP as property dividends to its shareholders on March 15, 2016 record date at a ratio of 17 shares for every 100 shares held. The dividend declaration was approved by the Philippine Securities and Exchange Commission (SEC) on June 22, 2016. The Parent Company ceases to have control over PXP on July 15, 2016 (see Note 33).

On July 27, 2016, the BOD of the Parent Company approved the declaration of cash dividend of ₱0.03 per share as regular dividend to all stockholders at record date of August 10, 2016.

On February 28, 2017, the BOD of the Parent Company approved the declaration of cash dividend of ₱0.04 per share as regular dividend to all stockholders at record date of March 14, 2017.

On November 7, 2017, the BOD of the Parent Company approved the declaration of cash dividend of ₱0.04 per share as regular dividend to all stockholders at record date of November 24, 2017.

The Parent Company's retained earnings available for dividend distribution amounted to ₱6,205,773 and ₱5,359,813 as at December 31, 2017 and 2016, respectively.

As at December 31, 2017 and 2016, dividends payable amounted to ₱528,836 and ₱498,129, respectively.

On February 28, 2017, the Parent Company's BOD approved further appropriation of ₱500,000 of the unappropriated retained earnings for purposes of mine and development and construction of the Silangan Project from 2017 to 2018, thereby increasing total appropriation to ₱10,500,000.

NCI

NCI consist of 1.1% ownership in LMC amounting to ₱258 and ₱257 as at December 31, 2017 and 2016, respectively.

Transactions with NCI are disclosed in Note 2.

As at December 31, 2017, there were no other material NCI as a result of loss of control over PXP Group as disclosed in Note 33.



28. Share-based Payments

2011 Parent Company Stock Option Plan (SOP)

On April 27, 2011, the BOD approved the 2011 SOP of the Company, which was concurrently approved by the shareholders on June 29, 2011. Among the salient terms and features of the stock option plan are as follows:

- i) option grant date is the date on which option is awarded under the Parent Company 2011 SOP, provided such award is subsequently accepted by eligible participant.
- ii) the vesting percentage and vesting schedule of the options granted under the 2011 Parent Company SOP shall be determined by the Compensation Committee of the Board.
- iii) 246,334,118 shares representing 5% of the Parent Company's outstanding capital stock shall be initially reserve for exercise of options to be granted.
- iv) the exercise price for the options granted under the 2011 Parent Company SOP shall be determined by the Compensation Committee of the Board but shall not be lower than the highest of: (i) the closing price of the shares on PSE on the Option Grant Date, (ii) the average closing price of the shares on the PSE for the 5 business days on which dealings in the shares are made immediately preceding the Option Grant Date; and (iii) the par value of shares.
- v) any amendments to the 2011 Parent Company SOP shall be deemed adopted and made effective upon approval by shareholders owning at least two-thirds of the outstanding capital stock of the Parent Company and, to the extent legally necessary, by the SEC.

On March 5, 2013, the Parent Company received the SEC resolution approving the 2011 SOP.

The Parent Company granted 40,410,000 options under the 2011 SOP.

The Parent Company uses the Customized Binomial Lattice Model to compute for the fair value of the options together with the following assumptions:

Spot price per share	₱17.50
Exercise price per share	₱24.05
Time to maturity	7 years
Risk-free rate	3.3435%
Volatility*	49.8731%
Dividend yield	1.0031%

**Volatility is calculated using historical stock prices and their corresponding logarithmic returns.*

The following table shows the movements in 2017 of the 2011 SOP of the Parent Company:

	Number of Options	Weighted Average Exercise Price
	2017	2017
January 1	21,090,000	₱21.80
Forfeited	(3,070,000)	17.77
December 31	18,020,000	₱22.49



The following table shows the movements in 2016 of the 2011 SOP of the Parent Company:

	Number of Options	Weighted Average Exercise Price
	2016	2016
January 1	22,870,000	₱21.97
Forfeited	(1,780,000)	23.99
December 31	21,090,000	₱21.80

The number of unexercised vested stock options totaled to 18,020,000 and 21,090,000 in 2017 and 2016, respectively. The stock options outstanding are anti-dilutive. The effect of the conversion options of the convertible bonds is anti-dilutive as at December 31, 2017 and 2016.

2006 Parent Company SOP

On June 23, 2006, the Parent Company's stockholders approved and ratified the stock option plan of the Parent Company as approved by the Parent Company's BOD on March 31, 2006. Among the salient terms and features of the stock option plan are as follows:

- i) Participants: directors, officers, managers and key consultants of the Company and its significantly-owned subsidiaries;
- ii) Number of shares: up to 3% of the Company's issued and outstanding shares;
- iii) Term: Five years from adoption date;
- iv) Exercise price: Average stock price during the last 20 trading days prior to the date of grant multiplied by a factor of 0.8, but in no case below par value; and
- v) Vesting period: Up to 16.67% in six months from grant date; up to 33.33% in 1 year from grant date; up to 50% in 1.5 years from grant date; up to 66.67% in 2 years from grant date; up to 83.35% in 2.5 years from grant date; and up to 100% in 3 years from grant date.

