LEPANTO CONSOLIDATED MINING COMPANY

(A corporation organized and existing under Philippine Laws)

One (1) Share Of Common Stock
For Every 4.685 Shares Held

Prospectus relating to the stock rights offering, with Record Date of November 6, 2017, covering 11,678,967,888 common shares at P0.15 per share from the Company's unissued capital stock with an aggregate value of P1,751,845,183.20, consisting of 7,007,384,282 "A" shares and 4,671,583,606 "B" shares, the initial 50% of which is payable upon subscription and the 50% balance payable not later than January 5, 2018. The Offer Period is from December 4 to 8, 2017.

The subject shares will be listed with the Philippine Stock Exchange. The Company will engage the services of an underwriter, the Multinational Investment Bancorporation, for the sale or distribution of the Offer Shares.

PROSPECTUS

November 27, 2017

THE SECURITIES AND EXCHANGE COMMISSION HAS NOT APPROVED THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS ACCURATE OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE AND SHOULD BE REPORTED IMMEDIATELY TO THE SECURITIES AND EXCHANGE COMMISSION.

21st Floor, Lepanto Building, 8747 Paseo de Roxas, Makati City, Philippines
Telephone No. 8159447; Fax No. 8105583 / 8120451

LEPANTO CONSOLIDATED MINING COMPANY

(A corporation organized and existing under Philippine Laws)

21st Floor, Lepanto Building, 8747 Paseo de Roxas, Makati City, Philippines
Telephone No. 8159447; Fax No. 8105583 / 8120451

Prospectus relating to the
Pre-emptive Rights Offering with a par value of ₱0.10 per share at an exercise price of ₱0.15 per share.

Lepanto is offering to its shareholders the right to subscribe to One (1) share for every 4.685 shares held as of Record Date.

In a Resolution dated September 7, 2017, the Securities and Exchange Commission has confirmed that the issuance of the Rights Shares is an exempt transaction under Section 10.1(e) of the Securities Regulation Code.

The shares to be offered and resulting shares outstanding after the offering is as follows:

		No. of Shares	Value
			Par:
*Issued, outstanding and Subscribed shares as of July 25, 2017	"A"	32,815,484,914	₱3,281,548,491.40
	"B"	21,881,305,295	2,188,130,529.50
	Total	**54,696,790,209**	**5,469,679,020.90**
			Aggregate Offer Price
Shares to be offered	"A"	7,007,384,282	₱1,051,107,642.30
	"B"	4,671,583,606	700,737,540.90
	Total	**11,678,967,888**	**₱1,751,845,183.20**
			Par:
Issued, outstanding and subscribed after the Offering	"A"	39,822,869,196	₱3,982,286,919.60
	"B"	26,552,888,901	2,655,288,890.10
	Total	**66,375,758,097**	**₱6,637,575,809.70**

Multinational Investment Bancorporation ("MIB") will act as Underwriter of the Offer but no underwriting fees will be collected with respect to the Offer. The principal stockholder F. Yap Securities, Inc., has a firm commitment to subscribe not just to its entitlement of Rights Shares but also to any rights shares that will not otherwise be taken up by other qualified stockholders. In the event that F. Yap Securities, Inc. fails to subscribe to the unsubscribed portion of the SRO, MIB will fully take up all the unsubscribed shares.

The PSE assumes no responsibility for the correctness of any of the statements, opinions and reports made or expressed in this Prospectus. The application to cover the listing of the Offer Shares was approved by the PSE Board of Directors on October 11, 2017.

DIVIDEND POLICY: Apart from compliance with Sec. 43 of the Corporation Code, the Company has no dividend policy.

**Includes private placement shares consisting of 2,010,000,000 "A" and 1,340,000,000 "B" which are not yet listed.*

Stock Rights Offering
One (1) Share of Common Stock
For Every Four and 685/1000 (4.685) Shares Held
At a Price of ₱0.15 Per Share

This Prospectus relates to the offering for subscription (the "Offer") of 7,007,384,282 Common Shares consisting of "A" and 4,671,583,606"B" shares (the "Rights Shares" or "Offer Shares") with a par value of ₱0.10 per share of Lepanto Consolidated Mining Company ("Lepanto") by way of a pre-emptive rights offering to eligible existing common shareholders of Lepanto at the proportion of one (1) Rights Share for every four and 685/1000 (4.685) Common Shares held as of Record Date at an offer price of P0.15 per share.

The authorized capital stock of the Company is ₱6,640,000,000 consisting of 39,840,000,000 "A" and 26,560,000,000 "B" Common Shares with a par value of ₱0.10 per share. As of the date of this Prospectus, 32,815,484,914 "A" and 21,881,305,295 "B" shares, or a total of 54,696,790,209 Common Shares, are issued and outstanding. After the completion of the Offer, there will be 39,822,869,196 "A" and 26,552,888,901 "B" common shares issued and outstanding.

All Common Shares of the Company to be issued pursuant to the Offer will have identical rights and privileges. The Philippine Constitution and laws limit foreign ownership in the Company to a maximum of 40% of its issued and outstanding capital stock entitled to vote. To ensure compliance with the legal limits, the Company's "A" Common Shares, constituting 60%, at any one time of the issued and outstanding shares, are available only to Filipino citizens. The "B" shares are available to persons of any nationality.

The Company is allowed to declare dividends from its surplus profits at such times and in such percentage as the Board of Directors may deem proper.

The Company expects to raise approximately ₱1.75 billion from the Offer. The net proceeds from the Offer, after costs and fees of about ₱12 million, will be used by the Company to fund the development and further exploration of the Copper-Gold Project and settlement of debts and pension obligations. The information contained in this Prospectus is publicly available and has been supplied by the Company solely for the purpose of the Offering. The Board of Directors and Officers of the Company accept full responsibility for the accuracy and completeness of the information contained in this Prospectus, including all the documents submitted to the Exchange in connection with the listing application. The Company confirms that, after having made all reasonable inquiries, and to the best of its knowledge and belief, there are no material facts, the omission of which would make any statement in this Prospectus misleading in any material respect. Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstance, create any implication that the information contained herein is correct as of any time subsequent to the date hereof.

Multinational Investment Bancorporation (MIB) will act as Underwriter of the Offer. Any unsold Rights Shares will be taken up and distributed by MIB. F. Yap Securities, Inc., a principal shareholder of the Company, has firmly committed to subscribe not just to its entitlement of Rights Shares but also to any rights shares that will not otherwise be taken up by other qualified shareholders. In the event that the F.Yap Securities, Inc. should fail to subscribe to the unsubscribed portion of the SRO, MIB will fully take up all the unsubscribed shares.

Prospective investors to the Offer Shares must conduct their own evaluation of the Company and the terms and conditions of the Offer, including the merits and risks involved. Please refer to Risk on Investing and Risk Factors discussed on pages 11 to 14 of this Prospectus. The readers of this Prospectus are further enjoined to consult their financial advisers, tax consultants, and other professional advisers with respect to the acquisition, holding, or disposal of the Offer Shares described herein.

The Company's Common Shares are listed on the Philippine Stock Exchange, Inc. ("PSE") under the symbols "LC" and "LCB". On July 18, 2017, LC and LCB closed at ₱0.193 and ₱0.196 per share, respectively.

In a Resolution dated September 7, 2017, the Securities and Exchange Commission has confirmed that the issuance of the Rights Shares is an exempt transaction under Section 10.1(e) of the Securities Regulation Code.

The PSE assumes no responsibility for the correctness of any of the statements, opinions, and reports made or expressed in this Prospectus. The listing of the Rights Shares is subject to the approval of the PSE Board. Such approval for listing, however, is permissive only and does not constitute a recommendation or endorsement of the Offer Shares by the PSE.

This Prospectus shall not constitute an offer to sell or the solicitation of an offer to buy any securities other than those described herein, nor does it constitute an offer to sell or a solicitation of an offer to buy the shares described herein in any jurisdiction in which such offer or solicitation or sale is not authorized, or to any person to whom it is unlawful to make such offer or solicitation or sale. No dealer, salesperson, or other person has been authorized to give information or make any representation not contained in this Prospectus, and if given or made, may not be relied upon as having been authorized by the Company.

LEPANTO CONSOLIDATED MINING COMPANY
By:

FELIPE U. YAP
Chairman and Chief Executive Officer

Subscribed and sworn to before me this ___ day of NOV 27 2017 2017 at Makati City, affiant exhibiting to me his SSS ID No. 06-0091101-0.

Personally known to the Notary Public

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Book No. I :
Series of 2017

MARVIN LESTER N. DE PAZ
Notarial Appointment No. M-459
Notary Public for Makati City
Until 31 December 2017
21st Floor Lepanto Building
8747 Paseo de Roxas, 1226 Makati City
Roll No. 63424
IBP No. 1055074; 12-28-16; PPLM
PTR No. 5918342; 01-11-17 Makati City
MCLE Compliance No. V-0021547; 05-13-16

LEPANTO CONSOLIDATED MINING COMPANY

NOTICE TO STOCKHOLDERS ON THE RISKS TO INVESTING IN THE STOCK RIGHTS OFFERING

To All Stockholders:

The Board of Directors of Lepanto Consolidated Mining Company ("Lepanto", "LCMC" or the "Company") approved on July 17, 2017 a 1:4.685 stock rights offering to all stockholders to raise funds for the further exploration and development of the Copper/Gold Project and payment of debts and pension obligations. In this connection, we wish to apprise all stockholders of material cases involving the Company, further to the timely disclosures we have made concerning the renewal of Lepanto's Mineral Production Sharing Agreement No. 001-90-CAR (the "MPSA") and the Department of Environment and Natural Resources (the "DENR") Suspension Order:

MPSA Renewal/Arbitration Case : LCMC and Far Southeast Gold Resources, Inc. ("FSGRI"), jointly referred to herein as "Applicants", filed in June 2014 a joint application for renewal of the MPSA with the Mines and Geosciences Bureau-Cordillera Administrative region ("MGB-CAR"). In a letter dated August 20, 2014, the MGB-CAR informed the Applicants that they had substantially complied with the requirements for the renewal of the MPSA and that the application will be endorsed to the National Commission on Indigenous Peoples ("NCIP") for appropriate action. An issue arose as to the applicability of certain provisions of the Indigenous Peoples' Rights Act ("IPRA") to such renewal, which issue has been submitted to arbitration.

Pending and in connection with the arbitration proceedings, LCMC and FSGRI filed a petition for interim reliefs with the Regional Trial Court. On 18 March 2015, the court issued a writ of preliminary injunction, enjoining the respondents DENR, MGB, and NCIP from performing any acts that would (a) disrupt, disturb or impede the operations of the Applicants in the area covered by the MPSA; and acts that would (b) hinder, prevent or delay the Applicants from exercising their rights or from discharging their obligations under the MPSA in any manner whatsoever, until such time that a final and executory award is issued with respect to the arbitration proceedings commenced by the Applicants; and directing the respondents to perform all acts necessary and proper to maintain and protect the validity and/or enforceability of the Applicants' vested rights under the MPSA during the pendency of the arbitration proceedings.

In a final award dated November 27, 2015, the Arbitral Tribunal ruled that the Free and Prior Informed Consent ("FPIC") and Certification Precondition may not be validly imposed as requirements for the renewal of the MPSA, and the latter should be renewed under the same terms and conditions, without prejudice to changes mutually agreed upon by the parties. The matter is now subject of a Petition for Review with the Court of Appeals.

Should the case be finally resolved in favor of LCMC and FSGRI, then the renewed MPSA shall be issued by the DENR. Otherwise, LCMC and FSGRI will have to seek the FPIC and Certification Precondition from the IPs/NCIP. Mining operations should however continue pending such process. Our legal counsel Sycip, Salazar, Hernandez and Gatmaitan has advised that Lepanto has a good and completely meritorious case.

While the processing of the application for renewal of the MPSA has been suspended pending the final determination of the issue of whether or not FPIC and Certification Precondition requirements of the IPRA may be imposed upon Lepanto and FSGRI, Lepanto continues its mining operations, consistent with Section 18, Book VII, Chapter 11 of the Administrative Code which provides: "Non-expiration of License. -Where the licensee has made timely and sufficient application for the renewal of a license with reference to any activity of a continuing nature, the existing license shall not expire until the application shall have been finally determined by the agency."

Suspension Order : Lepanto received on February 14, 2017 an Order from DENR Secretary Regina Lopez suspending Lepanto's mining operation, alleging that Lepanto had violated certain provisions of Pres. Decree No. 1586, the Philippine Mining Act, and related regulations. Lepanto immediately filed a Notice of Appeal with the Office of the President ("OP"), which filing stayed the execution of the Suspension Order.

On October 13, 2017, Lepanto received a copy of the decision of the OP, the dispositive portion of which reads:

"WHEREFORE, premises considered, the Appeal is hereby PARTIALLY GRANTED. The Suspension Order dated 08 February 2017 of the DENR Secretary against appellant Lepanto is hereby PROVISIONALLY LIFTED, subject to the following conditions:

1. *Appellant Lepanto is hereby given six (6) months from receipt of the copy of this Decision to implement appropriate mitigating measures as contained in the EPRMP; and is hereby ordered to pay a fine in the amount of Twenty Seven Thousand Two Hundred Seventy-Five Pesos (P27,275.00) to the MGB and One Hundred Thousand Pesos (P100,000.00) to the EMB; and*
2. *The appropriate agency of the DENR is hereby directed to conduct a monthly inspection on appellant Lepanto's compliance with the Decision and to submit a monthly report to this Office regarding the progress of the corrective measures.*

"In the event of appellant Lepanto's failure to comply with the above conditions, the suspension Order dated 08 February 2017 shall be reinstated."

Lepanto will comply with the Decision and there is no risk that the Company's operations will be suspended in this regard.

For more details on the foregoing matters, you may refer to our Prospectus dated October 19, 2017 and previous disclosures.

BRYAN U. YAP
President and COO

TABLE OF CONTENTS

GLOSSARY OF TERMS

Additional Shares	-	The shares granted to Applicants on top of the Rights Shares
Additional Subscription	-	The shares over and above the shares a stockholder is entitled to under the Offer which he indicates as such in the Subscription Agreement and for which the corresponding 50% down payment is made to the Company within the Offer Period.
Ag	-	Silver
Au	-	Gold
APSA	-	Application for an MPSA
Assay	-	the chemical analysis of an ore, mineral, concentrate of metal to determine the amount of valuable species. Precious metals are usually given in ounces per short ton or grams per metric ton, while base metals are given in percentage
Available Shares	-	such of the Offer Shares as will not be subscribed by the concerned Eligible shareholder within the Offer Period, which may therefore be distributed among the applicants in the Second Round.
CIP	-	Carbon – in – Pulp process
Company	-	Lepanto Consolidated Mining Company
Copper Flotation	-	is the process of separating copper minerals from the ore using chemical reagents, air and mechanical agitation. The mineral particles are separated from the host rock and float to the surface on air bubbles forming a froth, which is skimmed off, filtered and dried
Copper concentrate	-	the resulting copper product of the process of separating mill head grade ore or metal from its containing rock.
Copper/Gold Project	-	the new mining project of Lepanto, consisting of Enargite and quartz-pyrite gold areas, namely the Buaki, Northwest, Carmen, Elena, and Florence. All within MPSA No. 001-90-CAR, from which copper concentrate and gold dore will be produced
Cu	-	Copper
DDCP	-	Diamond Drilling Corporation of the Philippines
Eligible Shareholder	-	a shareholder with fully paid subscriptions and at least five (5) shares of stock of the Company as of the Record Date
EMB – CAR	-	Environmental Management Bureau Cordillera Administrative Region
Enargite	-	a host ore for copper, occurring as heavy, metallic-gray crystals and masses in veins

FSGRI	-	Far Southeast Gold Resources, Inc.
GFS	-	Gold Fields Switzerland Holding Ag
Gold Dore'	-	a semi pure alloy of gold and silver, usually created at a mine site, then transported to a refinery for further purification
Group	-	Refers to the Lepanto Group
IPRA	-	Indigenous Peoples' Rights Act
Lb.	-	Pound
LCMC / Lepanto	-	Lepanto Consolidated Mining Company
MPSA	-	Mineral Production Sharing Agreement
Manila Mining; MMC	-	Manila Mining Corporation
MGB	-	Mines and Geosciences Bureau
MGB-CAR	-	Mines and Geosciences Bureau-Cordillera Administrative Region
MIB	-	Multinational Investment Bancorporation
MT	-	million tons
MTPD	-	Metric tons per day
Mill head grade	-	the content of precious metal in the ore as it enters the mill
Offer/ Rights Offer	-	The 1:4.685 Stock Rights Offering of the Company
Offer Period	-	The period commencing on December 4, 2017 and ending on December 8, 2017
Offer Shares	-	The shares subject of the Offer, totaling 11,678,967,888
Oz	-	Ounces
Parent Company	-	LCMC
PDTC	-	Philippine Depository and Trust Corporation
PSE	-	Philippine Stock Exchange
Record Date	-	November 6, 2017
Rights Shares	-	The shares to which a shareholder of the Company is entitled to subscribe, on the basis of his shareholdings as of the Record Date
SCCP	-	Securities Clearing Corporation of the Philippines

SEC	-	Securities and Exchange Commission
Second Round	-	The distribution of the unsubscribed Offer Shares to Eligible Shareholders who have Additional Subscriptions
SSI	-	Shipside, Incorporated
TPD	-	Tonnes per day

Business and General Information

Business

Lepanto has been a proud corporate resident of Mankayan, Benguet for 81 years since 1936.

