

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
Form Type

Amendment Delegation (If applicable)

December 31, 2018
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, 2018**
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, 2018)	4,940,399,068
Debt Outstanding (as of December 31, 2018)	P9.489 Billion

11. Are any or all of these securities listed on a Stock Exchange?

Yes ☒ [x] 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 ☒ [x] No ☐ []
 - (b) has been subject to such filing requirements for the past 90 days.
Yes ☒ [x] No ☐ []
13. Aggregate market value of the voting stock held by non-affiliates: P16.946 billion based on closing price at the Philippine Stock Exchange on April 11, 2019.

PART 1 - BUSINESS AND GENERAL INFORMATION

Item 1. Business

Company Overview

Philex Mining Corporation (“PMC”, “Company”) and its subsidiaries are 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 hydro-carbon business under PXP Energy Corporation (PXP), formerly Philex Petroleum Corporation. In 2016, PMC declared property dividends in the form of shares in PXP, effectively reducing its ownership from 64.7% to 19.4% in PXP. This undertaking will allow PMC to leverage on its key strengths and focus its resources on its core business of metals mining. In 2018, PMC entered into a subscription agreement with PXP for 260,000,000 million shares of PXP at P11.85 per share, for a total consideration of P3.081 billion, resulting to the largest single shareholding of 30.4%. To date, PMC has settled 70% of its subscribed portion equivalent to around P2.157 billion. This transaction forms part of the Company’s long-term growth strategy which includes deploying assets into value-accretive ventures.

Mining Business

The Company was incorporated in the Philippines in 1955 and was listed in the Philippine Stock Exchange on November 23, 1956. PMC, and 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 last 61 years employing the underground block-cave method, with a starter mine in 1958. It is one of the longest operating mines in the country and serves as the Company’s primary source of revenues. In February 2016, the Company disclosed exploration results near the surface of Bumolo Project, an area 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 testings, were 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 of gold at 0.312% copper equivalent cut-off grade. The proximity of the near-surface Bumolo ore to the existing Padcal mine and mill infrastructures makes it compelling 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. At present, the Bulawan mine has residual resource estimates of around 23.9 million tonnes, which also includes the Vista Alegre area. Exploration projects in the Vista Alegre area includes the Nagtalay project and the Laburan/Skid 9 project, which have completed geological modelling and preliminary resource estimation.

SMECI, through SMMCI, completed the acquisition of the Silangan Copper and Gold Project (“Silangan Project”) situated in Surigao del Norte, Northeastern Mindanao in 2010. The Silangan Project is considered one of three big-ticket projects seen to catapult the country to become a major copper producer. Its tenements consist of three deposit areas – Boyongan, Bayugo and Kalayaan, with the latter representing a joint venture with Manila Mining Corporation. For Kalayaan, PMC holds the option to further increase its stake up to 60% in the project.

Based on the initial timeline, PMC will be launching the Silangan Project in four planned phases with the Boyongan deposit set to commence maiden operations by 2022. Definitive feasibility studies are currently underway and are expected to be completed by May 2019. For now, mineral resource estimates are indicative of large high-grade gold and copper deposits within tenement scopes. In terms of methodology, PMC is planning an infrastructure design to employ underground sub-level mining for ore extraction. At the moment, PMC is working on securing all requisite permits and regulatory approvals for underground mining. It has also engaged reputable independent third-party professionals for business advisory and project financing. The Silangan Project is foreseen to be the Company's next major growth driver.

Energy and Hydrocarbon Business

In February 29, 2016, the Board of Directors of the Company approved the declaration of property dividends consisting of shares of stock of PXP at a ratio of 17 PXP shares for every 100 PMC shares. This undertaking was approved by the Securities and Exchange Commission (SEC) on June 22, 2016.

The transaction reduced the Company's shareholdings in PXP from 64.7% to 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 mine life, commercial operations of the Silangan project and development of other mining tenements.

In 2018, PMC entered into a subscription agreement with PXP for 260,000,000 million shares of PXP at P11.85 per share, for a total consideration of P3.081 billion, resulting to the largest single shareholding of 30.4%. To date, PMC has settled 70% of its subscribed portion equivalent to around P2.157 billion.

Corporate Objectives

2018	2019	2020	2021	2022
Increase operational efficiency in Padcal				
Extend Padcal's life of mine through extensive exploration around and possible conversion of mineral resources under new parameters				
Secure project financing and proceed to mine development of Silangan				
Realize long-term investment in affiliate PXP Energy Corporation				
Pursue joint-venture and/or farm-in/out agreement for other tenements				
Manage Silangan under DAO-2017-10				

Products and Sales

For the past 61 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 2018 aggregated to 417.80 million tonnes, producing 2.305 billion pounds of copper, 6.245 million ounces of gold, and 6.740 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.

The remaining copper concentrate production outside the Pan Pacific agreement is under contract with IXM SA (formerly Louis Dreyfuss Commodities Metals Suisse SA) up to March 2020. For the contract year April 2018 – March 2019, PMC awarded the remaining lots to IXM SA and Transamine, with the latter recognized as one of the oldest independent privately-held commodity trading companies in the world.

All of the Company's revenues for 2016 were from copper concentrate shipments made to Japan. In 2017, besides Japan, copper concentrates were shipped through IXM SA to Korea and China. The 2017 consolidated revenues of the Company included the net realizable value of mine products inventory at the end of the financial reporting period. In 2018, ore concentrates shipments were mainly delivered to Japan and Korea.

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

	2018		2017		2016	
<i>(in Php Millions)</i>	Amount	% to Revenues	Amount	% to Revenues	Amount	% to Revenues
Gold	4,200	50%	5,432	54%	6,209	60%
Copper	4,051	49%	<u>4,475</u>	<u>45%</u>	<u>3,976</u>	<u>39%</u>
		99%	9,908	99%	10,272	99%
Total Revenues	8,314		9,985		10,272	

Competition

The Company's sales of copper concentrates are based on global prices quoted 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 Overhaul (MRO) Supplies are 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 Vantage Energy Solutions and Management, Inc. under the terms of an electricity supply contract up to 2022. 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 Low Profile Trucks (LPTs). These equipment, mostly acquired from Sandvik, Epiroc, Nepean, Inland, and Peti/Aramine, are 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 and 2018. The Company engaged local consultant Geotecnica Corporation (Geotecnica) and Coffey Mining (Australian) to validate certain proposals for the final life of mine design of TSF-3 in 2018.

Employees

The Company's total manpower headcount, including those of subsidiaries, stood at 2,114 and 2,169 in 2018 and 2017, respectively.

As of end-2018, there are 98 head-office based employees and 2,016 operations and support personnel assigned in Padcal. Employee rank classifications are detailed below:

	2018	2017
Officers and Managers	120	117
Supervisors	526	523
Rank and File	1,468	1,479
Total	2,114	2,119

The overall average tenure of employees is 13 years, with an average age of 42 years old. Employee gender distribution was at 93% male and 7% female. The Company anticipates no material change in the number and type of employees within the ensuing twelve months.

Padcal-based 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 the Department of Labor and Employment on February 20, 2018. The Agreement is scheduled to be renegotiated 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 and 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-CAR, 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 (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, 2018

Ore Sources	Classification	Tonnes	Cu %	Au g/t	Contained Cu (lbs.)	Contained Au (ozs.)
782ML	Measured + Indicated	10,300,000	0.22	0.34	51,200,000	114,000
798ML	Measured + Indicated	25,100,000	0.20	0.35	112,900,000	283,000
Subtotal	Measured + Indicated	35,400,000	0.21	0.35	164,100,000	397,000
800-700ML	Measured + Indicated	60,500,000	0.19	0.37	255,100,000	710,000
Total	Measured + Indicated	95,900,000	0.20	0.36	419,200,000	1,107,000

Notes:

1. Leapfrog ARANZ and Geovia Gems softwares were used to generate the resource estimate based on the current Padcal Mine economic parameters:

Metal Prices	Copper: US\$3.00 / lb	Forex	P53.00 to US\$1
	Gold: US\$1,300 / oz	Operating Cost	P842 per tonne
Metal Recovery	Copper: 80%	Conversion Factor for Gold to CuEq	0.632
	Gold: 80%	Break-even Grade	0.3% CuEq

2. Mineral Resource reported is based on the February 2019 Resource block model prepared by PMC, incorporating data from development sampling and infill holes at the start of the year. Details of the estimation methodology is available in the accompanying PMRC compliant MRE report.
3. While the reported source table details the available resource as of the end of 2018, the updated data from 2019 does not have any effect on the tonnage computations while providing a more reliable estimate of the grades within the approved mine plan.
4. To be able to meet the requirement of "reasonable prospects for eventual economic extraction" the estimates up to 700ML have been reported. However, the resource at 800-700ML are currently largely unavailable for production due to high operational risks and additional costs of mining. Studies are constantly being undertaken to try to develop methodologies to circumvent these challenges.
5. Mineral Resource Estimates followed the terminology and guidelines set forth in the Philippine Reporting Code ("PMRC").
6. Total resources include proved reserves.
7. 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.

PROVED RESERVES					
As of December 31, 2018					
ORE SOURCES	Tonnes MT	Cu %	Au Grams/Tonne	Recoverable Cu (Pounds)	Recoverable Au (Ounces)
798-ML	20,500,000	0.18	0.24	65,200,000	128,000
782-ML	6,400,000	0.18	0.24	20,200,000	40,000
760-ML	2,600,000	0.21	0.45	9,500,000	30,000
Total Reserves	29,500,000	0.18	0.26	94,900,000	198,000

Notes:

1. Geovia GEMS™ and PCBC™ software were used in the above estimate with the following parameters:

Metal Prices:	Cu:	3.00 US\$/lb	Conversion Factor for Gold grade to CuEq:	0.632
	Au:	1,300 US\$/oz		
Metal Recoveries:	Cu:	80%	Operating Cost per Tonne:	PhP 842.00
	Au:	80%	Break-even Grade (%CuEq):	0.300
Forex (PhP to US\$):	PhP 53.00			

2. The cost per MT of PhP842 is the actual operating cost of the Company for the year 2018 and is the forecast cost up to the end of mine life.
3. Meanwhile, the FOREX of PhP53/US\$ is the projection of the Company and is higher by 4% compared to last year's PhP51/US\$.

4. Comparing to the end-2017 reserves declaration, the dip in gold grade is due to the discontinuation of development of a portion of 760-ML and the whole mining levels of 730-ML, and 700-ML, as follows:

Proved Reserves, Lower Levels

Level	End 2017	End 2018
760-ML	12,100,000	2,600,000
730-ML	7,100,000	0
700-ML	3,900,000	0
Total	23,100,000	2,600,000

- a. Development of majority of 760-ML reserves has been discontinued to selectively mine higher grade areas only.
 - b. 730-ML and 700-ML development has been discontinued considering high operational risk and additional costs of mining below the 745-ML mine drainage level, including economic viability of commissioning new mining levels this close to end of mine life.
5. Additional reserves from 798-ML are to be extracted from additional blocks at the mining level.

Proved Reserves, 798-ML

Level	End 2017	End 2018
798-ML	20,800,000	20,400,000

On October 28, 2015, the declared life of mine of Padcal Mine has been extended by two years 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. In addition, 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 government 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 2018, 2017 and 2016 amounted to P589 million, P691 million and P625 million, 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 Exploration Division investigated five mineral exploration projects in the Province of Benguet within MPSA-156-2000-CAR in 2018. These include porphyry copper (Cu) prospects Southwest, North Midway, Northeast Tapsan and West Sto Tomas and epithermal gold (Au)-silver (Ag) prospect Tapsan. A sixth project also in Benguet within MPSA-157-2000-CAR, Tapaya, another porphyry Cu prospect, was also reviewed on a limited scale.

A total of 3,631.25 m were drilled from the surface using in-house and contractor drill rigs. Intertek and Padcal assay laboratories analyzed 1,192 drill core samples. Geologic mapping collected a total of 195 rock chip samples that were also dispatched for assaying. All samples were processed in the company's core houses and in-house sample preparation facility.

Southwest Project

Southwest Project is located roughly 800m from the center of the Sto. Tomas II orebody. It is a porphyry copper-gold deposit hosted within a breccia-intrusive pipe. The last two holes of the scout drilling program in Southwest were completed in 2018, with a total meterage of 207.5m. Demobilization of the drill machines and initial rehabilitation commenced in January 2018. The full environmental rehabilitation finished in August 2018.

North Midway Project

North Midway is located approximately 3.0 aerial kilometers northeast of Sto. Tomas II orebody. The drilling program of 2017 was reviewed and integrated with other data (lithogeochemical mapping, geophysical survey, previous geologic mapping and petrographic analysis of rocks samples) to justify the drilling of one hole, NMD-18-05. This hole was completed on September 3, 2018 with total of 665.3m depth. Detailed mapping in Piguro and Mackenzie lots was also conducted in 2018.

Northeast Tapsan Project

Northeast Tapsan prospect is located approximately 3.7 aerial kilometers southeast of Santo Tomas and very close to Butan claims. The prospect was identified based on soil geochemical data, aeromagnetic data, mapping of mineralized porphyry copper outcrops and intersecting major structures. One scout drill hole was started on November 24, 2018 and reached a depth of 376.3m by end of the year.

West Santo Tomas Project

West Sto Tomas prospect is located 800 aerial meters west of Santo Tomas II orebody. It was planned to drill two scout holes and conduct detailed geologic mapping. The latter was completed by the 4th quarter of 2018. Road access and drill pad preparations were 100% completed as part of the pre-drilling phase preparations. Construction of tramline system started afterwards but was only 30% completed when ground preparations were suspended indefinitely due to community relations issues.

Tapsan Project

Tapsan Project is a prospect for epithermal gold-silver mineralization with an upside of possible blind porphyry copper deposit located around 5 aerial kilometers south-southeast of Sto. Tomas II deposit. Drilling commenced on September 2017 and completed on August 2018. Several gouge structures were intersected but only a few returned significant grades including a 0.4 m interval from 228.4-228.8m of Paday fault zone at 6.23g/t Au and 1.06% Cu and a 1.0m interval from 110.5-111.5m of Bell vein at 86.99g/t Au and 0.089% Cu. A total of seven holes were completed for the program with an aggregate length of 3,150.70m. Demobilization was completed in September 2018 while negotiation of rehabilitation program is in-progress due to conflict of interest between the company and landowners.

Tapaya Prospect

The Tapaya Prospect is located at the northeast corner of MPSA-157-CAR and situated in Sitio Tapaya, Ampucao, Itogon, Benguet. The prospect is located six aerial kilometers southeast of the Padcal Mine and three aerial kilometers southeast of Tapsan Prospect. Surface mapping was conducted from February to May 2018. This focused on field verification of existing data of earlier geologic and fact maps and soil grid anomaly map for Cu and Au. The review of Tapaya data was initiated to generate new exploration targets. Copper mineralization was discovered in earlier drill cores.

Support to Operations

Underground mapping and sampling were accomplished through 2,525 samples collected over 7,575 meters of horizontal tunnel advance.

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

- a) Geotechnical drilling in the TSF-3 – The team conducted geo-mechanical core logging of the first three drill holes in close coordination with the geotechnical consultant, GHD Pty Ltd. It also encompasses the conduct of drillhole permeability test utilizing packer test method which anchored to the geotechnical program of the consultant as basis for raising of the Off Set Dike (OSD) embankment.
- b) Annual assessment of the stability of the Subsidence Area – detailed geologic hazard assessment was conducted within and around the vicinity of the subsidence for the first five months of the year, this is prior to rainy season. This is to evaluate and delineate the surface propagation / extent and effects of the underground block caving operation of the company.
- c) 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. Furthermore, continuous close monitoring of industrial and residential areas is being conducted.

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.

For the past 16 years Geotecnica Corporation (Geotecnica) was involved with Philex Mining Corporation to continuously monitor the stability of TSF 1, 2 & 3 every two (2) months. In February 2019, the Company commissioned Geotecnica to conduct a validation of the liquefaction potential of TSF-3, focusing on the tailings materials of Dikes 3, 5, 6, 7, 8, 9, 10, 11, 12, Offset Dike, Offset Dike Extension and the beach of the land lake in Padcal, Benguet. These points are close to those that were earlier drilled by the firm GHD. The main objective of this ongoing geotechnical investigation is to evaluate the vulnerability to liquefaction of the various components of TSF-3, with respect to the planned mine closure, by applying criteria that have been collected from actual sites in the world where soil liquefaction has occurred.

The Company also commissioned GHD Pty Ltd to undertake an assessment to determine the feasibility of raising Tailings Storage Facility 3 (TSF3) from its current level of 615ML (January 2017) to 640ML. The 10-month feasibility study conducted on TSF3 includes an extensive site investigation program and advanced laboratory tests performed on samples acquired during geotechnical drilling. Geotechnical parameters used in the preliminary report (GHD, 15 October 2017) have been reviewed following receipt of laboratory testing results and stability analysis have been redone to utilize revised parameters. Specific scope of the feasibility review is to provide initial advice on what is required to raise the storage and the associated risks.

The Company likewise engaged the geotechnical services of Coffey Mining (Australian) for the design of TSF-3 Embankment Raising from 635mRL to 640mRL.

Silangan Project

The Silangan Project, situated in Surigao del Norte, consists of three deposits – Boyongan, Bayugo and Kalayaan, with the latter representing a joint venture with Manila Mining Corporation. Individual deposit areas and proposed sites for waste and storage facilities will be built within tenement scopes covered by MPSA 149-99-XIII and EP 000013-XIII. All mineral rights held by SMMCO with respect to the Silangan Project area are valid and subsisting.

Definitive feasibility studies are currently underway and expected to conclude in May 2019. Based on the initial timeline, the Silangan project will be launched in four planned phases with Boyongan set to commence maiden operations by 2022. For now, mineral resource estimates are indicative of large high-grade gold and copper deposits within tenement areas. In terms of methodology, the Company is planning an infrastructure design to employ underground sub-level cave mining for ore extraction. The Company has likewise engaged reputable independent professionals for business advisory and project financing.

SMMCI is registered with the Board of Investments (BOI) and has been granted a five-year income tax holiday, extendable by another two years, as a pioneer copper cathode producer, effective start of operations or March 2025, whichever comes first.

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-149-99-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.

SMMCI completed the Pre-Feasibility Study (PFS) for mining the Boyongan deposit via an underground mining method called Sub-Level Caving (SLC) end of November 2018. The positive results of the PFS has prompted the company to proceed to a Definitive Feasibility Study (DFS) of the same which will be completed mid-May 2019. Both studies are highlighted by the field geotechnical and hydrogeological investigations, which involved drilling a total of 10,600 meters of boreholes, collection of samples for laboratory testing, pumping and hydro stress tests and analysis of laboratory results and field tests. In parallel, a PFS for mining Bayugo deposit is also targeted to be completed by end of June 2019.

At this point, there are strong indications of higher mineral resources in the Silangan Project than previously declared levels.

Apart from the drilling activities, the site is under care and maintenance. It was able to obtain certification of its Environmental Management System (EMS) under the ISO 140001:2015 by Certification International Philippines Inc. (CIPI). Participative community relations and responsible environmental programs are on-going.

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 1,415 meters 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, 2018 amounted to P17.843 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. (KGCR), 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 KGCR to 60% by subscribing to an additional 55% of KGCR'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. Additional reserves will be disclosed as soon as the study is completed in May 2019.

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 was ISO14001 certified in 2002. In April 2015, the mine established its Integrated Management System with the inclusion of the International Standard on Occupational Health and Safety, BS OHSAS 18001:2007. Audited by TUV Rheinland, the certificates are valid until March 11, 2021. Similarly, Silangan Mindanao Mining Corporation (SMMCI), was certified ISO 14001:2004 in June 1, 2016. It maintained the International Environmental Management System Standard and successfully transitioned to ISO14001:15 in June 4, 2018.

With the Company's commitment to the protection and enhancement of its environment, it has spent P167 million in 2018, bringing the Company's expenditures from 1967 to date to P5.971 billion.

The Company and its subsidiaries have been consistent winners in environmental contests. Recent awards include: Padcal mine, 2018 Best Mining Forest – Exploration Category, 2018 1st Runner up Best Mining Forest- Operating Mine Category, adding to its 10 best mining forest awards received in 2012, 2008, 2007, 2004, 2002, 2001, 2000, 1994 and 1991. SMMCI on the other hand garnered first runner-up in 2011 and 2015, second runner-up in 2014 and 2013, and third runner-up in 2010 on Best Mining Forest Contest (Exploration Category).

It 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 in 2015 and 2014. Bulawan and Sibutad projects that are currently under care and maintenance status, have been a consistent recipient of the Best Mining Forest Award from 1998 to 2004.

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	2,890	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 under Care & Maintenance	821*	Forest Plantation Agro-forestry	Mangium, Auri, Mahogany, Gmelina, Rain tree Coffee
PGPI-Sibutad	38	MPSA-063 under Care & Maintenance	178.69 38	Forest Plantation Mangrove Plantation	Mangium and Auri Bakauan ((Rhizophora Mucrunata)
PMC-LMC Surigao	37	MPSA-148-Exploration	5	Forest and Agro-forestry	Falcata, narra, mangium, coffee
SMMCI Surigao	24.41	MPSA-149	168.24	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 devices, implemented pollution control measures 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 company consistently meets the requirements of these laws:

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 air 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 Issued
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
SMMCI	ECC-CO-1212-0028	Underground Block Caving Mining	May 24, 2013
	ECC-CO-1510-0026	Open Pit Mining	Mar. 15, 2016
	2004-DP-K-141112-125	Tailings Storage Facility No. 3	Jan. 12, 2018

Padcal Mine Discharge Permits	2007-DP-G-141112-079 / CNC CAR 1310-0010	Oil Water Separator at Compressed Air Plant	July 06, 2016
	2007-DP-141112-042 /CNC-CAR-1310-0011	Alang-Cut Silt Pond	April 25, 2016
	2007-DP-D-141112-043 / CNC-CAR-1310-0006	Oil Water Separator at 1015ML UG Equipment Wash Bay Area	April 25, 2016
	2007-DP-D-141112-039 / CNC-CAR-1310-0007	Oil Water Separator at Motor Pool Area	April 25, 2016
	2015-DP-G-141112-081 / ECC CAR 1408-0127	One (1) Unit Oil Water Separator at the Sludge Pond / Used Oil Impounding Facility	July 29, 2016
	2017-DP-I-141112-245	Sump Box at the Assay Laboratory	Sept. 11, 2017
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 for Mercury	July 26, 1999
	CCO-2014-045Pb	CCO for Lead	July 09, 2014
	GR-CAR-11-00091	DENR Registry ID	January 4, 2017
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 (Dismantled)	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
	2016-POA-G-141112-398	Crusher and Pulverizers at Assay Main Laboratory	July 4, 2017
	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
SMMCI	GR-R13-67-00008 Old -16-67-0079	Hazwaste Generator DENR Registry ID	May 17, 2016
	CCO-PCB-R13-SIL-49	CCO for PCB	June 19, 2015
	2015-POA-B-1367-020	Permit to Operate Air Equipment	Feb. 26, 2015
	2015-WDP-A-1367-038	Wastewater Discharge Permit	Feb. 26, 2015
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

DAO No. 2010-21 mandates the implementation of the Annual Environmental Protection and Enhancement Program (EPEP) which provides the link between mineral resource utilization and environmental protection and enhancement commitments. 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 2018, the Company spent 4.63% of the direct mining and milling costs as follows.