On March 8, 2007, the stock option plan was approved by the Philippine SEC.

A total of two confirmed new grants for 15,000,000 shares were awarded on June 24 and December 7, 2009.

For the year ended December 31, 2010, three confirmed new grants were endorsed. A total of 9,950,000 shares were awarded on May 25, September 28 and November 23, 2010.

On January 5, 2011, a new stock option grant was given following the terms of the approved plan. A total of 6,000,000 options were awarded vesting every 6 months up to January 5, 2014. The Company uses the Customized Binomial Lattice Model to compute for the fair value of the options together with the following assumptions:

	January 5, 2011
Spot price per share	₱15.40
Time to maturity	5 years
Volatility*	54.57%
Dividend yield	1.93%
Suboptimal exercise behavior multiple	1.5
Forfeiture rate	2%



	2010		
	May 25	September 28	November 23
Spot price per share	₱11.00	₱14.88	₱14.00
Time to maturity	5 years	5 years	5 years
Volatility*	54.57%	55.09%	54.98%
Dividend yield	2.69%	2.00%	2.12%
Suboptimal exercise behavior multiple	1.5	1.5	1.5
Forfeiture rate	2%	2%	2%

*Volatility is calculated using historical stock prices and their corresponding logarithmic returns.

The following table shows the movements in 2017 and 2016 of the 2006 Parent Company SOP:

	Number of Options		Weighted Average Exercise Price	
	2017	2016	2017	2016
January 1	₱—	₱4,515,000	₱12.20	₱12.20
Exercised	—	—	—	—
Forfeited	—	(4,515,000)	—	—
December 31	₱—	₱—	₱—	₱12.20

The number of unexercised vested stock options as at December 31, 2017 and 2016 are nil.

The 2006 SOP effectively expired on January 5, 2016 following the expiration of the 5-year term of the January 5, 2011 grant which was the last grant under the plan.

The total share-based compensation expense for the 2006 and 2011 SOP in 2017, 2016 and 2015 amounted to nil, ₱1,259, and ₱25,095, respectively. The corresponding share-based option reserve included under Additional Paid-in Capital as at December 31, 2017 and 2016 amounted to ₱353,170.

29. Basic/Diluted Earnings Per Share

Basic earnings per share are computed as follows:

	2017	2016	2015
Net income attributable to equity holders of the Parent Company	₱1,658,087	₱1,589,045	₱896,181
Divided by weighted average number of common shares outstanding during year	4,940,399,068	4,940,399,068	4,940,399,068
Basic earnings per share	₱0.336	₱0.322	₱0.181



Diluted earnings per share amounts are calculated as follows:

	2017	2016	2015
Net income attributable to equity holders of the Parent Company	₱1,658,087	₱1,589,045	₱896,181
Divided by weighted average number of common shares adjusted for the effect of exercise of stock options	4,940,399,068	4,940,399,068	4,940,399,068
Diluted earnings per share	₱0.336	₱0.322	₱0.181
Weighted average number of common shares adjusted for the effect of exercise of stock options	4,940,399,068	4,940,399,068	4,940,399,068

The effect of the conversion options of the convertible bonds is anti-dilutive as at December 31, 2017 and 2016.

30. Farm-in Agreement with MMC

On May 11, 2011, the Parent Company entered into a farm-in agreement with MMC to acquire up to 60% of the outstanding capital stock of Kalayaan Copper Gold Resources, Inc. (Kalayaan), a wholly owned subsidiary of MMC. The Parent Company purchased from MMC 125,000 shares of Kalayaan representing 5% of the outstanding capital stock for US\$25,000 or ₱1,071,521. Further, the Parent Company will subscribe to additional 3,437,500 shares of Kalayaan, representing 55% of outstanding capital stock, subject to the condition that the Parent Company will fulfill the subscription services within the earlier of three (3) years following the execution of the agreement or expiry of the term of the exploration permit.

Upon acquisition of 5% stake over Kalayaan, MMC, under the Operating Agreement, grants the Parent Company exclusive, irrevocable and unconditional rights:

- To conduct exploration and pre-development;
- To perform all activities necessary to complete a final feasibility study for the project; and
- To possess and/or exercise all of Kalayaan's surface rights, to exercise, utilize and enjoy all the rights, benefits, privileges, and perform all the obligations of Kalayaan under and in relation to the exploration permit and the mineral rights, provided that Kalayaan shall remain liable for all accrued obligations under the exploration permit as at the date of the agreement.

The transaction was recorded by allocating the US\$25,000 to Investment in AFS pertaining to the 5% interest in Kalayaan and to the exploration rights acquired. The acquisition cost is then allocated by valuing the investment in AFS at ₱100 and the deferred exploration cost at ₱1,071,421.

On April 19, 2017, MMC and Kalayaan agreed to extend the term of the Earn-In Period for another two (2) years. New earn-in period will now be eight (8) years following the execution of the Farm-In Agreement and will expire on May 10, 2019.