From a primary copper producer, Lepanto has since 1996 been a primary gold producer.

The Company produced copper concentrate solely from its Enargite mine in Mankayan, Benguet from 1936 to 1996, albeit interrupted for a few years by the war. The copper concentrate produced were shipped exclusively to the American Smelting and Refining Company (ASARCO) in Tacoma, Washington, USA, until ASARCO shut down in 1985 by which time the smelting plant of the Philippine Associated Smelting and Refining Corporation (PASAR) in Isabel, Leyte had opened.

From 1948-1996 (no records of previous years' production are available), the Enargite operations produced 1.58 billion lbs. of copper, 2.9 million oz of gold and 12.0 million oz of silver, recovered from 34.4 MT of ore averaging 2.2% Cu and 3.5 g/t Au.

The declining copper price made copper operations very challenging in 1995 and 1996. The discovery of the Victoria orebody, a vein-type gold deposit in Mankayan, Benguet, in 1995 was therefore very timely, prompting Lepanto to immediately develop the orebody and prepare for gold operations. The Company built a 2500-t/d carbon-in-pulp or CIP plant which was commissioned on March 16, 1997, a few months after the copper flotation plant was decommissioned.

During the first three years of gold operations, the Victoria was accessed through the same infrastructure utilized for the old Enargite mine, principally the Tubo Shaft. There was a need for infrastructure closer to the Victoria mine to provide easier access to the Victoria and improve ventilation and efficiency. The Company started construction of the Nayak Twin Decline project in July 1998. Two declines stretching 1 kilometer from the surface to the 1150 Level, passable to mining equipment, trucks and employees' buses, and an internal shaft, were constructed in the Nayak Area. The project was completed in April 2000 at a cost of P675 million.

Lepanto resumed copper operations in 2008, but this was suspended in the fourth quarter of that year due to the sharp decline in copper prices.

The Victoria Project has produced over 1,400,000 oz. gold from 1997 to 2016.

Lepanto sells its gold dore' production to Heraeus Ltd (Hongkong), a refinery based in Hongkong. The Company's revenues (100%) for the last 3 years (2014-2016) came from its sales of gold in bullion. Under the contract with Heraeus Ltd., the Company ships gold (dore) bars to the said buyer on a weekly basis. The contract has a term of one year which is regularly renewed, and has provisions

regarding assay, manner of delivery, weighing and sampling, settlement/ payment, pricing and refining charges.

The Company started commercial operations of the Copper-Gold Project in October 2017.

In reporting its mineral resource and reserves, the Company complies with the PMRC. Please refer to the pertinent discussion under recent developments and to Annexes "A" and "A-1".

The Company has Environment Compliance Certificates, for its mining and milling operations as well as for the utilization of tailings storage facility (TSF) No. 5A.

MINING CLAIMS

		Date of Grant/Date Filed	**Date of Expiry**	**Status**	**Area**	**Location**
Mineral production and Sharing Agreements (MPSAs)	MPSA No. 001-90	March 3, 1990	March 3, 2015 (renewable for another 25 years)	Development / Commercial Operation; pending renewal	948.9696 has.	Mankayan, Benguet
	MPSA No. 151-2000-CAR	March 9, 2000	March 9,2025 renewable for another 25 years)	Exploration	1,829.3565 has.	Mankayan, Benguet
MPSA and FTAA Applications	APSA No. 096	Original – June 3, 1999 Amended – January 16, 2001	-	Pending	1,057.1739 has.	Mankayan, Benguet
	APSA No. 00004-VIII	July 27, 2000	-	Pending	78.5220 has.	Villaba, Leyte
	AFTAA No. 024	January 12, 2005	-	Pending	10,468.9397 has.	Benguet; Mountain Province
Patented Claims	Forty-six (46) patented mining claims	-	*With TCT / OCT*	Exploration works are on-going	335.5179 has.	Mankayan, Benguet
Environmental Compliance Certificates (ECCs)	Modification of the Mankayan Mill Plant	Original – December 6, 1996 Amended – December 10, 1999	*Coterminous with the project*	Existing	n.a	Mankayan, Benguet
	Gold-Copper Mining Project	December 2, 2013	*Coterminus with the project*	Existing	n.a.	Mankayan, Benguet
	Far Southeast Gold Mining Project	December 27, 1990	*Coterminous with the project*	Existing	n.a	Mankayan, Benguet
		Date Entered Into	**Claim owner**	**Status**	**Area**	**Location**
Operating	APSA No. 063	October 12,	Jaime Paul B.	pending	343.86 has.	Suyoc,

Agreements		1992	Panganiban	APSA approval	combined total area	Mankayan
	APSA No. 064	October 12, 1992	June Prill Brett	pending APSA approval		
	APSA No. 065	October 12, 1992	Heirs of James D. Brett	pending APSA approval		
	APSA No. 023	January 21, 1983	Montañosa Mining Exploration Co.	pending APSA approval	3,924,366 has.	Bontoc, Mt. Province

Attached as Annex "B" hereof is a certification dated July 14, 2017 from the MGB-CAR that the mining claims of Lepanto are valid and subsisting.

SUBSIDIARIES

SHIPSIDE, INC., is based in San Fernando, La Union, was incorporated in 1958. It is engaged principally in the hauling business and supports the hauling requirements of the parent company. Lepanto.

DIAMOND DRILLING CORPORATION OF THE PHILIPPINES (DDCP) was incorporated in 1971 and is in the business of providing diamond drilling services. It services mostly mining companies. DDCP has a ready market in its parent company and affiliate, Manila Mining Corporation.

LEPANTO INVESTMENT AND DEVELOPMENT CORPORATION (LIDC), incorporated in 1969, is in the insurance business. It owns 12.3% of Philippine Fire and Marine Insurance Corporation (Philfire) and 100% of DMTC, as discussed hereunder. Its income principally is in the form of commissions from sales of policies to various clients.

DIAMANT MANUFACTURING AND TRADING CORPORATION (DMTC) manufactures industrial diamond tools for mining exploration, marble cutting and the construction industry. DMTC was incorporated in 1972.

Lepanto owns 60% of FAR SOUTHEAST GOLD RESOURCES, INC. (FSGRI), another mining company with resources in Mankayan, Benguet. Incorporated in 1989, FSGRI is not yet in operation. On September 20, 2010, Lepanto entered into an Option and Shareholders Agreement with Gold Fields Switzerland Holding AG which grants Gold Fields an option to subscribe to new shares of stock of FGSRI representing a 20% interest in FSGRI. If the option is exercised by Gold Fields, Lepanto's interest in FSGRI will be reduced from 60% to 40%.

Marketability of Products

There is virtually no market competition among metals producers. Whatever is produced may be shipped out immediately. There is always a ready market, in fact, an increasing demand, for the Company's products, i.e., gold, copper and silver. LCMC sells its gold dore to Heraeus Limited of Hongkong with whom it has a Refining and Transportation Agreement that is renewed from year to year. Prices are dictated by the world market. The Company is not bound under any contract to sell exclusively to any one party.

The Company started commercial operation of gold and silver-bearing copper concentrates in the first week of October and has been regularly shipping. Concentrates produced to a Swiss copper

concentrate trader. The Company is in talks with a number of prospective buyers for the sale of its subsequent copper concentrate production.

Recent Developments

MPSA Renewal

The Company and FSGRI, as joint contractors, applied in June 2014 for the renewal of the MPSA. The dispute concerning the applicability to the renewal of the FPIC and Certification Precondition requirements under the IPRA became subject of an arbitration, which was resolved by the arbitral tribunal in favor of the Company and FSGRI. The matter is now with the Court of Appeals. In the meantime, the company continues operating.

ISO Certification

In compliance with DENR Administrative Circular No. 2015-07, the Company obtained an ISO 14001 certification from TUV Rheinland on 12 May 2016, following a 'zero-nonconformity' finding during the ISO 14001 certification audit conducted by TUV Rheinland Philippines, Inc. on 28-31 March 2016. The ISO 14001 certificate covers the Corporate Office in Makati City; Lepanto Warehouse in Malolos, Bulacan; and the Lepanto Mine Division in Mankayan, Benguet and is valid until 14 September 2018.

Following TUV Rheinland Philippines' audit of the Environmental Management System of Lepanto on 22-24 March 2017, it has recommended that the ISO 14001 certification of Lepanto dated 12 May 2016 be maintained.

DENR Audit/ Suspension Order

Lepanto received on February 14, 2017 an Order from DENR Secretary Regina Lopez suspending Lepanto's mining operation, alleging that Lepanto had violated certain provisions of Pres. Decree No. 1586, the Philippine Mining Act, and related regulations. Lepanto immediately filed a Notice of Appeal with the Office of the President ("OP"), which filing stayed the execution of the Suspension Order.

On October 13, 2017, Lepanto received a copy of the decision of the OP, the dispositive portion of which reads:

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2. The appropriate agency of the DENR is hereby directed to conduct a monthly inspection on appellant Lepanto's compliance with the Decision and to submit a monthly report to this Office regarding the progress of the corrective measures.

"In the event of appellant Lepanto's failure to comply with the above conditions, the suspension Order dated 08 February 2017 shall be reinstated."

Lepanto will comply with the Decision and there is no risk that the Company's operations will be suspended in this regard.

Exploration Program

Since October 2015, Lepanto's exploration team has completed 47,275 meters of underground drilling to evaluate the copper – gold project resources at the former enargite mining area. This program has successfully discovered combined indicated and inferred resources of 7.746 Mt at 0.896 % Cu and 1.974 g/t Au. Furthermore, on-going drilling has outlined an additional geologic resource of 7.288 Mt at 1.694 % Cu and 2.017 g/t Au, and an increased drilling program will bring these areas into inferred and indicated categories.

Copper/Gold Project

The debugging of the flotation plant in Mankayan, Benguet was completed in September 2017. Commercial operation of the Copper-Gold Project has commenced, while the Company continues to produce gold bullion from the Victoria.

Joel S. Diaz, a Competent Person within the context of the Philippine Mineral Reporting Code, certified the Mineral Resource Report of Lepanto as of 26 August 2017. A copy of the report is attached as Annex "A" hereof.

CERTIFICATION AND CONSENT

I, Joel S. Diaz, Filipino, of legal age, and with residence address at Unit 603 Cityland Pasong Tamo, 6264 Calle Estacion, Brgy Pio Del Pilar, Makati City, depose and state THAT:

- *I am a Licensed Geologist registered with the Professional Regulations Commission of the Philippines (PRC No. 0497).*

- *I graduated from the University of the Philippines, Diliman in 1977 with a Bachelor of Science degree in Geology.*

- *I hold the following Professional Qualifications, and have been in good standing with the following professional organizations:*
  Geological Society of the Philippines (GSP) – Member
  Philippine Mineral Reporting Code (PMRC)/Geological Society of the Philippines (GSP) – Accredited Competent Person (CP Reg. No. 12-10-3 valid until November 2018)

- *I have practiced my profession since my graduation in 1977, and have worked as an Exploration Geologist and Mining Geologist, and on occasions, as Geological Consultant for over 35 years. I have been involved in mineral exploration on properties in the Philippines, Indonesia and Brazil, and have undertaken project generation activities in these same areas.*

- *I have extensive experience and know-how in the evaluation of mineral properties, in particular, exploration, evaluation and exploitation of epithermal gold and/or copper vein deposits and porphyry copper and gold deposits. My experience is well beyond the minimum required by the PMRC and other equivalent reporting codes.*

- *I am aware of the definition of "Competent Person" as defined in the Philippine Mineral Reporting Code ("PMRC"), and certify that by virtue of my education, training, related work experience as well as affiliation and accreditation with the sole professional organization for Geologists, that I fulfill the requirements for a "Competent Person" set out by the Philippine Mineral Reporting Code.*

- *I was employed by Lepanto Consolidated Mining Company ("Lepanto") from April 1977 to December 1977 and from February 1992 and March 1995 but am no longer connected with the Company; I am presently, and since April 2011 has been, employed by Cordillera Exploration Company Incorporated as Exploration Manager.*

- *It is my professional opinion that the Mineral Resource Estimates, as prepared by the technical staff of Lepanto is a result of diligent and systematic geological work, systematic drilling programs, and maintenance of an impeccable and functional geological database.*

- *I have no vested interest whatsoever in Lepanto which has engaged me to review the mineral resource estimates prepared by the company's technical staff and consultants for its Enargite Operations at its Mankayan Mine Operation in Mankayan, Benguet Province, covered by MPSA No. 001-90-CAR.*

- *I have read the guidelines set out by the Philippine Mineral Reporting Code and certify that this review has been prepared in accordance with the Code.*

- *I consent to the filing of this certification with the Philippine Stock Exchange and other regulatory government authorities and any publication by Lepanto for regulatory and disclosure purposes, including electronic publication in the public company files on their websites*

(sgd.)
JOEL S. DIAZ
Competent Person
Reg. No. 12-10-3
Licensed Geologist
PRC Lic. No. 0497
PTR No. A-3245343
Issued on 18 January 2017
Issued in Taguig City

EXECUTIVE SUMMARY

Lepanto had been a copper-gold mine for about 60 years until the discovery of Victoria and Teresa intermediate sulfidation epithermal gold deposits in 1995 which prompted the company to switch to gold mining. From 1997 up to present, Lepanto has been producing gold and silver bullions from the Victoria and Teresa ore bodies. Now that the gold veins are nearing depletion, Lepanto has reverted to exploring the unmined portions of the old enargite mining area largely through underground drilling with the aim of blocking sufficient mineral resources that would warrant the re-opening of the copper-gold mine.

The present Copper-Gold Project of Lepanto involves the recently delineated Au + Ag quartz-pyrite-gold (QPG) and enargite-luzonite breccia veins. The QPG breccia veins represent a late-stage precious metal mineralization event associated with the high sulfidation epithermal Cu + Au (enargite-luzonite) deposits. The QPG breccia veins are deposited largely along steeply- dipping faults and associated tensional fractures and to a lesser extent along lithological unconformities. Typical alteration minerals associated with the breccia veins include dickite + pyrophyllite + illite Precious metal minerals include native gold, electrum, argentite, and gold-silver tellurides.

This PMRC-compliant technical report, prepared by the Lepanto technical staff Exploration team under the supervision of Mr. Joel S. Diaz, PMRC/GSP-accredited Competent Person, discloses information related to the results of exploration activities and mineral resource estimation of Lepanto's Copper-Gold Project

effective 28 July 2017. This report has been also prepared for submission to the Philippine Stock Exchange (PSE) as support to the Company's listing application for Stock Right's Offering.

The updated mineral resource estimates of Lepanto, also referred to as Run 9A, cover the enargite- QPG ore bodies comprising of Carmen, NW QPG, Florence, Elena and Easterlies. The estimates utilized all available drillhole data generated up to June 07, 2017 and all channel cut data available from 2001 up to May 31, 2017. A total of 981 drillholes equivalent to more than 173.0 km of drill cores and 25,558 channel cut samples were considered in the current resource model and estimate. All resource estimation processes such as database validation, geological modeling, geostatistical analysis, block modeling and estimation were carried out using GEMS v6.5 software.

The latest estimates of the enargite-QPG at 1.0% CuEq cutoff yielded a total indicated resource of 6.86 million tonnes averaging 1.96 g/t Au and 0.91% Cu and an inferred resource of 0.89 million tonnes grading 2.11 g/t Au and 0.79% Cu.

In addition to the above mineral resources, an exploration target estimated at 7.29 million tonnes with a potential grade of 2.02 g/t Au and 1.69% Cu has likewise been identified based on ongoing drilling as well as historic drillhole and underground stope data from abandoned mined areas. This potential will be the main object of Lepanto's next exploration drilling program in order to bring these areas it into inferred and indicated resource categories.