2018 Annual Environmental Protection and Enhancement Program (EPEP)	
	Amount (in Php Millions)
Land Resource Management	46.78
Water Resources Management	118.40
Hazardous and Toxic Waste Management	6.35
Air Quality Management	1.54
MRFC Meetings and MMT Monitoring Activities	1.00
Total	167.19

In the care and maintenance projects at SMMCI, PGPI Bulawan and Sibutad, the cost incurred for environment protection and enhancement totals to 18.62 Million pesos, comprising of ambient air and water monitoring, soil erosion control and prevention, establishment of new plantations and maintenance and protection of established reforestations.

The care and maintenance plans/programs of the projects are submitted and approved by MGB-DENR in lieu of the Environmental Protection and Enhancement Program (EPEP) whilst the projects are not operating.

Social Development and Management Program (SDMP) Compliance to DENR Regulations

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

- The amount of SDMP should be equivalent to at least 1.5% of a mining company's total operating costs, with allocation on Development of host and neighboring communities (DHNC) 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 2018, the Company spent 124.2M for its mandated SDMP as shown in the table below.

2018 Social and Development Management Program (SDMP)	
	Amount (in Php Millions)
Human Resources and Capacity Development	0.7
Health	9.8
Education	21.6
Livelihood	5.7
Public Infrastructure	39.3
Socio-Cultural Development	3.1
Community Development	1.3
Development of Host and Neighboring Communities	42.8
Total	124.2*

** Including carry-over project expenses from 2015-2017*

Corporate Social Responsibility

Philex Group Foundation

Sustaining the socio-economic intervention

For the last 4 years, the Philex Group Foundation has not only implemented an organic vegetable and coffee roasting program in the host and neighboring communities of the Mines. Aside from training partner-farmers in the various social and business disciplines involved in livelihood programs, the Foundation has also established markets in both Benguet and Manila for the goods of the communities.

The entire operations of marketing the community produce to various markets were formally turned over to the Philex Mining Community Consumer Cooperative last May 2018. This will ensure sustainability of the livelihood intervention even without the presence of the Foundation in the community. Philex Group Foundation is currently reviewing its objectives and programs while looking into the possibility of consolidating its primary responsibilities and functions with the Philex Community Relations Group.

Empowering the Partner-Farmers

Through a grant from Metrobank Foundation, Inc. the Foundation implemented a community-based coffee farm rehabilitation program in 2018. The program utilizes the long-time partner coffee farmers of the Foundation to be trainers among their own communities. This is to strengthen local knowledge as well as raise indigenous trainers in the host and neighboring communities.

Commitment to Education

The Foundation was a conduit of several elementary and high school books coming from the US-based Eagle Scouts. A total of 4,155 books were distributed by Philex-Padcal Community Relations Department to 23 remote schools of Tuba and Itogon, Benguet. Some of the books were also donated to the Mayon evacuees as well as to the Tarlac Development Center.

Scholarship Grants

On top of the 2,000 enrollees at Philex Mines Elementary School and St. Louis High School-Philex being subsidized annually, the company provided scholarship to 202 college and 471 high school students under its SDMP's educational component in 2018.

The company also granted scholarship packages for college students of the University of the Philippines (UP), and at the University of Asia and the Pacific (UA&P). As of 2018, the number of students benefitting from PMC's scholarship programs are as follows:

- University of the Philippines -15
- University of Asia and the Pacific - 42

Related Party Transactions

PMC has extended loans and advances to some of its subsidiaries that 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 as follows:

- 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 dated 24 February 2017, 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, similar to 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. While exploration activities for new ore sources within surrounding areas of Padcal are on-going, PMC is contending with various issues in identifying potential sites causing unforeseen delays in exploration timelines.
- 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, is still being enforced. As a result, the Company is currently working to secure all major and requisite approvals to employ underground mining for the Silangan project. 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.
- Possible write-off of mining 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 man-made.

- Declining ore-grade situation and tonnage due to the mature state of the Padcal ore body. Marginal ore grades are inherent within the fringes of the mineral body contributing to lower overall metal output. Less valuable mineral concentrations are typically encountered when extracting ore away from the core of the deposit.
- 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.

- Adverse underground conditions at Padcal mine. The unpredictable ground conditions in the current ore body, coupled with the presence of bouldery ore and risks of mud rush events, have impacted operations, resulting in lower tonnage and metal output in 2018. To improve operating performance, the Company is presently installing new equipment and engaging other sub-mining levels

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 is currently negotiating for pollution liability insurance coverage in case of environmental pollution-related events.
- 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 estate and support facilities in its Padcal mine site, a concentrates loading bay in Poro Point, San Fernando, La Union and various titled lands situated in Barangay Tuding, Itogon, Benguet, covering a total area of 129 hectares. PGPI similarly owns real properties and support facilities in its Bulawan and Sibutad Projects, which are currently under care and maintenance. In September 2016, the Company transferred to its new corporate headquarters 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 dated on June 15, 2016.

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 the event the leased properties are to be disposed, ceded or sold by the lessors. SMMCI has been in possession of these properties, where components of the Silangan Project will be established.

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 part of routine operations either 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, 2018 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 Board	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 & Provincial Treasurer	La Trinidad, Benguet Regional Trial Court	Local quarry tax on TP3	₱12.2 million	Pending decision
3	Heirs of Jose Marino v. Philex Mining Corporation	National Commission on Indigenous Peoples – (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-APPSOL 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	P60 / per square meter (P600,000 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	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
11	In Re: Joint Assessment Visit of Philex Mining Corporation, etc.	DOLE Bureau of Working Conditions	Declaration that Work Appreciation Program (WAP) trainees, project employees, and personnel of two (2) contractors are regular employees of Philex.	N/A	Appeal pending resolution
12	In Re: Voluntary Arbitration between PRFEU-ALU-TUCP v. Philex Mining Corporation	DOLE Office of Voluntary Arbitrators	Salary increase and grant of additional benefits	₱215 million	Pending resolution

13	Various civil and labor cases	various	Various civil and labor cases in the ordinary course of business	N/A	Pending. PMC is a 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
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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 submitted to security holders for a vote in the 4th quarter of 2018 covered by this report.

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 ticker symbol "PX". The Company's public float as of December 31, 2018 is 33.51%.

The average quarterly stock prices for the Company's common shares for the last two fiscal years and the first quarter of 2019 are as follows:

Year	Period	High	Low
2017	1 st Quarter 2017	10.50	8.38
	2 nd Quarter 2017	9.49	8.00
	3 rd Quarter 2017	9.38	8.25
	4 th Quarter 2017	8.29	5.55
2018	1 st Quarter 2018	7.21	5.81
	2 nd Quarter 2018	6.16	4.48
	3 rd Quarter 2018	4.99	3.32
	4 th Quarter 2018	3.75	2.50
2019	1 st Quarter 2019	4.46	3.15

The Company's stock was traded at P3.43 per share as of April 11, 2019.

Holders

The Company has 44,029 shareholders as of December 31, 2018, with total issued and outstanding shares at 4,940,399,068 of which 38.26% are held by foreign nationals and entities.

The Top 20 shareholders of the Company as of December 31, 2018 are listed below:

Name	Nationality	No. of Shares Held	Ownership
Asia Link B.V.	Dutch	1,023,275,990	20.71%
PCD Nominee Corp.	Filipino/Other Alien	1,037,997,267	21.01%
Social Security System	Filipino	992,679,659	20.09%
Two Rivers Pacific Holdings Corp.	Filipino	738,871,510	14.96%
Kirtman Limited	British	242,011,062	4.90%
Maxella Limited	British	239,479,900	4.85%
Artino Limited	Filipino	37,822,400	0.77%
The First National Investment Co. Inc.	Filipino	12,195,042	0.25%
Makati Supermarket Corp.	Filipino	8,353,226	0.17%
Estate of Eudaldo Boix	American	5,025,422	0.10%
Philippine Remnants Co., Inc.	Filipino	4,875,000	0.10%
Manuel V. Pangilinan	Filipino	4,655,000	0.09%
Frank Pao	Foreign	3,639,260	0.07%
Estate of Eudaldo Boix and Petra Hernando	American	3,093,203	0.06%
Paulino De Ugarte and/or Elena E. De Ugarte	Filipino	3,068,143	0.06%
Carol Joan Reif	American	2,974,086	0.06%
Robin John Pettyfer	Canadian	2,644,747	0.05%
Estate of Jose Tan Yan Doo	Filipino	2,569,251	0.05%
Victor Sy	Filipino	2,437,500	0.05%
Lucio W. Yan and/or Clara Yan	Filipino	2,437,500	0.05%

Dividends

Beginning 2010, the Company has adopted a policy to declare cash dividends of up to 25% of core net income should the circumstances allow for its declaration. Below shows the Company's dividend payout history since 2015:

Declaration Date	Record Date	Payment Date	Amount Per Share
February 25, 2015	March 11, 2015	March 25, 2015	P0.02
February 29, 2016	March 15, 2016	July 15, 2016	Property Dividends (17 PXP shares for every 100 PMC shares)
July 27, 2016	August 10, 2016	August 24, 2016	P0.03
February 28, 2017	March 14, 2017	March 27, 2017	P0.04
November 07, 2017	November 24, 2017	December 06, 2017	P0.04
February 27, 2018	March 13, 2018	March 26, 2018	P0.04
July 25, 2018	August 08, 2018	August 24, 2018	P0.035

Recent Sales of Unregistered 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, 2018, the total option shares granted under the 2011 SOP totalled 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, 2018, 2017 and 2016

Information on the Company's results of operations and financial condition presented in the 2018 Audited Consolidated Financial Statements and accompanying Notes to the Consolidated Financial Statements are incorporated herein by reference.

Review of Financial Results

<i>(in Php Millions except for metrics, units and prices)</i>	2018	2017	2016	2018 vs 2017 (%)	2017 vs 2016 (%)
Gold:					
Revenues	4,200	5,432	6,209	(23)	(13)
Ounces Produced	61,977	84,638	103,304	(27)	(18)
Realized Price	\$1,294	\$1,273	\$1,254	2	2
Copper:					
Revenues	4,051	4,475	3,976	(9)	13
Pounds Produced	26,574,686	30,118,206	34,961,062	(12)	(14)
Realized Price	\$2.92	\$2.96	\$2.35	(1)	26
Other Revenues	63	77	86	(27)	(11)
Gross Revenues	8,314	9,985	10,272	(17)	(3)

Gross Revenues reached P8.314 billion in 2018 from P9.985 billion in 2017 and P10.272 billion in 2016.

Gold production hit 61,977 ounces in 2018 from 84,638 ounces in 2017 and 103,304 ounces in 2016. The declining trend in gold production mainly resulted from diminishing ore grades at 908 ML and 840 ML sources as it nears depletion levels. Gold revenues generated P4.200 billion in 2018 from P5.432 billion in 2017 and P6.209 billion in 2016 owing to lower metal output that was partly mitigated by higher metal prices.

Copper production totalled 26,574,686 pounds in 2018 from 30,118,206 pounds in 2017 and 34,961,062 pounds in 2016 attributed to weaker tonnage, marginal ore grades and lower recovery. Copper prices averaged at \$2.92 in 2018.

Realized gold prices for the years 2018, 2017 and 2016 were at \$1,294, \$1,273 and \$1,254, accordingly.

Other revenues, comprised of sales of silver, was similarly lower at P63 million in 2018 from P77 million in 2017 and P86 million in 2016.

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.

For 2018, the Company entered into gold and copper hedges are as follows:

2018 Gold Collar Hedge							
Date	Quantity (Ounces)	Gold Prices (US\$ Per Ounce)			Period Covered	Settlement Date	Realized Gain (Loss) (in Php Millions)
		Put	Call	Settlement			
01/10/18	2,200	1,300	1,349.50	1,332	Jan. 2018	02/02/18	-
01/10/18	2,200	1,300	1,349.50	1,333	Feb. 2018	03/02/18	-
01/10/18	2,200	1,300	1,349.50	1,325	Mar. 2018	04/02/18	-
01/10/18	2,200	1,300	1,349.50	1,335	Apr. 2018	05/02/18	-
01/10/18	2,200	1,300	1,349.50	1,303	May 2018	06/02/18	-
01/10/18	2,200	1,300	1,349.50	1,282	June 2018	07/03/18	2
04/19/18	3,000	1,330	1,400	1,238	July 2018	08/02/18	15
04/19/18	3,000	1,330	1,400	1,202	Aug. 2018	09/02/18	21
04/19/18	3,000	1,330	1,400	1,199	Sep. 2018	10/02/18	21
							59

2018 Copper Collar Hedge							
Date	Quantity (Pounds)	Copper Prices (US\$ Per Pound)			Period Covered	Settlement Date	Realized Gain (Loss) (in Php Millions)
		Put	Call	Settlement			
01/08/18	793,663	3.00	3.40	3.18	Jan. 2018	02/02/18	-
01/08/18	793,663	3.00	3.40	3.08	Feb. 2018	03/02/18	-
01/08/18	793,663	3.00	3.40	3.10	Mar. 2018	04/02/18	-
01/08/18	793,663	3.00	3.40	3.09	May. 2018	06/04/18	-
01/08/18	793,663	3.00	3.40	3.15	June 2018	07/03/18	-
01/08/18	793,663	3.00	3.40	2.83	July 2018	08/02/18	7
							7

The Company recognized a gain of P59 million in 2018 on its gold hedge and P7 million on its copper hedges that matured within the period. No contracts remained outstanding as of December 31, 2018, thus nil unrealized MTM gain or loss.

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

2017 Gold Collar Hedge							
Date	Quantity (Ounces)	Gold Prices (US\$ Per Ounce)			Period Covered	Settlement Date	Realized Gain (Loss) (in Php Millions)
		Put	Call	Settlement			
09/06/17	2,300	1,300	1,395	1,316	09/17	10/02/17	2
09/06/17	2,300	1,300	1,395	1,280	10/17	11/02/17	2
09/06/17	2,300	1,300	1,395	1,283	11/17	12/02/17	4
09/06/17	2,300	1,300	1,395	1,263	12/17	01/02/18	-
	9,200						9

2017 Copper Collar Hedge							
Date	Quantity (Ounces)	Gold Prices (US\$ Per Ounce)			Period Covered	Settlement Date	Realized Gain (Loss) (in Php Millions)
		Put	Call	Settlement			
10/20/17	727,525	3.00	3.40	3.10	11/17	12/05/17	-
10/20/17	727,525	3.00	3.40	3.03	12/17	01/05/18	-
10/20/17	727,525	3.00	3.40		01/18	02/05/18	-

The net realized MTM gain on these gold hedges amounted to P9 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 are as follows:

2016 Gold Collar Hedge							
Date	Quantity (Ounces)	Gold Prices (US\$ Per Ounce)			Period Covered	Settlement Date	Realized Gain (Loss) (in Php Millions)
		Put	Call	Settlement			
02/11/16	3,000	1,170	1,242	1,197	02/16	03/02/16	-
02/11/16	3,000	1,170	1,242	1,246	03/16	04/04/16	(1)
02/11/16	3,000	1,170	1,242	1,242	04/16	05/04/16	(0)
02/11/16	3,000	1,170	1,242	1,260	05/16	06/02/16	(3)
02/11/16	3,000	1,170	1,242	1,275	06/16	07/05/16	(5)
02/11/16	3,000	1,170	1,242	1,337	07/16	08/02/16	(14)
06/30/16	3,000	1,300	1,350	1,341	08/16	09/02/16	-
06/30/16	3,000	1,300	1,350	1,326	09/16	10/04/16	-
06/30/16	3,000	1,300	1,350	1,267	10/16	11/02/16	5
06/30/16	3,000	1,300	1,350	1,238	11/16	12/02/16	9
06/30/16	3,000	1,300	1,350	1,152	12/16	01/04/16	22
	33,000						15

Net realized gain recognized for the year 2016 amounted to P15 million. As of 31 December 2016, there were no outstanding gold hedging contracts resulting no unrealized MTM gain or loss recognized.

Following PFRS 15 which took effect in 2018, the revenues are presented in the Company's Financial Statements as net of smelting charges with comparative numbers in 2017 and 2016.

Operational Overview

	2018	2017	2016	2018 vs 2017 (%)	2017 vs 2016 (%)
Tonnes Milled	8,516,915	8,673,474	9,359,161	(2)	(7)
Copper Concentrates	57,779	64,710	73,107	(11)	(11)
Gold:					
Ounces	61,977	84,638	103,304	(27)	(18)
Head Grade (g/t)	0.298	0.377	0.417	(21)	(10)
Recovery	76%	81%	82%	(5)	(1)
Copper:					
Pounds	26,574,686	30,118,206	34,961,062	(12)	(14)
Head Grade (%)	0.181	0.192	0.206	(6)	(7)
Recovery	78%	82%	82%	(4)	-

Total Tonnes Milled stood at 8,516,915 in 2018 compared to 8,673,474 in 2017 and 9,359,161 in 2016. Lower tonnage was primarily due to the impact of typhoons that caused power disruptions and posed manpower safety concerns leading to fewer operating days. The Company also experienced mechanical delays due to equipment breakdown and periodic maintenance of its aging machinery. To minimize incidents of equipment failure, the Company conducts regular preventive maintenance work to help identify minor issues with quick and inexpensive solutions. Constant monitoring is also carried out to ensure that equipment is performing at optimal levels and within prescribed limits. This allows the Company to extend the usable life of its machinery. There were also active threats of mud rush occurrences that limited the flexibility of alternative ore sources.

Likewise, metal production was affected by lower recovery and declining ore grades, which are inherent within the fringes of the ore body, significantly contributed to weaker output. Less valuable mineral concentrations are a natural episode when extracting ore away from the core of the deposit. The Company continues to explore various active mining sub-levels to improve ore grades.

Operating Costs and Expenses

Operating Costs and Expenses were at P6.821 billion in 2018 from P6.778 billion in 2017 and P6.900 billion in 2016. For 2018, operating costs and expenses were largely maintained from the prior year as a result of cost containment initiatives that were implemented across the business.

Production Costs amounted to P4.408 billion in 2018 from P4.412 billion in 2017 and P4.614 billion in 2016. For 2018, production costs were similarly maintained from 2017 driven by lower renegotiated electricity rates and fewer purchased contracts.

Depletion, Amortization and Depreciation stood at P1.601 billion in 2018 from P1.551 billion in 2017 and P1.460 billion in 2016 related mainly to additional depreciation of newly-acquired equipment.

General and Administrative Expenses decreased to P306 million in 2018 from P363 million in 2017 and P373 million in 2016 as the Company realized the benefits of continuous cost management programs that were initiated in Head Office and Silangan.

Excise Taxes and Royalties increased to P506 million in 2018 from P452 million in 2017 and 2016. For 2018, newly-enacted legislations provisioned for the doubling of excise taxes levied on mining products.

Costs Per Tonne/Per Ounce/Per Pound

<i>(in Php Millions except for unit costs)</i>	2018	2017	2016	2018 vs 2017 (%)	2017 vs 2016 (%)
Cash Production Cost	4,408	4,412	4,614	-	(4)
Depletion, Amortization and Depreciation	<u>1,601</u>	<u>1,551</u>	<u>1,460</u>	3	6
Total Production Cost	6,009	5,963	6,074	1	(2)
Excise Tax and Royalties	506	452	452	12	-
Smelting Charges	<u>674</u>	<u>842</u>	<u>893</u>	(20)	(6)
Total Operating Cost	7,189	7,257	7,421	(1)	(2)
Production Cost Per Tonne	P705	P687	P649	3	6
Operating Cost Per Tonne	P844	P837	P793	1	6
Operating Cost Per Ounce of Gold	\$1,112	\$929	\$919	20	1
Operating Cost Per Pound of Copper	\$2.50	\$2.16	\$1.72	16	25

Production cost per tonne rose to P705 in 2018 from P687 in 2017 and P649 in 2016. This was mainly due to additional depreciation from newly-acquired equipment, but partially offset by the reduction in power costs and purchased contracts.

Operating Cost went up to P844 per tonne in 2018 from P837 per tonne in 2017 and P793 per tonne in 2016. Similarly, operating cost per tonne increased due to higher depreciation, amortization and depletion as well as the doubling of excise tax rates from 2% to 4% effective 2018.

Operating Cost (using a co-production method) per ounce of gold and per pound of copper were \$1,112 per ounce and \$2.50 per pound from \$929 per ounce and \$2.16 per pound in 2017 and higher than 2016 levels. The higher operating cost per ounce and per pound were primarily brought about by the lower metal output in 2018 of 27% in gold and 12% in copper despite an only 2% decrease in tonnage which normally drives the operating costs levels.

Net Other Income (Charges)

<i>(in Php Millions)</i>	2018	2017	2016
Share in Net Losses of Associates	(41)	(40)	(45)
Foreign Exchange Losses	(121)	(39)	(145)
Gain on Disposal of AFS Financial Assets	-	22	-
Interest Income	2	2	2
Others	91	58	(14)
Total	(69)	2	(202)

Net Other Loss in 2018 amounted to P69 million compared to a gain of P2 million in 2017 and another loss of P202 million in 2016. The Company realized a net foreign exchange loss on short-term loans of P121 million which accounted for bulk of the net other charges in 2018.

Provisions for Impairment Losses

The Company continues to assess the viability of its existing mine exploration projects and other investments. Net Provisions for Impairment Losses amounted to P67 million in 2018 which consisted of a P1.379 billion provision for impairment losses on mining assets and deferred exploration costs, and a P1.312 billion gain on the reversal of ECL on PXP Advances. There were no impairments booked in 2017 upon determining that prior impairments were adequate to comply with the required annual impairment test. In 2016, Provisions for Impairment Losses was recognized at P2.505 billion.