31. Other Matters

- a. The Group is currently involved in certain legal, contractual and regulatory matters that require the recognition of provisions for related probable claims against the Group. Management and the Group's legal counsel reassess their estimates on an annual basis to consider new relevant information. The disclosure of additional details beyond the present disclosures may seriously prejudice the Group's position and negotiation strategies with respect to these matters. Thus, as allowed by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, only a general description is provided.
- b. DENR Issues on Mining Operations
On February 17, 2017, SMMCI and PGPI received show cause letters (Letters) from the Department of Environment and Natural Resources (DENR) directing SMMCI and PGPI, respectively, to explain why the following MPSAs should not be cancelled for being located within watershed areas:

MPSA No.	Location	Company
MPSA No. 149-99-XIII	Mainit and Placer, Surigao del Norte	SMMCI
MPSA No. 148-99-XIII	Surigao City, Sison and Placer	LMC/PGPI
MPSA No. 344-2010-XIII	Liang and Barobo, Surigao del Sur	PGPI
MPSA No. 063-97-IX	Sibutad, Dapitan City and Rizal, Zamboanga del Norte	PGPI
MPSA No. 096-97-VI	Hinobaan, Negros Occidental	PGPI

On February 24, 2017, SMMCI and PGPI responded to the Letters stating that there is no legal nor factual basis for the cancellation of the MPSAs since the contract areas covered by the MPSAs are not located within proclaimed watershed forest reserves where mining is prohibited, and that in any case, DENR has not observed due process. SMMCI and PGPI reserve all rights to take appropriate legal action and exhaust all remedies to protect their rightful claims under contract and the law.

32. Notes to Consolidated Statements of Cash Flows

The principal non-cash investing activity of the Group pertains to total depreciation expense that was capitalized as part of deferred exploration costs amounting to ₱176,868, ₱232,113, and ₱254,032 in 2017, 2016, and 2015, respectively.

The following table summarizes the changes in liabilities arising from financing activities in 2017:

	January 31, 2017	Dividend Declaration	Availments	Payments	Accretion of interest	Effect of changes in foreign currency exchange rates	December 31, 2017
Current Liabilities:							
Bank loans	₱3,082,640	₱—	₱50,240	(₱705,230)	₱—	₱18,920	₱2,446,570
Dividend	498,129	395,232	—	(364,525)	—	—	528,836
Noncurrent Liabilities:							
Bonds payable	6,592,854	—	—	—	357,452	—	6,950,306
	₱10,173,623	₱395,232	₱50,240	(₱1,069,755)	₱357,452	₱18,920	₱9,925,712



33. Deconsolidation of a Subsidiary

On February 29, 2016, the Parent Company declared portion of its shares in PXP as property dividends to all stockholders and distributed on July 15, 2016. The Parent Company's ownership interest in PXP had decreased to 19.76% from 64.73%. The Parent Company's retained ownership interest in PXP have been reclassified as Investment in Associate.

- a. Analysis of consolidated assets and liabilities of PXP Group as at July 15, 2016 are as follows:

	July 15, 2016
<i>Assets</i>	
Cash and cash equivalents	P606,585
Accounts receivable	82,212
Inventories	4,043
Other current assets	3,345
Property, plant and equipment	339,475
Deferred exploration costs and other noncurrent assets	4,997,549
Goodwill	1,238,583
Deferred income tax assets - net	4,153
Total assets	7,275,945
<i>Liabilities</i>	
Accounts payable and accrued expenses	(65,354)
Advances from related parties	(2,149,036)
Deferred income tax liabilities	(1,093,035)
Provision for losses and mine rehabilitation costs	(209,842)
Total liabilities	(3,517,267)
Net assets directly associated with disposal group	3,758,678
Non-controlling interest	(2,863,617)
Net assets of deconsolidated subsidiary group attributable to Parent	P895,061

- b. Gain from loss of control over a subsidiary group

	July 15, 2016
Fair value of dividends distributed	P2,442,387
Fair value of retained interest in PXP	1,050,131
Consideration	3,492,518
Less: Net assets of deconsolidated subsidiary group	P895,061
Cumulative equity items reclassified to profit or loss	59,439
Transaction costs	15,314
	969,814
Gain from loss of control over a subsidiary group	P2,522,704



c. Net cash inflow (outflow) arising from deconsolidation of the subsidiary

	2017	2016*	2015
Net cash flows from (used in)			
operating activities	P—	P66,845	(P115,195)
Net cash flows from (used in)			
investing activities	—	13,211	(58,612)
Net cash flows from (used in)			
financing activities	—	174	(1,205,035)
Effect of exchange rate changes	—	—	(3,168)
Net cash inflow (outflow)	P—	P80,230	(P1,382,010)

* From January 1 to July 15, 2016.