Mineral Resource Tabulation

The mineral resource estimates for the enargite-QPG ore bodies are tabulated in the tables below.

Table 11-20 presents the global enargite-QPG resource based on 1.0% CuEq cut-off while shows the resource estimates of individual deposit according to resource classification using the same 1.0% CuEq cut-off.

Gold content is reported in troy ounces (oz) where 1 oz = 31.10347 g while copper content is reported in avoirdupois pounds (lb) where 1 lb = 453.59237 g.

Table 11-20. Mineral resource estimates for the enargite-QPG ore bodies based on 1.0% CuEq cut-off grade.

Classification	Tonnage (kT)	Au (g/t)	Cu (%)	koz Au	klb Cu
Measured	-	-	-	-	-
Indicated	6,861	1.956	0.910	431	137,647
TOTAL	**6,861**	**1.956**	**0.910**	**431**	**137,647**
Inferred	885	2.113	0.789	60	15,378

Table 11-21. Mineral resource of individual enargite-QPG deposits according to resource classification using a cut-off of 1.0% CuEq.

Area	Classification	Tonnage (kT)	Au (g/t)	Cu (%)	koz Au	klb Cu
Carmen	Indicated	2,184	1.770	0.625	124	30,098
Florence	Indicated	2,118	1.672	1.371	114	64,000
Elena	Indicated	440	2.045	1.875	29	18,188
NW QPG	Indicated	1,646	2.508	0.463	133	16,797
Easterlies	Indicated	474	2.085	0.820	32	8,564
TOTAL		**6,861**	**1.956**	**0.910**	**431**	**137,647**

Area	Classification	Tonnage (kT)	Au (g/t)	Cu (%)	koz Au	klb Cu
Carmen	Inferred	301	1.652	0.458	16	3,034
Florence	Inferred	82	1.959	1.135	5	2,062
Elena	Inferred	154	1.871	1.557	9	5,272
NW QPG	Inferred	281	2.734	0.610	25	3,775
Easterlies	Inferred	67	2.318	0.831	5	1,234
TOTAL		**885**	**2.113**	**0.789**	**60**	**15,378**

Exploration Target

Based on ongoing drilling as well as historic drillhole and underground stope data from abandoned mined areas, an exploration target estimated at 7.29 million tonnes with a potential grade of 2.02 g/t Au and 1.69% Cu has been identified. Increased drilling program is recommended in this areas in order upgrade the resources into inferred and indicated categories. The details of this target are listed in Table 11-22.

Table 11-22. Copper-gold exploration targets.

Area	Tonnage (kT)	Au (g/t)	Cu (%)	Remarks
Carmen	400	1.549	0.471	Consists of blocks from Run 9A that were interpolated using less than 2 points within the 75 m search radius. Cut-off grade applied is 1.0% CuEq.
Florence	424	2.022	1.470	
Elena	290	1.878	1.717	
NW QPG	719	2.504	0.680	

Easterlies	*133*	*1.711*	*0.562*	
NW Enargite	*1,088*	*1.062*	*2.524*	*Derived from LeCCa Project; tonnages were calculated from actual vein width and total lateral ore exporsures on silled-out areas; grades were estimated manually using prismoidal averaging; declared on Jan 01, 2017 and certified by a Competent Person in*
Yolanda	*1,407*	*2.542*	*1.088*	
Claudia	*115*	*2.529*	*1.998*	
Footwall Branch Veins	*2,478*	*2.005*	*2.156*	*Tonnages and grades were manually estimated based on last stope cut dimensions and samples' grades.*
940 Shaft	*236*	*2.821*	*2.680*	
Total	***7,288***	***2.017***	***1.694***	

Risk Factors

Prospective investors should carefully consider the risk factors discussed below in addition to the other information contained in this Prospectus, including the Company's financial statements and notes relating thereto, before making any investment decision relating to the Offer. This section does not purport to disclose all the risks and other significant aspects of investing in the Offer. The occurrence of any of the events discussed below and any additional risks and uncertainties not presently known to the Company may affect the Company's business, financial condition and prospects and consequently, the market price of the Company's shares.

a) <u>Risks relating to the Company's over-all business</u>

i) Further Net Losses Projected for 2017

Lepanto expects to close the year with a Net Loss due principally to the huge capital expenditures for the Copper-Gold Project. A modest income is however projected for the last quarter of 2017. The Copper-Gold Project is expected to generate respectable income levels in 2018 and subsequent years.

ii) Suspension Order

Lepanto received on February 14, 2017 an Order from DENR Secretary Regina Lopez suspending Lepanto's mining operation, alleging that Lepanto had violated certain provisions of Pres. Decree No. 1586, the Philippine Mining Act, and related regulations. Lepanto immediately filed a Notice of Appeal with the Office of the President ("OP"), which filing stayed the execution of the Suspension Order.

On October 13, 2017, Lepanto received a copy of the decision of the OP, the dispositive portion of which reads:

"WHEREFORE, premises considered, the Appeal is hereby PARTIALLY GRANTED. The Suspension Order dated 08 February 2017 of the DENR Secretary against appellant Lepanto is hereby PROVISIONALLY LIFTED, subject to the following conditions:

1. Appellant Lepanto is hereby given six (6) months from receipt of the copy of this Decision to implement appropriate mitigating measures as contained in the EPRMP; and is hereby ordered to pay a fine in the amount of Twenty Seven Thousand Two Hundred Seventy-Five Pesos (P27,275.00) to the MGB and One Hundred Thousand Pesos (P100,000.00) to the EMB; and

2. The appropriate agency of the DENR is hereby directed to conduct a monthly inspection on appellant Lepanto's compliance with the Decision and to submit a monthly report to this Office regarding the progress of the corrective measures.

"In the event of appellant Lepanto's failure to comply with the above conditions, the suspension Order dated 08 February 2017 shall be reinstated."

Lepanto will comply with the Decision and there is no risk that the Company's operations will be suspended in this regard.

iii) MPSA Renewal/Arbitration Case

Processing of the application for renewal of MPSA No. 001-90-CAR of Lepanto and FSGRI has been suspended pending the final determination of the issue of whether or not the Free and Prior Informed Consent (FPIC) and Certification Precondition requirements of the IPRA may be imposed upon Lepanto and FSGRI. The said issue has been favorably resolved by an arbitral tribunal in 2015 but the matter is subject of an appeal with the Court of Appeals.

It should be noted that, prior to resorting to arbitration, the MGB-CAR had advised Lepanto and FSGRI through a letter dated August 20, 2014 that they had substantially complied with the requirements for the renewal of MPSA 001-90 save for the FPIC and Certification Precondition requirement under the IPRA. If Lepanto's position is upheld, then there is no need to obtain the FPIC and Certification Preconditon for the renewal of the MPSA. Otherwise, Lepanto will have to initiate the FPIC process.

In any event, pending renewal of the MPSA, Lepanto continues its mining operations, consistent with Section 18, Book VII, Chapter 11 of the Administrative Code which provides: " Non-expiration of License. — Where the licensee has made timely and sufficient application for the renewal of a license with reference to any activity of a continuing nature, the existing license shall not expire until the application shall have been finally determined by the agency."

iv) Sustainability of the Company's Business Operations, Stability of Financial Condition and Prospects for continuing growth of the Company

With the infusion of additional capital through this 1:4.685 SRO, the Company's operations will be sustainable given that it has sufficient resource and reserves for the profitable mining of the Copper-Gold Project for at least four years from 2018. Furthermore, consistent with standard procedure, Lepanto will continue to explore additional resources with a view to extending mine life beyond five years. As previously disclosed, the veins delineated in the Copper-Gold ores, specifically in the Quartz–Pyrite-Gold zones, are increasing in width and gold grades with depth and remain open and unexplored below 900L And as stated in the Technical Report on the Exploration Results and Mineral Resource quoted above: "In addition to the above mineral resources, an estimated 7.29 million tonnes of geologic or potential copper-gold mineral resources have been likewise defined based on ongoing drilling as well as historic drillhole and underground stope data from abandoned mined areas. This geologic resource will be the main target of Lepanto Exploration's next drilling program in order to bring these areas into inferred and indicated resource categories."

v) Estimates of Proved and Probable Reserves are Uncertain

Estimates of proven and probable reserves are subject to considerable uncertainty. Such estimates are, to a large extent, based on interpretations of geologic data obtained from drill holes and other sampling techniques. Lepanto observes industry accepted procedures and guidelines in the

management of its exploration data during the execution of the drilling program and employs the latest resource estimation tools in the processing of data.

vi) Operational and Environmental Risks

Operational risk hazards include possible occurrence of accidents in the exploration or operations site. Also, pollutants may be generated from mining and milling operations, thus the need for strict compliance with health, safety and environment standards.

Environmental protection is a priority of the Company. Lepanto is guided by its Environmental Policy to integrate safety, health and environmental concerns in all phases of its operations. The Company's Environmental Management System has been certified by TUV Rheinland to be ISO 14001 compliant.

vii) Exercise of Option by Gold Fields

Gold Fields' exercise of the option in respect of the Far Southeast project is subject to the results of the further exploration work that it is presently conducting on this project. Preliminary results confirm the existence of a world-class deposit with an Inferred Resource for the Far Southeast deposit of 891.7 million tonnes at 0.5% copper and 0.7grams per ton gold, equivalent to 19.8 million ounces of gold and 4.45 million tons of copper.

viii) Competition/ Market for Lepanto's Products

Because of the high demand for metals, there is virtually no competition in the industry; gold and copper producers may easily sell their produce. Lepanto has a long-term contract with Heraeus Metals of Hongkong for the refining and purchase of Lepanto's gold dore. Lepanto is presently in discussions with a number of potential copper concentrate buyers.

ix) Labor

The Company has CBAs with its labor unions. Its 27th CBA with the mine-based Lepanto Local Employees Union (which won over the KMU-affiliated union in a certification election in 2013) was executed on November 17, 2016. The 11th CBA of the Lepanto Supervisors' Union was executed on May 5, 2017. The CBA with the Lepanto Employees Union Makati expired on June 30, 2017, pending negotiations for a new CBA. Please see further discussion on Labor on page 27.

x) Volatility of Metal Prices

The Company's revenues are directly affected by prices of the metals it produces, which are gold, silver, and copper. These metal prices are influenced principally by demand factors in the world market. The prices of these metals are currently on a downtrend but generally higher than the average levels for the last two years. The Company's policy is to monitor regularly the movements in metal prices to determine the impact on its financial position.

xi) Appreciation of the Peso vis-a-vis the US Dollar

Being a 100% exporter, the Company's revenues are directly impacted by the depreciation of the Philippine Peso against the US dollar. Although it has dollar denominated costs, most of the Company's costs and expenses, such as labor and power, are in Pesos. The Company's policy is to maintain foreign currency exposure within acceptable limits.

xii) Risk on Environmental Legislation

Mining activities in the Philippines are monitored and highly regulated by the DENR. New government regulations could affect the Company's exploration or mining activities and entail additional costs. The Company not only meets, but surpasses government environmental standards, as evidenced by its ISO 14001 certificate.

xiii) Litigation: Case for Declaration of Nullity of Contracts against NM Rothschild & Sons (Australia) Ltd.

There is a material case involving the Company entitled "Lepanto vs. NM Rothschild & Sons (Australia) Limited". In 2005, the Company initiated a case for the declaration of nullity of certain hedging contracts with Rothschild on the ground that they are considered as wagering transactions under Philippine law. The case is now pending with the Regional Trial Court of Makati. Declaration of the hedging contracts as null and void would mean that Lepanto has no obligation to pay losses to Rothschild. However, should the case for nullity be dismissed, the Company may have to settle hedging losses amounting to about US$14 million.

b) <u>Risks relating to the Rights Shares</u>

i) Marketability of Shares

The Rights Shares will be listed on the PSE. Trading volumes in the Philippines have historically been significantly smaller than those in securities markets in more developed countries and have also been highly volatile. There is no assurance that an active market for the Rights Shares will develop following the Offer or if developed, that such market will be sustained. The price at which the shares offered will be traded on the PSE after the Offer may vary from the Offer Price. However, the PSE index is at an all time high and recent IPO have been oversubscribed.

ii) Fluctuations in the Peso/US$ rate

The Rights Shares shall be listed on the PSE, where securities are quoted and traded in Pesos. Thus, fluctuations in the Peso/US$ exchange rate may affect the US$ value of the Rights Shares and of dividends that may be earned therefrom.

Use of Proceeds

The proceeds of the offering will amount to P1,751,845,183.20, to be utilized as follows:

PURPOSE	TO BE PAID		TOTAL
	4th Quarter 2017	1st Quarter 2018	
Copper/Gold Project Development	P1,399,511,849.20	0.00	P1,399,511,849.20
Exploration	40,000,000.00	40,000,000.00	80,000,000.00
Debt Settlement/Pension	260,333,334.00	0.00	260,333,334.00
Cost of Offering	6,160,516.00	5,839,484.00	12,000,000.00
Total	**1,706,005,699.20**	**45,839,484.00**	**1,751,845,183.20**

Copper-Gold Project Development

Total cost of the Copper-Gold project for 2017 is P1.64 billion. This includes exploration cost of P240 million, P200 million of which was paid out of the proceeds of the Private Placement made in February 2017. A total of P1.399 billion is allocated for (i) depreciable assets totaling P863.553 million and (ii) depletable assets totaling P535.959 million. Bulk of the depreciable assets will be paid in the third and fourth quarters of 2017, with just P18.773 million to be paid in January to February, 2018. The depreciable assets consist of mining and milling equipment; mill modification and rehabilitation; and mine cars. The depletable assets represent tailings storage facility maintenance and underground infrastructure to access and prepare the ores for mining, such as tunnels, stoping, ramps, raise bores and ventilation. The development costs to be paid in December 2017 include equipment and services acquired from July to August 2017 totaling P294.420 million for depreciable and P250.745 million for depletable assets under 60-120 day credit terms.

Exploration Program

Mineral resource blocks that can be upgraded to at least indicated category and that can be developed easily to potentially augment quickly accessible ore reserve shall be prioritized for drilling. After compiling the priority Copper-Gold (Cu-Au) Project resource blocks, around 6.2 km of definition diamond drilling (DD), all within MPSA No. 001-90-CAR, is required with the aim to upgrade them to indicated resource category. This shall be referred to as Phase 2B definition drilling program, for which a total of P80 million is budgeted. Drilling will commence in November 2017 and end in February 2018, or an average of P20 million per month during that period (P40million for November-December 2017 and P40 million for January to February 2018) utilizing 3 rigs. Of the P80 million, P68.3 million is allocated for actual diamond drilling and assaying and P11.7 million for support services and labor.

Settlement of Debts

The debts to be settled include payables to banks, suppliers and contractors in connection with the Company's mining operations and pension obligations.

The Company took out loans from two creditor banks, namely the United Coconut Planters Bank (UCPB) and Philippine Bank of Communication (PBC) to fund the Company's operations. Total amounts owing to UCPB are US$677,888 and P4.04 million of which P28.333 million will be paid in the

fourth quarter of 2017, the balance to be paid out of the Company's operations from 2018 to 2019. Total amount owing to PBC is P155 million, of which P7.2 million will be paid in the fourth quarter of 2017. The balance will be paid out the Company's operations also in 2018-2019.

Debts to power providers San Miguel Energy Corporation, Phinma Energy Corporation, and the National Grid Corporation of the Philippines, will be fully settled in the fourth quarter of 2017, amounting to P72 million.

Arrears in funding requirements of the Pension Fund pursuant to actuarial valuation amount to P28.8 million payable in the fourth quarter of 2017.

Trade payables to various suppliers incurred for the company's operations total P103 million, payable in the fourth quarter of 2017 under 90-120 day credit terms. Another P P4 million will be paid to security and transportation providers, all in connection with the Company's operations in the third quarter. This will be paid in the fourth quarter of 2017.

Obligations to SSS amount to P17 million, also to be settled in the fourth quarter.

The foregoing discussion represents a best estimate of the use of proceeds of the Offer based on the Company's current plans and anticipated expenditures. In the event that there is any change in the Company's development plan, including *force majeure* and circumstances such as failure to obtain requisite approvals, changes in government policies that would render any of the above plans not viable, the Company may reallocate the proceeds to other purposes taking into consideration the prevailing business climate and the interests of the Company and the shareholders taken as a whole. In the event of any significant deviation, material adjustment or reallocation in the planned use of proceeds, the Company will secure the approval of its Board of Directors for such deviation, adjustment or reallocation and promptly make the appropriate disclosures to the SEC and the PSE. The Company shall regularly disclose to the PSE, through the PSE Electronic Disclosure Generation Technology ("PSE EDGE"), any disbursements from the proceeds generated from the Offer.