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

Reported Net Income attributable to equity holders of the Company was recorded at P608 million in 2018 as compared to P1.658 billion in 2017 and P1.567 billion in 2016. Overall profitability was significantly weighed down by the impact of lower tonnage and head grade that was partially cushioned by lower smelting charges, lower cash costs and better foreign exchange on revenues.

Core Net Income came in at P600 million in 2018 versus P1.685 billion in 2017 and P1.657 billion in 2016. Core Net Income reflects the Company's operational performance excluding the effects of non-recurring transactions.

Reconciliation of Core Net Income to Consolidated Net Income

<i>(in Php Millions)</i>	2018	2017	2016
Core Net Income	600	1,686	1,657
Non-Recurring Gains (Losses):			
Foreign Exchange Losses	(121)	(39)	(145)
Net Provisions for Impairment of Assets	93	-	(2,505)
Gain from Loss of Control over a Subsidiary Group	-	-	2,538
Others		-	-
Net Tax Effect of Aforementioned Adjustments	36	12	44
Net Income Attributable to Equity Holders	608	1,658	1,589
Net Income Attributable to Non-Controlling Interest	-	-	(22)
Consolidated Net Income	608	1,658	1,567

Financial Condition Summary

<i>(in Php Millions except ratios)</i>	2018	2017	2016
Cash and Cash Equivalents	871	584	458
Current Assets (excluding cash)	3,582	5,683	6,035
Non-Current Assets	36,258	33,412	32,169
Total Assets	40,712	39,679	38,662
Short-Term Loans	2,156	2,447	3,083
Current Liabilities (excluding short-term loans)	4,655	2,410	2,495
Non-Current Liabilities	10,202	10,090	9,685
Equity Attributable to Equity Holders of Parent Company	23,699	24,732	23,400
Non-Controlling Interests	(0.3)	(0.3)	(0.3)
Total Equity	23,699	24,372	24,372
Liquidity Ratios:			
Current Ratio	0.65	1.29	1.16
Quick Ratio	0.17	0.32	0.17
Solvency and Debt to Equity Ratios:			
Debt-to-Equity Ratio	0.72	0.60	0.65
Solvency Ratio	0.13	0.22	0.20

Financial Leverage Ratios:			
Asset-to-Equity Ratio	1.72	1.60	1.65
Profitability Ratios:			
Return on Assets	1.51%	4.23%	3.81%
Return on Equity	2.51%	6.89%	6.18%
Net Profit Margin	7.96%	18.14%	16.71%

Current Assets

As of end-2018, Current Assets was lower at P4.453 billion in 2018 from P6.267 billion in 2017 and P6.493 billion in 2016. The decreased amount was mainly due to the collection of advances from PXP and subsequent payment of share subscription.

Cash and Cash Equivalents

For 2018, Cash and Cash Equivalents increased to P871 million from P584 million in 2017 and P458 million in 2016. Higher cash balance is attributable to the timing effect of ore shipments to customers.

Current Assets Excluding Cash and Cash Equivalents

Accounts Receivable

Accounts Receivables are largely composed of Trade Receivables from sales of the Company's copper concentrates or bullion and Other Receivables. As of end-2018, Accounts Receivables amounted to P300 million, consisting of Trade Receivables of P204 million and Other Receivables of P96 million, in 2018 from P991 million in 2017 and P487 million in 2016.

Outstanding receivables from copper concentrates as of December 31, 2018 consisted of the remaining value of six shipments in the fourth quarter of 2018 still outstanding as to final pricing, versus a higher amount as of December 31, 2017 which 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. In 2016, the receivables consisted mainly of the remaining 10% of five shipments in the last quarter of 2016 that remained outstanding awaiting final pricing.

Inventories

Inventories decreased to P1.138 billion in 2018 from P1.517 billion in 2017 and P2.319 billion in 2016. Inventories are comprised mostly of materials and supplies at approximately 95% of total value in 2018, with the remainder from mine products. Materials and supplies amounted to P1.082 billion in 2018 from P1.127 billion in 2017 and P1.260 billion in 2016.

Advances to a Related Party

Advances to a Related Party totalled to P1.387 billion in 2018 from P2.169 billion in 2017 and P2.194 billion in 2016. These represent non-interest bearing advances to affiliate PXP Energy Corporation and are secured by a pledge agreement between the Company and PXP Energy Corporation (PXP Energy). The significant reduction in the 2018 balance was from the payment made by PXP Energy amounting to P782 million which substantially came from the proceeds of the Company's additional subscription of PXP shares.

Other Current Assets

Other Current Assets, composed primarily of input value-added tax claims on purchases of materials, supplies and equipment, decreased to P757 million in 2018 from P1.007 billion in 2017 and P1.035 billion in 2016. The Company collected a total of P232 million in the form of cash in 2018.

Non-Current Assets

As of end-2018, Non-Current Assets increased to P36.258 billion in 2018 from P33.412 billion in 2017 and P32.169 billion in 2016. Property, Plant and Equipment coupled with Deferred Exploration Costs account for majority of total assets, signifying the capital intensive nature of the business.

Property, Plant and Equipment

Property, Plant and Equipment decreased to P5.404 billion in 2018 from P6.721 billion in 2017 and P6.736 billion in 2016 due mainly to impairments. In 2018, the Company recognized an impairment of P1.332 billion attributable to its Padcal mine and mining properties due to declining ore grades in the remaining reserves.

Financial Assets Measured at FVOCI

The Company's financial assets amounting to P118 million were reclassified to Financial Assets Measured at FVOCI in 2018 from Available-for-Sale (AFS) Financial Assets in the previous years. The amounts of AFS Financial Assets in 2017 and 2016 were P76 million and P105 million, respectively. The financial assets consist mainly of shares in golf and country clubs.

Investment in Associates

Investment in Associates increased to P4.456 billion in 2018 from P1.416 billion in 2017 and P1.456 billion in 2016 arising from the additional equity subscription by the Company in upstream oil and gas affiliate PXP Energy Corporation. This transaction increased the Company's stake in PXP Energy from 19.8% to 30.4%.

Deferred Exploration Costs

Deferred Exploration Costs increased to P25.448 billion in 2018 from P24.361 billion in 2017 and P23.072 billion in 2016. The Company continues to actively explore potential new ore sources within surrounding areas of Padcal and Silangan.

<i>(in Php Millions)</i>	2018	2017	2016
Silangan Project	23,212	23,234	21,139
Kalayaan Project	2,743	2,742	2,731
Bulawan and Vista Alegre Projects	633	632	632
Lascogon Project	289	289	299
Sibutad Project	235	235	235
Bumolo Project	210	209	208
Clifton Project	135	134	133
Southwest Project	109	100	100
Sanfran/Tambis Project	92	92	92
Tapsan Project	143	78	12
Other Exploration Costs	1,472	394	1,269
Total	29,273	28,139	26,850
Less: Impairment Losses	(3,825)	(3,778)	(3,778)
Deferred Mine Exploration Costs	-	24,361	23,072
Deferred Oil Exploration Costs	-	-	-
Total Deferred Exploration Costs	25,448	24,361	23,072

Pension Asset

Pension Asset decreased to P360 million in 2018 from P374 million in 2017 and P313 million in 2016. Pension Asset represents the excess of the fair value of plan assets against the present value of defined benefit obligations under the Company's retirement plan, net of SMMCI pension obligation.

Other Non-Current Assets

Other Non-Current Assets was at P473 million in 2018 from P464 million in 2017 and P488 million in 2016. This consisted mainly of the non-current portion of SMMCI input value-added tax amounting to P410 million in 2018 from P400 million in 2017 and P402 million in 2016.

Total Assets

As of end-2018, Total Assets of the Company stood at P40.712 billion compared to P39.679 billion in 2017 and P38.662 billion in 2016.

Current Liabilities

As of December 31, 2018, Current Liabilities rose to P6.811 billion in 2018 from P4.857 billion in 2017 and P5.578 billion in 2016. The increase was due to the additional equity subscription of the Company in PXP Energy Corporation.

Loans Payable

Loans Payable dropped to P2.156 billion (US\$41 million) in 2018 from P2.447 billion (US\$49 million) in 2017 and P3.083 billion (US\$62 million) in 2016. The Company retired a net amount of US\$8 million in 2018 to trim down its total loan balance.

Current Liabilities Excluding Loans Payable

Current Liabilities, excluding Loans Payable increased to P4.654 billion in 2018 from 2.410 billion in 2017 and P2.495 in 2016. This is a result of a subscription payable in relation to the additional equity investment of the Company in PXP Energy Corporation.

Accounts Payable and Accrued Liabilities

Accounts Payable and Accrued Liabilities, composed primarily of payables to suppliers and contractors, increased to P1.791 billion in 2018 from P1.649 billion in 2017 and P1.833 billion in 2016. No material amount of trade payables has been left unpaid within terms acceptable and agreed upon with suppliers.

Income Tax Payable

Income Tax Payable decreased to P18 thousand in 2018 from P230 million in 2017 and P164 million in 2016 owing to lower taxable income as a result of lower production in 2018.

Dividends Payable

Dividends Payable amounted to P551 million in 2018 from P529 million in 2017 and P498 million in 2016. For 2018, the Company declared regular cash dividends amounting to four centavos per share to shareholders on record as of 13 March 2018. Moreover, the Company again declared regular cash dividends amounting to three and a half centavos per share to shareholders on record as of 08 August 2018.

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.

Non-Current Liabilities

Non-Current Liabilities stood at P10.202 billion in 2018 compared to P10.090 billion in 2017 and P9.685 billion in 2016, comprising mainly of Deferred Tax Liabilities and Bonds Payable.

Deferred Income Tax Liabilities

Deferred Income Tax Liabilities decreased to P2.790 billion in 2018 compared to P3.005 billion in 2017 and P2.958 billion in 2016. In 2018, Deferred Income Tax Liabilities mainly consisted of P1.665 billion arising from the acquisition of Anglo's 50% stake in and P1 billion for accelerated depreciation.

Bonds Payable

As of end-2018, Loans and Bonds Payable increased to P7.333 billion versus P6.950 billion in 2017 and P6.593 billion in 2016. The changes in the amounts correspond to the amortization of deferred transaction costs, accretion of interest from the discounting of the face value of the CN and accrual of the 3% redemption premium. The bonds payable pertains to the 8-year convertible bonds issued by SMECI, with PMC as the co-issuer, on December 18, 2014, with a face value of P7.2 Billion at 1.5% coupon rate p.a. payable semi-annually. The bonds are convertible into 400,000 common shares of SMECI at P18,000 per share 12 months after the issue date ("Standstill Period"). On the last day of Standstill Period, the Issuer shall have a one-time right to redeem the bonds from the holders in whole or in part. After the Standstill Period, the noteholders may exercise the conversion right, in whole but not in parts, at any time but no later than the maturity date. At redemption/maturity date, the bonds can be redeemed together with the principal or face value of the bonds at a premium, payable at a rate of 3% per annum compounded semi-annually based on the face value of the bonds and unpaid accrued interest (if there be any). The proceeds of the bonds were used to repay the SMECI's advances from PMC and fund further exploration works of SMMCI.

Provision for Losses and Mine Rehabilitation Costs

Provision for Losses and Mine Rehabilitation Costs decreased to P79 million in 2018 compared to P135 million in 2017 and P134 million in 2016. The Company spent P60 million in 2018 for the requirement under the Company's approved Final Mine Rehabilitation and Development Program.

Total Liabilities

As of end-2018, Total Liabilities increased to P17.012 billion in 2018 in comparison to P14.947 billion in 2017 and P15.263 billion in 2016, composing of short-term loans payable, deferred tax liabilities and convertible bond issuance with a face value of P7.200 billion, with a carrying amount of P6.950 billion, net of P250 million in deferred transaction costs. The increase in total liabilities is due to subscription payable related to the additional equity investment of the Company in PXP Energy.

Shareholders' Equity

	2018	2017	2016
Common Shares	4,940,399,068	4,940,399,068	4,940,399,068
Stock Options	18,020,000	18,020,000	21,090,000

Total Equity as of 31 December 2018 amounted to P23.699 billion in 2018 compared to P24.732 billion in 2017 and P23.399 billion in 2016.

Retained Earnings amounted to P14.704 billion in 2018 versus P15.771 billion in 2017 and P14.442 billion in 2016.

Retained Earnings amounted to P14.704 billion in 2018 versus P15.771 billion in 2017 and P14.442 billion in 2016. The Retained Earnings in 2018 included the Net Income Attributable to the Equity Holders of the Parent of P608 million, net of the provision for expected credit losses on PXP Advances of P1.312 billion from the adoption of PFRS 9, which was subsequently reversed, and also net of cash dividends of P371 million.

Equity Conversion Options amounted to P1.226 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 P7.200 billion. Net Revaluation Surplus remained at P1.572 billion from 2016 to 2018. The Net Unrealized Gain on Financial Assets, measured at FVOCI upon adoption of PFRS 9 amounted to P35 million from P1 million in 2017. The balances of 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 P3.288 billion in 2018 compared to P3.429 billion and P2.747 billion in 2016.

Internally generated funds remain as the Company's principal source of cash 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 P2.241 billion in 2018 versus P2.286 billion in 2017 and P2.665 billion in 2016. Capital expenditures decreased to P1.992 billion in 2018 as compared to P2.425 billion in 2017 and P2.360 billion in 2016. The Company focused exploration activities on previously activated areas.

Net cash used in financing activities amounted to P764 million in 2018 versus P1.020 billion in 2017 and P637 million in 2016. The Company spent P1.449 billion to partially retire short-term loan obligations.

Capital Expenditures and Exploration Costs

<i>(in Php Millions)</i>	2018	2017	2016
Padcal and Others:			
Mine Development	1,095	694	601
Tailings Pond Structures	292	320	342
Machinery and Equipment	389	735	693
Total	1,776	1,749	1,636
Silangan Project:			
Deferred Exploration Costs	433	497	415
Machinery and Equipment	(104)	(3)	99
Total	329	495	514
Mine Exploration Projects	1,564	194	210
Total	2,261	2,438	2,360
By Recording:			
Deferred Exploration Costs	589	691	625
Property, Plant and Equipment	1,672	1,747	1,735
Total	2,261	2,438	2,360

Capital Expenditures totaled to P2.261 billion, P2.438 billion and P2.360 billion for 2018, 2017 and 2016, respectively. In 2018, the Company focused exploration activities on previously activated areas mostly within the vicinity of Padcal. In addition, the Company purchased additional equipment to augment its aging machinery and improve its existing tailings facilities. It also continues to invest in modern technology to increase capacity, streamline operational efficiencies and accelerate the development of its Silangan project.

Padcal operations accounted for 79% of total programmed spending at P1.776 billion in 2018 as compared to P1.749 billion in 2017 and P1.636 billion in 2016.

Silangan and Kalayaan Projects utilized 14% of the capital budget amounting to P329 million in 2018 versus P495 million in 2017 and P514 million in 2016 to fast-track its pre-mine development phase. The Company is set to launch its Silangan project by 2022.

Other mining exploration projects constituted a total amount of P156 million in 2018 versus P194 million in 2017 and P210 million in 2016. These activities centered on surrounding areas of Padcal.

Top Five Key Financial and Non-Financial Performance Indicators

Safety Performance

Personnel health and safety is of paramount concern and regarded with utmost priority. In 2018, the Company reported for its Padcal mine two Lost Time Accident-Fatal incidents compared to a single occurrence in 2017 and three similar incidents in 2016 due to a mud rush event. Meanwhile, in terms of Lost Time Accident Non-Fatal events, there were six recorded in 2018 and nine for both 2017 and 2016.

The Company is targeting a “zero-harm” record through constant reviews of safety policies and procedures. Various initiatives are being implemented to minimize the occurrence of accidents and injuries in the workplace. Third-party experts are likewise engaged to assess existing safety performance and identify risk areas.

Earnings Per Share

Earnings Per Share (EPS) represents the net income attributable to equity holders of the Company, expressed in the amount per share of the Company's 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.

	2018	2017	2016
Earnings Per Share	P0.123	P0.336	P0.322
Total Outstanding Shares	4,940,399,068	4,940,399,068	4,940,399,068

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 the years 2018, 2017 and 2016, the outstanding stock options were considered anti-dilutive based on the lower market price of the Company's shares compared to the exercise price, thus the diluted earnings per share in 2018, 2017 and 2016 were the same as the basic earnings per share of the Company in the said periods.

Tonnes Milled and Metals Produced

Tonnes milled and ore grade determine the volume of concentrates produced and sold. Tonnes milled totalled to 8,516,915 in 2018 compared to 8,673,474 in 2017 and 9,359,161 in 2016. Copper production reached 26,574,686 pounds compared to 30,118,207 pounds in 2017 and 34,961,062 pounds in 2016. Gold production totalled 61,977 ounces in 2018 compared to 84,638 ounces in 2017 and 103,304 ounces in 2016.

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.

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 2018, the Company allotted P589 million for exploration activities versus P691 million in 2017 and P625 million in 2016. As of end-2018, total deferred exploration costs amounted to P25.448 billion compared to P24.361 billion in 2017 and P23.072 billion in 2016.

Subsidiaries and Related Party Transactions

Philex Mining Corporation 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 are no known events 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 MattersExternal Audit Fees and Services**Audit and Audit-Related Fees**

For the past three fiscal 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) P5.04 million for 2018, P5.04 million for 2017, and P5.27 million for 2016.

Tax Fees

The Company has not engaged the external auditors for any tax-related services for 2016 to 2018. 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 P330 thousand.

All Other Fees

In 2016, 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 P880 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 2018 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 Issuer

The following individuals served as Directors and Executive Officers of Philex Mining Corporation for the year 2018.

Directors

MANUEL V. PANGILINAN, Chairman, Non-Executive Director

Age: 72

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 Masters 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.

EULALIO B. AUSTIN, JR. President and Chief Executive Officer, Executive Director

Age: 57

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.

OSCAR J. HILADO, Independent Director

Age: 81

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 Master's 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. Mr. Hilado holds the following positions: Chairman of Philippine Investment Management (PHINMA), Inc., Phinma Corporation, Phinma Property Holdings Corporation. Vice-Chairman of Phinma Energy Corporation, Union Galvasteel Corporation and Phinma Power Generation Corporation. Chairman of the Executive Committee of Phinma Corporation. Director of Philex Mining Corporation, Rockwell Land Corporation, A. Soriano Corporation, Roxas Holdings, Inc. Smart Communications, Inc., Phinma Renewable Energy Corporation, Phinma Solar Energy Corporation, One Subic Oil Distribution Corporation, Philippine Cement Corporation, Phinma Education Holdings, Inc., Araullo University, Inc., Cagayan de Oro College, Inc., University of Iloilo, Inc., University of Pangasinan, Inc., Southwestern University, St. Jude College, Manila, Phinma Hospitality, Inc., United Pulp and Paper Company, Inc., Digital Telecommunications Philippines, Inc., Seven Seas Resorts and Leisure, Inc., Beacon Property Ventures, Inc., Cebu Light Industrial Park, Inc., Pueblo de Oro Development Corporation and Manila Cordage Company.

MARILYN A. VICTORIO-AQUINO, Non-Executive Director

Age: 63

Date of First Appointment: December 7, 2009

Academic Background:

Ms. Aquino was educated at the University of Santo Tomas (A.B.) and University of the Philippines (LL.B., cum laude). and qualified as a barrister in the Philippines in 1981.

Business and Professional Background/ Experience:

Ms. Aquino joined Sycip Salazar Hernandez and Gatmaitan Law Offices in the Philippines in 1980 where she became a partner in 1989. Ms. Aquino's practice focused on banking, finance and securities, construction and infrastructure, investments, mergers and acquisitions, and mining and natural resources. Ms. Aquino is a Director of Philex Mining Corporation, Philex Gold Philippines, Inc., PXP Energy Corporation, Silangan Mindanao Mining Company, Inc., Lepanto Consolidated Mining Company and Maynilad Water Services, Inc. She was also appointed as Chief Legal Counsel of PLDT in December 2018.

BARBARA ANNE C. MIGALLOS Corporate Secretary, Executive Director

Age: 64

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 27, 2018. 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 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.

ROBERT C. NICHOLSON*, Non-Executive Director

Age: 65

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:

Prior to his retirement on 30 January 2019, Mr. Nicholson had been a Director of PMC and PGPI since November 28, 2008. Mr. Nicholson previously held the following positions: Commissioner of PT Indofood Sukses Makmur Tbk and Director of Metro Pacific Investments Corporation, PXP Energy Corporation, Pitkin Petroleum Plc. And Forum Energy Plc., Senior Partner of Reed Smith Richards Butler, Senior Advisor to the Board of PCCW Limited and Independent Non-Executive Director of Lifestyle Properties Development Limited. He is currently an Independent Non-Executive Director of Pacific Basin Shipping Limited.

WILFREDO A. PARAS, Independent Director

Age: 72

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 an Independent Director of GT Capital Holdings, Inc. since May 2013 and President of WAP Holdings, Inc. He is also a member of the Board of Trustees of Dualtech Training Foundation Inc. Mr. Paras was previously the Executive Vice-President, 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.

EDWARD A. TORTORICI*, Non-Executive Director

Age: 79

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:

Prior to his retirement on 30 January 2019, Mr. Tortorici had been a Director of PMC and PGPI since December 7, 2009, and was last re-elected on June 27, 2018. 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 served as a Trustee of the Asia Society Philippines from 2012 to 2017. Mr. Tortorici was 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, from 2015-2017. He also served as a Commissioner of the U.S. ASEAN Strategy Commission. Currently serve as a Member on Nancy Pelosi's Speakers' Cabinet.

MICHAEL G. REGINO, Non-Executive Director

Age: 57

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, 2016 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 Camella Homes, Golden Haven Memorial Parks, Inc., 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.

ANITA B. QUITAIN, Non-Executive Director

Age: 72

Date of First Appointment: February 28, 2017

Academic Background:

Ms. Quitain has a Bachelor of Science Degree in Elementary Education from the University of Mindanao. She also completed two (2) years of Masters in Public Administration (37 units) for Career Civil Service Eligibility.

Business and Professional Background/ Experience:

Ms. Quitain is currently a Commissioner of the Social Security System (SSS). She previously held the following SSS positions: Section Head of Membership, Real Estate, Operations, Accounting, Membership Assistance Center and Sickness, Maternity and Disability in Region 9. She also headed the SSS Representative Office in Digos, Davao del Sur. Ms. Quitain officially retired from the SSS in 2019 after thirty-one (31) years of continuous and dedicated service.

GONZALO T. DUQUE, Non-Executive Director

Age: 67

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 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, Chancellor of Lyceum Northwestern University, among many other organizations.