d. Results of deconsolidated subsidiary group

	2017	2016*	2015
<i>Revenue</i>			
Petroleum	P—	P59,187	P172,250
<i>Cost and expenses</i>			
General and administrative expenses	—	(31,217)	(214,333)
Mine product taxes and royalties	—	—	—
Petroleum product costs	—	(59,398)	(97,982)
Cost of sales - coal	—	—	—
	—	(90,615)	(312,315)
<i>Other income (expenses)</i>			
Gain on reversal of impairment loss	—	—	388,630
Interest income	—	1,899	7,444
Foreign exchange gains (losses) - net	—	(597)	26,307
Interest expense and other charges	—	—	—
Loss on disposal of shares	—	—	—
Provisions for impairment of assets - net	—	—	(429,849)
Others - net	—	588	3,524
	—	1,890	(3,944)
Loss before income tax	—	(29,538)	(144,009)
Provision for (benefit from) income tax	—	436	(16)
Loss from deconsolidated subsidiary group	P—	(P29,102)	(P144,025)
Total comprehensive loss	P—	(P29,102)	(P144,025)

* From January 1 to July 15, 2016.

e. Basic and diluted loss per share attributable to equity holders of the Parent Company from deconsolidated subsidiary group are computed as follows:



	2017	2016	2015
Loss from deconsolidated subsidiary group attributable to equity holders of the Parent Company	₱—	₱7,446	₱24,646
Divided by weighted average number of common shares outstanding during year	—	4,940,399,068	4,940,399,068
Basic and diluted earnings per share	₱—	₱0.002	₱0.005

34. Events After Reporting Period

Declaration of Cash Dividends

On February 27, 2018, the Board of Directors of the Parent Company approved the declaration of cash dividend of ₱0.04 per share as regular dividend to all stockholders at record date of March 13, 2018 payable on March 26, 2018.



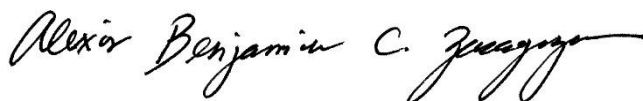
INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
Philex Mining Corporation
2nd floor LaunchPad,
Reliance Street cor Sheridan Street
Mandaluyong City, Metro Manila

We have examined the accompanying consolidated financial statements of Philex Mining Corporation and its subsidiaries (the Group) as at and for the year ended December 31, 2017, on which we have rendered the attached report dated February 27, 2018.

In compliance with Securities Regulation Code Rule 68, As Amended (2011), we are stating that the said Company has a total number of thirty-six thousand six hundred (36,600) stockholders owning one hundred (100) or more shares each.

SYCIP GORRES VELAYO & CO.



Alexis Benjamin C. Zaragoza III
Partner

CPA Certificate No. 109217

SEC Accreditation No. 1627-A (Group A),

April 4, 2017, valid until April 3, 2020

Tax Identification No. 246-663-780

BIR Accreditation No. 08-001998-129-2017,

February 9, 2017, valid until February 8, 2020

PTR No. 6621351, January 9, 2018, Makati City

February 27, 2018

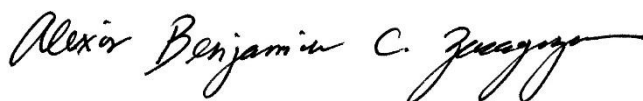


INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors
Philex Mining Corporation
2nd floor LaunchPad,
Reliance Street cor Sheridan Street
Mandaluyong City, Metro Manila

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Philex Mining Corporation and its subsidiaries (the Group) as at December 31, 2017 and 2016, and each of the three years in the period ended December 31, 2017 included in this Form 17-A and have issued our report thereon dated February 27, 2018. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Group's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011), and are not part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Alexis Benjamin C. Zaragoza III
Partner
CPA Certificate No. 109217
SEC Accreditation No. 1627-A (Group A),
April 4, 2017, valid until April 3, 2020
Tax Identification No. 246-663-780
BIR Accreditation No. 08-001998-129-2017,
February 9, 2017, valid until February 8, 2020
PTR No. 6621351, January 9, 2018, Makati City

February 27, 2018



PHILEX MINING CORPORATION AND SUBSIDIARIES

SUPPLEMENTARY SCHEDULES

FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>Schedule</u>
Reconciliation of Retained Earnings Available for Dividend Declaration	I
Schedule of Financial Soundness Indicators	II
Chart Showing Ownership and Relationship between the Parent Company and its Subsidiaries	III
Schedule of All Effective Standards and Interpretations	IV
Schedules as Required by SRC Rule 68, As Amended	V
A. Financial Assets	
B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than related Parties)	
C. Amounts Receivable from Related Parties which are eliminated during the consolidation of financial statements	
D. Intangible Assets - Other Assets	
E. Long Term Debt	
F. Indebtedness to Related Parties (Long-term Loans from Related Companies)	
G. Guarantees of Securities of Other Issuers	
H. Capital Stock	

SCHEDULE I
RECONCILIATION OF RETAINED EARNINGS
AVAILABLE FOR DIVIDEND DECLARATION
As of December 31, 2017

PHILEX MINING CORPORATION
2nd Floor, Launch Pad Building, Reliance St., Mandaluyong City
(Amounts in Thousands)