Cost of Offering

The Expenses that this exercise will entail are estimated at P12,000,000, broken down as follows:

PURPOSE	Amount
PSE Processing fee **PSE Listing fee**	P 10,000 1,752,000
SEC Confirmation Fee	1,770,000
DST	5,840,000
Transfer Agent's fees	100,000
PDTC listing fee	200,000
Administrative fees: printing of notices and Subscription Agreement, escrow fees, cost of courier and mailing, etc	2,328,000
TOTAL	**12,000,000**

Determination of Offering Price

The shares will be offered to all eligible Lepanto shareholders at the exercise price of P0.15 per share of either class or a discount of about 32% to the closing price of Lepanto Class "A" and 35% to closing

prices of Lepanto Class "B" shares on July 14, 2017 the day prior to the Lepanto Board's approval and announcement of the offering. The discount is being given to encourage participation in the offering. The exercise price is 1.5 times the par value of P0.10 per share.

Plan of Distribution

The Rights Shares shall be offered on a pre-emptive rights basis to existing shareholders of the Company as of the Record Date. The Offer shall be in the proportion of one (1) share for every 4.685 shares of the same class held as of November 6, 2017, the Record Date, at a Rights Offer Price of P0.15 per Rights Share. The Available Shares shall be granted to those shareholders who had exercised their rights and had applied for Additional Shares. These shall be distributed by the underwriter Multinational Investment Bancorporation ("MIB") on a pro-rata basis, to be determined after all the subscription agreements with the required payments shall have been received by the Company. The principal stockholder, F. Yap Securities, Inc., has firmly committed to subscribe not just to its entitlement of Rights Shares, but also to any rights shares that will not otherwise be taken up by other qualified shareholders. In the event that F. Yap Securities, Inc. should fail to subscribe to the unsubscribed portion of the SRO, the Underwriter will fully take up all the unsubscribed shares.

Holdings of existing shares in certificated and in scripless form will be treated as separate holdings for the purpose of calculating entitlements under the Offer. Fractions of the Rights Shares will not be allotted to existing shareholders and fractional entitlement will be rounded down to the nearest whole number of the Rights Shares.

MIB will act as Underwriter of the Offer but no underwriting fees will be collected with respect to the Offer, the underwriting being a technical compliance underwriting undertaken pursuant to the requirements of the PSE.

Notices of the Offer with the subscription agreements will be issued by the Office of the Corporate Secretary and payments will be received by the Office of the Chief Accountant.

Relationship with the Issuer

No relationship exists between the Underwriter and the Company, other than as stated in the Underwriting Agreement entered into by both parties.

TERMS AND CONDITIONS OF THE OFFER

ISSUER:	Lepanto Consolidated Mining Company ("LCMC" or the "Company")
RATIO:	one (1) new common share for every 4.685 common shares held as of the Record Date
ELIGIBLE SHAREHOLDER/ MINIMUM SHAREHOLDINGS	a shareholder with fully paid subscriptions and at least five (5) shares of stock of the Company as of the Record Date
OFFER SHARES:	Common Shares of the Company with par value of Php 0.10 per share consisting of 7,007,384,282 class "A" shares and 4,671,583,606 class "B" shares or a total of 11,678,967,888

	shares. The Offer Shares shall be considered issued and shall rank equally in all respects with the existing shares after a valid Subscription Agreement is perfected between LCMC and the subscriber as evidenced by the written acceptance by LCMC of the Subscription Agreement and issuance of an official receipt covering the payment of at least 50% of the Subscription Price
OFFER PRICE:	Php 0.15 per share
PAR VALUE:	Php 0.10 per share
RECORD DATE:	November 6, 2017
EX-DATE:	October 30, 2017
OFFER PERIOD:	December 4 to 8, 2017
PAYMENT TERMS:	50% due within the Offer Period; balance due on January 5, 2018. Full Payment is acceptable and will be duly receipted but such full payment does not guarantee the Company's approval of the Additional Subscription ("Applicant"), as the Available Shares, to be determined only after the Offer Period, will be distributed to the Applicants in proportion to their original shareholdings as of the Record Date.
ADDITIONAL DOCUMENTS NEEDED:	If the Subscriber is a partnership, corporation or trust account, the Subscription Agreement must be accompanied by a Secretary's Certificate embodying the resolution authorizing the subscription to the Rights Offer and designating the authorized signatory for the transaction; Individual subscribers must submit a copy of a valid ID together with the Subscription Agreement.
SECOND ROUND:	To be considered for the Second Round, Additional Subscriptions must be indicated in the Subscription Agreement and submitted within the Offer Period with the corresponding 50% payment. In the event that the SRO is not fully taken up on the First Round, shareholders who have applied for Additional Subscription will automatically qualify for the Second Round of the rights offering; the Available Shares shall be distributed to the Applicants in proportion to their original shareholdings as of the Record Date.
REFUND:	The initial subscription payment of each Applicant shall be applied first to the approved Additional Subscription; then to the payment of the balance of the entire subscription. Any further balance shall be refunded via check not later than five (5) banking days after the end of the Offer Period.

	Such refund check shall be mailed to the Applicant's address as indicated in the Subscription Agreement.
UNDERWRITER:	Multinational Investment Bancorporation ("MIB") will act as Underwriter of the Offer. Any unsold Rights Shares will be taken up and distributed by MIB. F. Yap Securities, Inc., a principal shareholder of the Company, has firmly committed to subscribe not just to its entitlement of Rights Shares but also to any rights shares that will not otherwise be taken up by other qualified shareholders. In the event that the F. Yap Securities, Inc. should fail to subscribe to the unsubscribed portion of the SRO, MIB will fully take up all the unsubscribed shares.
STOCK TRANSFER AGENT:	STOCK TRANSFER SERVICE, INC.
RECEIVING AGENT:	Office of the Chief Accountant 20/F Lepanto Building, 8747 Paseo de Roxas, Makati City
USE OF PROCEEDS:	To fund the development and further exploration of the Copper-Gold Project, and settle debts and pension obligations
ISSUANCE TAX/ DOCUMENTARY STAMP TAX	All documentary stamp taxes applicable to the issuance of the Offer Shares shall be for the account of LCMC.
LISTING DATE:	The shares offered will be listed within ten (10) calendar days from the end of the Offer Period or on or around December 18, 2017, subject to compliance with the post-approval requirements of the PSE.
TRADING DATE:	The shares will be tradable upon LCMC's compliance with post-listing requirements of the PSE and full payment by the shareholder concerned of the subscribed shares.
REGISTRATION AND LODGMENT	All Offer Shares shall be lodged with the PDTC but no stock certificates shall be issued corresponding to fully-paid subscriptions. Instead, a Registry Confirmation Advice will be issued by the Transfer Agent to the Depository Participants or brokers designated by the Subscriber; if the Subscriber does not indicate any broker's name, then the Company will designate F. Yap Securities, Inc. on the Subscriber's behalf.
FOREIGN OWNERSHIP RESTRICTION	Common "A" Shares, constituting 60% of the capital stock of the Company, are available only to Filipino Shareholders. This is a built-in mechanism to ensure that at any one time, foreign ownership in the Company does not exceed 40% of the outstanding capital.

ACCEPTANCE / REJECTION OF APPLICATIONS	The Company has full discretion to accept or reject all or portion of any subscription under the terms and conditions of the Offer. The actual number of Rights Shares to which any subscriber may be entitled is subject to the confirmation of the Company. Subscriptions where checks are dishonored upon first presentment or which do not comply with the terms of the Offer shall be rejected. Moreover, payment received upon submission of a subscription does not constitute approval or acceptance by the Company of the same.

SECURITIES

Market for Registrant's Common Equity and Related Matters

LCMC's shares of stock are listed in the Philippine Stock Exchange. Following are the quarterly prices of LCMC securities since 2015-2016 and as of October 17, 2017:

LCMC "A" (P/share)

	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	22 November 2017
Low	0.228	0.221	0.179	0.172	0.27	0.242	0.188	0.195	0.190
High	0.23	0.223	0.18	0.175	0.28	0.246	0.192	0.196	0.200

LCMC "B" (P/share)

	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	22 November 2017
Low	0.238	0.226	0.195	0.202	0.290	0.250	0.193	0.199	0.202
High	0.238	0.228	0.195	0.202	0.295	0.255	0.195	0.200	0.206

Securities and Shareholders

As of September 30, 2017, there were a total of 27,860 shareholders, with 22,620 shareholders holding Common "A" shares, or 84.66% of total shareholders; and 5,240 shareholders with Common "B" shares, or 15.34% of total.

Top 20 Stockholders of the Company (as of September 30, 2017)

	STOCKHOLDER NAME	"A" Shares	"B" Shares	Total	%
1	PCD NOMINEE CORPORATION (FIL)	14,507,416,316	3,477,054,908	17,984,471,224	32.88
2	F. YAP SECURITIES, INC	7,527,838,780	6,984,331,914	14,512,170,694	26.53
3	YAPSTER E-TRADE, INC.	2,010,000,000	1,340,000,000	3,350,000,000	6.12
4	FIRST METRO INVESTMENT CORP	2,550,682,926		2,550,682,926	4.66
5	F.YAP SECURITIES INC.		2,362,701,203	2,362,701,203	4.32
6	PHILEX MINING CORPORATION	2,164,240,810	3,494,999	2,167,735,809	3.96
7	F.YAP SECURITIES, INC. A/C 1411		1,129,238,161	1,129,238,161	2.06

8	F.YAP SECURITIES INC. A/C 5217		1,020,000,000	1,020,000,000	1.86
9	F.YAP SECURITIES INC. A/C 521		1,020,000,000	1,020,000,000	1.86
10	FIRST METRO INVESTMENT CORP	169,762,500	799,642,268	969,404,768	1.77
11	CORONET PROPERTY HOLDINGS	277,556,566	447,665,860	725,222,426	1.33
12	F.YAP SECURITIES INC. A/C 5218		699,905,750	699,905,750	1.28
13	PCD NOMINEE CORPORATION (NF)		662,524,429	662,524,429	1.21
14	F.YAP SECURITIES INC. A/C #CPHC-2	362,240,169		362,240,169	0.66
15	F.YAP SECURITIES INC. A/C #CPHC-3	337,989,616		337,989,616	0.62
16	F.YAP SECURITIES INC. A/C 521		323,773,000	323,773,000	0.59
17	FELCRIS HOTELS & RESORTS CORP	310,000,000		310,000,000	0.57
18	F.YAP SECURITIES INC. A/C #CPHC-1	301,859,763		301,859,763	0.55
19	EMMA YAP	242,838,706	24,313,091	267,151,797	0.49
20	F.YAP SECURITIES INC. - A. S.		218,404,905	218,404,905	0.40
	TOTAL	30,762,426,152	20,513,050,488	51,275,476,640	93.74
	OTHERS	2,053,058,762	1,368,254,807	3,421,313,569	6.26
	OVER ALL TOTAL	**32 ,815,484,914**	**21,881,305,295**	**54,696,790,209**	**100.00**

Recent Sales of Unregistered or Exempt Securities

On January 25, 2017, the Board of Directors approved a private placement of 3,350,000,000 common shares of stock of the corporation ("Private Placement Shares") at a price of P0.15 per share or a total of P502,500,000. The Private Placement Shares, consisting of 2,010,000,000 "A" and 1,340,000,000 "B" shares, were subscribed in February 2017 and subject to a two-year lock-up period. The amount raised was used/ will be used for further exploration and initial development of the Copper/Gold Project and settlement of outstanding debt. The issuance was an exempt transaction.

The Company had a rights offering of one share for every 5.5 shares held by shareholders of record as of November 12, 2014 at the price of P0.20. The Offer covered 4,741,476,209 "A" and 3,160,979,876 "B" shares and raised a total of P1.58 billion during the period November to December 2014 and was confirmed by the Securities and Exchange Commission as an exempt transaction in an Order dated October 15, 2014.

Dividends Policy

Dividends may be declared out of the unrestricted retained earnings of the Company, which may be in the form of cash or stock to all stockholders on the basis of outstanding shares held by them as of the record date fixed by the Company in accordance with existing laws and rules. Any cash dividends due on delinquent stock shall first be applied to the unpaid balance on the subscription plus costs and expenses, while stock dividends shall be withheld from the delinquent stockholder until his unpaid subscription is fully paid: Provided, That no stock dividends shall be issued without the approval of stockholders representing not less than two-thirds (2/3) of the outstanding capital stock at a regular or special meeting duly called for the purpose. (Section 43, Corporation Code).

Properties

MINING PROPERTIES

Mineral Production and Sharing Agreements (MPSAs)

Lepanto has two (2) Mineral Production Sharing Agreements (MPSAs), namely MPSA No. 001-90-CAR (948.9696 has.), where subsidiary FSGRI is a co-contractor, and MPSA No. 151-2000-CAR (1,829.3565 has.), approved on March 3, 1990 and March 9, 2000, respectively. Both MPSAa have a term of twenty-five (25) years, renewable for another 25 years. Mining claims subject of the said MPSAs are located in Mankayan, Benguet where commercial mining operations are presently undertaken. The reportorial requirements are regularly submitted by Lepanto to the Mines and Geosciences Bureau (MGB) of the DENR to preserve the Company's rights and privileges under the agreements.

LCMC and FSGRI applied in June 2014 for the renewal of MPSA No. 001-90-CAR. The renewal became subject of an arbitration case which was resolved in their favor in December 2015, but now subject of a Petition for Review with the Court of Appeals, as discussed on page 12 hereof. All operations of the Company are within MPSA No. 001-90-CAR.

MPSA Applications

Lepanto has two (2) MPSA Applications docketed as APSA No. 096 comprising of 1,057.1739 has. in Mankayan, Benguet and APSA No. 00004-VIII with a total area of 78.5220 has. in Villaba, Leyte. Said applications are still pending with the MGB.

Patented Claims

Lepanto has forty-six (46) patented mining claims, which was allowed under the Phil. Bill of 1902, with a total area of 335.5179 hectares, all situated in Mankayan, Benguet. Exploration works are ongoing in these areas.

Operating Agreements

a. APSA Nos. 063, 064 and 065 – On October 12, 1992, LCMC entered into separate Operating Agreements with Jaime Paul B. Panganiban, June Prill Brett and Heirs of James D. Brett, registered MPSA applicants of APSA Nos. 063, 064, and 065, respectively, all situated in Suyoc, Mankayan. The combined total area of the subject MPSA Applications is 343.86 hectares.

b. APSA No. 023 – an Operating Agreement was entered into between Lepanto and Montañosa Mining Exploration Company ("Montañosa") over mining tenements located in Bontoc, Mountain Province. On October 7, 1991, Lepanto, as mining operator of Montañosa, filed an MPSA Application (APSA No. 023) with the MGB-CAR. This was opposed by Mr. Delfin Comedis, et al. which opposition has been dismissed by the Mines Adjudication Board (MAB) of DENR. Evaluation of the application is ongoing.

c. Exploration Permit No. 2004-000003-VIII –Lepanto has an Operating Agreement with the Philippine National Oil Company / Energy Development Corporation for the Leyte Geothermal Reservation. The corresponding application for the renewal of the pertinent exploration permit, which expired last March 19, 2006, is still pending approval by the MGB.

OTHER PROPERTIES

The Company owns about 2,030.2 has. of land in Mankayan, Benguet, where its plants and mining facilities are located.

The Roaster Plant, which the Company owns, sits on 4.7 hectares of land which the Company had been leasing from Mahler Holdings Corporation ("Mahler") and National Development Corporation ("NDC"). The area leased from Mahler, consisting of 3.1 hectares, was purchased by the Company on December 16, 2009. The rental on the NDC property is P100,935.38 per month.

Lepanto owns two storeys of the Lepanto Building on Paseo de Roxas, Makati City, where its principal offices are located. It also owns a 3,493 sq. meter residential property in Baguio City and 3.5 has. of commercial land in Poro Point, San Fernando, La Union. Lepanto leases a 1,789.65 sq. meter property in Malolos, Bulacan used for its warehouse. The lease, at the rate of P140,000 per month, is good until 2018.

Lepanto has Machinery and Equipment located in Mankayan, Benguet, consisting of the following:

Tubo Shaft Complex
Power House
Machine Shop
Sandfill Tramline
Furniture and Fixtures
Foundry Shop
Assay Laboratory Equipment
Mechanical equipment
Internal Shaft at Nayak

Further, it has various automotive equipment/vehicles in Makati City, Benguet and Leyte.