JOSEPH H.P. NG**, Non-Executive Director

Age: 56

Date of First Appointment: January 30, 2019

Academic Background:

Mr. Ng received an MBA and a Professional Diploma in Accountancy from Hong Kong Polytechnic University. He is a member of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants and the Institute of Chartered Accountants in England and Wales. Mr. Ng is a Commissioner of PT Indofood Sukses Makmur Tbk and a Non-Executive Director of Philex Mining Corporation and PXP Energy Corporation, which are First Pacific Group subsidiary and associate.

Business and Professional Background/ Experience:

Mr. Ng. joined First Pacific in 1988 from PriceWaterhouse's audit and business advisory department in Hong Kong. Mr. Ng was appointed as Associate Director in April 2019. Prior to that, he was Executive Vice-President of Group Finance of the Group's regional telecom division and a director of a number of the Group's telecom joint ventures in India, Indonesia and PR China.

RICHARD P.C. CHAN**, Non-Executive Director

Age: 48

Date of First Appointment: January 30, 2019

Academic Background:

Mr. Chan received a BBA (Hons) degree from Hong Kong Baptist University and an MBA from the Chinese University of Hong Kong. He is a Certified Public Accountant (Practising), a CFA Charterholder and a Fellow of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. He has experience in auditing, accounting, finance and management spanning a diverse range of business activities. He serves as a Non-Executive Director of Philex Mining Corporation since January 2019, which is First Pacific Group associate.

Business and Professional Background/ Experience:

Mr. Chan joined First Pacific in 1996 from KPMG. Prior to his appointment as Executive Vice-President in April 2019, Mr. Chan was Vice-President, Group Financial Controller.

Directorships in Other Publicly-Listed Companies

Name	Listed Company	Type of Directorship
Manuel V. Pangilinan	PLDT, Inc. Metro Pacific Investments Corp. Roxas Holdings, Inc. Manila Electric Company PXP Energy Corp.	Executive Non-Executive Non-Executive Non-Executive Non-Executive
Michael G. Regino	Union Bank of the Philippines	Non-Executive
Wilfredo A. Paras	GT Capital Holdings, Inc.	Non-Executive
Robert C. Nicholson	PXP Energy Corp. Metro Pacific Investments Corp.	Non-Executive Non-Executive
Barbara Anne C. Migallos	Mabuhay Vinyl Corp.	Non-Executive
Marilyn A. Victorio-Aquino	PXP Energy Corp. Lepanto Consolidated Mining Company	Non-Executive Non-Executive
Oscar J. Hilado	PHINMA Corp. PHINMA Energy Corp. Rockwell Land Corp. Roxas Holdings, Inc. A. Soriano Corp.	Non-Executive Non-Executive Independent Independent Independent
Eulalio B. Austin, Jr.	PXP Energy Corp.	Non-Executive

*Messrs. Edward A. Tortorici and Robert C. Nicholson officially retired from Philex Mining Corporation on January 30, 2019.

**Messrs. Joseph H.P. Ng and Richard P.C. Chan were appointed as Directors of Philex Mining Corporation on January 30, 2019.

Executive Officers

The following persons are the present Executive Officers of the Company:

EULALIO B. AUSTIN, JR. – 57, 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 – 64, 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. – 57, 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.

MICHAEL T. TOLEDO – 58, 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 Master's 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* – 63, Filipino citizen. Prior to her retirement on 02 January 2019, Ms. Baluda had 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 – 54, 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 Master's in Environmental Science and Management at the University of the Philippines campus in Los Banos, Laguna in 1995.

JOAN A. DE VENECIA** – 38, Filipino citizen. Prior to her transfer to an affiliate company in April 2019, Ms. De Venecia was 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.

VIC MORRIS A. YODONG - 64, Filipino citizen. Mr. Yodong was appointed and assumed the position of Padcal Resident Manager on March 11, 2019. Mr. Yodong is licensed mining engineer with over forty years of industry experience from both local and international mining companies. He graduated with a Bachelor of Science in Mining Engineering Degree from Adamson University.

JONAS EMANUEL S. SANTOS, 41, Filipino citizen. Mr. Santos was appointed and assumed the position as Head of Legal of Philex Mining Corporation on April 01, 2019. Mr. Santos was formerly the Corporate Counsel of Chevron Philippines, Inc. and Senior Associate at SyCip Salazar Hernandez & Gatmaitan. He graduated with a Bachelor of Science in Management Engineering Degree from the Ateneo de Manila University and obtained his Bachelor of Laws from the University of the Philippines Diliman.

*Ms. Redempta P. Baluda officially retired from Philex Mining Corporation effective on January 02, 2019

**Ms. Joan A. De Venecia officially transferred to an affiliate company in April 2019

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 1.5% percent of the Company's net income before tax of the preceding year. Payments made in 2018, 2017 and 2016 amounted to P16.3 million, P16.9 million P7.4 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 attended and P30,000 per Board 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 Board committee meeting was at 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 2018, 2017 and 2016 were P5.5 million, P6.6 million, P5.4 million, accordingly.

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 summary compensation of the directors and officers for the past two completed fiscal years and estimated to be paid in the ensuing fiscal 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 COMPENSATION TABLE

(in Php thousands)

a) Aggregate Compensation of All Directors

	Year	Director's Fee	Bonus	Others
All Directors as a Group (excluding Mr. Austin whose Director's Fees were reported under compensation of Executive Officers)	2019 Estimate	P7,540	-	
	2018	P19,885	-	
	2017	P21,331	-	

b) Chief Executive Officer and Four Most Highly Compensated Executive Officers

Name and Principal Position	Year	Salary	Bonus	Others
Eulalio B. Austin, Jr.	2019 Estimate	P57,222	P4,768	
Danny Y. Yu				
Michael T. Toledo				
Redempta P. Baluda				
Joan A. De Venecia-Fabul				
Eulalio B. Austin, Jr.	2018	P59,085	11,067	
Danny Y. Yu				
Michael T. Toledo				
Redempta P. Baluda				
Joan A. De Venecia-Fabul				
Eulalio B. Austin, Jr.	2017	P68,554	P19,978	
Danny Y. Yu				
Michael T. Toledo				
Redempta P. Baluda				
Manuel A. Agcaoili				

c) Aggregate Compensation of All Executive Officers

	Year	Salary	Bonus	Others
All Executive Officers as a Group	2019 Estimate	P57,222	P4,768	
	2018	P63,158	P12,307	
	2017	P77,553	P22,192	

d) Aggregate Compensation of all Directors and Executive Officers

	Year	Director's Fees and Salary	Bonus	Others
All Directors and Executive Officers	2019 Estimate	P64,762	P4,768	
	2018	P83,403	P12,307	
	2017	P98,884	P22,192	

Individual Director Remuneration

In 2018, a total of P21.840 million was paid to all executive and non-executive directors, details of which are as follows:

Name	Position	Amount (Php Millions)
Manuel V. Pangilinan	Chairman	1.895
Eulalio B. Austin, Jr. *	President & Chief Executive Officer	1.955
Marilyn A. Victorio-Aquino	Non-Executive Director	2.255
Oscar J. Hilado	Independent Director	2.155
Barbara Anne C. Migallos	Executive Director	2.345
Robert C. Nicholson	Non-Executive Director	2.255
Wilfredo A. Paras	Independent Director	2.225

Edward A. Tortorici	Non-Executive Director	1.665
Jose Gabriel M. La Vina**	Non-Executive Director	1.336
Michael G. Regino	Non-Executive Director	1.786
Anita B. Quitain	Non-Executive Director	1.666
Gonzalo T. Duque	Non-Executive Director	0.300
Total		21.840

*The amount paid to Mr. Eulalio B. Austin, Jr. is inclusive of his compensation as President and Chief Executive Officer as stated in the summary compensation table above

**Mr. Jose Gabriel M. Lavina officially resigned as Director of Philex Mining Corporation effective on February 22, 2018

A total of P5.088 million was remitted and made payable directly to SSS, which covers the director fees paid to SSS nominee directors, Mr. Jose Gabriel M. Lavina, Mr. Michael G. Regino, Mr. Gonzalo T. Duque and Ms. Anita B. Quitain.

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, 2018 are as follows:

Title of Class	Name and Address of Record Owner and Relationship to Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares	%
Common	Asia Link B.V. Prins Bernhardplein 200, 1097 JB Amsterdam, The Netherlands	Asia Link B.V. (See Note 1)	Non-Filipino	1,023,275,990	20.7
Common	Social Security System c/o Loans and Investment Office, 7/F SSS Building, Diliman, Quezon City	Social Security System (See Note 2)	Filipino	992,679,729	20.1
Common	PCD Nominee Corp. 37/F Tower 1, The Enterprise Center, 6766 Ayala Avenue, Makati City	(See Note 3)	Filipino/Non-Filipino	1,037,997,267	21.0
Common	Two Rivers Pacific Holdings Corp. 10/F Net One Center, 26 th Street corner 3 rd Avenue, Bonifacio Global City, Taguig	Two Rivers Pacific Holdings Corp. (See Note 4)	Filipino	738,871,510	15.0

¹ Asia Link B.V., is a wholly-owned subsidiary of First Pacific Company Limited (FPC).

² Total shares held by the Social Security System (SSS) is inclusive of 128,234,799 shares lodged under PCD Nominee Corporation as of December 31, 2018.

³ PCD Nominee Corporation (PCD) is a nominee of the Philippine Depository & Trust Corporation and the registered owner of the shares recorded in the books of the Company's stock transfer agent. A total of 1,037,997,267 shares as shown above as of December 31, 2018 are exclusive of the 128,234,799 shares owned by SSS which are included as part of the total shareholdings of SSS as indicated. PCD is private entity organized by major institutions actively participating in the Philippine capital markets to implement an automated book-entry system of handling securities transactions. Other than SSS whose shares lodged with PCD were excluded and presented separately, 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 a local entity represented by Ms. Marilyn A. Victorio-Aquino and Mr. Eulalio B. Austin, Jr. in its Board of Directors.

Security Ownership of Management

The beneficial ownership of the Company's directors and executive officers as of December 31, 2018 follows:

Title of Class	Beneficial Owner	Nature of Ownership	Citizenship	Number of Shares	%
Directors					
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	-
Common	Michael G. Regino	Direct	Filipino	1	-
Common	Edward A. Tortorici**	Direct	American	3,285,100	0.07
Common	Gonzalo T. Duque	Direct	British	1	-
Common	Anita B. Quitain	Direct	Filipino	1	-
Common	Marilyn A. Victorino-Aquino	Direct	Filipino	500,100	0.01
Common	Oscar J. Hilado	Direct	Filipino	173	-
Common	Robert C. Nicholson**	Direct	Filipino	1,250	-
Common	Wilfredo A. Paras	Direct	Filipino	1	-
Key Officers					
Common	Danny Y. Yu	Direct	Filipino	40,000	-
Common	Joan A. De Venecia***	Direct	Filipino	-	-
Common	Redempta P. Baluda*	Direct	Filipino	20	-
Common	Victor A. Francisco	Direct	Filipino	50,000	-
Common	Michael T. Toledo	Direct	Filipino	-	-
Directors and Key Officers as a Group				10,096,459	0.20

*Ms. Redempta P. Baluda officially retired effective on January 02, 2019

**Messrs. Edward A. Tortorici and Robert C. Nicholson officially retired effective on January 30, 2019

***Ms. Joan A. De Venecia officially transferred to an affiliate company in April 2019.

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, 2018, 2017 and 2016, which are under terms that are no less favorable than those arranged with third parties, and account balances are as follows:

a) Advances from PMC to SMMCI and SMECI

PMC, owning directly and indirectly 100% of SMMCI and SMECI, provides the funds to SMMCI, through SMECI since 2011 and directly thereafter, for the Silangan project's expenditures since the Company's acquisition of Anglo American's interest in the Silangan Project in 2009. These advances, which were intended to be converted into equity, amounted to P1.654 billion, P1.295 billion and P650.6 million as of December 31, 2018, 2017, and 2016, respectively. In February 2015, the Company infused all outstanding advances amounting to P7.208 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. These advances were covered by a pledge agreement between PMC and PXP wherein certain shares of stocks owned by PXP were pledged to secure the advances. On October 26, 2018, PMC and PXP signed a subscription agreement wherein PMC will subscribe to 260 million common shares of PXP for a total consideration of P3.081 billion. PXP's proceeds from the subscription agreement will be utilized by PXP for the repayment of its advances from PMC. As of December 31, 2018, PXP partially paid P772 million to PMC which reduced the advances to ₱1.387 billion from ₱2.169 billion as of December 31, 2017 and ₱2.194 billion as at end 2016. In February 2019, the Company paid another P1.386 billion aggregating to 70% of the total subscribed portion for a total consideration of P2.157 billion.

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

In December 2014, SMECI and PMC, as the co-issuer, issued 8-year convertible bonds with a face value of P7.2 billion at 1.5% coupon rate p.a. payable semi-annually. The bonds are convertible into 400,000 common shares of SMECI at P18,000 per share one year after the issue date. The carrying value of loans payable amounted to P7.333 billion, P6.950 billion and P6.593 billion as of December 31, 2018, 2017 and 2016, respectively.

Note 12 and 26 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

Philex Mining Corporation is principally committed to the highest standards of corporate governance and transparency in the conduct of its business. Through the years, the Company has reinforced its governance framework by broadening its scope to include initiatives associated with social responsibility and environmental stewardship. To ensure constant improvement, PMC regularly benchmarks its procedures against internationally-recognized and globally-accepted best corporate practices. Since 2015, PMC has constantly maintained its top-tier standing among local peers in the annual ASEAN Corporate Governance Scorecard rankings. For 2018, the Company formalized new policies on Succession Planning, Board Diversity, Information Technology Governance and assessment forms for Key Officers to further strengthen its overall governance structure.

The Company has adopted a Manual of Corporate Governance and is generally compliant with the Code of Corporate Governance of the Securities and Exchange Commission and Corporate Governance Guidelines of the Philippine Stock Exchange, including all other pertinent regulations for publicly-listed entities.

The Company's 2018 Integrated Annual Corporate Governance Report will be submitted on or before May 31, 2019.

PART V - EXHIBITS AND SCHEDULES

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

(a) Exhibits and Schedules

Exhibits	Statement of Management's Responsibility for Financial Statements Report of Independent Auditors Audited Consolidated Financial Statements and Noted for the Year Ended December 31, 2018
Schedules	
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 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

Date	Subject of Report
February 22, 2018	Notice of Analysts' Briefing: 2017 Earnings Results
February 23, 2018	Resignation of Director: Mr. Jose Gabriel M. La Vina
February 28, 2018	Press Release: 2017 Earnings Results Declaration of Cash Dividends of P0.04 Per Share Notice of 2018 Annual Stockholders' Meeting Appointment of Director: Mr. Gonzalo T. Duque 2017 Consolidated Audited Financial Statements
April 12, 2018	Summary of Estimated Mineral Reserves and Resources for Padcal Mine as of December 31, 2017
April 25, 2018	Clarification of News Reports: DENR Limits Areas for Mining Activities
May 03, 2018	Notice of Analysts' Briefing: 1 st Quarter 2018 Earnings Results
May 10, 2018	Press Release: 1 st Quarter 2018 Earnings Results
May 15, 2018	Notice of 2018 Annual Stockholders' Meeting (Amended)
June 28, 2018	Board Approval of Corporate Governance Policies Results of 2018 Annual Stockholders' Meeting Results of Organizational Meeting of Board of Directors
July 23, 2018	Notice of Analysts' Briefing: 2 nd Quarter 2018 Earnings Results
July 26, 2018	Press Release: 2 nd Quarter 2018 Earnings Results Declaration of Cash Dividends of P0.035 Per Share
October 18, 2018	Notice of Analysts' Briefing: 3 rd Quarter 2018 Earnings Results
October 25, 2018	Press Release: 3 rd Quarter 2018 Earnings Results
October 26, 2018	Subscription Agreement Between Philex Mining Corporation and PXP Energy Corporation
December 27, 2018	Subscription Agreement: Downpayment of Philex Mining Corporation
January 03, 2019	Retirement of Senior Officer
January 31, 2019	Retirement and Appointment of New Directors
February 12, 2019	Payment of Share Subscription to PXP Energy Corporation
March 12, 2019	Resignation and Appointment of New Senior Officers
March 18, 2019	Notice of Analysts' Briefing
March 22, 2019	Press Release: 2018 Financial and Operating Results
March 26, 2019	Notice of Annual Stockholders' Meeting
April 11, 2019	Summary of Estimated Mineral Reserves and Resources for Padcal Mine as of December 31, 2018


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 APR 10 2019, 2019.


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


BARBARA ANNE C. MIGALLOS
Corporate Secretary


DANNY Y. YU
Chief Finance Officer


PARALUMAN M. NAVARRO
Assistant Vice-President
Corporate Finance

SUBSCRIBED AND SWORN TO before me this APR 10 2019 day of 10 2019, 2019 at Mandaluyong City. Affiants exhibiting to me their Competent Evidence of Identity indicated opposite their names:

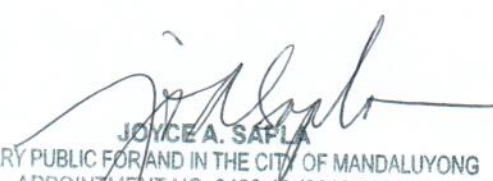
Name

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

Competent Evidence of Identity

Passport No. P9041046A; valid until October 04, 2028
Passport No. P8373079A; valid until August 15, 2028
Passport No. P7148981A; valid until May 10, 2028
PRC Reg. No. 0084884; valid until January 08, 2022

Doc. No. 333
Page No. 68
Book No. 71
Series of 2019


JOYCE A. SAFLA
NOTARY PUBLIC FOR AND IN THE CITY OF MANDALUYONG
APPOINTMENT NO. 0490-19 (2019-2020)
COMMISSION EXPIRES ON DECEMBER 31, 2020
2nd Floor, LaunchPad, Reliance St. cor. Sheridan St.,
Mandaluyong City, 1550
PTR No. 3810915; 01/07/2019; Mandaluyong City
Lifetime IBP No. 010874; RSM Chapter
Roll of Attorneys No. 60429



**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, 2018, 2017 and 2016, 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

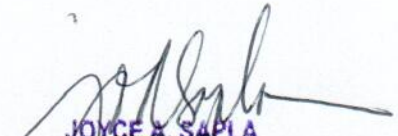
EULALIO B. AUSTIN, JR.
President & Chief Executive Officer

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

Subscribed and sworn to before me this APR 10 2019 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. 325
Page No. 68
Book No. II
Series of 2019


JOYCE A. SAPLA
NOTARY PUBLIC FOR AND IN THE CITY OF MANDALUYONG
APPOINTMENT NO. 0490-19 (2019-2020)
COMMISSION EXPIRES ON DECEMBER 31, 2020
2nd Floor, LaunchPad, Reliance St. cor. Sheridan St.,
Mandaluyong City, 1550
PTR No. 3810915; 01/07/2019; Mandaluyong City
Lifetime IBP No. 010874; RSM Chapter
Roll of Attorneys No. 60429

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

Company's Telephone Number

(632) 631-1381

Mobile Number

No. of Stockholders

44,040

Annual Meeting (Month / Day)

06/27

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

Telephone Number/s

(632) 631-1381

Mobile Number

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 corner 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, 2018 and 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 each of the three years in the period ended December 31, 2018, 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, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2018, 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, 2018, the carrying value of the Group's deferred exploration costs amounted to ₱25.45 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 exceeds 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, 2018. 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 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 an independent 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.



Recoverability of the carrying value of property, plant and equipment

The carrying value of the Group's property, plant and equipment amounted to ₱5.40 billion after recognizing an allowance for impairment amounting to ₱1.33 billion during 2018. The impairment mainly relates to mine and mining properties. Under PAS 36, an entity is required to assess whether indicators for impairment exist and if they exist, an impairment test is required. The assessment of the recoverability of the carrying value of property, plant and equipment requires judgement in assessing whether there is an indication that an asset should be impaired and in measuring any such impairment. The principal risk relates to Group's estimates of future cash flows and discount rates, which are used to project the recoverability of property, plant and equipment.

The Group's disclosures about property, plant and equipment are included in Note 10 to the consolidated financial statements.

Audit response

We reviewed management's assessment of the recoverability of the carrying value of mine and mining properties by evaluating whether indicators for potential impairment exist. We evaluated management's assessment of the existence of the impairment indicators. We have compared the assumptions used within the future cash flows model to approved budget business plans, forecasted metal prices, foreign exchange rates and historical production costs. We have compared the production quantities in the future cash flows model against the estimated ore reserves declared by the competent person's report. We have involved our valuation specialists to assist us in the analysis of the discount rate.

Expected Credit Loss upon adoption of PFRS 9, Financial Instruments

The Group's adoption of the expected credit loss (ECL) model is significant to our audit as it involves the exercise of significant management judgment. Key areas of judgment include: defining default; determining assumptions to be used in the ECL model such as timing and amounts of expected net recoveries from defaulted accounts; debtor's capacity to pay, and incorporating forward-looking information in calculating ECL.

The application of the ECL model upon adoption of PFRS 9 resulted in allowance for ECL on the Parent Company's advances to a related party amounting to ₱1.31 billion which was charged to retained earnings as of January 1, 2018.

The reassessment and application of the ECL model as of December 31, 2018 resulted in reversal of allowance for expected credit losses amounting to ₱1.31 billion which was charged to consolidated statements of comprehensive income in 2018.

Refer to Notes 2 and 26 of the financial statements for the transition adjustments and details of the allowance for expected credit losses using the ECL model upon adoption of PFRS 9 and as of December 31, 2018.



Audit response

We obtained an understanding of the Group's contracts review process to establish the contractual cash flow characteristics of debt financial assets and reviewed the assessment made by management by inspecting underlying contracts on a sample basis. We obtained the approved business models for the Group's portfolios of financial assets. We compared the parameters set within the business models with the investment/risk management policies of the Group. We reviewed the assumptions used by the Group in calculating for expected credit losses such as fair value of collateral, net recovery from collateral and timing of default upon adoption of PFRS 9, as well as the assumptions used in reassessing the expected credit losses as of December 31, 2018.

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, 2018, 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, 2018 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.