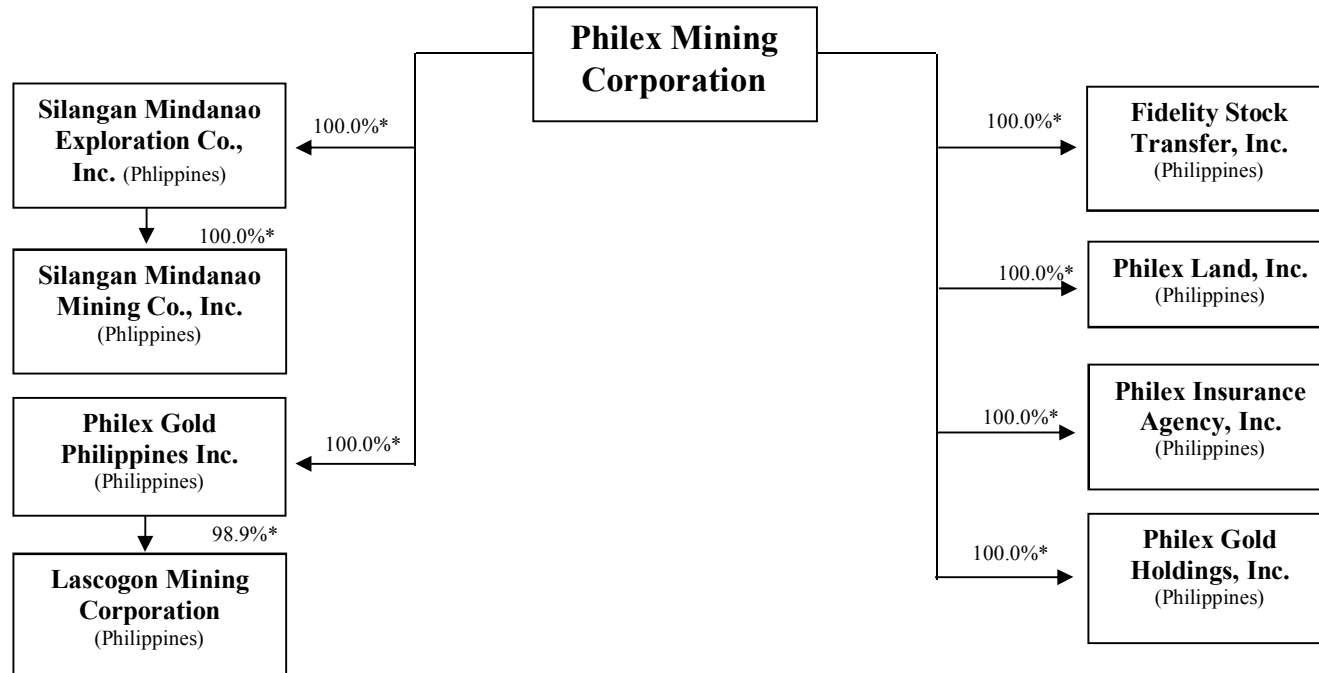
Unappropriated retained earnings, <i>as adjusted to available for dividend distribution</i>, December 31, 2016		₱5,359,813
Net income during the period closed to retained earnings	₱1,582,231	
Add: Recognized deferred tax asset that increased net income	26,240	
Equity in net income (loss) of an associate	40,272	
Other realized gains (loss) or adjustments to the retained earnings as a result of certain transactions accounted under the PFRSs	92,449	
	158,961	
Net income actually earned during the period		1,741,192
Less: Dividend declared during the year		(395,232)
Appropriation of Retained Earnings during the year		(500,000)
Unappropriated retained earnings as at December 31, 2017, as adjusted		₱6,205,773

SCHEDULE II
PHILEX MINING CORPORATION AND SUBSIDIARIES
SCHEDULE SHOWING FINANCIAL SOUNDNESS
PURSUANT TO SRC RULE 68, AS AMENDED
DECEMBER 31, 2017

	2017	2016	2015
Current/Liquidity ratios			
Current ratio	1.29	1.16	0.84
Quick ratio	0.32	0.17	0.33
Solvency ratios and debt to equity ratio			
Debt-to-equity ratio	0.60	0.65	0.60
Solvency ratio	0.22	0.20	0.14
Financial leverage ratios			
Asset-to-equity ratio	1.60	1.65	1.60
Interest rate coverage ratio	—	—	—
Profitability ratios			
Return on assets	4.23%	3.81%	1.76%
Return on equity	6.89%	6.18%	2.86%
Net profit margin	18.14%	16.71%	9.29%



SCHEDULE III
PHILEX MINING CORPORATION AND SUBSIDIARIES
CHART SHOWING OWNERSHIP AND RELATIONSHIP BETWEEN THE PARENT COMPANY
AND ITS SUBSIDIARIES
PURSUANT TO SRC RULE 68, AS AMENDED
DECEMBER 31, 2017