Lepanto's infrastructure includes roads, rails and bridges, twin declines, tailings storage facility, undergrounds shafts, and an airport, all located in Mankayan, Benguet. Its plants are located in Mankayan, Benguet (gold and copper mills).

Lepanto's assets directly utilized for the Victoria Project were mortgaged to Rothschild and Dresdner Banks in connection with a Loan and Hedging Facilities Agreement executed in 1998. These include the plants and other facilities used for the Victoria Project. The real properties covered by the mortgage constitutes about 1.2% of the Company's landholdings in Mankayan, Benguet. The subject loan has been fully repaid. It is the Company's position that the hedging contracts with the said banks are null and void and therefore the mortgages are likewise not effective. In fact, the contracts with Rothschild are now subject of a case of declaration of nullity pending with the RTC Makati. Declaration of the hedging contracts as null and void would mean that Lepanto has no obligation to pay any losses to Rothschild.

No acquisition of any real property is intended within the next 12 months.

Subsidiaries

Shipside has substantial properties in La Union. It owns about 19.78 hectares of land in Poro Point, San Fernando, La Union and in Bauang, La Union, used for its hauling, warehousing, and sawmilling businesses. It owns four trucks for its trucking/ hauling business.

DDCP leases an 18 sq. meter property at P24,640.00 per month in Parañaque City, adjacent to that leased by DMTC. The lease is good until 2018. It also owns about 20 units of drill rigs which are vital to its operations, and 5.6982 hectares of land in Tanquigan, La Union.

LIDC's properties consist of shares of stock in DBPI, Philfire, and Manila Mining Corporation.

DMTC leases a 900 sq. meter property in Parañaque City where its offices and plant are located. The lease is good until April 2020 at the rate of P121,338 per year inclusive of VAT and withholding tax and subject to annual escalation.

FSGRI is co-contractor of Lepanto in MPSA No. 001-90-CAR issued by the government on March 3, 1990. It also co-owns with Lepanto, on a 50/50 basis, Tailings Pond. No. 5A located in Mankayan, Benguet. FSGRI has applied for the partial conversion of MPSA No. 001-90-CAR into an FTAA. Please refer to the discussion of the arbitration concerning the renewal of the said MPSA on page 11.

Legal Proceedings

Lepanto vs. NM Rothschild & Sons (Australia) Ltd. (Civil Case No. 05-782)

The Company initiated in 2005 a case for the declaration of nullity of forward gold contracts with Rothschild to sell 97,476 ounces of gold on the ground that they are considered as wagering transactions under Philippine law. The case is now pending with the Regional Trial Court ("RTC") of Makati City. The petition filed by Rothschild with the Supreme Court (G.R. No. 175799) questioning the denial by the RTC and the Court of Appeals of its Motion to Dismiss was dismissed by the Supreme Court in a Resolution dated November 28, 2011. The Company has completed its presentation of evidence.

Declaration of the hedging contracts as wagering contracts and therefore null and void would mean that Lepanto has no obligation to pay any losses to Rothschild. However, if the Company should lose the case, it may have to settle hedging losses amounting to $14 million.

MPSA Renewal/Arbitration Case

LCMC and Far Southeast Gold Resources, Inc. ("FSGRI"), jointly referred to herein as "Applicants", filed in June 2014 a joint application for renewal of the MPSA with the Mines and Geosciences Bureau-Cordillera Administrative Region ("MGB-CAR"). In a letter dated August 20, 2014, the MGB-CAR informed the Applicants that they had substantially complied with the requirements for the renewal of the MPSA and that the application will be endorsed to the National Commission on Indigenous Peoples ("NCIP") for appropriate action. An issue arose as to the applicability of certain provisions of the Indigenous Peoples' Rights Act ("IPRA") to such renewal, which issue was submitted to arbitration.

Pending and in connection with the arbitration proceedings, LCMC and FSGRI filed a petition for interim reliefs with the Regional Trial Court. On 18 March 2015, the court issued a writ of preliminary injunction, enjoining the respondents DENR, MGB, and NCIP from performing any acts that would (a) disrupt, disturb or impede the operations of the Applicants in the area covered by the MPSA; and acts that would (b) hinder, prevent or delay the Applicants from exercising their rights or from discharging their obligations under the MPSA in any manner whatsoever, until such time that a final and executory award is issued with respect to the arbitration proceedings commenced by the Applicants; and directing the respondents to perform all acts necessary and proper to maintain and protect the validity and/or enforceability of the Applicants' vested rights under the MPSA during the pendency of the arbitration proceedings.

In a final award dated November 27, 2015, the Arbitral Tribunal ruled that the Free and Prior Informed Consent ("FPIC") and Certification Precondition may not be validly imposed as requirements for the renewal of the MPSA, and the latter should be renewed under the same terms and conditions, without prejudice to changes mutually agreed upon by the parties. The matter is now subject of a Petition for Review with the Court of Appeals.

Should the case be finally resolved in favor of LCMC and FSGRI, then the renewed MPSA shall be issued by the DENR. Otherwise, LCMC and FSGRI will have to seek the FPIC and Certification Precondition from the IPs/NCIP. Mining operations should however continue pending such process. Our legal counsel Sycip, Salazar, Hernandez and Gatmaitan, has advised that Lepanto has a good and completely meritorious case.

While the processing of the application for renewal of the MPSA has been suspended pending the final determination of the issue of whether or not FPIC and Certification Precondition requirements of the IPRA may be imposed upon Lepanto and FSGRI, Lepanto continues its mining operations, consistent with Section 18, Book VII, Chapter 11 of the Administrative Code which provides: "Non-expiration of License. -Where the licensee has made timely and sufficient application for the renewal of a license with reference to any activity of a continuing nature, the existing license shall not expire until the application shall have been finally determined by the agency."

Suspension Order

Lepanto received on February 14, 2017 an Order from DENR Secretary Regina Lopez suspending Lepanto's mining operation, alleging that Lepanto had violated certain provisions of Pres. Decree No. 1586, the Philippine Mining Act, and related regulations. Lepanto immediately filed a Notice of Appeal with the Office of the President ("OP"), which filing stayed the execution of the Suspension Order.

On October 13, 2017, Lepanto received a copy of the decision of the OP, the dispositive portion of which reads:

"WHEREFORE, premises considered, the Appeal is hereby PARTIALLY GRANTED. The Suspension Order dated 08 February 2017 of the DENR Secretary against appellant Lepanto is hereby PROVISIONALLY LIFTED, subject to the following conditions:

1. Appellant Lepanto is hereby given six (6) months from receipt of the copy of this Decision to implement appropriate mitigating measures as contained in the EPRMP; and is hereby ordered to pay a fine in the amount of Twenty Seven Thousand Two Hundred Seventy-Five Pesos (P27,275.00) to the MGB and One Hundred Thousand Pesos (P100,000.00) to the EMB; and
2. The appropriate agency of the DENR is hereby directed to conduct a monthly inspection on appellant Lepanto's compliance with the Decision and to submit a monthly report to this Office regarding the progress of the corrective measures.

"In the event of appellant Lepanto's failure to comply with the above conditions, the suspension Order dated 08 February 2017 shall be reinstated."

Lepanto will comply with the Decision and there is no risk that the Company's operations will be suspended in this regard.

SUMMARY OF MATERIAL CONTRACTS

a. Refining and Transportation Agreement with Heraeus Limited of Hongkong dated October 1, 2015 effective for two years for the refining by Heraeus or otherwise sale to it by Lepanto of Lepanto's gold dore;

b. MPSA No. 01-90 dated March 3, 1990 and now pending renewal. This MPSA covers a toal of 948.9696 has., all located in Mankayan, Benguet, including: the Enargite Project, which the Company operated from 1936-1997 and in 2008; the Victoria project, which the Company started operating in 1997; and the Far Southeast Project, now subject of an Option and Shareholders' Agreement with GFS. The MPSA has a term of 25 years, renewable for another 25 years.

c. MPSA No. 151-2000 dated March 9, 2000. This MPSA covers 1,8929.3565 has. located in Mankayan. Benguet. The area is subject of exploration works.

d. Option and Shareholders' Agreement with GFS. This was executed by the Company, FSGRI and Gold Fields Switzerland Holding AG, a wholly-owned subsidiary of Gold Fields Limited on September 20, 2010. The Agreement grants GFS an 18-month option, for a fee of US$10 million, to subscribe to new shares of stock of FSGRI representing a 20% interest therein. If the option is exercised by GFS, Lepanto's interest in FSGRI will be reduced from 60% to 40%. The Parties intend to progress the Project under a Financial or Technical Assistance Agreement, with Lepanto owning 40% of the outstanding capital and GFS owning the balance. FSGRI owns the FSE Project, a large gold-copper porphyry deposit located in Mankayan, Benguet, adjacent to the current operations of Lepanto. The option requires GFS to sole-fund pre-development expenses including exploration and a feasibility study of the Project and contribute US$110 million into FSGRI. GFS must also contribute its proportionate share of the development cost at which point GFS will receive its 20% interest in FSGRI.

e. Operating Agreement with Montañosa Mining Exploration Co.(Montañosa) Lepanto and Montañosa entered into an Operating Agreement on January 21, 1983 whereby Montañosa, for valuable consideration including the payment of royalties ranging from 1.2% to 3.6% (depending on the mill grade) of the gross value of copper produced and 1.8% of the gross value of gold, silver and other metals produced, granted Lepanto the right to explore, develop, equip, mine and operate a total of 18 mineral claims located in Bontoc, Mountain Province consisting of 3,924.3266 hectares. Pursuant to the Operating Agreement, Lepanto filed on October 7, 1991 with the MGB an application for an MPSA denominated as APSA No. 023, currently pending evaluation by the MGB- Cordillera Administrative Region.

f. Operating Agreement with Jaime Paul Panganiban. Lepanto and Panganiban entered into an Operating Agreement dated October 12, 1992 whereby Panganiban, for valuable consideration including the payment of royalties ranging from 1.0% to 2.0% (depending on the mill grade) of the net income from copper produced and 2.0% of the net income on gold and silver produced from the mineral claims, conveyed, transferred and delivered to Lepanto the possession, occupancy, use and enjoyment of a total of 3 mineral claims totaling 98.72 hectares located in Mankayan, Benguet. Pursuant to the Operating Agreement, Lepanto filed with the MGB on August 11, 1997 an application for an MPSA denominated as APSA No. 063, pending evaluation by the MGB- Cordillera Administrative Region.

g. Operating Agreement with James D. Brett and June Prill Brett. Lepanto entered into an Operating Agreement with James D. Brett and June Prill Brett dated October 12, 1992 whereby the Bretts, for valuable consideration including the payment of royalties ranging from 1.0% to 2.0% (depending on the mill grade) of the net income from copper produced and 2.0% of the net income on gold and silver produced from the mineral claims, conveyed, transferred and delivered to Lepanto the possession, occupancy, use and enjoyment of a total of 5 mineral claims totaling 288 hectares located in Mankayan, Benguet. Pursuant to the Operating Agreement, Lepanto filed 2 separate applications for MPSAs over the subject mining claims. APSA No. 064- CAR was filed under the name of the Heirs of James Brett on

August 11, 1997, covering 98.72 has; and APSA No. 065-CAR under the name of June Prill Brett was filed on the same date, covering 146.42 has. Both applications are pending evaluation by the MGB-Cordillera Administrative Region.

h. Transfer Agency Agreement with the Stock Transfer Service, Inc., effective on April 1, 2017 and renewable for similar terms.

Employees

Lepanto has 1,754 mine-based and 58 Makati-based employees. In the Lepanto Mine Division, there are 42 managerial employees; 312 Supervisory, of whom 185 are members of the Supervisors' Union (LLSU); 127 clerical and technical non-union members; 1,399 rank-and-file employees, of whom 975 are members of the Lepanto Local Employees' Union or LLEU. The LLEU won over the KMU-affiliated Lepanto Employees Union in a certification election in October 2013). The 27th CBA of LLEU was executed on November 17, 2016 while the 11th CBA of LLSU was signed on May 5, 2017.

Of the 59 employees in Makati, 17 are members of the Lepanto Employees Union-Makati (LEUM) whose CBA expired on June 30, 2017 and now subject of negotiations. 26 are managerial/supervisory employees (including officers); and 17 are clerical non-union members.

Lepanto provides health card benefits to its Makati employees. Mine-based employees get free housing and free hospitalization at the Lepanto Hospital.

Shipside has 16 employees, of whom 5 are administrative, 4 are clerical and 7 are involved in operations. They are not subject to any CBA. There is a plan to hire additional employees due to the resumption of the sawmill operations and copper concentrate hauling business of the Company.

DDCP has 55 employees, 35 of whom are in operations/rank-and-file employees, 20 managerial and supervisor. The employees are not covered by any CBA.

DMTC has 19 permanent employees, comprising of 4 managerial, 1 supervisor and 14 rank and file employees. There is a plan to hire additional employees as the need arise in the next 12 months.

LIDC has no employees.

FSGRI has 22 employees, comprising of 4 managerial, 9 supervisors and 9 rank-and-file employees. The employees are not covered by any CBA.

Investor Relations

All queries and matters relating to Shareholders and Investors including requests for status, sale of shares, replacement of certificates and transfer of shares are directed to the Office of the Vice President and Assistant Corporate Secretary, Atty. Odette A. Javier. Her office directly deals with investors and shareholders or otherwise refers the matter to the Department or Officer concerned. The Assistant Corporate Secretary holds office at the 21st Floor, Lepanto Building, 8747 Paseo de Roxas, Makati City and may be reached through: Tel nos. 815-9447; oaj@lepantomining.com

Corporate Governance

LCMC adopted in May 2017 a New Manual on Corporate Governance to incorporate the latest principles of good governance in the entire organization. Pursuant to the said Manual, the Company's

Board of Directors have constituted the following committees: Audit Committee; Good Governance Committee, Nomination Committee; Stock Option Committee.

Financial Information

Lepanto Consolidated Mining Company
Consolidated
Summary of Financial Data
(Amounts in Thousands except for EPS)

	For the nine months ended September 30, 2017 (Unaudited)	For the year ended December 31, 2016 (Audited)	December 31, 2015 (Audited)	December 31, 2014 (Audited)
Income Statement				
*Revenue	1,102,614	1,534,056	1,212,902	1,479,438
Operating Income (Loss)	(548,930)	(697,181)	(782,391)	(630,854)
Net Income (Loss)	(572,774)	(733,569)	(859,376)	(713,286)
Balance Sheet				
Assets				
Current	2,146,683	1,735,075	1,951,080	2,220,495
Non-current	14,989,676	14,743,856	15,042,811	14,688,603
Total	17,136,359	16,478,931	16,993,891	16,909,098
Current	2,240,591	1,611,859	1,423,445	1,361,302
Non-current	8,110,210	7,986,180	8,143,655	8,157,365
Total	10,350,801	9,598,039	9,567,100	9,518,667
Stockholders' Equity	6,785,558	6,880,892	7,426,791	7,390,431
Earnings Per Share (EPS)	(0.011)	(0.014)	(0.017)	(0.016)

Management's Discussion and Analysis of Financial Condition

Third Quarter of 2017

Consolidated revenues for the third quarter of 2017 amounted to P401.7 million compared with P427.1 million in 2016. Net loss increased to P193.1 million versus P168.5 million the previous year.

For the nine months ended September 2017, consolidated revenues decreased to P1,102.6 million versus P1,121.2 million in the same period last year. Net loss totaled P572.8 million compared with P500.6 million in 2016.
Mining Operations

July – September 2017 versus July – September 2016

*All mining revenues come from mining within MPSA No. 001-90-CAR. MPSA No. 151-2000-CAR is not yet in the operating stage.

Copper-gold concentrate produced from initial runs of the rehabilitated copper flotation plant totaled 1,541 dry metric tons (DMT) containing 3,523 oz. of gold; 18,744 oz. of silver; and 593,413 lbs. of copper. There were no copper operations last year. Of the copper-gold concentrate produced, about 500 DMT was in the inventory with an estimated value of around P100 million.

Combined with the bullion production of 3,494 oz. of gold and 1,813 oz. of silver, total gold production amounted to 7,017 oz. versus 5,989 oz. last year; and total silver production was 20,557 oz. versus 11,334 oz. last year. Metal sales went up by P27.52 million to P415.93 million due largely to copper-gold concentrate production. However, net loss increased to P177.49 million compared with last year's P145.65 million, as a third of the copper-gold concentrate production was yet unsold, and because of the higher tonnage, impacting mining, milling and depletion costs. The depletion cost covers the development of both the Victoria and the Copper-Gold projects.