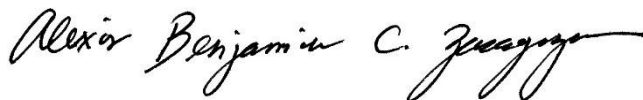
We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



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. 7332637, January 3, 2019, Makati City

March 21, 2019



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

	December 31	
	2018	2017
ASSETS		
Current Assets		
Cash and cash equivalents (Note 6)	₱870,967	₱583,538
Accounts receivable - net (Note 7)	300,016	990,604
Inventories - net (Note 8)	1,137,581	1,517,097
Advances to a related party (Notes 2 and 26)	1,387,370	2,168,632
Other current assets - net (Note 9)	757,292	1,007,000
Total Current Assets	4,453,226	6,266,871
Noncurrent Assets		
Property, plant and equipment - net (Note 10)	5,404,049	6,721,022
Financial assets measured at fair value through other comprehensive income (FVOCI) (Note 11)	118,033	—
Available-for-sale (AFS) financial assets (Note 11)	—	76,036
Investment in associates - net (Notes 12 and 34)	4,455,668	1,415,604
Deferred exploration costs (Notes 1, 13, 20 and 32)	25,447,772	24,360,954
Pension asset - net (Note 21)	359,888	373,849
Other noncurrent assets (Note 14)	472,898	464,458
Total Noncurrent Assets	36,258,308	33,411,923
TOTAL ASSETS	₱40,711,534	₱39,678,794
LIABILITIES AND EQUITY		
Current Liabilities		
Loans payable (Note 15)	₱2,155,780	₱2,446,570
Accounts payable and accrued liabilities (Notes 16 and 32)	1,790,939	1,649,254
Subscription payable (Note 12)	2,312,981	2,456
Income tax payable	18	229,679
Dividends payable (Note 28)	550,995	528,836
Total Current Liabilities	6,810,713	4,856,795
Noncurrent Liabilities		
Deferred tax liabilities - net (Notes 3 and 27)	2,789,813	3,004,830
Loans and bonds payable (Note 15)	7,333,096	6,950,306
Provision for losses and mine rehabilitation costs (Notes 10 and 32)	78,707	135,086
Total Noncurrent Liabilities	10,201,616	10,090,222
Total Liabilities	17,012,329	14,947,017
Equity Attributable to Equity Holders of the Parent Company		
Capital stock - ₱1 par value (Note 28)	4,940,399	4,940,399
Additional paid-in capital	1,143,981	1,143,981
Retained earnings (Note 28)		
Unappropriated	4,203,947	5,271,302
Appropriated	10,500,000	10,500,000
Net unrealized gain on financial assets measured at FVOCI (Note 11)	35,341	—
Net unrealized gain on AFS financial assets (Note 11)	—	558
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
	23,699,463	24,732,035
Non-controlling interests (Note 28)	(258)	(258)
Total Equity	23,699,205	24,731,777
TOTAL LIABILITIES AND EQUITY	₱40,711,534	₱39,678,794

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		
	2018	2017	2016
REVENUES (Note 17)	₱7,640,306	₱9,142,460	₱9,378,387
COSTS AND EXPENSES (Note 18)			
Production costs	4,407,889	4,411,694	4,614,423
Depletion, amortization and depreciation	1,600,521	1,550,530	1,460,439
General and administrative expenses	305,631	363,071	373,123
Excise taxes and royalties	506,490	452,407	452,415
	6,820,531	6,777,702	6,900,400
OTHER INCOME (CHARGES)			
Foreign exchange losses - net (Note 23)	(121,176)	(39,451)	(145,213)
Share in net losses of associates (Note 12)	(40,936)	(40,272)	(44,572)
Interest income (Note 6)	2,275	1,861	2,081
Gain on disposal of AFS financial assets (Note 11)	–	21,773	–
Others - net	91,160	58,117	(14,439)
	(68,677)	2,028	(202,143)
INCOME BEFORE PROVISIONS FOR IMPAIRMENT LOSSES	751,098	2,366,786	2,275,844
PROVISIONS FOR IMPAIRMENT LOSSES - NET OF REVERSAL (Notes 10, 12, and 26)	(67,033)	–	(2,504,850)
INCOME (LOSS) BEFORE INCOME TAX	684,065	2,366,786	(229,006)
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 27)			
Current	275,408	664,806	586,483
Deferred	(199,799)	43,894	110,742
	75,609	708,700	697,225
	608,456	1,658,086	(926,231)
INCOME (LOSS) ON DECONSOLIDATED SUBSIDIARY GROUP, NET OF TAX (Note 34)			
Loss from deconsolidated subsidiary group	–	–	(29,102)
Gain from loss of control over a subsidiary group	–	–	2,522,704
	–	–	2,493,602
NET INCOME	₱608,456	₱1,658,086	₱1,567,371
Net Income (Loss) Attributable to:			
Equity holders of the Parent Company	₱608,456	₱1,658,087	₱1,589,045
Non-controlling interests (Note 28)	–	(1)	(21,674)
	₱608,456	₱1,658,086	₱1,567,371
Basic/Diluted Earnings Per Share (Note 30)	₱0.123	₱0.336	₱0.322

See accompanying Notes to Consolidated Financial Statements.



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

	Years Ended December 31		
	2018	2017	2016
NET INCOME	₱608,456	₱1,658,086	₱1,567,371
OTHER COMPREHENSIVE INCOME (LOSS)			
<i>Item 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)
	–	3,652	(2,072)
<i>Items not to be reclassified to profit or loss in subsequent periods:</i>			
Remeasurement gains (losses) on pension obligation plans (Note 21)	9,946	94,301	(98,319)
Unrealized gain on financial assets measured at FVOCI (Note 11)	40,872	–	–
Income tax effect	(9,073)	(28,290)	29,496
	41,745	66,011	(68,823)
OTHER COMPREHENSIVE INCOME (LOSS)	41,745	69,663	(70,895)
TOTAL COMPREHENSIVE INCOME	₱650,201	₱1,727,749	₱1,496,476
Total Comprehensive Income (Loss) Attributable to:			
Equity holders of the Parent Company	₱650,201	₱1,727,750	₱1,518,150
Non-controlling interests (Note 28)	–	(1)	(21,674)
	₱650,201	₱1,727,749	₱1,496,476

See accompanying Notes to Consolidated Financial Statements.



PHILEX MINING CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016

(Amounts in Thousands)

	Equity Attributable to Equity Holders of the Parent Company											
	Capital Stock (Note 28)	Additional Paid-In Capital	Retained Earnings (Note 28)		Net Unrealized Loss on AFS Financial Assets (Notes 11)	Equity Conversion Option (Note 15)	Cumulative Translation Adjustments	Net Revaluation Surplus (Notes 4 and 34)	Effect of Transactions with Non- controlling Interests	Subtotal	Non- controlling Interests (Note 28)	Total
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:												
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 21)	—	—	(68,823)	—	—	—	—	—	—	(68,823)	—	(68,823)
Total comprehensive income (loss)	—	—	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 29)	—	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 28)	—	—	(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 28)	Additional Paid-In Capital	Retained Earnings (Note 28)		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 28)	Total
BALANCES AT DECEMBER 31, 2016	₱4,940,399	₱ 1,143,981	₱ 4,442,436	₱10,000,000	(₱3,094)	₱1,225,518	₱1,572,385	₱77,892	₱23,399,517	(₱257)	₱23,399,260
Net income (loss)	—	—	1,658,087	—	—	—	—	—	1,658,087	(1)	1,658,086
Other comprehensive income:											
Items to be reclassified to profit or loss in subsequent periods:											
Unrealized gain 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 21)	—	—	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 28)	—	—	(500,000)	500,000	—	—	—	—	—	—	—
Declaration of dividends (Note 28)	—	—	(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



	Equity Attributable to Equity Holders of the Parent Company											
	Capital Stock (Note 28)	Additional Paid-In Capital	Retained Earnings (Note 28)		Net Unrealized Gain (Loss) on AFS Financial Assets (Notes 11)	Net Unrealized Gain on financial assets measured at FVOCI	Equity Conversion Option (Note 15)	Net Revaluation Surplus (Note 4)	Effect of Transactions with Non- controlling Interests	Subtotal	Non- controlling Interests (Note 28)	Total
			Unappropriated	Appropriated								
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
Effect of adoption of PFRS 9 - provision for expected credit losses (Note 2)	–	–	(1,312,243)	–	–	–	–	–	–	(1,312,243)	–	(1,312,243)
Reclassification of AFS financial assets to financial assets measured at FVOCI	–	–	–	–	(558)	558	–	–	–	–	–	–
Balances at January 1, 2018	4,940,399	1,143,981	3,959,059	10,500,000	–	558	1,225,518	1,572,385	77,892	23,419,792	(258)	23,419,534
Net income	–	–	608,456	–	–	–	–	–	–	608,456	–	608,456
Items not to be reclassified to profit or loss in subsequent periods:												
Remeasurements of pension obligation, net of tax (Note 21)	–	–	6,962	–	–	–	–	–	–	6,962	–	6,962
Unrealized gain on financial assets measured at FVOCI - net of related deferred income tax (Note 11)	–	–	–	–	–	34,783	–	–	–	34,783	–	34,783
Total comprehensive income	–	–	615,418	–	–	34,783	–	–	–	650,201	–	650,201
Declaration of dividends (Note 28)	–	–	(370,530)	–	–	–	–	–	–	(370,530)	–	(370,530)
BALANCES AT DECEMBER 31, 2018	₱4,940,399	₱1,143,981	₱ 4,203,947	₱10,500,000	₱–	₱35,341	₱1,225,518	₱1,572,385	₱77,892	₱23,699,463	(₱258)	₱23,699,205

See accompanying Notes to Consolidated Financial Statements.



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

	Years Ended December 31		
	2018	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Income (loss) before income tax from continuing operations	₱684,065	₱2,366,786	(₱229,006)
Income before income tax from discontinued operations (Note 34)	—	—	2,464,064
Income before income tax	684,065	2,366,786	2,235,058
Adjustments for:			
Depletion, amortization and depreciation (Note 20)	1,622,566	1,572,311	1,481,405
Unrealized foreign exchange losses and others - net	106,831	107,584	268,353
Movement in pension assets - net	13,961	(61,279)	(48,703)
Share in net losses of associates (Note 12)	40,936	40,272	44,572
Gain on disposal of AFS financial assets (Note 11)	—	(21,773)	—
Interest income (Notes 6 and 34)	(2,275)	(1,861)	(3,980)
Reversal of provision for expected credit losses on PXP receivables (Notes 2, 3 and 22)	(1,312,243)	—	—
Gain on loss of control over a subsidiary group (Note 34)	—	—	(2,522,704)
Impairment losses on deferred exploration costs, property, plant and equipment, and other assets - net (Notes 10, 12, and 13)	1,379,276	—	2,504,850
Share-based compensation expense (Note 29)	—	—	1,259
Operating income before working capital changes	2,533,117	4,002,040	3,960,110
Decrease (increase) in:			
Accounts receivable - net	690,588	(504,107)	295,002
Inventories - net	379,516	801,753	(441,350)
Other current assets - net	249,708	28,718	50,760
Increase in accounts payable and accrued liabilities	141,460	(180,951)	(55,086)
Cash generated from operations	3,994,389	4,147,453	3,809,436
Interest received	2,275	1,861	3,973
Interest paid	(204,091)	(121,341)	(631,374)
Income taxes paid	(505,069)	(599,392)	(435,232)
Net cash flows from operating activities	3,287,504	3,428,581	2,746,803
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment (Note 10)	(1,914,032)	(1,746,712)	(1,735,034)
Increase in deferred exploration costs and other noncurrent assets	(437,610)	(608,430)	(356,576)
Payment of mine rehabilitation costs	(59,889)	—	—
Additional investment in associate (Note 12)	(770,250)	—	—
Collections of advances to a related party	781,262	25,197	—
Increase in financial assets measured at FVOCI	(1,125)	—	—
Net proceeds from sale of:			
AFS financial assets	—	32,231	—
Property, plant and equipment	160,354	12,089	33,287
Cash from deconsolidated subsidiary group (Note 34)	—	—	(606,585)
Net cash flows used in investing activities	(2,241,290)	(2,285,625)	(2,664,908)

Forward



	Years Ended December 31		
	2018	2017	2016
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from availment of short-term loans (Note 15)	₱1,033,790	₱50,240	₱236,190
Payments of:			
Short-term bank loans (Note 15)	(1,449,290)	(705,230)	(638,518)
Dividends (Note 28)	(348,371)	(364,525)	(235,139)
Net cash flows used in financing activities	(763,871)	(1,019,515)	(637,467)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	5,086	2,160	4,823
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	287,429	125,601	(550,749)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	583,538	457,937	1,008,686
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)	₱870,967	₱583,538	₱457,937

See accompanying Notes to Consolidated Financial Statements.



PHILEX MINING CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in Thousands, Except Amounts Per Unit, Share Price 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 34). 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 30.4% owned associate and incorporated in the Philippines) and its subsidiaries: Forum Energy Limited. (FEP, 75.92% owned and registered in England and Wales) and its subsidiaries, Pitkin Petroleum Limited (PPP, 53.43% 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.



The Parent Company continues to explore various globally-accepted mining practices and employ engineering interventions as well as operational efficiency improvements as the challenges of operating the mature Padcal Mine persist.

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 to 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 currently holds 98.9% of LMC.

SMMCI

SMMCI completed the Pre-Feasibility Study (PFS) for mining the Boyongan deposit via an underground mining method called Sub-Level Caving (SLC) end of November 2018. The positive results of the PFS has prompted SMMCI to proceed to a Definitive Feasibility Study (DFS) of the same which will be completed mid-May 2019. Both studies are highlighted by the field geotechnical and hydrogeological investigations, which involved drilling a total of 10,600 meters of boreholes, collection of samples for laboratory testing, pumping and hydro stress tests and analysis of laboratory results and field tests. In parallel, a PFS for mining Bayugo deposit is also targeted to be completed by end of June 2019.

Apart from the drilling activities, the site is under care and maintenance. It was able to obtain certification of its Environmental Management System (EMS) under the ISO 140001:2015 by Certification International Philippines Inc. (CIPi). Participative community relations and responsible environmental programs are still maintained.

The Silangan Project has secured and currently maintains all major permits from the DENR which are applicable to open-pit mining, such as the Environmental Compliance Certificate (ECC); Declaration of Mining Project Feasibility (DMPF); and Special Tree Cutting and Earth Barring Permit (STC-EB), among others. The permits previously mentioned are the most recent available documents approved by various government agencies. As of December 31, 2018, SMMCI is still in the process of securing permits applicable to underground mining.

Recovery of Deferred Exploration Costs

The Group's ability to realize its deferred exploration costs with carrying value amounting to ₱25,447,772 and ₱24,360,954 as at December 31, 2018 and 2017, 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 March 21, 2019.



2. Basis of Preparation, Statement of Compliance, Changes in Accounting Policies and Disclosures and 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 financial assets measured at fair value through other comprehensive income (FVOCI) and derivative financial instruments that are measured at fair value through profit or loss (FVTPL). The consolidated financial statements are presented in Philippine Peso, which is the Group's functional and presentation currency, rounded off to the nearest thousands, except when otherwise indicated.

Statement of Compliance

The 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.

Tax Reform for Acceleration and Inclusion Act (TRAIN)

Republic Act No. 10963 or the 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. Under the TRAIN law, mining companies that extract metallic or non-metallic minerals are subject to a four percent (4%) excise tax on the value of their production from the previous two percent (2%). This effectively doubled the excise tax reported by the Group starting January 1, 2018.

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, 2018. Adoption of these pronouncements did not have any significant impact on the Group's financial position or performance unless otherwise indicated.

- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*
- PFRS 9, *Financial Instruments*
PFRS 9 Financial Instruments replaces PAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after January 1, 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Company applied PFRS 9 prospectively, with an initial application date of 1 January 2018. The Company has not restated the comparative information, which continues to be reported under PAS 39. Differences arising from the adoption of PFRS 9 have been recognized directly in retained earnings and other components of equity.



The effect of adopting PFRS 9 as of January 1, 2018 follows:

a. Classification and measurement

Under PFRS 9, debt instruments are subsequently measured at fair value through profit or loss (FVTPL), amortised cost, or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest (SPPI)' on the principal amount outstanding.

The assessment of the Group's business model was made as of the date of initial application, January 1, 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The following are the changes in the classification of the Group's financial assets:

- Trade receivables (subject to provisional pricing) previously classified as loans and receivables: The provisional pricing component of those receivables are bifurcated and are presented as receivables. Under PFRS 9, the exposure of the trade receivable to future commodity price movements will cause the trade receivable to fail the SPPI test. Therefore, the entire receivable is now required to be measured at fair value through profit or loss, with subsequent changes in fair value recognized in the statements of comprehensive income each period until final settlement. These fair value changes resulted into provisional pricing adjustment of ₱85,744 in 2018. Under PAS 39, such fair value changes were accounted for separately as fair value changes arising from bifurcated embedded derivatives. The key impact was on presentation and disclosure, including the PFRS 13 *Fair Value Measurement* disclosures.
- Advances to a related party previously classified as loans and receivables are held to collect contractual cash flows and give rise to cash flows representing SPPI. These are now classified and measured as debt instruments at amortized cost.
- Unquoted debt instruments previously classified as AFS financial assets are now classified and measured as FVOCI. The Group elected to classify irrevocably its listed equity investments under this category as it intends to hold these investments for the foreseeable future. There were no impairment losses recognized in profit or loss for these investments in prior periods.
- Listed equity investments previously classified as AFS financial assets are now classified and measured as FVOCI. The Group elected to classify irrevocably its listed equity investments under this category as it intends to hold these investments for the foreseeable future. There were no impairment losses recognized in profit or loss for these investments in prior periods.

There are no changes in classification and measurement for the Group's financial liabilities.



In summary, upon the adoption of PFRS 9, the Group had the following required or elected reclassifications as at January 1, 2018:

	PFRS 9 Measurement Category			
	PAS 39 carrying value	FVTPL	Amortized cost	FVOCI
PAS 39 Measurement category				
Loans and receivables				
Cash with banks and short-term deposits	₱581,117	₱–	₱581,117	₱–
Trade receivables	901,999	903,176	–	–
Provisional pricing component*	1,177	–	–	–
Advances to a related party	2,168,632	–	2,168,632	–
AFS financial assets				
Quoted equity investments	24,072	–	–	24,072
Unquoted equity investments	51,964	–	–	51,964
Total undiscounted financial assets	₱3,728,961	₱903,176	₱2,749,749	₱76,036

*The provisional pricing component of trade receivables in 2017 were bifurcated and are also presented as receivables.

b. Impairment

The adoption of PFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing PAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. PFRS 9 requires the Group to record an allowance for impairment losses for all debt financial assets not held at FVTPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

For advances to a related party, the Group has applied the standard's general approach and has calculated ECL based on possible default within the next twelve (12) months and continuously tracks changes in credit risks.

The key inputs in the ECL model includes debtor's capacity to pay, fair value of collateral and estimated net recoveries, definition of default, and expected manner of recovery which is through exercise of the pledge agreement as discussed in Note 26.

Upon the adoption of PFRS 9, the Group recognized impairment) amounting to ₱1,312,243 on the Group's advances to a related party (PXP) which resulted in a decrease in retained earnings of ₱1,312,243 as at January 1, 2018. (see Note 22).



Set out below is the reconciliation of the ending impairment allowances in accordance with PAS 39 to the opening loss allowances determined in accordance with PFRS 9:

	Allowance for impairment under PAS 39 as of December 31, 2017	Remeasurement	ECL under PFRS 9 as of January 1, 2018
Loans and receivables under PAS 39 or financial assets at amortized cost under PFRS 9 and contract assets	₱—	₱1,312,243	₱1,312,243

- Amendments to PFRS 4, *Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts*
- PFRS 15, *Revenue from Contracts with Customers*

PFRS 15 supersedes PAS 18 Revenue and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. PFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised 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 Group adopted PFRS 15 using the modified retrospective method of adoption with the date of initial application of January 1, 2018. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Company elected to apply the standard to all contracts as at January 1, 2018.

The cumulative effect of initially applying PFRS 15 is recognized at the date of initial application as an adjustment to the opening balance of retained earnings. Therefore, the comparative information was not restated and continues to be reported under PAS 18 and related Interpretations.

The Group, upon adoption of PFRS 15, does not have uncompleted contracts from 2017. The adoption of PFRS 15 affects disclosure and presentation of revenue from contracts with customers which excludes provisional price adjustments.

Furthermore, the Group's business practices and contractual terms with the customers in relation to the sale of copper concentrates do not meet the criteria for the recognition of revenue upon performance obligations satisfied over time in accordance with PFRS 15 paragraph 35 therefore, revenue is recognized at a point in time upon which control over the copper concentrates has been transferred to the customer upon shipment to the ship's rail.

The new revenue standard requirements will have an impact on the presentation of revenue from contracts with customers and will not result to an adjustment in the opening balance of retained earnings.

- Amendments to PAS 28, *Investments in Associates and Joint Ventures, 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*

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, 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.

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 has assessed and concluded that there is no impact on the Group's financial statements as of the reporting period.

- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*

The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event



- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after January 1, 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Group.

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

Annual Improvements to PFRSs 2015-2017 Cycle

- Amendments to PFRS 3, *Business Combinations*, and PFRS 11, *Joint Arrangements, Previously Held Interest in a Joint Operation*
- Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*
- Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

Effective beginning on or after January 1, 2020

- Amendments to PFRS 3, *Definition of a Business*
- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*

The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements.

An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

Effective beginning on or after January 1, 2021

- PFRS 17, *Insurance Contracts*

Deferred effectivity

- Amendments to PFRS 10, *Consolidated Financial Statements*, 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, 2018 and 2017. 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. On January 31, 2017, the Board of Directors approved to shorten the corporate term of PIAI to be until June 30, 2018.
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 34). 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 2018 and 2017 are summarized as follows:

	Percentages of Ownership			
	2018		2017	
	Direct	Indirect	Direct	Indirect
PGHI	100.0	—	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	—
PXP	30.4	—	19.8	—

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 PFRS 9 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 - Initial Recognition and Subsequent Measurement (prior to adoption of PFRS 9)

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 (FVTPL), includes transaction cost.

On initial recognition, the Group classifies its financial assets in the following categories: financial assets at FVTPL, 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 FVTPL 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.

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 FVTPL, 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 FVTPL.

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, 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.

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, 2018 and 2017, included in other financial liabilities are the Group’s accounts payable and accrued liabilities, dividends payable, and loans and bonds payable.

Financial Instruments - Initial Recognition and Subsequent Measurement (upon adoption of PFRS 9)

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset’s contractual cash flow characteristics and the Group’s business model for managing them. The Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

In order for a financial asset to be classified and measured at amortized cost or fair value through OCI, it needs to give rise to cash flows that are ‘solely payments of principal and interest (SPPI)’ on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group’s business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

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

Financial assets at FVTPL

Trade receivables subject to provisional pricing are measured at FVTPL, with subsequent changes in fair value recognized in the statements of income and other comprehensive income each period until final settlement.