*Interest of immediate parent

SCHEDULE IV
PHILEX MINING CORPORATION AND SUBSIDIARIES
TABULAR SCHEDULE OF ALL EFFECTIVE STANDARDS AND
INTERPRETATIONS PURSUANT TO SRC RULE 68, AS AMENDED
DECEMBER 31, 2017

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
PFRSs Practice Statement Management Commentary		✓		
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	✓		
	Amendments to PFRS 1 and PAS 27: <i>Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate</i>	✓		
	Amendments to PFRS 1: <i>Additional Exemptions for First-time Adopters</i>			✓
	Amendment to PFRS 1: <i>Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters</i>			✓
	Amendments to PFRS 1: <i>Severe Hyperinflation and Removal of Fixed Date for First-time Adopters</i>			✓
	Amendments to PFRS 1: <i>Government Loans</i>			✓
PFRS 2	<i>Share-based Payment</i>	✓		
	Amendments to PFRS 2: <i>Vesting Conditions and Cancellations</i>	✓		
	Amendments to PFRS 2: <i>Group Cash-settled Share-based Payment Transactions</i>			✓
PFRS 3 (Revised)	<i>Business Combinations</i>	✓		
PFRS 4	<i>Insurance Contracts</i>			✓
	Amendments to PAS 39 and PFRS 4: <i>Financial Guarantee Contracts</i>			✓
PFRS 5	<i>Non-current Assets Held for Sale and Discontinued Operations</i>			✓
PFRS 6	<i>Exploration for and Evaluation of Mineral Resources</i>	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
PFRS 7	<i>Financial Instruments: Disclosures</i>	✓		
	<i>Amendments to PFRS 7: Transition</i>	✓		
	<i>Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets</i>	✓		
	<i>Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition</i>	✓		
	<i>Amendments to PFRS 7: Improving Disclosures about Financial Instruments</i>	✓		
	<i>Amendments to PFRS 7: Disclosures - Transfers of Financial Assets</i>	✓		
	<i>Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities</i>			✓
	<i>Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures</i>	Not early adopted		
PFRS 8	<i>Operating Segments</i>	✓		
PFRS 9	<i>Financial Instruments</i>	✓		
	<i>Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures</i>	✓		
PFRS 10	<i>Consolidated Financial Statements</i>	✓		
PFRS 11	<i>Joint Arrangements</i>	✓		
PFRS 12	<i>Disclosure of Interests in Other Entities</i>	✓		
PFRS 13	<i>Fair Value Measurement</i>	✓		
Philippine Accounting Standards				
PAS 1 (Revised)	<i>Presentation of Financial Statements</i>	✓		
	<i>Amendment to PAS 1: Capital Disclosures</i>	✓		
	<i>Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation</i>			✓
	<i>Amendments to PAS 1: Presentation of Items of Other Comprehensive Income</i>	✓		
PAS 2	<i>Inventories</i>	✓		
PAS 7	<i>Statement of Cash Flows</i>	✓		
PAS 8	<i>Accounting Policies, Changes in Accounting Estimates and Errors</i>	✓		
PAS 10	<i>Events after the Balance Sheet Date</i>	✓		
PAS 11	<i>Construction Contracts</i>			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
PAS 12	<i>Income Taxes</i>	✓		
	<i>Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets</i>	✓		
PAS 16	<i>Property, Plant and Equipment</i>	✓		
PAS 17	<i>Leases</i>	✓		
PAS 18	<i>Revenue</i>	✓		
PAS 19 (Amended)	<i>Employee Benefits</i>	✓		
	<i>Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures</i>	✓		
	<i>Amendments to PAS 19: Defined Benefit Plans: Employee Contributions</i>			
PAS 20	<i>Accounting for Government Grants and Disclosure of Government Assistance</i>			✓
PAS 21	<i>The Effects of Changes in Foreign Exchange Rates</i>	✓		
	<i>Amendment: Net Investment in a Foreign Operation</i>	✓		
PAS 23 (Revised)	<i>Borrowing Costs</i>	✓		
PAS 24 (Revised)	<i>Related Party Disclosures</i>	✓		
PAS 26	<i>Accounting and Reporting by Retirement Benefit Plans</i>			✓
PAS 27 (Amended)	<i>Separate Financial Statements</i>	✓		