Gold price averaged US$1,288.37/oz. versus US$1,338.34/oz. while silver price averaged US$16.95/oz. versus US$19.31/oz. the preceding year. Copper price averaged US$2.92. The P/US$ exchange rate averaged P50.92/US$1 compared with P46.93/US$1 last year.

Cost and expenses increased by 11% to P588.13 million from P531.15 million as the tonnage milled increased to 109,250 tonnes from 68,230 tonnes in 2016. Mining cost went up from P174.6 million to P217.0 million; milling cost increased by P24.9 million to P76.5 million; depletion by P29.6 million to P157.0 million. Overhead cost went up to P96.1 million from P86.2 million attributable to the higher cost of handling, freight and delivery of copper-gold concentrate and materials and supplies.

Excise tax went up by 31% to P10.2 million due to higher metal revenue and production. Finance cost was almost unchanged at P5.0 million. Payment of dollar-denominated loans resulted in a foreign exchange loss of P1.8 million compared with a gain of P1.6 million the previous period. Other income increased by P1.5 million arising from the disposal of obsolete equipment.

January – September 2017 versus January – September 2016

Total gold production (in bullion and in concentrate) reached 17,338 oz. versus 17,214 oz. last year while total silver production amounted to 29,034 oz. versus 34,706 oz. last year. Copper production totaled 593,413 pounds. Tonnage milled increased to 226,900 tonnes from 201,290 tonnes in 2016.

Metal sales increased by P21.4 million to P1,068.3 million due mainly to the higher metal production and copper sales. Net loss increased by P29.2 million to P537.7 million compared with last year's P508.5 million on account of the higher costs and the copper-gold concentrate inventory.

Gold price averaged US$1,258.68/oz. versus US$1,265.24/oz. while silver price averaged US$17.18/oz. versus US$17.47/oz. the preceding year. Copper price averaged US$2.92. The P/US$ exchange rate averaged P50.18/US$1 compared with P46.97/US$1 last year.

Cost and expenses increased by 3% to P1,586.3 million from P1,543.4 million last year due largely to the higher tonnage milled and the resumption of the copper flotation circuit. Mining cost went up by P12.3 million to P505.4 million; milling cost by P29.0 million; and depletion by P23.5 million to P410.9 million. Overhead costs went up by P47.7 million to P283.5 million attributable to lime consumption, lump sum payments made pursuant to the collective bargaining agreements with two mine-based unions; and handling, freight and delivery of copper-gold concentrate and materials and supplies.

Excise tax increased by 11% to P23.2 million due to the higher metal production and revenue. Finance cost dropped slightly from P16.0 million to P15.8 million following the settlement of short-term loans. Payment of dollar-denominated loans resulted in a foreign exchange loss of P7.3 million compared

with a gain of P1.4 million the previous period. Other income increased to P1.4 million in relation to the disposal of obsolete equipment.

BALANCE SHEET MOVEMENTS

September 30, 2017 versus December 31, 2016

Cash and cash equivalents increased by P52.2 million on account of the remittance at the end of the quarter of partial proceeds of the sale of copper-gold concentrate. Receivables increased by P67.3 million representing the unpaid portion of a copper-gold concentrate shipment. Inventories increased by 17.14% largely on account of the yet unsold copper-gold concentrate. Advances to suppliers went up by 46.43% on account of the increased materials and supplies requirements of operations. Other current assets increased by 9.74% to P703.9 million due mainly to the increase in Input Value-Added-Tax and prepaid charges on importations.

The increase in other noncurrent assets of P25.0 million was due mainly to deferred charges awaiting final recording.

On liabilities, trade and other payables increased by 31.32% representing purchases of materials and services. Short-term and long-term borrowings increased by P160.7 million and P156.6 million, respectively, due to reclassification of liabilities. Income tax payable decreased due to the payment in April 2017 of last year's tax liability. The decrease in retirement benefit obligations is attributable to the continuous contribution of Parent Company to its retirement fund.

Capital stock increased by 6.5% on account of the stock subscription by way of private placement totaling 3.35 billion shares at P0.15 per share.

Deficit increased by P591.8 million representing the net loss from January to September 2017 operations.

CAPITAL EXPENDITURES

Capital expenditures for the quarter totaled P248.3 million, of which P104.4 million went to exploration; P58.7 million to machinery and equipment; P82.1 million to mine development; and, P3.0 million to maintenance of tailings storage facility 5A.

For the nine months ended September 2017, total capital expenditures amounted to P518.9 million; of which P189.7 million went to exploration; P109.4 million to machinery and equipment; P210.1 million to mine development; and P9.8 million to maintenance of tailings storage facility 5A.

OUTLOOK FOR THE YEAR

The Copper-Gold Project has commenced commercial operation in October 2017. The projected metal output for the year is 24,500 oz. of gold, 53,400 oz. of silver and 1.15 million pounds of copper.

Exploration and development of the Copper-Gold Project will continue this year with a view to ramping milling tonnage up to 2,500 metric tonnes per day by 2018.

SUBSIDIARIES

The key performance indicator used for the subsidiaries is net income for the nine months ended September 2017 versus the same period the previous year.

From a net income last year of P46.7 million, Diamond Drilling Corporation of the Philippines reported a net loss of P26.8 million on account of cost-related losses on a drilling project. Lepanto Investment and Development Corporation reported a net loss of P4.5 million compared with last year's net loss of P156.9 thousand due to a loss arising from the partial divestment in a subsidiary. Shipside, Incorporated registered a net loss of P2.1 million against last year's net income of P60.8 million which arose from the sale of land.

* - KEY PERFORMANCE INDICATORS-LCMC

Tonnes Milled which indicate the amount of ore taken for processing, Milled Head is the amount of gold per ton milled and Gold production which is the final product of the operations. Metal sales, Cost and Expenses and Net Income round up the review process on how the company is performing vis-à-vis the performance of the same period last year. Average Gold price for the period adds another parameter that needs watching notwithstanding that the company has no direct influence on its movement.

Management's Discussion and Analysis of Financial Condition
and Results of Operations for 2016, 2015 & 2014

2016

Consolidated revenues rose 26% to P1.53 billion from P1.21 billion in 2015. Net loss was P758.0 million versus last year's loss of P859.4 million. The net loss included a pension expense pertaining to interest cost and current service cost of P128.9 million, net foreign exchange gain of P3.0 million and the Company's share in the net losses of associates of P6.7 million; last year's included a pension expense of P80.0 million, foreign exchange loss of P19.4 million and a share in the net losses of associates of P20.6 million.

MINING OPERATIONS

Metal sales improved by 25% to ₱1.4 billion from the previous year's ₱1.1 billion on account of the higher gold production and metal prices. Gold production increased to 23,616 ounces (oz.) from 21,190 oz. the previous year. Silver production decreased to 39,144 oz. from 49,938 oz. Average gold price went up from US$1,145.38/oz. last year to US$1,248.06/oz. and that of silver from US$15.45/oz. to US$17.33/oz. Loss from operations amounted to ₱717.55 million compared with last year's loss of ₱777.04 million.

Ore milled was almost unchanged at 258,220 tonnes but average gold grade improved to 3.13 g/t compared with 2.83 g/t in 2015. Average silver grade dropped to 12.52 g/t from 15.39 g/t in 2015.

Operating costs went up by P229.0 million from last year's P1,923.0 million mainly due to increase in mining cost and depletion. Mining cost went up on account of the change in treatment of development costs (P177.0 million) from capital development to operating development; increase in labor cost (P39.8 million) and in the maintenance cost of mine machinery/equipment and mine ventilation (P97.8 million). Total milling cost however fell by P16.6 million mainly due to the reduced

usage of major consumables and supplies. Production tax went up by P5.6 million on account of the higher revenue. Depletion cost increased by P51.3 million due to full depletion in the current year of capital development accumulated in 2015. Depreciation expense went down by P23.4 million as some machineries and equipment became fully-depreciated. Overhead was reduced by P10.9 million due principally to the lower pension expense. Administration costs decreased by P33.7 million due to lower taxes and fees and other general supplies. Bullion handling and assaying increased by P1.5 million on account of the higher metal production.

Finance costs went down from P104.3 million to P93.4 million due largely to the lower interest expense from actuarial valuation of retirement liability.

The Peso weakened vs. the US$, ₱47.53 to US$1 compared with last year's P45.71 to US$1, resulting in a foreign exchange loss of P23.0 million.

Other income (charges) totaled (P13.5) million against last year's P70.1 million, the loss in the current year being on account of the disposal of an available-for-sale (AFS) investment.

Net loss amounted to P847.4 million against last year's net loss of P840.8 million. Provision for (Benefit from) income tax is (P3.9) million versus last year's P11.8 million.

BALANCE SHEET MOVEMENTS

Cash on hand and in banks increased to P86.2 million from P66.4 million. Receivables went down to P241.5 million from P306.8 million on account of collections. Parts and supplies inventories decreased to P430.0 million from P520.4 million due to utilization. Advances to suppliers and contractors were reduced to P335.9 million from P442.8 million as they were applied against billings.

AFS financial assets decreased to P187.7 million from P477.1 million mainly due to the disposal of some shares of stock of Prime Orion Philippines, Inc., an AFS investment. Other non-current assets increased by 8% to P77.2 million on account of deferred charges.

Trade Payables and Accrued Expenses rose to P1,538.2 million from P1,422.5 million on account of additional purchases of materials and services. A matured long-term debt and a trust receipt totaling P68.1 million were reclassified to short-term. Income tax payable increased to P5.6 million from P1.0 million due to the provision for income tax of subsidiary Shipside, Inc.

Retirement benefit liability went down by P99.5 million to P1,682.7 million following a re-measurement of retirement liability. Stock subscriptions payable decreased by 89% to P11.4 million from P107.8 million mainly due to the disposal of some POPI shares.

Re-measurement loss on retirement liability was reduced to P417.0 million from P521.3 million on account of an actuarial revaluation pursuant to Philippine Accounting Standards 19. Last year's unrealized loss on AFS financial assets amounting to P44.7 million turned to an unrealized gain of P38.3 million in connection with the disposal of the POPI shares and the improvement in the market value of other AFS investments. Deficit climbed to P2.47 billion from P1.73 billion on account of the consolidated loss for the year.

CAPITAL EXPENDITURES

Total capital expenditures for the year reached P797.7 million, consisting of: mine development, P20.5 million; mine exploration and diamond drilling cost, P519.2 million; TSF 5A maintenance, P20.2 million; and machineries, equipment and other depreciable assets, P237.8 million.

SUBSIDIARIES

Net Income is the key performance indicator used for the subsidiaries.

DIAMANT MANUFACTURING AND TRADING CORPORATION

Net sales increased to P43.1 million from P34.9 million last year mainly due to an increase in trading business. Net income rose to P3.5 million from last year's P3.2 million.

DIAMOND DRILLING CORPORATION OF THE PHILIPPINES

Gross revenue improved by 80.94% to P439.3 million due to higher drilling output in projects for Lepanto and for external customers. DDCP reported a net income of P14.0 million versus last year's P8.1 million.

LEPANTO INVESTMENT AND DEVELOPMENT CORPORATION

The company had no revenue-generating activities in 2016. Last year, it registered a revenue of P43.6 million from the reclassification of its investment in Philippine Fire and Marine Insurance Corporation (Philfire) from 'Investment in an Associate' to 'AFS Investment' due to the loss of LIDC's significant influence over Philfire. LIDC owns 12.38% of the outstanding capital of Philfire and 100% of that of DMTC.

SHIPSIDE, INCORPORATED

Total revenue from operations was almost unchanged at P30.3 million. SSI posted a net income of P64.7 million due largely to the disposal of land. A net loss of P9.9 million was registered last year.

FAR SOUTHEAST GOLD RESOURCES, INC.

This year's net income amounted to P18.1 million versus last year's loss of P1.0 million, both of which arose from the revaluation of a foreign currency-denominated financial asset.

CONTINGENT OBLIGATIONS AND KNOWN TRENDS OR EVENTS

There were no material off-balance sheet transactions, arrangements or obligations, including contingent obligations with unconsolidated entities of other persons created during the period.

The Company received a Suspension Order from the DENR in February 2017 but, as discussed under Material Cases, the Company timely filed an appeal which stayed the execution of the Order.

2015

Consolidated revenues dropped 18% to P1.22 billion from P1.48 billion in 2014. Net loss was P859.4 million versus last year's loss of P713.3 million. The net loss included a pension expense of P14.0 million, foreign exchange loss of P19.4 million and the Company's share in the net losses of associates of P20.6 million; last year's included a pension expense of P115.4 million, foreign exchange gain of P16.5 million and a share in the net losses of associates of P13.5 million.

MINING OPERATIONS

Metal sales revenues totaled P1.15 billion compared with the previous year's P1.43 billion. The decline in revenue was due to the 14% drop in gold production aggravated by lower metal prices. Average price of gold sold was US1,145.38/oz. compared with US1,269.04/oz. last year. Average price of silver sold was US$15.45/oz. versus US$18.97/oz. in 2014. Loss from operations amounted to P777.0 million compared with last year's loss of P584.2 million.

As a result of selective mining, ore milled dropped to 259,120 tonnes from last year's 419,320 tonnes while average gold grade improved to 2.83 g/t compared with 2.08 g/t in 2014. Average silver grade was 15.39 g/t versus 12.28g /t in 2014.

Gold produced totaled 21,190 oz. compared with 24,617 oz. in 2014. Silver production amounted to 49,938 oz. against 44,431 oz. the previous year.

Operating costs went down by P89.5 million from last year due to the 44% decrease in tonnes ore mined, which translated to decreases in consumption of direct materials and supplies. However, mining cost increased by P5.8 million mainly due to power cost and services. Total milling cost fell by P75.1 million due to reductions in the following cost components: labor, P11.0 million; major consumables and supplies, P46.3; power, P16.9 million; and services, P0.9 million. Production tax went down by P5.6 million on account of the lower revenue. Depletion cost declined by P14.2 million due to lower tonnage mined while depreciation expense also went down by P20.2 million as some machineries and equipment became fully-depreciated. Overhead was reduced by P9.9 million due to reductions in materials and supplies, services, and freight and delivery. In contrast, administration costs increased by P34.2 million due to taxes, licenses and fees. Refining and other charges decreased by P5.6 million on account of the lower metal production.

Finance costs went up from P86.5 million to P103.8 million largely due to the interest expense on actuarial valuation of retirement liability.

The foreign exchange rate averaged P45.71 to $1 compared with last year's average of P44.44 to $1 resulting in a foreign exchange loss of P20.8 million this year versus last year's P3.0 million.

Other Income rose to P72.1 million from P18.3 million due mainly to the actuarial gain on retirement liability and higher rental income.

Net loss amounted to P840.8 million against last year's net loss of P668.6 million. Provision for income tax decreased to P11.8 million versus last year's P13.1 million.

BALANCE SHEET MOVEMENTS

Cash on hand and in banks fell to P66.4 million from P385.2 million due to the utilization of the stock rights proceeds for working capital and the parent company's exploration program. Receivables went up to P306.8 million to P264.6 million as non-trade receivables went up by P15.3 million and trade receivable by P26.9 million. Parts and supplies inventories decreased to P520.4 million from P556.8 million due to utilization. Other current assets increased by 5% to P614.5 million from P587.1 million due to accumulation of input value-added-tax from importations.

Available-for-sale (AFS) financial assets increased to P477.1 million from P188.1 million due to the rise in the fair value of quoted instruments and the reclassification to AFS of the investment in an associate. Investments and advances to associates fell to P566.8 million from P683.7 million on account of the aforesaid reclassification and the recognition of a share in the losses of subsidiaries.

Mine exploration cost increased by P395.9 million on account of the parent company's exploration program and the pre-operating costs of Far Southeast Gold Resources, Inc. (FSGRI). Deferred Income Tax Assets went down to P431.7 million from P474.7 million mainly due to the reduction in retirement liability. Other Non-current assets decreased by P11.0 million due to reclassification of deferred charges to proper accounts.

Trade Payables and Accrued Expenses rose to P1,422.5 million from P1,248.4 million on account of additional credit availments from suppliers and/or contractors of equipment, parts and suppliers and services, and trust receipts arising from importations. Short-term debt of P111.6 million matured and was fully settled during the year. Income tax payable decreased by P0.9 million from P1.3 million due to settlement of taxes by subsidiary Diamond Drilling Corporation of the Philippines (DDCP).

Long-term borrowing, which is denominated in US dollars, increased to P47.0 million due to a foreign exchange revaluation. Liability for Mine Rehabilitation Costs went up from P53.8 million to P65.1 million to cover to the change in estimate and due to accretion. Retirement benefit liability went down by P159.1 million to P1,782.1 million following a re-measurement in retirement liability.