Included under this category are the Group's trade receivables as at December 31, 2018.

Financial assets at amortized cost (debt instruments)

This category is the most relevant to the Group. The Group measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and;
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding

The details of these conditions are outlined below:

Business model assessment

The Group determined the business model at the level that best reflects how the Group manages its financial assets to achieve business objective.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from original expectations, the Group do not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The SPPI test

The Group assesses the contractual terms of financial assets to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group apply judgment and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial assets is required to be measured at FVTPL.

Financial assets at amortized cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

The Group's financial assets at amortized cost include cash in banks, short-term deposits and advances to a related party.

Hedging

The Group applied hedge accounting prospectively. At the date of initial application, all of the Group's existing hedging relationships were eligible to be treated as continuing hedging relationships. Before the adoption of PFRS 9, the Group designated the change in fair value of the entire forward contracts in its cash flow hedge relationships. Upon adoption of the hedge accounting requirements of PFRS 9,



the Group designates only the spot element of forward contracts as hedging instrument. The forward element is recognized in OCI. This change only applies prospectively from the date of initial application of PFRS 9 and has no impact on the presentation of comparative figures.

Under PAS 39, all gains and losses arising from the Group's cash flow hedging relationships were eligible to be subsequently reclassified to profit or loss. However, under PFRS 9, gains and losses arising on cash flow hedges of forecast purchases of non-financial assets need to be incorporated into the initial carrying amounts of the non-financial assets. This change only applies prospectively from the date of initial application of PFRS 9 and has no impact on the presentation of comparative figures.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables net of directly attributable transaction costs.

This category includes the Group's accounts payables and accrued liabilities.

Subsequent measurement

After initial recognition, payables are subsequently measured at amortized cost using the EIR method.

Impairment of Financial Assets (prior to adoption of PFRS 9)

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.

Impairment of Financial Assets (upon adoption of PFRS 9)

The Group recognizes an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original EIR. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For other receivables (not subject to provisional pricing) due in less than 12 months, the Group applies the simplified approach in calculating ECLs, as permitted by PFRS 9. Therefore, the Group does not track changes in credit risk, but instead, recognises a loss allowance based on the financial asset’s lifetime ECL at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. For any other financial assets carried at amortised cost (which are due in more than 12 months), the ECL is based on the 12-month ECL. The 12-month ECL is the proportion of



lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment including forward-looking information.

The Group considers a financial asset in default when contractual payments are 30 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows and usually occurs when past due for more than one year and not subject to enforcement activity.

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Derecognition of Financial Assets and Financial Liabilities (prior to and upon adoption of PFRS 9)

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.



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.

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 or cash refund 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 or mine life whichever is shorter 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 Group 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, investment in associate 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.



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

Under PAS 18, revenue is recognized when it satisfies an identified performance obligation by transferring a promised good or service in exchange of the consideration in which the Group is entitled to receive. A good or service is considered transferred when the customer obtains the significant risk and rewards of ownership. 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 transaction price of the good or service. Amounts collected on behalf of third parties, such as reimbursable transactions, are not economic benefits which flow to the Group and do not result in increase in equity; therefore, they are excluded from revenue. Under PFRS 15, revenue is recognized when control passes to the customer, which occurs at a point in time when the ore concentrates is physically transferred onto a shipping vessel. The revenue is measured at the amount to which the Group expects to be entitled, being estimate of the price expected using forward price, and a corresponding receivable is recognized. Details and changes upon adoption of PFRS 15 are mentioned below:

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 smelting 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.

Provisional pricing adjustments

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. Depending on the arrangement with the buyer, initial payment could be ninety percent (90%) or 100% of the provisional shipment value is collected within a week from shipment date, while the remaining balance 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. Under PAS 18, provisional price adjustments are included as part of revenue in the consolidated statements of income. However under PFRS 15, provisional price adjustments are mark-to-market adjustments and not part of revenue from contracts with customers but are presented as other revenues.

Smelting charges

Contract terms on the sale of copper, gold and silver includes smelting charges deducted on the invoice price. Under PAS 18, revenue is presented at gross amounts and the related smelting charges are also presented separately in the consolidated statements of income. Under PFRS 15, smelting charges are deducted from revenue to arrive at revenue from contracts with customers since smelting charges are considered as consideration payable to a customer in order to transform the unprocessed ore concentrates into its marketable form.

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognized for the earned consideration that is conditional.

The Group does not have any contract assets as performance and a right to consideration occurs within a short period of time and all rights to consideration are unconditional.



Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognized when the payment is made or the payment is due (whichever is earlier). Contract liabilities are not recognized as the Group does not have advance payments from customer under contractual arrangements.

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 29.

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, 2018 and 2017, deferred income tax assets recognized in the consolidated statements of financial position amounted to ₱228,537 and ₱285,003, respectively (see Note 27). As at December 31, 2018 and 2017, no deferred income tax assets were recognized on deductible temporary differences amounting to about ₱2,838,318 and ₱2,794,938, respectively (see Note 27), 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

Under PFRS 9, there is a change in the classification and measurement requirements relating to financial assets. Previously, there were four categories of financial assets: loans and receivables, fair value through profit or loss, held to maturity and available for sale. Under IFRS 9, financial assets are either classified as amortised cost, fair value through profit or loss or fair value through other comprehensive income.

The classification and measurement requirements of PFRS 9 did not have a significant impact on the Group. The Group continued measuring at fair value all financial assets previously held at fair value under PAS 39. The following are the changes in the classification of the Group's financial assets:

- Trade receivables (subject to provisional pricing) previously classified as loans and receivables are carried at amortized cost and the embedded derivative are closed to receivables. Under PFRS 9, the exposure of the trade receivable to future commodity price movements will cause the trade receivable to fail the SPPI test. Therefore, the entire receivable is now required to be measured at FVTPL, with subsequent changes in fair value recognized in the statements of comprehensive income each period until final settlement.
- Equity investments previously classified as AFS financial assets are now classified and measured as FVOCI. The Group elected to classify irrevocably its equity investments under this category as it intends to hold these investments for the foreseeable future. There were no impairment losses recognized in profit or loss for these investments in prior periods.

The Group determines the classification at initial recognition and re-evaluates this classification, where allowed and appropriate, at every reporting date (see Note 22).

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 revenue from contracts with customers amounted to ₱7,640,306 (see note 17) while total mine products revenue, gross of smelting charges, amounted to ₱9,984,793 and ₱10,271,665 in 2017 and 2016, respectively.

Impairment of Loans and Receivables (prior to adoption of PFRS 9)

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 as at December 31, 2017 (see Note 23). Allowance for impairment on these financial assets amounted to ₱1,405 as at December 31, 2017 (see Note 7).

Under PFRS 9, trade receivables are classified as FVTPL and are not subject to impairment test.

Provision for expected credit losses on advances to a related party (adoption of PFRS 9)

The Group uses the general approach model as new impairment requirement of PFRS 9 based on ECL which replace PAS 39 incurred loss model. An assessment of the ECL relating to advances to a related party is undertaken upon initial recognition and each financial year by examining the financial position of the related party and the market in which the related party operates applying the general approach of the ECL impairment model of PFRS 9. The general approach of the ECL impairment model involves exercise of significant judgment. Key areas of judgment include: defining default; determining assumptions to be used in the ECL model such as timing and amounts of expected net recoveries from defaulted accounts; debtor’s capacity to pay, and incorporating forward-looking information in calculating ECL. Total carrying value of other receivables and advances to a related party amounted to ₱1,484,548 as of December 31, 2018 (see notes 7 and 26).

Valuation of Financial Instruments

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

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 22.



Valuation of Financial Assets measured at FVOCI

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

Under PAS 39, any change in fair value of its AFS financial assets is recognized in the consolidated statements of comprehensive income. As at December 31, 2017, the Group has net cumulative unrealized gain or loss on AFS financial assets amounting to a gain of ₱558. As at December 31, 2017, the carrying value of the Group's AFS financial assets amounted to ₱76,036 (see Note 11).

Under PFRS 9, any change in fair value of its financial assets measured at FVOCI is recognized in the consolidated statements of comprehensive income. As at December 31, 2018, the Group has net cumulative unrealized gain or loss on its financial assets measured at FVOCI amounting to a gain of ₱35,341. As at December 31, 2018, the carrying value of the Group's financial assets measured at FVOCI amounted to ₱118,033 (see Note 11).

Impairment of AFS Equity Financial Assets

Under PAS 39, the Group treats AFS equity 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, the carrying value of the Group's AFS equity financial assets amounted to ₱76,036 (see Note 11).

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, 2018 and 2017 amounted to ₱55,603 and ₱390,446, 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 ₱13,099 and ₱70,126 as at December 31, 2018 and 2017, respectively. The carrying value of materials and supplies inventories amounted to ₱1,081,978 and ₱1,126,651 as at December 31, 2018 and 2017, respectively (see Note 8). Additional provision for materials and supplies obsolescence amounted to nil in 2018 and 2017 (see Note 8).

Impairment of Mine and Mining Properties

The Group assesses, at each reporting date, whether there is an indication that mine and mining properties may be impaired. If any indication exists, or when annual impairment testing for mine and mining properties is required, the Group estimates the mine and mining properties' recoverable



amount. An asset's recoverable amount is the higher of asset's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Assessments require the use of estimates and assumptions such as future cash flows, discount rates, estimated ore reserves, forecasted metal prices, and production quantities. In assessing value in use, the estimated future cash flows are discounted to their present value using a suitable discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment loss amounting to ₱1,331,776 was recognized in 2018. Mine and mining properties amounted to ₱2,821,416 and ₱3,691,744 as at December 31, 2018 and 2017, respectively (see Note 10).

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, 2018 and 2017, net book value of property, plant and equipment amounted to ₱5,404,049 and ₱6,721,022 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, 2018 and 2017, the carrying value of the mine and mining properties of the Parent Company amounted to ₱2,821,416 and ₱3,691,744, respectively, net of related accumulated depletion and impairment amounting to ₱12,569,395 and ₱10,312,268, respectively (see Note 10).

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 ₱76,365 and ₱132,744 as at December 31, 2018 and 2017, 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 ₱47,500, nil and ₱2,284,557 were recognized in 2018, 2017 and 2016, respectively. Deferred exploration costs amounted to ₱25,447,772 and ₱24,360,954 as at December 31, 2018 and 2017, respectively (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 ₱1,331,776, nil and ₱220,293 were recognized in 2018, 2017 and 2016, respectively. As at December 31, 2018 and 2017, the carrying value of non-financial assets amounted to ₱11,030,078 and ₱9,518,440, respectively (see Notes 9, 10, 12 and 14).

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 ₱362,190 and ₱377,033 as at December 31, 2018 and 2017, respectively (see Note 21). SMMCI's retirement liability amounted to ₱2,302 and ₱3,184 as at December 31, 2018 and 2017, respectively (see Note 21).

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, depreciation and depletion, and amortization (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 2018, 2017 and 2016:



December 31, 2018					
	Metals	Energy and Hydrocarbon	Unallocated Corporate Balances	Eliminations	Total
Revenue					
External customers	₱7,640,306	₱-	₱-	₱-	₱7,640,306
Consolidated revenue	₱7,640,306	₱-	₱-	₱-	₱7,640,306
Results					
EBITDA	₱2,492,564	₱-	₱-	₱-	₱2,492,564
Interest income (expense) – net	2,275	-	-	-	2,275
Income tax benefit (expense)	(75,609)	-	-	-	(75,609)
Depreciation and depletion	(1,622,566)	-	-	-	(1,622,566)
Non-recurring items	(188,208)	-	-	-	(188,208)
Consolidated net income (loss)	₱608,456	₱-	₱-	₱-	₱608,456
Core net income (loss)	₱600,100	₱-	₱-	₱-	₱600,100
Consolidated total assets	₱40,711,534	₱-	₱-	₱-	₱40,711,534
Consolidated total liabilities	₱17,012,329	₱-	₱-	₱-	₱17,012,329

Other Segment Information:

Capital expenditures and other non-current assets	₱2,419,709	₱-	₱-	₱-	₱2,419,709
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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
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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

Forward



December 31, 2016					
	Metals	Energy and Hydrocarbon*	Unallocated Corporate Balances	Eliminations	Total
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
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*January 1 to July 15, 2016.

The following table shows the Group's reconciliation of core net income to the consolidated net income for the years ended December 31, 2018, 2017 and 2016:

	2018	2017	2016
Core net income	₱600,100	₱1,685,703	₱1,657,404
Non-recurring gains (losses):			
Foreign exchange losses and others	(121,176)	(39,451)	(145,040)
Gain on sale of assets	—	—	—
Net tax effect of aforementioned adjustments	36,353	11,835	43,512
Provisions for impairment of assets – net	93,179	—	(2,504,850)
Gain from loss of control over a subsidiary group	—	—	2,538,019
Net income attributable to equity holders of the Parent Company	608,456	1,658,087	1,589,045
Net income attributable to NCI (Note 28)	—	(1)	(21,674)
Consolidated net income	₱608,456	₱1,658,086	₱1,567,371

Core net income per share is computed as follows:

	2018	2017	2016
Core net income	₱600,100	₱1,685,703	₱1,657,404
Divided by weighted average number of common shares outstanding during year (Note 30)	4,940,399,068	4,940,399,068	4,940,399,068
Core net income per share	₱0.121	₱0.341	₱0.335

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 IXM Pte. Ltd. (IXM and formerly known as Louis Dreyfuss Commodities Metals Suisse SA) for the remaining copper concentrates. In addition, the Parent Company entered into a Sales Agreement with Transamine Trading SA (Transamine) (signed on July 1, 2018), whereby Transamine agreed to buy copper concentrates starting November 2018.



Gross revenue, including provisional pricing adjustments, from Pan Pacific, IXM and Transamine for the years ended December 31, 2018, 2017 and 2016 are presented below:

	2018	2017	2016
IXM	₱5,230,121	₱5,206,863	₱3,287,548
Pan Pacific	2,052,282	5,475,492	6,377,937
Transamine	1,321,053	—	—
	₱8,603,456	₱10,682,355	₱9,665,485

6. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	2018	2017
Cash on hand	₱814	₱2,421
Cash with banks	221,476	356,832
Short-term deposits	648,677	224,285
	₱870,967	₱583,538

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 ₱2,275, ₱1,861 and ₱2,081 in 2018, 2017 and 2016, respectively.

7. Accounts Receivable - net

Accounts receivable consist of:

	2018	2017
Trade	₱204,243	₱903,176
Others	97,178	88,833
	301,421	992,009
Less allowance for impairment losses	1,405	1,405
	₱300,016	₱990,604

The Group's trade receivables carried at FVTPL consist of the Parent Company's trade receivables arising from shipments of copper concentrates to Pan Pacific, IXM and Transamine.

Pan Pacific and IXM trade receivables 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 and IXM. Transamine's trade receivables are paid based on 100% of their provisional value, within one week before shipment date. Transamine is a new customer contracted by the Group in 2018. The Group has US dollar (US\$) accounts receivable amounting to US\$3,884 and US\$18,003 as at December 31, 2018 and 2017, respectively (see Note 25).

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.



As at December 31, 2018 and 2017, 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 ₱3,735,334 and ₱3,615,321 as at December 31, 2018 and 2017, respectively. Fair value adjustments for these open or provisionally priced sales contract at yearend amounted to net gain of ₱20,014, ₱8,433, ₱51,776 in 2018, 2017 and 2016, respectively, which was included under revenue and adjusted against receivables.

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

	2018	2017
January 1	₱1,405	₱1,747
Write-off during the year	—	(342)
December 31	₱1,405	₱1,405

The impaired receivables were specifically identified as at December 31, 2018 and 2017.

8. Inventories - net

Inventories consist of:

	2018	2017
Mine products - at NRV	₱55,603	₱390,446
Materials and supplies:		
On hand - at cost	978,545	1,112,389
In transit - at cost	116,532	84,388
	1,150,680	1,587,223
Less allowance for impairment losses	13,099	70,126
	₱1,137,581	₱1,517,097

As at December 31, 2018 and 2017, the NRV of materials and supplies inventories amounted to ₱1,081,978 and ₱1,126,651 respectively.

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

	2018	2017
January 1	₱70,126	₱100,126
Provisions during the year	—	—
Write-off during the year	(57,027)	(30,000)
December 31	₱13,099	₱70,126

Materials and supplies recognized as expense amounted to ₱1,841,444, ₱1,767,494 and ₱1,640,583 in 2018, 2017 and 2016, respectively (see Note 18).



9. Other Current Assets - net

Other current assets consist of:

	2018	2017
Input tax recoverable - net	₱697,463	₱917,356
Prepaid expenses and others	59,829	89,644
	₱757,292	₱1,007,000

The Parent Company reversed its allowance for impairment losses on input tax amounting to nil and ₱37,397 which was recorded under “Other income (charges)” on the consolidated statements of income in 2018 and 2017, respectively. Allowance for impairment losses on input tax amounted to ₱9,045 as at December 31, 2018 and 2017.

10. Property, Plant and Equipment - net

Property, plant and equipment consist of:

December 31, 2018							
	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	₱14,061,214	₱675,946	₱8,731,787	₱190,830	₱309,743	₱2,088,913	₱26,058,433
Additions	888,961	210,762	364,382	—	449,927	—	1,914,032
Disposals	—	(97,303)	(534,365)	(28,089)	—	(2,088,913)	(2,748,670)
Reclassifications	440,636	41,998	14,280	—	(496,914)	—	—
December 31	15,390,811	831,403	8,576,084	162,741	262,756	—	25,223,795
Accumulated Depletion and Depreciation:							
January 1	10,376,024	326,859	6,376,554	169,061	—	2,088,913	19,337,411
Depletion and depreciation for the year (Note 20)	861,595	138,432	730,497	8,351	—	—	1,738,875
Disposals	—	(69,891)	(401,423)	(28,089)	—	(2,088,913)	(2,588,316)
Impairment	1,331,776	—	—	—	—	—	1,331,776
December 31	12,569,395	395,400	6,705,628	149,323	—	—	19,819,746
Net Book Values	₱2,821,416	₱436,003	₱1,870,456	₱13,418	₱262,756	₱—	₱5,404,049

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 20)	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

Mine and mining properties as at December 31, 2018 and 2017 include mine development costs of the 908 Meter Level, 798 Meter Level, 782 Meter Level and 760 Meter Level project amounting to ₱8,332,746 and ₱7,734,781, 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.

The Parent Company recognized impairment loss amounting to ₱1,331,776 and nil as of December 31, 2018 and 2017 respectively attributable to Padcal mine and mining properties due to adverse effect of decline in ore grades. The impairment loss is presented under “Provision for impairment losses - net of reversal” in the consolidated statements of income.

Total depreciation cost of machinery and equipment used in exploration projects amounting to ₱116,309, ₱176,868 and ₱232,113 in 2018, 2017 and 2016, respectively, are capitalized under deferred exploration costs, which relate to projects that are currently ongoing for PMC, SMMCI and PGPI (see Note 20).

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%. Accretion of interest amounting to ₱3,510 were recorded in 2018, 2017 and 2016.

The Group’s provision for mine rehabilitation costs amounted to ₱76,365 and ₱132,744 as at December 31, 2018 and 2017, 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. On the first quarter of 2018 these property, plant and equipment were sold and as a result, derecognized.

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. Financial assets measured at FVOCI and AFS Financial Assets

The Group’s financial assets measured at FVOCI as of December 31, 2018 and AFS financial assets as of December 31, 2017 consist of quoted and unquoted investment in share of stock as follows:

	2018	2017
Investments in quoted shares	₱64,944	₱24,072
Investments in unquoted shares of stock	53,089	51,964
	₱118,033	₱76,036

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, 2018, the cumulative change in value of financial assets measured at FVOCI amounted to a ₱35,341. These changes in fair values have been recognized and shown as “Net unrealized gain on financial assets measured at FVOCI” account in the equity section of the consolidated statements of financial position and are also shown in the consolidated statements of comprehensive income.

As at December 31, 2017, the cumulative change in value of AFS financial assets amounted to ₱558. These changes in fair values have recognized and shown as “Net unrealized gain on AFS financial



assets 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 on financial assets measured at FVOCI” in 2018 and “Net unrealized gain on AFS financial assets” in 2017 account:

	2018	2017
January 1	₱558	(₱3,094)
Increase in fair value of AFS financial assets	–	3,652
Increase in fair value of financial assets measured at FVOCI	34,783	–
December 31	₱35,341	₱558

12. Investment in Associates - net

Investment in associates consist of:

	2018	2017
Lepanto Consolidated Mining Company (Lepanto)	₱574,756	₱597,056
PXP (Note 34)	4,101,205	1,038,841
	4,675,961	1,635,897
Less allowance for impairment loss	220,293	220,293
	₱4,455,668	₱1,415,604

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:

	2018*	2017
Current assets	₱1,778,401	₱1,758,238
Non-current assets	15,340,317	15,265,745
Current liabilities	(1,601,528)	(1,476,990)
Non-current liabilities	(7,924,093)	(8,044,741)
Equity	₱7,593,097	₱7,502,252



	2018*	2017	2016
Revenue	₱1,485,768	₱1,621,302	₱1,534,056
Cost and expenses	(1,979,244)	(2,418,019)	(2,224,485)
Finance costs	(13,467)	(103,874)	(101,634)
Other income (expenses)	9,410	(67,450)	48,825
Loss before income tax	(497,533)	(968,041)	(743,238)
Income tax expense (benefit)	(14,928)	19,428	9,669
Loss for the year	₱512,461	₱948,613	₱733,569
Total comprehensive loss	₱512,461	₱818,122	₱545,899
Group's share of loss for the year (annualized)	₱22,300	₱28,982	₱33,370

*Balances are based on unaudited September 30, 2018 interim financial statements submitted by Lepanto to PSE.

Allowance for impairment loss on investment in Lepanto amounted to ₱220,293 in both 2018 and 2017. No provision for impairment was recognized in 2018 and 2017.

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 26 and 34).

On October 26, 2018, PXP, PMC, and Dennison Holdings Corp. (DHC) signed a subscription agreement wherein PMC and DHC will subscribe to 260 million and 340 million common shares of PXP, respectively, for a total consideration of ₱3,081,000 and ₱4,029,000, respectively.

On December 27, 2018, PMC paid the 25% downpayment of ₱770,250 million. As a result of the transaction, PMC's total ownership interest in PXP increased from 19.76% to 30.40% as at December 31, 2018. The 75% balance of subscription payable to PXP amounting to ₱2,310,750 is included in the subscription payable of the Group totaling ₱2,312,981 as at December 31, 2018.