PAS 28 (Amended)	<i>Investments in Associates and Joint Ventures</i>	✓		
PAS 29	<i>Financial Reporting in Hyperinflationary Economies</i>			✓
PAS 31	<i>Interests in Joint Ventures</i>	✓		
PAS 32	<i>Financial Instruments: Disclosure and Presentation</i>	✓		
	<i>Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation</i>			✓
	<i>Amendment to PAS 32: Classification of Rights Issues</i>	✓		
	<i>Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities</i>	✓		
PAS 33	<i>Earnings per Share</i>	✓		
PAS 34	<i>Interim Financial Reporting</i>	✓		
PAS 36	<i>Impairment of Assets</i>	✓		
PAS 37	<i>Provisions, Contingent Liabilities and Contingent Assets</i>	✓		
PAS 38	<i>Intangible Assets</i>	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
PAS 39	Financial Instruments: <i>Recognition and Measurement</i>	✓		
	Amendments to PAS 39: <i>Transition and Initial Recognition of Financial Assets and Financial Liabilities</i>			✓
	Amendments to PAS 39: <i>Cash Flow Hedge Accounting of Forecast Intragroup Transactions</i>			✓
	Amendments to PAS 39: <i>The Fair Value Option</i>			✓
	Amendments to PAS 39 and PFRS 4: <i>Financial Guarantee Contracts</i>			✓
	Amendments to PAS 39 and PFRS 7: <i>Reclassification of Financial Assets</i>			✓
	Amendments to PAS 39 and PFRS 7: <i>Reclassification of Financial Assets - Effective Date and Transition</i>			✓
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: <i>Embedded Derivatives</i>	✓		
	Amendment to PAS 39: <i>Eligible Hedged Items</i>	✓		
PAS 40	<i>Investment Property</i>			✓
PAS 41	<i>Agriculture</i>			✓
Philippine Interpretations				
IFRIC 1	<i>Changes in Existing Decommissioning, Restoration and Similar Liabilities</i>	✓		
IFRIC 2	<i>Members' Share in Co-operative Entities and Similar Instruments</i>			✓
IFRIC 4	<i>Determining Whether an Arrangement Contains a Lease</i>	✓		
IFRIC 5	<i>Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds</i>	✓		
IFRIC 6	<i>Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment</i>			✓
IFRIC 7	<i>Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies</i>			✓
IFRIC 9	<i>Reassessment of Embedded Derivatives</i>	✓		
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: <i>Embedded Derivatives</i>	✓		
IFRIC 10	<i>Interim Financial Reporting and Impairment</i>	✓		
IFRIC 12	<i>Service Concession Arrangements</i>			✓
IFRIC 13	<i>Customer Loyalty Programmes</i>			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
IFRIC 14	<i>The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</i>	✓		
	<i>Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement</i>	✓		
IFRIC 16	<i>Hedges of a Net Investment in a Foreign Operation</i>			✓
IFRIC 17	<i>Distributions of Non-cash Assets to Owners</i>	✓		
IFRIC 18	<i>Transfers of Assets from Customers</i>			✓
IFRIC 19	<i>Extinguishing Financial Liabilities with Equity Instruments</i>			✓
IFRIC 20	<i>Stripping Costs in the Production Phase of a Surface Mine</i>			✓
SIC-7	<i>Introduction of the Euro</i>			✓
SIC-10	<i>Government Assistance - No Specific Relation to Operating Activities</i>			✓
SIC-12	<i>Consolidation - Special Purpose Entities</i>			✓
	<i>Amendment to SIC - 12: Scope of SIC 12</i>			✓
SIC-13	<i>Jointly Controlled Entities - Non-Monetary Contributions by Venturers</i>			✓
SIC-15	<i>Operating Leases - Incentives</i>			✓
SIC-25	<i>Income Taxes - Changes in the Tax Status of an Entity or its Shareholders</i>			✓
SIC-27	<i>Evaluating the Substance of Transactions Involving the Legal Form of a Lease</i>	✓		
SIC-29	<i>Service Concession Arrangements: Disclosures</i>			✓
SIC-31	<i>Revenue - Barter Transactions Involving Advertising Services</i>			✓
SIC-32	<i>Intangible Assets - Web Site Costs</i>			✓