Capital Stock went up from P4.52 billion to P5.13 billion on account of the 1:5.5 Stock Rights Offering. Re-measurement Loss on retirement liability declined from P595.8 million to P521.3 million due to actuarial gain. Unrealized loss on AFS financial assets decreased by P206.8 due to the rise in the fair value of quoted instruments. Deficit climbed by P858.9 million on account of the net loss for the year.

CAPITAL EXPENDITURES

Total capital expenditures for the year reached P960.1 million, consisting of: mine development, P267.6 million; mine exploration and diamond drilling cost, P407.9 million; Tailing Storage Facility maintenance, P27.7 million; and machineries, equipment and other depreciable assets, P256.9 million.

SUBSIDIARIES

Net Income is the key performance indicator used for the subsidiaries.

Diamant Manufacturing and Trading Corporation increased its net sales to P34.9 million from P17.9 million last year mainly due to an increase in trading business. Net income amounted to P3.2 million versus last year's loss of P1.7 million net income.

Revenues of DDCP improved by 82% to P242.8 million due to higher drilling output in projects for Lepanto and for external customers. DDCP reported a net income of P8.1 million against last year's P9.0 million.

Lepanto Investment and Development Corporation registered a net revenue of P14.2 million compared with last year's net loss of P852 thousand on account of the reclassification of its investment in Philippine Fire and Marine Insurance Corporation (Philfire). The said investment was reclassified from 'Investment in an Associate' to 'AFS Investment' due to the loss of LIDC's significant influence over Philfire. LIDC owns 12.38% of the outstanding capital of Philfire and 100% of that of DMTC.

Shipside, Incorporated's revenues decreased by P1.4 million to P30.6 million due mainly to lack of revenue from lumber (from P1.8 million last year to nil) and lower hauling revenue. Net loss increased from P4.3 million last year to P9.9 million.

FSGRI registered a net loss amounting to P987 thousand versus last year's income of P12.7 million, both of which were due to revaluation of financial assets.

CONTINGENT OBLIGATIONS AND KNOWN TRENDS OR EVENTS

There were no material off-balance sheet transactions, arrangements or obligations or contingent obligations, and other relationships of the company with unconsolidated entities of other persons created during the period. Neither were there events or any known trends that will trigger direct or contingent financial obligations that are material to the company or otherwise materially impact the Company's sales.

Concerning the renewal of Mineral Production Sharing Agreement (MPSA) No. 001-90-CAR, the Company received in December 2015 the Arbitral Tribunal's Final Award confirming that the Free and Prior Informed Consent and Certification Precondition requirements under the IPRA may not be validly imposed as requirements for the renewal of the MPSA, and the latter should be renewed under the same terms and conditions, without prejudice to changes mutually agreed upon by the parties. Notwithstanding the final and non-appealable nature of the award, the DENR has gone to court asking that the award be vacated. The Company is taking all steps necessary to cause the enforcement of the Final Award.

2014

Consolidated revenues dropped 30% to P1.48 billion from P2.11 billion in 2013. Net loss amounted to P713.28 million versus last year's loss of P326.59 million. This year's net loss includes a pension expense of P115.4 million, a foreign exchange gain P16.5 million and a share in net losses of associates of P13.5 million while last year's included a pension expense of P116.6 million, foreign exchange gain of P60.9 million and a share in net losses of associates of P4.7 million.

MINING OPERATIONS

Revenue from sale of metals totaled P1.43 billion compared with the previous year's P2.02 billion. The decline in revenue was due to the 26% decline in gold production and 35% decline in silver production, aggravated by the lower metal prices. Average price of gold sold was US1269.04/oz. compared with US1386.75/oz. last year. Average price of silver sold was US$18.97/oz. vs. US$23.03/oz. in 2013. Loss from operations amounted to P583.2 million compared with last year's loss of P288.4 million.

Total tonnes milled reached 419,320 tonnes against last year's 690,450 tonnes. Average gold grade was 2.08g/t versus 1.73g /t in 2013. Average silver grade was 12.28 g/t in 2013 versus 11.30g /t in 2013.

Gold produced totaled 24,618 oz. compared with 33,240 oz. in 2013. Silver production amounted to 44,431 oz compared with 67,815 oz. the previous year.

Operating costs went down by P302.0 million from last year mainly due to the 39% decrease in tonnage, which translated to decreases in consumption of materials and supplies. Mining cost fell by P97.0 million even as the costs of labor increased by P7.8 million and power, by P2.1 million. Milling cost fell by P100.1 million as the following cost components were reduced: power, P19.5 million; major consumables, P67.0 million; supplies, P15.7 million; services, P1.0 million. The labor component however increased by P3.1 million. Production tax went down by P11.8 million on account of lower

revenues. Depletion cost decreased by P66.4 million on account of lower tonnage mined while Depreciation expense rose by P10.7 million on account of the rehabilitation and acquisition of new equipment. Overhead went down by P36.9 million due to reductions in materials, supplies, services, building maintenance, freight and delivery. Administration costs decreased by P2.8 million. Refining and other charges however went up by P2.5 million on account of higher costs relating to the transport of bullion.

Finance costs went up from P69.0 million to P86.6 million on account of interest cost on retirement liability and short term loans.

The foreign exchange rate averaged P44.44 to $1 compared with last year's average of P42.47 to $1.A foreign exchange loss of P3.0 million was recorded this year versus last year's loss of P34.9 million.

Other Income comprising of Interest, Income from change in estimate of Mine Rehabilitation, Income from Service Fees, non-operating and other income rose to P17.4 million from P87 thousand due mainly to the said change in estimate and service fees.

Net loss reached P668.6 million compared with last year's net loss of P375.8 million. Provision for income tax increased to P13.1 million versus last year's negative provision of P16.3 million.

BALANCE SHEET MOVEMENTS

Cash-on-hand and in banks increased to P385.1 million from P88.0 million on account of the proceeds of the stock right offering collected in December and collections from trade receivables. Receivables went up from P109.7 million to P264.6 million, consisting mostly of non-trade receivable which went up by P191.9 million while trade receivable went down due to collections by P36.6 million. Advances to suppliers and contractors went down to P426.6 million from P453.9 million as billings were charged against the advances. Other current assets increased by 7% to P587.1 million due to the increase in creditable input VAT.

Available for sale (AFS) financial assets increased to P188.1 million from P142.3 million due to the rise in the fair value of quoted instruments. Investments and Advances to Associates rose to P683.7 million from P559.3 million on account of fresh investments. Deferred Income Tax Assets went up to P474.7 million from P406.1 million largely on account of a re-measurement of the retirement benefits liability. Other Non-current assets increased by P43.8 million due to deferred charges.

Trade Payables and Accrued Expenses rose to P1,248.1 million from P1,042.2 million on account of additional availments of credits from suppliers and contractors of equipment, parts and supplies and services, trust receipts arising from importations and advances from related parties. Current portion of long- term borrowings went up by P12.0 million due to fresh loans. Income Tax payable increased by P0.7 million from P0.6 million due to a subsidiary's income.

Long term borrowings increased to P44.7 million due to the renegotiation of a maturing loan. Liability for Mine Rehabilitation Costs went up from P50.1 million to P53.8 million due to a change in estimate. Retirement benefit obligation went up by P379.0 million due to the re-measurement in pension costs.

Additional Paid-in Capital went up from P3.55 Billion to P4.34 Billion on account of the Stock Rights Offering. A further re-measurement loss on the retirement fund, from P337.1 million to P595.7 million, was recorded pursuant to PAS 19 on account of the re-measurement of retirement benefits liability. Deficit went up by P718.4 million on account of the net loss for the year.

CAPITAL EXPENDITURES

Total capital expenditures for the year reached P737.9 million as follows: mine development and special projects, P276.2 million; exploration and diamond drilling cost, P323.7 million; Tailing Dam maintenance P41.7 million; and Mine machinery and equipment, P96.3 million.

SUBSIDIARIES

The key performance indicator used for the subsidiaries is Net Income.

Lepanto Investment and Development Corp reported a net loss of P852.3 thousand compared with last year's loss of P668.4 thousand. Shipside Incorporated recorded a net loss of P4.3 million and against last year's net loss of P471.6 thousand. Diamond Drilling Corporation of the Philippines (DDCP) reported a net income of P9.0 million versus last year's income of P10.8 million. Diamant Manufacturing and Trading Corporation (DMTC) registered a loss of P1.7 million against last year's loss of P2.0 million. Far Southeast Gold Resources, Inc. reported an income of P12.7 million versus last year's income of P45.9 million.

CONTINGENT OBLIGATIONS AND KNOWN TRENDS OR EVENTS

There were no material off-balance sheet transactions, arrangements or obligations, including contingent obligations with unconsolidated entities of other persons created during the period, nor are there any known events that may trigger any direct or contingent material financial obligations.

The Company applied in June 2014 for the renewal of MPSA No. 001-90-CAR. An issue arose as to the applicability of certain provisions of the Indigenous Peoples' Rights Act to such renewal, which issue has been submitted to arbitration. Pending and in connection with the arbitration proceedings, the Company filed a petition for interim reliefs with the Regional Trial Court. On 18 March 2015, the court issued a writ of preliminary injunction, enjoining the respondents, i.e., the Department of Environment and Natural Resources (DENR), Mines and Geosciences Bureau (MGB), National Commission of Indigenous Peoples (NCIP) and the NCIP Regional Hearing Office- Cordillera Administrative Region from performing any act that would (a) disrupt, disturb or impede the operations of Lepanto Consolidated Mining Company and Far Southeast Gold Resources, Inc. (jointly referred to as "Petitioners") in the area covered by the MPSA; and acts that would (b) hinder, prevent or delay the Petitioners from exercising their rights and/or from discharging their obligations under the MPSA in any manner whatsoever, until such time that a final and executory award is issued with respect to the arbitration proceedings commenced by the Petitioners; and directing the respondents to perform all acts necessary and proper to maintain and protect the validity and/or enforceability of the Petitioners' vested rights under the MPSA during the pendency of the arbitration proceedings.

* - KEY PERFORMANCE INDICATORS-LCMC (applicable to the period 2015-2017)

Tonnes Milled which indicate the amount of ore taken for processing, Milled Head is the amount of gold per ton milled and Gold production which is the final product of the operations. Metal sales, Cost and Expenses and Net Income round up the review process on how the company is performing vis-à-vis the performance of the same period last year. Average Gold price for the period adds another parameter that needs watching notwithstanding that the company has no direct influence on its movement.

Compliance with Leading Practices on Corporate Governance

Lepanto has revised its Corporate Governance Manual to comply with SEC regulations and institutionalize the principles of good governance in the entire organization. Pursuant to the said Revised Manual, the Company's Board of Directors have constituted the following committees: Audit Committee; Compensation and Remuneration Committee and the Nomination Committee. The Board of Directors is composed of highly qualified and competent individuals who excel in their respective fields. The members of the Board assess the Board's performance pursuant to good corporate governance principles.

The performance and qualifications of nominees are reviewed by the Nomination Committee. All directors and senior officers regularly attend seminars on corporate governance. The Company's Board of Directors formalized existing good governance practices by approving in 2014 various policies/codes, namely: Conflict of Interest Policy; Related Party Transactions Policy; Insider Trading Policy; Health Policy; and Whistleblower Policy.

Through regular board and committee meetings, compliance with the principles of good governance are monitored. Furthermore, the Audit Committee Charter has been revised to comply with SEC Memorandum Circular No. 4, Series of 1990, pursuant to which the performance of the Committee shall be regularly reviewed.

The performance of managers is also reviewed periodically and senior officers report to the Board of Directors. Regular meetings are held in the head office and in the mine to keep concerned officers apprised of any developments concerning production, finances, safety programs, community relations and environmental programs, and good governance, marketing, legal and human resource matters as well as of the company's compliance with pertinent regulations.

No deviation from the Company's Manual on Corporate Governance has been noted by the Company.

Independent Public Accountant

In October 2006, Sycip Gorres Velayo & Co. ("SGV") was designated by the Board as the Company's independent public accountant. There has not been any disagreement between the Company and said accounting firm with regard to any matter relating to accounting principles or practices, financial statement disclosure or auditing scope or procedure. Mr. Jaime F. del Rosario was the certifying partner from 2007 to 2011. In compliance with SRC Rule 68(30) (b) (iv), Ms. Eleanore A. Layug took over as certifying partner in 2012 and 2013. Mr. Jaime F. del Rosario is the certifying partner for the 2014 to 2016 audited financial statements.

Audit and Audit Related Fees

For the audit of the financial statements for the year 2015, SGV & Co. billed the Company the sum of P2,100,000. The amount was increased to P2,350,000 for the audit of the 2016 financial statements. SGV & Co. also reviewed the utilization of the proceeds of the Company's 1:5.5 SRO pursuant to the PSE's conditions for listing, for which the Company paid the amount of P160,000 based on a contract dated January 2015.

Audit Committee's Approval Policies and Procedures

Prior to the commencement of audit services, the external auditors submit their Audit Plan to the Audit Committee, indicating the applicable accounting standards, audit objectives, scope, approvals, methodology, needs and expectations and timetable, among others. A presentation on the same Plan is

made by the external auditors before all the members of the Committee. All the items in the Plan are considered by the Committee, along with industry standards, in approving the services and fees of the external auditors. The Audit Committee is composed of: Atty. Ray C. Espinosa, Committee Chairman and an independent director; and Atty. Ethelwoldo E. Fernandez and Mr. Cresencio C. Yap.

Directors and Executive Officers of the Company

Directors (with term of office of one year)	Age	Citizenship	Period Served
FELIPE U. YAP	80	Filipino	Since 1975
BRYAN U. YAP	45	-do-	Since 1997
RAY C. ESPINOSA (Independent)	60	-do-	Since 2005
MARILYN V. AQUINO	61	-do-	Since 2012
DOUGLAS J. KIRWIN	67	Australian	Since 2017
ETHELWOLDO E. FERNANDEZ	89	-do-	Since 2007
REGIS V. PUNO	59	-do-	Since 2016
VAL ANTONIO B. SUAREZ (Independent)	58	-do-	Since 2011
CRESENCIO C. YAP	71	-do-	2000-2004; 2006 to present

Executive Officers	Citizenship	Position
FELIPE U. YAP	Filipino	Chairman of the Board and Chief Executive Officer since 1988
BRYAN U. YAP	-do-	President/Chief Operating Officer since March 2003
RAMON T. DIOKNO	-do-	Chief Finance Officer since April 2008
MA. LOURDES B. TUASON	-do-	Vice President/Treasurer since 1995
ETHELWOLDO E. FERNANDEZ	-do-	Corporate Secretary since 2000
RENE F. CHANYUNGCO	-do-	Vice President since 1997
ABIGAIL K. YAP	-do-	Vice President-Tech. & Planning since 1999
ODETTE A. JAVIER	-do-	Vice President since Feb. 2006/ Asst. Corp. Secretary since 1993
PABLO T. AYSON, JR.	-do-	Vice President-Mining Claims since Dec. 2006
THOMAS S. CONSOLACION	-do-	Vice President and Resident Manager since August 2014
KNESTOR JOSE Y. GODINO	-do-	Vice President for Human Resource since June 2015
CHERRY H. TAN	-do-	Asst. Vice President-Purchasing since July 2004
VLADIMIR B. BUMATAY	-do-	Asst. Vice President- Legal since May 2016

Business Experience in the Last Five (5) Years

Mr. Felipe U. Yap became the Chairman of the Company in 1988. He is likewise the Chairman and Chief Executive Officer of Manila Mining Corporation and of Far Southeast Gold Resources, Inc. He is the Chairman of the Board of Zeus Holdings, Inc. and Vice Chairman of Prime Orion Philippines, Inc. Mr. Yap is a director of, among others, Manila Peninsula Hotel, Inc., Philippine Associated Smelting and Refining Corp. (PASAR), and FLT Prime Insurance Corporation. Mr. Yap was the Chairman of the Board of the Philippine Stock Exchange from March 2000 to March 2002.

Mr. Bryan U. Yap has been the President and COO of the Company since 2003 and of Manila Mining Corporation since 2011. He is also the President of Kalayaan Copper-Gold Resources, Inc.; Lepanto Investment and Development Corporation (LIDC); Shipside, Inc.; Diamond Drilling Corporation of the Philippines and Diamant Manufacturing and Trading Corporation (DMTC). He is also a director of Far Southeast Gold Resources, Inc.

Atty. Ray C. Espinosa is a Director of Philippine Long Distance Telephone Company ("PLDT"), Meralco, PowerGen Corporation, Manila Electric Company ("MERALCO"), and Metro Pacific Investment Corporation, Media5 Marketing Corporation, Mediascape, Inc. ("Cignal") and Roxas Holdings, Inc. He is also the President and Director of Mediaquest Holdings, Inc. He is the vice chairman and a trustee of the Beneficial Trust Fund of PLDT and the General Counsel of MERALCO.