Upon full payment of both the Parent Company and DHC, the total estimated ownership interest in PXP will be 25.91% and 14.78%, respectively.

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

	2018*	2017*
Current assets	₱429,684	₱525,759
Non-current assets	6,818,381	6,702,853
Current liabilities	(2,177,876)	(2,925,930)
Non-current liabilities	(1,304,913)	(1,300,566)
Equity	₱3,765,276	₱3,002,116



	2018*	2017*
Revenue	₱107,924	₱104,445
Cost and expenses	(223,683)	(158,227)
Other income (expenses)	22,598	(1,105)
Loss before income tax	(93,161)	(54,887)
Income tax expense	(3,217)	(2,256)
Loss for the year	(96,378)	(57,143)
Total comprehensive loss	(₱96,378)	(₱57,143)
Group's share of loss for the year (actual)	₱18,636	₱11,290

**Balances are based on audited December 31, 2018 and 2017 consolidated financial statements.*

13. Deferred Exploration Costs - net

Deferred exploration costs consist of:

	2018	2017
Deferred exploration costs	₱29,273,184	₱28,138,866
Less allowance for impairment losses	3,825,412	3,777,912
	₱25,447,772	₱24,360,954

Deferred exploration costs attributable to the Group's Silangan Project amounted to ₱23,212,517 and ₱22,233,814 as of December 31, 2018 and 2017, respectively.

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

	2018	2017
January 1	₱3,777,912	₱3,777,912
Provisions during the year	47,500	—
December 31	₱3,825,412	₱3,777,912

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 ₱47,500, nil and ₱2,284,557 in 2018, 2017 and 2016, respectively.



14. Other Noncurrent Assets

Other noncurrent assets consist of:

	2018	2017
Input tax - noncurrent portion	₱409,696	₱399,735
Others	63,202	64,723
	₱472,898	₱464,458

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

	2018	2017
Current Loans:		
Bank loans:		
Banco de Oro (BDO)	₱999,020	₱1,198,320
Philippine National Bank	736,120	1,098,460
Bank of the Philippine Islands	420,640	149,790
	2,155,780	2,446,570
Noncurrent Loans:		
Bonds payable	7,333,096	6,950,306
	₱9,488,876	₱9,396,876

The Parent Company obtains short term, unsecured loans from various local banks. These loans have terms of thirty (30) days to ninety (90) days until maturity and are renewable subject to repricing of interest. Interest rates of these short term loans ranges from 2.25% to 3.25%.

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 ₱7,333,096 and ₱6,950,306 as at December 31, 2018 and 2017, respectively.

Interest amortization amounted to ₱382,790 and ₱357,452 in 2018 and 2017, respectively while finance charges paid amounted to ₱121,342 both in 2018 and 2017, respectively. Accrued interest amounting to ₱41,647 as at December 31, 2018 and 2017 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 nonconvertible 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 ₱504,131 and ₱478,793 in 2018 and 2017, 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, 2018 and 2017, the Group is compliant with its loan covenants.

16. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of:

	2018	2017
Trade	₱915,084	₱611,226
Provisions (Note 32)	195,259	377,121
Accrued expenses	346,331	334,095
Accrued royalties and excise taxes	117,747	135,512
Withholding taxes	19,144	43,747
Other nontrade liabilities	197,374	147,553
	₱1,790,939	₱1,649,254

Trade payables are non-interest bearing and are generally settled within 30 to 120 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 Group 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. Revenues

Adoption of PFRS 15 using modified retrospective approach:

	2018		2017	2016
	Revenue from contracts with customers*	Provisional pricing adjustment	Total revenue	Total revenue
Gold	₱4,125,531	(₱16,434)	₱4,109,097	₱5,432,429
Copper	3,540,981	(65,485)	3,475,496	4,475,177
Silver and others	59,538	(3,825)	55,713	77,187
			7,640,306	9,984,793
Less: Smelting charges			—	842,333
			₱7,640,306	₱9,142,460
				₱9,378,387

*net of smelting charges of ₱674,107.

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

The new revenue standard requires an entity to disaggregate revenue from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

18. Costs and Expenses

Costs and expenses include the following:

	2018	2017	2016
Production costs			
Materials and supplies (Note 8)	₱1,841,444	₱1,767,494	₱1,640,583
Communications, light and water	1,245,549	1,290,747	1,468,000
Personnel (Note 19)	893,331	878,161	875,705
Contracted services	214,518	249,635	303,817
Hauling, handling and storage	61,453	63,697	64,190
Others	151,594	161,960	262,128
	₱4,407,889	₱4,411,694	₱4,614,423
Depletion, amortization and depreciation (Note 10 and 20)			
Depletion and amortization	₱925,351	₱896,415	₱760,263
Depreciation	675,170	654,115	700,176
	₱1,600,521	₱1,550,530	₱1,460,439
General and administrative expenses			
Personnel (Note 19)	₱185,434	₱224,888	₱216,552
Depreciation (Notes 10 and 20)	22,045	21,781	20,966
Contracted services	20,015	21,221	34,875
Travel and transportation	9,681	8,069	7,166
Communications, light and water	8,641	9,119	10,579

Forward



	2018	2017	2016
Taxes and licenses	5,162	15,586	24,928
Office supplies	3,366	3,425	4,666
Repairs and maintenance	2,412	2,312	3,318
Others	48,875	56,670	50,073
	₱305,631	₱363,071	₱373,123
Excise taxes and royalties			
Excise taxes	₱302,117	₱183,463	₱182,657
Royalties	204,373	268,944	269,758
	₱506,490	₱452,407	₱452,415

Other general and administrative expenses include security, janitorial and other outside services, and general miscellaneous expenses.

19. Personnel Cost

Details of personnel costs are as follows:

	2018	2017	2016
Production costs (Note 18)			
Salaries and wages	₱465,226	₱621,837	₱606,171
Employee benefits	408,635	232,573	224,900
Retirement costs (Note 21)	19,470	23,751	44,634
	₱893,331	₱878,161	₱875,705
General and administrative expenses (Note 18)			
Salaries and wages	₱135,500	₱154,392	₱149,243
Employee benefits	43,595	66,629	60,043
Retirement costs (Note 21)	3,169	3,867	7,266
	182,264	224,888	216,552
	₱1,075,595	₱1,103,049	₱1,092,257

The Parent Company recognized retirement costs amounting to ₱22,641, ₱27,618 and ₱51,900 in 2018, 2017 and 2016, respectively (see Note 21).

20. Depletion, Amortization and Depreciation

Details of depletion and depreciation expense are as follows:

	2018	2017	2016
Production costs (Note 18)	₱1,600,521	₱1,550,530	₱1,460,439
General and administrative (Note 18)	22,045	21,781	20,966
	₱1,622,566	₱1,572,311	₱1,481,405

Total depreciation cost of machinery and equipment used in exploration projects amounting to ₱116,309, ₱176,868 and ₱232,113 in 2018, 2017 and 2016, respectively, is capitalized under deferred exploration costs, which relate to projects that are currently ongoing for PMC, SMMCI and PGPI (see Note 10).



21. **Pension asset - net**

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, under trust accounts with BDO and Union Bank of the Philippines. 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:

2018												
Net benefit cost in charged to consolidated statements of income						Remeasurements in other comprehensive income						
	January 1, 2018	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, 2018
Present value of defined benefit obligation	₱ 874,111	₱40,889	₱42,307	₱–	₱957,307	(₱47,201)	₱–	(₱66,373)	(₱12,477)	(₱78,850)	₱–	₱831,256
Fair value of plan assets	(1,251,144)	–	(60,555)	–	(1,311,699)	47,201	71,052	–	–	71,052	–	(1,193,446)
	<u>(₱377,033)</u>				<u>(₱354,392)</u>	<u>₱–</u>	<u>₱71,052</u>	<u>(₱66,373)</u>	<u>(₱12,477)</u>	<u>(₱7,798)</u>	<u>₱–</u>	<u>(₱362,190)</u>
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						December 31, 2016
	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	
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>



The fair value of net plan assets of the Parent Company by each class as at the end of the reporting period are as follows:

	2018	2017
Assets		
Cash and cash equivalents	₱27,813	₱187,547
Receivables	18,477	10,656
Investment in debt securities	735,356	731,833
Investment in equity securities	338,034	269,845
Other investments	74,451	52,041
	1,194,131	1,251,922
Liabilities		
Accrued trust fees payables	685	780
	₱1,193,446	₱1,251,142

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	2018	2017
Discount rate	6.96%	4.84%
Future salary increases	5.00%	4.00%
Expected rate of return on plan assets	5.00%	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%)	(₱23,483) 24,522
Future salary increases	1.00% (1.00%)	₱26,589 (25,923)

Shown below is the maturity analysis of the Company's undiscounted benefit payments:

	Expected benefit payments
Less than one year	₱104,881
One to less than five years	1,079,173

The average duration of the defined benefit obligation at the end of the reporting period is 2.48 years.



The Parent Company's actuarial funding requirement in 2018 and 2017 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, 2018.

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	2018	2017
Discount rates	7.36%	5.75%
Future salary increases	4.00%	4.00%

Changes in the defined benefit liability of SMMCI are as follows:

	2018	2017	2016
January 1	₱3,184	₱15,548	₱21,968
Current service cost	1,083	6,471	13,100
Past service cost	—	(1,922)	(16,498)
Interest cost	183	864	1,114
	1,266	5,413	(2,284)
Remeasurements in other comprehensive income			
Experience adjustments	(1,200)	(12,892)	(3,229)
Actuarial changes from changes in demographic assumptions	(570)	(35)	—
Actuarial changes from changes in financial assumptions	(378)	(4,850)	(907)
	(2,148)	(17,777)	(4,136)
December 31	₱2,302	₱3,184	₱15,548

Retirement expense amounting to ₱1,266, ₱7,335, and ₱14,214 in 2018, 2017, and 2016, respectively, were capitalized as part of the deferred exploration costs. In 2018 and 2017, there were reversals of past service costs amounting to nil and ₱1,922, 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%	₱2,108
	(1.00%)	2,526
Future salary increases	1.00%	₱2,543
	(1.00%)	2,091

Shown below is the maturity analysis of the undiscounted benefit payments:

	2018	2017
Less than 1 year	₱—	₱—
More than 1 year to 5 years	2,500	1,809
More than 5 years to 10 years	3,119	3,944
More than 10 years to 15 years	2,255	4,095
More than 15 years to 20 years	1,218	1,148
More than 20 years	14,275	42,733

The average duration of the defined benefit obligation at the end of the reporting period is 17.24 years.

22. Financial Instruments

The table below summarizes management's evaluation of business model and subsequent measurement for each financial assets and liabilities of the Group:

Financial Assets	Business Model	Subsequent Measurement	Remarks
Cash with banks and short-term deposits	Hold to collect	Amortized cost	NA
Trade receivable	NA	FVTPL	NA
Advances to related parties	Hold to collect	Amortized cost	Conditional fair value option not elected.
Quoted equity investments ¹	NA	FVOCI (no recycling)	Not held for trading and FVTPL not opted.
Unquoted equity investments ¹	NA	FVOCI (no recycling)	Not held for trading and FVTPL not opted.

^[1] Formerly classified as Available-for-Sale financial assets.



Credit Risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments. However, the Group is not exposed to credit risk from its operating activities (primarily trade receivables) since the historical default rate of its customers is 0%.

Trade Receivables from Sale of Concentrates

As of December 31, 2018, the Group has current outstanding trade receivables from its customers amounting to ₱204,243 arising from revenue from contracts with three (3) customers, namely Pan Pacific, IXM, and Transamine. These contracts are within the scope of PFRS 15.

Based on historical transactions with the customers, there has been no instance that these customers have defaulted on their payments (historical default rate of 0%). PPC is a customer since start of commercial operations in the 1950s, IXM is a customer since year 2007, and Transamine is a new customer that always pays in full. Moreover, the Group's trade receivables have a credit period of three months, indicating that the time value of money is immaterial. With these facts, ECL is not material.

Advances to PXP

As at December 31, 2018, the Group has receivable from PXP Energy Corporation (PXP) amounting to ₱1,387,370 million. These advances are payable on demand and have a zero percent (0%) interest rate.

Set out below is the movement in the allowance for expected credit losses of intercompany receivable from PXP:

	2018
Beginning, adoption of PFRS 9 (Note 2)	₱1,312,243
Additional provision for expected credit losses	–
Reversal of provision (Note 26)	(1,312,243)
As at December 31	–

Refer to Note 26 for further details.

23. 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, financial assets measured at FVOCI, short-term bank loan and accounts payable and accrued liabilities. The main purpose of these financial instruments is to provide financing for the Group's operations and capital-intensive projects.



The BOD is mainly responsible for the overall risk management and approval of the risk strategies and principles of the Group. The BOD has approved its formalized hedging policy in relation to entering into commodity derivatives in order to manage its financial performance.

Financial Risks

The main risks arising from the Group's financial instruments are credit and concentration risks, liquidity risk and market risk. The market risk exposure of the Group can be further classified to foreign currency risk, 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. The balance of the Parent Company's annual production of concentrates is contracted with IXM and Transamine which is covered by several short-term agreements up to March 2019.

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, 2018 and 2017:

	2018	2017
Cash and cash equivalents		
Cash with banks	₱221,476	₱356,832
Short-term deposits	648,677	224,285
Accounts receivable		
Trade	204,243	903,176
Others	85,143	73,406
Advances to a related party	1,387,370	2,168,632
Gross maximum credit risk exposure	₱2,546,909	₱3,726,331

The following tables show the credit quality of the Group's financial assets by class as at December 31, 2018 and 2017 based on the Group's credit evaluation process:

	December 31, 2018			Total
	Neither Past Due nor High-Grade	Impaired Standard	Past Due and Individually Impaired	
Cash and cash equivalents				
Cash with banks	₱221,476	₱—	₱—	₱221,476
Short-term deposits	648,677	—	—	648,677
Accounts receivable				
Trade	204,243	—	—	204,243
Others	85,143	—	1,405	86,548
Advances to a related party	1,387,370	—	—	1,387,370
Total	₱2,546,909	₱—	₱1,405	₱2,548,314



December 31, 2017				
	Neither Past Due nor Impaired		Past Due and Individually Impaired	Total
	High-Grade	Standard		
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

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, 2018 and 2017, respectively:

December 31, 2018				
	On Demand	Within 1 Year	More than 1 Year	Total
Loans and receivables				
Cash and cash equivalents	₱870,967	₱—	₱—	₱870,967
Accounts receivable				
Trade	—	204,243	—	204,243
Others	—	85,143	—	85,143
Advances to a related party	1,387,370	—	—	1,387,370
Financial assets measured at FVOCI				
Quoted equity investments	64,944	—	—	64,944
Unquoted equity investments	53,089	—	—	53,089
Total undiscounted financial assets	₱2,376,370	₱289,386	₱—	₱2,665,756



December 31, 2018				
	On Demand	Within 1 Year	More than 1 Year	Total
Other financial liabilities				
Short-term loans				
Principal	P–	P2,155,780	P–	P2,155,780
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	–	1,458,789	–	1,458,789
Dividends payable	550,995	–	–	550,995
Total undiscounted financial liabilities	P550,995	P3,617,411	P7,740,000	P11,908,406
December 31, 2017				
	On Demand	Within 1 Year	More than 1 Year	Total
Loans and receivables				
Cash and cash equivalents	P583,538	P–	P–	P583,538
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	24,072	–	–	24,072
Unquoted equity investments	51,964	–	–	51,964
Total undiscounted financial assets	P2,828,206	P976,582	P–	P3,804,788
Other financial liabilities				
Short-term loans				
Principal	P–	P2,446,570	P–	P2,446,570
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	P528,836	P3,541,325	P7,740,000	P11,810,161

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, 2018, 2017 and 2016, the Group recognized net foreign exchange losses of P121,176, P39,451 and P145,213, 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, 2018		
US\$ Appreciate (Depreciate)	Effect on Income before Income Tax	
5%		(P60,598)
(5%)		60,598
Year Ended December 31, 2017		
US\$ Appreciate (Depreciate)	Effect on Income before Income Tax	
4%		(P56,631)
(4%)		56,631

There were no outstanding currency derivatives as of December 31, 2018 and 2017.

Equity Price Risk

Equity price risk is the risk where the fair values of investments in quoted equity securities could increase or decrease as a result of changes in the levels of equity indices and in the value of individual stocks. Management monitors the movement of the share prices pertaining to the Group's investments. The Group is exposed to equity securities price risk because of investments held by the Parent Company, which are classified in the consolidated statements of financial position as financial assets measured at FVOCI (see Note 11). Investment in quoted shares totaling P66,478 and P24,481 represent 0.01% of the total assets of the Group as at December 31, 2018 and 2017, 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 financial assets measured at FVOCI as at December 31, 2018 and 2017 that could be brought by changes in equity indices with all other variables held constant is as follows:

December 31, 2018		
Currency	Change in Quoted Prices of Investments Carried at Fair Value	Effect on Equity
Peso	Increase by 1%	P33.42
	Decrease by 1%	(33.42)
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)



Commodity Price Risk

The Parent Company's mine products revenues are valued based on international commodity quotations (e.g., 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 Parent Company as at December 31, 2018. The change in metal prices is based on 1-year historical price movements.

December 31, 2018	
Change in Metal Prices	Effect on Income before Income Tax
Gold	
Increase by 11%	₱461,983
Decrease by 11%	(461,983)
Copper	
Increase by 19%	₱769,785
Decrease by 19%	(769,785)
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\$1,349.50 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.

In January 2018, the Parent Company entered into gold collar hedging contracts covering 2,200 ounces of monthly gold production from January to June 2018 at a strike price of US\$1,300 per ounce for the put options and US\$1,350 per ounce for the call options. Further in April 2018, the Company entered into gold collar hedging contracts covering 3,000 ounces of monthly production from July to September 2018 at a strike price of US\$1,330 per ounce for the put options and US\$1,400 per ounce for the call options. These contracts were also designated as cash flow hedges.

Realized net gains from gold collar amounted to ₱58,807 and ₱8,650 in 2018 and 2017, respectively.



There were no outstanding gold derivatives as at December 31, 2018 and 2017.

Copper Derivatives

In October 2017, the Parent Company entered into a copper collar hedging contract covering 330 metric tonnes per month for the month of November 2017 to January 2018 at a strike price of US\$7,495 per metric tonne for the call options and US\$6,614 per metric tonne for the put options.

In January 2018, the Parent Company entered into a copper collar hedging contract covering 360 metric tonnes per month for the month of February and July 2018 at a strike price of US\$7,650 per metric tonne for the call options and US\$6,615 per metric tonne for the put options.

The effect of the fair value adjustments arising from the outstanding copper derivatives as at December 31, 2018 amounted to nil. There were no outstanding copper derivatives as at December 31, 2018 and 2017.

Realized net gains from copper collar amounted to ₱7,019 and nil in 2018 and 2017, respectively.

24. 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:

	2018	2017
Capital stock	₱4,940,399	₱4,940,399
Additional paid-in capital	1,143,981	1,143,981
Retained earnings		
Unappropriated	4,204,297	5,271,302
Appropriated	10,500,000	10,500,000
	₱20,788,677	₱21,855,682



25. Foreign-Currency-Denominated Monetary Assets and Liabilities

The Group's foreign-currency-denominated monetary assets and liabilities as at December 31, 2018 and 2017 are as follows:

	2018		2017	
	US\$	Peso Equivalent	US\$	Peso Equivalent
Assets				
Cash and cash equivalents	\$14,066	₱739,590	\$2,642	₱131,915
Trade receivables	3,884	204,221	18,003	898,890
	\$17,950	₱943,811	\$20,645	₱1,030,805
	2018		2017	
	US\$	Peso Equivalent	US\$	Peso Equivalent
Liabilities				
Accounts payable	\$—	₱—	\$—	₱—
Bank loans	41,000	2,155,780	49,000	2,446,570
	41,000	2,155,780	49,000	2,446,570
Liabilities - net	(\$23,050)	(₱1,211,969)	(\$28,355)	(₱1,415,765)

The exchange rates of Peso to US dollar were ₱52.58 to US\$1 as at December 31, 2018 and ₱49.93 to US\$1 as at December 31, 2017.

26. 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 34). Previously, advances to PXP are eliminated in the consolidated financial statements.

	Amount/ Volume	Outstanding Balance	Terms	Conditions
Related party				
<i>Advances to PXP</i>				
2018	₱—	₱1,387,370	On demand,	Secured
2017	₱—	₱2,168,632	non-interest bearing	



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.

Upon the adoption of PFRS 9, the Group recognized impairment on the Group's advances to PXP amounting to ₱1,312,243 which was charged directly to retained earnings as at January 1, 2018. Such amount represents the difference between the carrying value of the advances which carries an on-demand feature, and the fair value of the pledged shares.

On October 26, 2018, PXP, PMC, and DHC signed a subscription agreement wherein PMC and DHC will subscribe to 260 million and 340 million common shares of PXP, respectively, for a total consideration of ₱3,081,000 and ₱4,029,000, respectively.

PXP's proceeds from the subscription agreement will be utilized by PXP for the repayment of its advances from the Parent Company.

Each share is valued at ₱11.85, which represents a 20% discount to the 90-day volume weighted average price (VWAP) of PXP shares. The agreement was approved by the Board of Directors on October 25, 2018.

On December 27, 2018, PMC paid the 25% downpayment of ₱770,250. As a result of the transaction, PMC's total ownership interest in PXP increased from 19.76% to 30.40% as at December 31, 2018.

On January 7, 2019, DHC paid an initial downpayment of ₱4,029,000, with the remaining balance due by March 31, 2019. In the event DHC fails to pay the entire subscription price on or before March 31, 2019, the entire amount of the downpayment shall be forfeited in favor of PXP and the subscription agreement shall be terminated at the option of PXP.

On February 11, 2019, the Parent Company paid an additional ₱1,385,700, which represents the 45% of the total consideration of the agreement.

Upon full payment of both the Parent Company and DHC, the total estimated ownership interest in PXP will be 25.91% and 14.78%, respectively.

PXP made payments to PMC amounting to ₱781,262 in December 2018 and ₱1,385,700 in February 2019, reducing PMC's advances to PXP to ₱1,670 as of February 2019.

The subscription agreement in October 2018 and subsequent payments made by PXP to PMC resulted in enhancement of credit quality of the advances to PXP. As a result, the provision for expected credit losses on advances to a related party amounting to ₱1,312,243 was reversed in 2018. The reversal is included in the "Provision for impairment losses - net of reversal" in the consolidated statements of income.