SCHEDULE V
PHILEX MINING CORPORATION AND SUBSIDIARIES
SCHEDULE A
FINANCIAL ASSETS
(Amounts in Thousands, Except Number of Shares)

Name of issuing entity and association of each issue	Number of shares or principal amount of bonds and notes	Amount shown in the balance sheet	Income received and accrued
Investments in quoted shares:			
The Philodrill Corporation	277,500,000	₱3,345	₱—
		3,345	
Investments in unquoted shares:			
Pacific Global One Aviation Company Inc.	1	37,500	—
Philippine Associated Smelting and Refining Corporation	14,047,248	14,055	—
Others	Various	21,136	—
		72,691	—
		₱76,036	₱—

Quoted AFS financial assets are valued based on PSE quotation as at December 31, 2017. AFS financial assets in quoted shares of stock are carried at fair value with cumulative changes in fair values presented as a separate account in equity. Meanwhile, AFS financial assets in unquoted shares of stock are carried at cost because fair value bases (i.e., quoted market prices) are neither readily available nor is there an alternative basis of deriving a reliable valuation at the end of the reporting period.

PHILEX MINING CORPORATION AND SUBSIDIARIES
SCHEDULE B
AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES AND PRINCIPAL
STOCKHOLDERS (OTHER THAN RELATED PARTIES)
December 31, 2017

Name and Designation of debtor	Balance at beginning of period	Additions	Amounts collected	Amounts written off	Current	Not Current	Balance at end of period
PXP Energy Corporation	₱2,193,829	₱—	(₱25,197)	₱—	₱2,168,632	₱—	₱2,168,632

PHILEX MINING CORPORATION AND SUBSIDIARIES
SCHEDULE C
AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED
DURING CONSOLIDATION
December 31, 2017
(Amounts in Thousands)

Name and Designation of Debtor	Balance at beginning of period	Net Additions	Amounts written off	Current	Not Current	Balance at end of period
Subsidiary: <i>(Advances)</i>						
Silangan Mindanao Exploration Co., Inc.	₱79,694	₱166,933	(₱—)	₱246,627	₱—	₱246,627
Silangan Mindanao Mining Co., Inc.	570,868	477,303	(—)	1,048,171	—	1,048,171
	₱650,562	₱644,236	(₱—)	₱1,294,798	₱—	₱1,294,798

PHILEX MINING CORPORATION AND SUBSIDIARIES
SCHEDULE D
INTANGIBLE ASSETS - OTHER ASSETS
December 31, 2017
(Amounts in Thousands)

Description	Beginning balance	Additions at Cost	Charged to cost and expenses	Charged to other accounts	Other changes additions (deductions)	Ending balance
i) Intangible Asset						
Goodwill	₱–	₱–	(₱–)	₱–	₱–	₱–
ii) Other Assets						
Deferred exploration costs	26,849,933	1,288,914	–	–	–	28,138,847
Allowance for impairment	(3,777,893)	–	–	–	–	(3,777,893)
	23,072,040	1,288,914	–	–	–	24,360,954
Input tax – noncurrent portion	402,034	–	–	(2,299)	–	399,735
Others	86,285	–	(21,562)	–	–	64,723
Allowance for write down	–	–	–	–	–	–
	488,319	–	(21,562)	(2,299)	–	464,458
	₱23,560,359	₱1,288,914	(₱21,562)	(₱2,299)	₱–	₱24,825,412

PHILEX MINING CORPORATION AND SUBSIDIARIES
SCHEDULE E
LONG TERM DEBT
December 31, 2017

Title of Issue and type of obligation	Amount authorized by indenture	Amount shown under caption "Current portion of long-term debt"	Amount shown caption "Long-term Debt"
Convertible Bonds	₱7,200,000	₱—	₱6,950,306 ¹

Note:

- On December 18, 2014, SMECI, with PMC as the co-issuer, issued 8-year convertible bonds with a face value of ₱7,200,000 at 1.5% per annum payable semi-annually. The bonds are convertible into 400,000 common shares of SMECI at ₱18 per share 12 months after the issue date ("Standstill Period"). 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). Bonds amortization is calculated on the effective interest basis by applying EIR of 6.97% per annum (compounded semi-annually) for an equivalent non-convertible bonds at the date of issue of the convertible bond to the liability component of the convertible bonds.

PHILEX MINING CORPORATION AND SUBSIDIARIES
SCHEDULE F
INDEBTEDNESS TO RELATED PARTIES (LONG - TERM LOANS FROM RELATED COMPANIES)
December 31, 2017

Name of the Related Party

Balance at beginning of period

Balance at end of period

NOT APPLICABLE

PHILEX MINING CORPORATION AND SUBSIDIARIES
SCHEDULE G
GUARANTEES OF SECURITIES OF OTHER ISSUERS
December 31, 2017

Name of the issuing entity of securities guaranteed by the company for which the statement is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding	Amount owned by person for which statement is lifted	Nature of guarantee
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NOT APPLICABLE

PHILEX MINING CORPORATION AND SUBSIDIARIES
SCHEDULE H
CAPITAL STOCK
December 31, 2017

Title of Issue	Number of Shares Authorized	Number of shares issued and outstanding and shown under related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by related parties	Directors, officers and employees	Others
Common	8,000,000,000	4,940,399,068	—	—	10,096,459	—

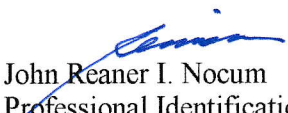
**CERTIFICATE ON THE COMPILATION SERVICES FOR THE PREPARATION
OF THE FINANCIAL STATEMENTS AND
NOTES TO THE FINANCIAL STATEMENTS**

I hereby certify that I am the Certified Public Accountant who performed the compilation services to the accompanying consolidated financial statements of Philex Mining Corporation and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at December 31, 2017 and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the period ended December 31, 2017, and a summary of significant accounting policies and other explanation information. The compilation services was performed in accordance with accounting principles generally accepted in the Philippines applied on the basis described in Note 2 to the consolidated financial statements.

In discharging this responsibility, I hereby declare that I am the Group Manager for Financial Projects and Management Services of Philex Mining Corporation (the "Parent Company").

Furthermore, in my compilation services for the preparation of these consolidated financial statements, I was not assisted by or did not avail of the services of SyCip Gorres Velayo & Co., the external auditor who rendered the audit opinion to the consolidated financial statements.

I hereby declare, under penalties of perjury and violation of the Revised Accountancy Law, that my statements are true and correct.


John Reaner I. Nocum
Professional Identification Card No. 115162,
valid until November 5, 2019
Accreditation Number 230,
Valid until November 5, 2019

February 27, 2018