Compensations of Key Management Personnel

Compensations of the members of key management personnel are as follows:

	2018	2017	2016
Short-term employee benefits	₱75,465	₱99,745	₱98,854
Pension costs	4,988	1,924	5,240
	₱80,453	₱101,669	₱104,094



27. Income Taxes

- a. The provision for income tax consists of:

	2018	2017	2016
Current	₱275,408	₱664,806	₱586,483
Deferred	(199,799)	43,894	110,742
	₱75,609	₱708,700	₱697,225

The Group is subject to regular corporate income tax (RCIT) or MCIT, whichever is higher. The provision for current income tax in 2018, 2017, and 2016 represent RCIT.

- b. The components of the Group's net deferred tax assets (liabilities) are as follows:

	2018	2017
Deferred tax assets on:		
Provision for losses and others	₱102,636	₱149,424
Unrealized foreign exchange losses - net	111,056	101,256
Accumulated accretion of interest on provision for mine rehabilitation costs	7,828	19,690
Unamortized past service costs	7,017	14,633
Total deferred tax assets	228,537	285,003
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	(1,215,165)	(1,449,311)
Net retirement plan assets	(108,657)	(96,485)
Mine inventory at year-end	(7,388)	(47,074)
Unrealized foreign exchange gain	(8,558)	(8,490)
OCI portion of retirement liability	(6,980)	(22,960)
Changes in FV of financial assets measured at FVOCI	(6,089)	—
Total deferred tax liabilities	(3,018,350)	(3,289,833)
Net deferred tax liabilities	(₱2,789,813)	(₱3,004,830)



- 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:

	2018	2017	2016
Income tax at statutory income tax rate of 30%	₱205,220	₱717,331	₱601,916
Additions to (reductions in) income tax resulting from:			
Unrecognized DTA, NOLCO and excess MCIT	32,197	19,183	22,714
Reversal of temporary difference on impairment of Padcal mine and mining properties	(160,442)	—	—
Nondeductible expenses and non-taxable income - net	(687)	(27,260)	72,633
Interest income already subjected to final tax	(679)	(554)	(38)
	₱75,609	₱708,700	₱697,225

- d. As at December 31, 2018 and 2017, no deferred tax assets were recognized on deductible temporary differences amounting to ₱2,838,318 and ₱2,794,938, respectively.
- e. As at December 31, 2018, 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, 2018, 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	
2016	2019	₱11,970	₱3,591	₱—
2017	2020	—	—	167
2018	2021	107,648	32,294	18
		₱119,618	₱35,885	₱185

The following are the movements of the SMMCI's NOLCO and excess MCIT for the years ended December 31:

	NOLCO		Excess MCIT	
	2018	2017	2018	2017
At January 1	₱38,930	₱50,079	₱167	₱71
Additions	107,648	—	18	167
Application	—	(534)	—	—
Expirations	(26,960)	(10,615)	—	(71)
At December 31	₱119,618	₱38,930	₱185	₱167



PGPI

As at December 31, 2018, PGPI's NOLCO and excess MCIT have been claimed as deduction from taxable income.

The following are the movements in NOLCO and excess MCIT for the years ended December 31:

	NOLCO		Excess MCIT	
	2018	2017	2018	2017
At January 1	₱1,119	₱33,686	₱855	₱391
Additions	—	—	—	464
Applications	(1,119)	(5,503)	(667)	—
Expirations	—	(27,064)	(188)	—
At December 31	₱—	₱1,119	₱—	₱855

28. Equity

Capital Stock

The details of the Parent Company's capital stock follow:

	Number of Shares	
	2018	2017
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
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

Forward



Year	Date of Approval	Change in Number of Authorized Capital Stock	New Subscriptions/ Issuances***
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			—
2018			—
		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, 2018 and 2017, the Parent Company's total stockholders is 44,040 and 44,072, respectively.

Retained Earnings

Retained earnings consists of the following:

	2018	2017
Retained earnings:		
Unappropriated	₱3,973,922	₱5,047,889
Cumulative actuarial gains	230,375	223,413
Total unappropriated	4,204,297	5,271,302
Appropriated	10,500,000	10,500,000
Ending balance	₱14,704,297	₱15,771,302



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 34).

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 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.

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.

On February 27, 2018, the BOD of the Parent Company approved the declaration of cash dividend of ₱0.04 per share as regular dividends to all stockholders at record date of March 13, 2018.

On July 25, 2018, the BOD of the Parent Company approved the declaration of cash dividend of ₱0.035 per share as regular dividends to all stockholders at record date of August 8, 2018.

The Parent Company's retained earnings available for dividend distribution amounted to ₱6,558,496 and ₱6,205,773 as at December 31, 2018 and 2017, respectively.

As at December 31, 2018 and 2017, dividends payable amounted to ₱550,995 and ₱528,836, respectively.

NCI

As at December 31, 2018 and 2017, NCI consist of 0.7% ownership in LMC amounting to ₱258 in both years.

Transactions with NCI are disclosed in Note 2.

As at December 31, 2018, there was no other material NCI as a result of loss of control over PXP Group as disclosed in Note 34.

29. 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 2018 of the 2011 SOP of the Parent Company:

	Number of Options 2018	Weighted Average Exercise Price 2018
January 1	18,020,000	₱22.49
Forfeited	—	—
December 31	18,020,000	₱22.49

The following table shows the movements in 2017 of the 2011 SOP of the Parent Company:

	Number of Options 2017	Weighted Average Exercise Price 2017
January 1	21,090,000	₱21.80
Forfeited	(3,070,000)	17.77
December 31	18,020,000	₱22.49

The number of unexercised vested stock options totaled to 18,020,000 in 2018 and 2017. The stock options outstanding are anti-dilutive. The effect of the conversion options of the convertible bonds is anti-dilutive as at December 31, 2018 and 2017.



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.*

There was no movement in the number of unexercised vested stock options as at December 31, 2018 and 2017.



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 2018, 2017 and 2016 amounted to nil, nil, and ₱1,259, respectively. The corresponding share-based option reserve included under Additional Paid-in Capital as at December 31, 2018 and 2017 amounted to ₱353,170.

30. Basic/Diluted Earnings Per Share

Basic earnings per share are computed as follows:

	2018	2017	2016
Net income attributable to equity holders of the Parent Company	₱608,456	₱1,658,087	₱1,589,045
Divided by weighted average number of common shares outstanding during the year	4,940,399,068	4,940,399,068	4,940,399,068
Basic earnings per share	₱0.123	₱0.336	₱0.322

Diluted earnings per share amounts are calculated as follows:

	2018	2017	2016
Net income attributable to equity holders of the Parent Company	₱608,456	₱1,658,087	₱1,589,045
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	₱0.123	₱0.336	₱0.322

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
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The effect of the conversion options of the convertible bonds is anti-dilutive as at December 31, 2018 and 2017.

31. 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:

- a. To conduct exploration and pre-development;
- b. To perform all activities necessary to complete a final feasibility study for the project; and,
- c. 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 and on January 24, 2019, for another two (2) years. New earn-in period will now be ten (10) years following the execution of the Farm-In Agreement and will expire on May 10, 2021.

32. 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
	Sibutad, Dapitan City and Rizal,	
MPSA No. 063-97-IX	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.



33. Notes to Consolidated Statements of Cash Flows

The following table summarizes the changes in liabilities arising from financing activities in 2018:

	January 1, 2018	Dividend Declaration	Availments	Payments	Accretion of interest	Effect of changes in foreign currency exchange rates	December 31, 2018
Current Liabilities:							
Bank loans	₱2,446,570	₱—	₱1,033,790	(₱1,449,290)	₱—	₱124,710	₱2,155,780
Dividend	528,836	370,530	—	(348,371)	—	—	550,995
Noncurrent Liability:							
Bonds payable	6,950,306	—	—	—	382,790	—	7,333,096
	₱9,925,712	₱370,530	₱1,033,790	(1,797,661)	₱382,790	₱124,710	₱10,039,871

34. 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 had been reclassified as Investment in Associate.

- a. Analysis of consolidated assets and liabilities of PXP Group as at July 15, 2016 is as follows:

	July 15, 2016
<i>Assets</i>	
Cash and cash equivalents	₱606,585
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	₱895,061



b. Gain from loss of control over a subsidiary group

		July 15, 2016
Fair value of dividends distributed		₱2,442,387
Fair value of retained interest in PXP		1,050,131
Consideration		3,492,518
Less: Net assets of deconsolidated subsidiary group	₱895,061	
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		₱2,522,704

c. Net cash inflow (outflow) arising from deconsolidation of the subsidiary

	2018	2017	2016*
Net cash flows from (used in) operating activities	₱—	₱—	₱66,845
Net cash flows from (used in) investing activities	—	—	13,211
Net cash flows from (used in) financing activities	—	—	174
Effect of exchange rate changes	—	—	—
Net cash inflow (outflow)	₱—	₱—	₱80,230

* From January 1 to July 15, 2016.

d. Results of deconsolidated subsidiary group

	2018	2017	2016*
<i>Revenue</i>			
Petroleum	₱—	₱—	₱59,187
<i>Cost and expenses</i>	—		
General and administrative expenses	—	—	(31,217)
Mine product taxes and royalties	—	—	—
Petroleum product costs	—	—	(59,398)
Cost of sales - coal	—	—	—
	—	—	(90,615)
<i>Other income (expenses)</i>			
Gain on reversal of impairment loss	—	—	—
Interest income	—	—	1,899
Foreign exchange gains (losses) - net	—	—	(597)
Interest expense and other charges	—	—	—

Forward



	2018	2017	2016*
Loss on disposal of shares	—	—	—
Provisions for impairment of assets - net	—	—	—
Others - net	—	—	588
	—	—	1,890
Loss before income tax	—	—	(29,538)
Provision for income tax	—	—	436
Loss from deconsolidated subsidiary group	P—	P—	(P29,102)
Total comprehensive loss	P—	P—	(P29,102)

* 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:

	2018	2017	2016
Loss from deconsolidated subsidiary group attributable to equity holders of the Parent Company	P—	P—	P7,446
Divided by weighted average number of common shares outstanding during year	—	—	4,940,399,068
Basic and diluted earnings per share	P—	P—	P0.002



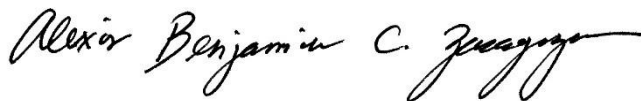
INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
Philex Mining Corporation
2nd floor LaunchPad,
Reliance Street corner 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, 2018, on which we have rendered the attached report dated March 21, 2019.

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 five hundred fifty-six (36,556) 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. 7332637, January 3, 2019, Makati City

March 21, 2019

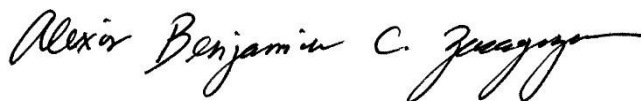


INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors
Philex Mining Corporation
2nd floor LaunchPad,
Reliance Street corner 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, 2018 and 2017, and each of the three years in the period ended December 31, 2018 included in this Form 17-A and have issued our report thereon dated March 21, 2019. 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),
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March 21, 2019



PHILEX MINING CORPORATION AND SUBSIDIARIES
SUPPLEMENTARY SCHEDULES
FOR THE YEAR ENDED DECEMBER 31, 2018

	<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, 2018

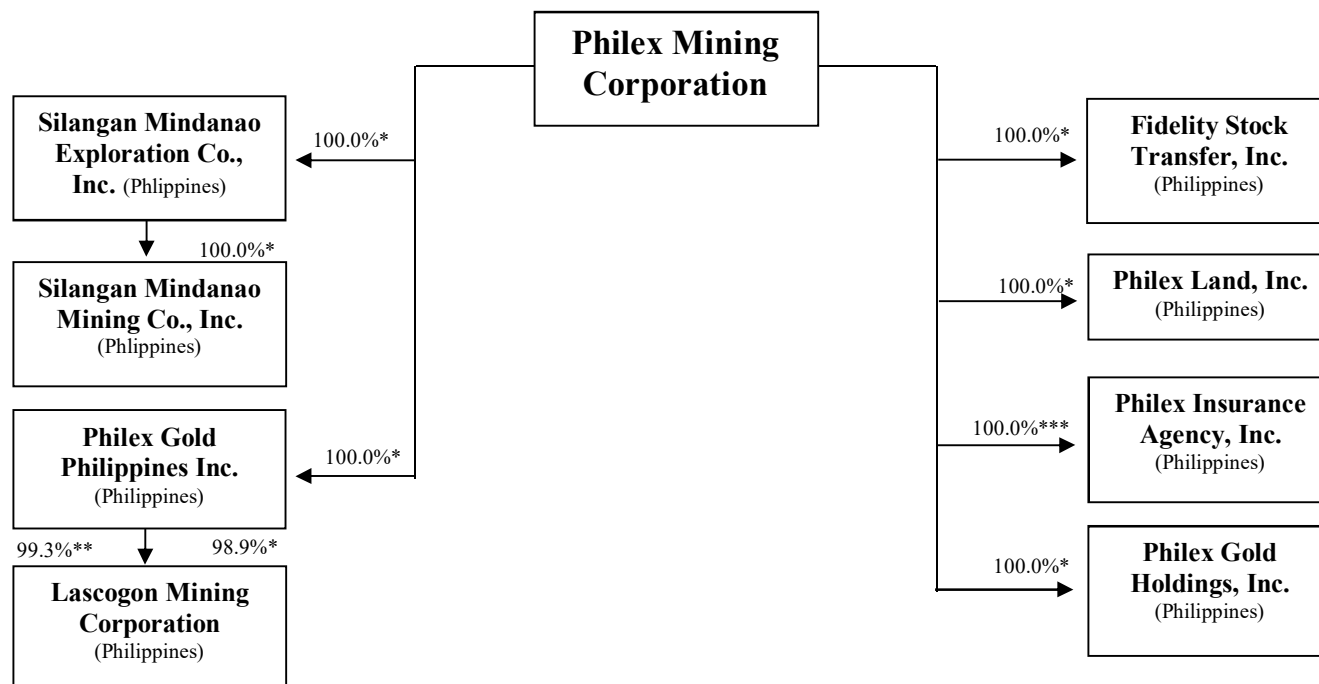
PHILEX MINING CORPORATION
2nd Floor, Launch Pad Building, Reliance St., Mandaluyong City
(Amounts in Thousands)

Unappropriated retained earnings, <i>as adjusted to available for dividend distribution</i>, December 31, 2017		₱6,205,773
Net income during the period closed to retained earnings	₱565,236	
Less: Recognized deferred tax asset that increased net income	39,526	
Equity in net income (loss) of an associate	40,936	
Other realized gains (loss) or adjustments to the retained earnings as a result of certain transactions accounted under the PFRSs	77,555	
	723,253	
Net income actually earned during the period		6,929,026
Less: Dividend declared during the year		(370,530)
Appropriation of Retained Earnings during the year		—
Unappropriated retained earnings as at December 31, 2018, as adjusted		₱6,558,496

SCHEDULE II
PHILEX MINING CORPORATION AND SUBSIDIARIES
SCHEDULE SHOWING FINANCIAL SOUNDNESS
PURSUANT TO SRC RULE 68, AS AMENDED
DECEMBER 31, 2018

	2018	2017	2016
Current/Liquidity ratios			
Current ratio	0.65	1.29	1.16
Quick ratio	0.17	0.32	0.17
Solvency ratios and debt to equity ratio			
Debt-to-equity ratio	0.72	0.60	0.65
Solvency ratio	0.13	0.22	0.20
Financial leverage ratios			
Asset-to-equity ratio	1.72	1.60	1.65
Interest rate coverage ratio	—	—	—
Profitability ratios			
Return on assets	1.51%	4.23%	3.81%
Return on equity	2.51%	6.89%	6.18%
Net profit margin	7.96%	18.14%	16.71%

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, 2018



*Interest of immediate parent

**Effective interest of Philex Mining Corporation

***On January 31, 2017, the Board of Directors approved to shorten the corporate term of PIAI to be until June 30, 2018.

SCHEDULE IV
PHILEX MINING CORPORATION AND SUBSIDIARIES
TABULAR SCHEDULE OF ALL EFFECTIVE STANDARDS AND
INTERPRETATIONS PURSUANT TO SRC RULE 68, AS AMENDED
DECEMBER 31, 2018

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
Philippine Financial Reporting Standards				
PFRS 1	First-time Adoption of Philippine Financial Reporting Standards	✓		
PFRS 2	Share-based Payment	✓		
	Amendments to PFRS 2, Classification and Measurement of Share-based Payment Transactions	✓		
PFRS 3	Business Combinations	✓		
PFRS 4	Insurance Contracts			✓
	Amendments to PFRS 4, Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources	✓		
PFRS 7	Financial Instruments: Disclosures	✓		
PFRS 8	Operating Segments	✓		
PFRS 9	Financial Instruments	✓		
PFRS 10	Consolidated Financial Statements	✓		
PFRS 11	Joint Arrangements	✓		
PFRS 12	Disclosure of Interests in Other Entities	✓		
PFRS 13	Fair Value Measurement	✓		
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers	✓		
Philippine Accounting Standards				
PAS 1	Presentation of Financial Statements	✓		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
PAS 10	Events after the Reporting Period	✓		
PAS 12	Income Taxes	✓		
PAS 16	Property, Plant and Equipment	✓		
PAS 17	Leases	✓		
PAS 19	Employee Benefits	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
PAS 23	Borrowing Costs	✓		
PAS 24	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27	Separate Financial Statements	✓		
PAS 28	Investments in Associates and Joint Ventures	✓		
	Amendments to PAS 28, Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Presentation	✓		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting	✓		
PAS 36	Impairment of Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
PAS 39	Financial Instruments: Recognition and Measurement			✓
PAS 40	Investment Property			✓
	Amendments to PAS 40, Transfers of Investment Property			✓
PAS 41	Agriculture			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
Philippine Interpretations				
Philippine Interpretation IFRIC-1	Changes in Existing Decommissioning, Restoration and Similar Liabilities	✓		
Philippine Interpretation IFRIC-2	Members' Shares in Co-operative Entities and Similar Instruments			✓
Philippine Interpretation IFRIC-4	Determining whether an Arrangement contains a Lease	✓		
Philippine Interpretation IFRIC-5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	✓		
Philippine Interpretation IFRIC-6	Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment			✓
Philippine Interpretation IFRIC-7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
Philippine Interpretation IFRIC-10	Interim Financial Reporting and Impairment	✓		
Philippine Interpretation IFRIC-12	Service Concession Arrangements			✓
Philippine Interpretation IFRIC-14	PAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
Philippine Interpretation IFRIC-16	Hedges of a Net Investment in a Foreign Operation			✓
Philippine Interpretation IFRIC-17	Distributions of Non-cash Assets to Owners	✓		
Philippine Interpretation IFRIC-19	Extinguishing Financial Liabilities with Equity Instruments			✓
Philippine Interpretation IFRIC-20	Stripping Costs in the Production Phase of a Surface Mine			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
Philippine Interpretation IFRIC-21	Levies			✓
Philippine Interpretation IFRIC-22	Foreign Currency Transactions and Advance Consideration	✓		
Philippine Interpretation SIC-7	Introduction of the Euro			✓
Philippine Interpretation SIC-10	Government Assistance—No Specific Relation to Operating Activities			✓
Philippine Interpretation SIC-15	Operating Leases—Incentives			✓
Philippine Interpretation SIC-25	Income Taxes—Changes in the Tax Status of an Entity or its Shareholders			✓
Philippine Interpretation SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
Philippine Interpretation SIC-29	Service Concession Arrangements: Disclosures			✓
Philippine Interpretation SIC-32	Intangible Assets—Web Site Costs			✓

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	₱3,619	₱—
Wack Wack Golf and Country Club	1	38,000	
Manila Polo Club	1	22,500	
Valle Verde Country Club	3	825	
		64,944	
Investments in unquoted shares:			
Pacific Global One Aviation	1	37,500	—
Philippine Associated Smelting and Refining Corporation	14,047,247	14,055	—
Others	Various	1,534	—
		53,089	—
		₱118,033	₱—

The Group elected to classify irrevocably its equity investments as financial assets measured at FVOCI as it intends to hold these investments for the foreseeable future. Financial assets measured at FVOCI are valued based on market quotation as at December 31, 2018. Financial assets measured at FVOCI are carried at fair value with cumulative changes in fair values presented as a separate account in equity.

PHILEX MINING CORPORATION AND SUBSIDIARIES
SCHEDULE B
AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES AND PRINCIPAL
STOCKHOLDERS (OTHER THAN RELATED PARTIES)
December 31, 2018

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	₱2,168,632	₱—	(₱781,262)	₱—	₱1,387,370	₱—	₱1,387,370

PHILEX MINING CORPORATION AND SUBSIDIARIES
SCHEDULE C
AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED
DURING CONSOLIDATION
December 31, 2018
(Amounts in Thousands)

Name and Designation of Debtor	Balance at beginning of period	Additions	Amounts collected	Amounts written off	Current	Not Current	Balance at end of period
Subsidiary: <i>(Advances)</i>							
Silangan Mindanao Exploration Co., Inc.	₱246,627	₱82,605	(₱—)	(₱—)	₱329,232	:	₱329,232
Silangan Mindanao Mining Co., Inc.	1,048,171	276,170	(—)	(—)	1,324,341		1,324,341
	₱1,294,798	₱358,775	(₱—)	(₱—)	₱1,653,573	:	₱1,653,573

PHILEX MINING CORPORATION AND SUBSIDIARIES
SCHEDULE D
INTANGIBLE ASSETS - OTHER ASSETS
December 31, 2018
(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	P—	P—	(P—)	P—	P—	P—
ii) Other Assets						
Deferred exploration costs	28,138,866	1,134,318	—	—	—	29,273,184
Allowance for impairment	(3,777,912)	—	(47,500)	—	—	(3,825,412)
	24,360,954	1,134,318	(47,500)	—	—	25,447,772
Input tax – non current portion	399,735	9,961	—	—	—	409,696
Others	64,723	—	—	(1,521)	—	63,202
Allowance for write down	—	—	—	—	—	—
	464,458	9,961	—	(1,521)	—	472,898
	P24,825,412	P1,144,279	(P47,500)	(P1,521)	P—	P25,920,670

PHILEX MINING CORPORATION AND SUBSIDIARIES
SCHEDULE E
LONG TERM DEBT
December 31, 2018

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	₱—	₱7,333,096 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, 2018

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, 2018

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, 2018

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	—