Mr. Douglas John Kirwin was the Exploration Manager of Ivanhoe Mines from 1995 (when it was known as Indochina Goldfields Ltd) until 2012. He was the Vice President of the Society of Economic Geology from 2009 to 2011, where he continues to serve as an honorary lecturer. He is now semi-retired with a part-time consulting business. He has been a Director of Manila Mining Corporation since 2014 and was elected Director of Zeus Holdings, Inc. in 2017.

Atty. Ethelwoldo E. Fernandez rejoined the Company as Corporate Secretary in 2000, the same year he was reappointed Corporate Secretary and elected director of Manila Mining Corporation. He is also a director of Far Southeast Gold Resources, Inc. Atty. Fernandez is the Senior Vice President- Legal and Corporate Secretary of Oriental Petroleum & Mineral Resources Corporation.

Atty. Marilyn V. Aquino is the President and CEO of Metropac Movers, Inc. She has been a member of the board of Philex Mining Corporation since December 2009. She was a partner of the law firm Sycip Salazar Hernandez & Gatmaitan until June 2012 when she joined First Pacific Co. Ltd. as Assistant Director.

Atty. Regis V. Puno is a Senior Partner of Puno & Puno Law Offices. He is currently the Vice Chairman of Metrobank Card Corporation. He was a Director of Philippine Savings Bank until 2010. Atty. Puno was formerly an Undersecretary of the Department of Justice.

Atty. Val Antonio B. Suarez is the Managing Partner of Suarez and Reyes Law Offices. He also serves as independent director of Filinvest Development Corporation and of Filinvest Land, Inc. Atty. Suarez was the President and Chief Executive Officer of the Philippine Stock Exchange (PSE) and the Securities Clearing Corporation of the Philippines in 2010.

Mr. Cresencio C. Yap is the Chairman of the Rural Bank of Tagum (Davao del Norte) and General Manager of the Felcris Supermarket and Central Warehouse Club in Davao City, positions he has been holding for over five years already.

Mr. Ramon T. Diokno rejoined the Company as CFO effective April 1, 2008. He held that same position from 1985 to 1996. Mr. Diokno is a member of the Board of Directors of Alcantara Consolidated Resources, Inc. He is also the CFO of the Diamond Drilling Corporation of the Philippines (DDCP), LIDC and DMTC.

Ms. Ma. Lourdes B. Tuason is also the Assistant Treasurer of Manila Mining Corporation and of Far Southeast Gold Resources, Inc. and Treasurer of Shipside, Inc., DDCP and LIDC. She is a Vice President and director of DMTC, Inc. and is a director also of LIDC and Shipside, Inc.

Mr. Rene F. Chanyungco is also a director of Manila Mining Corporation, of Far Southeast Gold Resources, Inc. and of Kalayaan Copper Gold Resources, Inc. He is the Senior Vice President-Treasurer of Manila Mining Corporation and Vice President of LIDC.

Ms. Abigail Y. Ang, Vice President for Technology and Planning, is also the Chief Executive Officer of Yapster e-Conglomerate, Inc.

Atty. Odette A. Javier has been the Company's Assistant Corporate Secretary since 1993. She was promoted to Vice President-Assistant Corporate Secretary on February 20, 2006. She is also the Company's Chief Information Officer and the Assistant Corporate Secretary of Manila Mining Corporation and Far Southeast Gold Resources, Inc. She is a Director of LIDC, DMTC and Zeus Holdings, Inc..

Atty. Pablo T. Ayson, Jr. was appointed Vice President in December 2006. He is also a vice president of Manila Mining Corporation and Far Southeast Gold Resources, Inc. and a director of Kalayaan Copper-Gold Resources, Inc. and Zeus Holdings, Inc.

Engr. Thomas S. Consolacion, a licensed mining engineer, joined the Company in August 1, 2014 as Vice President and Resident Manager of Lepanto Mine Division. He served as General Manager of Atlas Copco (Philippines), Inc. from 1999 to 2014. He is also a Director of DDCP.

Mr. Knestor Jose Y. Godino joined the company as Group Manager for Administrative Services of the Lepanto Mine Division in 2006. He was promoted to Asst. Vice President for Human Resource and Administration in 2011, and to Vice President for Human Resource and Administration in 2015. He is also the Asst. Vice President for Human Resource of Manila Mining Corporation.

Ms. Cherry H. Tan joined the Company as Purchasing Manager in 1998. She was promoted to Assistant Vice President in 2004.

Atty. Vladimir B. Bumatay joined the Company as Legal Manager in 2011. He was promoted to Assistant Vice President in May 2016.

Significant Employees

There are no significant employees expected to contribute significantly to the business other than the executive officers.

Family Relationships

Mr. Bryan U. Yap, Director and President, is the son of the Chairman and Chief Executive Officer, Mr. Felipe U. Yap. Mr. Cresencio C. Yap is a brother of the Chairman while Ms. Abigail Y. Ang is his niece.

Involvement of the Company or its Directors and Officers in Certain Legal Proceedings

The Company is not aware of any bankruptcy proceeding against any of its directors and officers during the past five (5) years. Neither is the Company aware of any conviction by final judgment in any criminal proceeding, or the involvement, of any of its directors or officers, in any case where such officer or director has been subject to any order, judgment or decree of competent jurisdiction, permanently or temporarily enjoining, barring, suspending, or otherwise limiting his involvement in any type of business, securities, commodities or banking activities, or found to have violated a securities or commodities law.

Compensation of Directors/Committee Members

Directors are paid a per diem of P10,000.00 each for attendance of every regular or special meeting. For each Committee meeting attended, member-directors are also paid a per diem of P5,000.00 to P10,000 each.

Related Party Transactions

Related party relationships exist when one party has the ability to control, directly or indirectly through one or more intermediaries, the other party 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 enterprise, or between and/or among the reporting enterprise and their key management personnel, directors, or its stockholders.

Intercompany transactions are eliminated in the consolidated financial statements. The Group's related party transactions, which are under terms that are no less favorable than those arranged with third parties, are as follows:

	2016			
	Amount in P'000/ Volume	**Outstanding Balance**	**Terms**	**Conditions**
Subsidiaries				
Receivables				
DDCP	**₱394,093**	**₱141,865**	On demand; non-interest-bearing and collectible in cash	Unsecured, no impairment, no guarantee
LIDC	**150**	**88,905**	On demand; non-interest bearing and collectible in cash	Unsecured, no impairment, no guarantee
DMTC	**1,946**	**2,364**	On demand; non-interest bearing and collectible in cash	Unsecured, no impairment, no guarantee
FSGRI	**8,815**	**827**	On demand; non-interest bearing and collectible in cash	Unsecured, no impairment, no guarantee
SSI	**21,445**	**–**	On demand; non-interest bearing and collectible in cash	Unsecured, no impairment, no guarantee
Advances				
FSGRI	**–**	**94,140**	On demand; non-interest bearing and collectible in cash	Unsecured, no impairment, no guarantee
Payables				
DDCP	**365,683**	**138,495**	On demand; non-interest bearing and collectible in cash	Unsecured, no impairment, no guarantee
SSI	**128,193**	**151,233**	On demand; non-interest bearing and collectible in cash	Unsecured, no impairment, no guarantee

	Amount/ Volume	**Outstanding Balance**	**Terms**	**Conditions**
Rental				
SSI	**₱437**	**₱–**	Non-interest bearing and normally	Unsecured, no

			settled on 30-day term	impairment, no guarantee
Services				
DDCP	**374,686**	–	Non-interest bearing and normally settled on 30-day term	Unsecured, no impairment, no guarantee
SSI	**8,455**	–	Non-interest bearing and normally settled on 30-day term	Unsecured, no impairment, no guarantee
Revenue				
DMTC	**475**	–	Non-interest bearing and normally settled on 30-day term	Unsecured, no impairment, no guarantee
Other Expense				
SSI	**2,667**	–	Non-interest bearing and normally settled on 30-day term	Unsecured, no guarantee
DMTC	**67**	–	Non-interest bearing and normally settled on 30-day term	Unsecured, no guarantee
DDCP	**812**	–	Non-interest bearing and normally settled on 30-day term	Unsecured, no guarantee

2015

	Amount/ Volume	Outstanding Balance	Terms	Conditions
Subsidiaries				
Receivables				
DDCP	₱97,545	₱142,283	On demand; noninterest-bearing and collectible in cash	Unsecured, no impairment, no guarantee
LIDC	200	88,755	On demand; noninterest-bearing and collectible in cash	Unsecured, no impairment, no guarantee
DMTC	6,068	1,954	On demand; noninterest-bearing and collectible in cash	Unsecured, no impairment, no guarantee
FSGRI	7,123	1,321	On demand; noninterest-bearing and collectible in cash	Unsecured, no impairment, no guarantee
Advances				
FSGRI	–	94,140	On demand; noninterest-bearing and collectible in cash	Unsecured, no impairment, no guarantee
Payables				
SSI	11,476	44,486	On demand; noninterest-bearing and are normally settled in cash	Unsecured, no guarantee
Rental				
SSI	301	–	Noninterest-bearing and are normally settled in cash on 30-days' term	Unsecured, no guarantee
Services				
DDCP	213,670	–	Noninterest-bearing and are normally settled in cash on 30-days' term	Unsecured, no guarantee
SSI	10,087	–	Noninterest-bearing and are normally settled in cash on 30-days' term	Unsecured, no guarantee
Sales				
DMTC	198	–	Noninterest-bearing and are normally settled in cash on 30-days' term	Unsecured, no guarantee

Other Expense				
SSI	2,984	–	Non-interest bearing and normally settled on 30-day term	Unsecured, no guarantee
DMTC	470	–	Non-interest bearing and normally settled on 30-day term	Unsecured, no guarantee

a. In the normal course of business, the Group grants and receives advances to and from its associates and stockholders, which are considered related parties. The corresponding receivables and payables arising from the said transactions, including operational support as at December 31, 2016 and 2015 are as follows:

	2016			
	Amount/ Volume	**Outstanding Balance**	**Terms**	**Conditions**
Associate				
Receivable:				
MMC (Note 11)	**₱757**	**₱2,240**	Non-interest bearing and are normally settled in cash on 30-day term	Unsecured, no impairment, no guarantee
Stockholders:				
Payables:				
Various (Note 13)		**56,084**	Non-interest bearing and are normally settled in cash on 30-day term	Unsecured, no guarantee

	2015			
	Amount/ Volume	Outstanding Balance	Terms	Conditions
Associate				
Receivable:				
MMC (Note 11)	₱1,259	₱1,483	Non-interest bearing and are normally settled in cash on 30-day term	Unsecured, no impairment, no guarantee
Stockholders:				
Payables:				
Various (Note 13)	–	56,084	On demand; noninterest- bearing and collectible in cash	Unsecured, no guarantee

b. On April 17, 2000, the Parent Company entered into a Trust Agreement with LIDC for the latter to serve as a second trustee for the Parent Company's retirement fund. On March 31, 2003, the Parent Company entered into a separate Trust Agreement with LIDC whereby the latter ceased to be the second trustee of the Plans and instead to become the principal trustee. Prior to the Trust Agreement, the actual disbursements of the fund for the Plans, or payments to the retiree or beneficiaries had been the responsibility of a local bank as the principal trustee. The Parent Company has decided to terminate the services of the local bank and consolidated to LIDC the administration of the Plans.

The carrying amount and fair value of the retirement fund amounted to P227,057 and P159,309 as at December 31, 2016 and 2015, respectively (see Note 16).

The retirement fund consists of cash and cash equivalents, investments in quoted and unquoted equity securities which accounts for 1.14% and 98.79% and 0.07% of the trust fund, respectively (see Note 16).

The voting rights on the shares of stock rest on the trustees of the retirement fund, who are also the key management personnel of the Parent Company.

The Group made contributions to the trust fund amounting to P84,447 and P139,233 in 2016 and 2015, respectively (see Note 16).

c. Compensation of key management personnel are as follows:

	2016	2015	2014
Short-term benefits	**₱49,100**	₱51,400	₱48,200
Post-employment benefits	**10,100**	10,100	10,100
	₱59,200	₱61,500	₱58,300

Summary Compensation Table

	2015 Total (All Cash	**Basic Salary**	**Bonus (13th month in the case of executive officers)**	**Others**
Felipe U. Yap, Chairman) Bryan U. Yap, President) Ramon T. Diokno, CFO) Thomas S. Consolacion, VP &) Resident Manager) Ma. Lourdes B. Tuason, Vice) Pres./Treasurer)	P33.6 million	P31 million	P2.6 million	-0-
All officers and directors	P50.9 million	P45 million	P5.9 million	-0-
	2016 (Total)			
Felipe U. Yap, Chairman) Bryan U. Yap, President) Ramon T. Diokno, CFO) Thomas S. Consolacion, VP &) Resident Manager) Ma. Lourdes B. Tuason, Vice) Pres./Treasurer)	P33.6 million	P31 million	P2.6 million	-0-
All officers and directors	P49 million	P43.3 million	P5.1 million	-0-
	2017 (Estimate)			
Executive officers listed above	P33.6 million	P31 million	P2.6 million	-0-
All officers and directors	P49 million	P43.3 million	P5.1 million	-0-

Voting Trusts and Change in Control

There are no voting trusts involving the Company's shares nor has there been any change in the control of the Company in the last five (5) years.

Pension Plan

The Parent Company and DMTC have funded, noncontributory, defined benefit retirement plans covering substantially all regular employees while DDCP and Shipside, Inc. have unfunded benefit retirement plans. Benefits are dependent on the years of service and the respective employee's compensation. The defined retirement benefit obligation is determined using the projected unit credit method. There was no plan termination, curtailment or settlement for the years ended December 31, 2016, 2015 and 2014.

Warrants, Options, Compensation Plans, Issuance or Modification of Securities

Under the share-based plan, the Company's officers and employees and those of its subsidiaries may be granted options to purchase shares of stock of the Company. The aggregate number of shares to be granted under the plan should not exceed five percent (5%) of the total number of shares of the Company's outstanding capital stock.

An individual may be granted an option to purchase not more than five percent (5%) of the total number of shares set aside at the date of the grant and may exercise the option up to a maximum of twenty percent (20%) of the total number of option shares granted per year. Options are valid for five (5) years and are exercisable from the date of the approval of the grant by the SEC.

The 17 Stock Option Award expired on January 30, 2013.

***Security Ownership**

Security Ownership of Certain Record and Beneficial Owners

Owners of more than 5% of the Company's securities as of September 30, 2017 (other than PCD) were as follows:

Title of Class	Name/Address of Record Owner	Name of Beneficial Owner/ Relationship to Issuer	Citizenship	A / B Shareholdings	%	Total Shareholdings	%
A & B	*F. Yap Securities, Inc. U-2301 & 2302, 23/F, PSE Centre, Exchange Rd.,Ortigas Center, Pasig City	F. Yap Securities, Inc./ Principal Stockholder	Filipino	7,527,838,780 11,395,653,730	22.93 52.08	18,923,492,510	34.60
A & B	* First Metro Investment Corp. Makati City	First Metro Investment Corp./ Principal Stockholder	Filipino	2,720,445,426 799,642,268	8.29 3.65	3,520,087,694	6.43
A & B	Yapster E-trade, Inc.	F. Yap Securities, Inc.	Filipino	2,010,000,000 1,340,000,000	6.12 6.12	3,350,000,000	6.12
A	***Philex Mining Corporation, Brixton St., Pasig City	Philex Mining Corporation/ shareholder	Filipino	2,164,240,810 3,494,999	6.59 0.016	2,167,735,824	3.96

Equity Ownership of Foreigners

As of September 30, 2017, none of the "A" shares and 15.34% of the "B" shares were held by foreigners.

Security Ownership of Management (September 30, 2017)

Title of Class	Beneficial Owner (Directly Owned)	Position	Amount and Nature of Beneficial Ownership (A / B)	Citizenship	Percent of Classes (A / B)
A & B	Felipe U. Yap	Chairman of the Board	209,454,314 /110,722,210	Filipino	0.63 / 0.51
A & B	Bryan U. Yap	Director / President	388,024,055 /41,293,338	-do-	1.18 / 0.19
B	Marilyn V. Aquino	Director	19,917,356 / 11,137,741	-do-	0.061 / 0.051
A & B	***Ray C. Espinosa	Director	1,000,000/500,000	-do-	nil
B	Douglas J. Kirwin	Director	1	-do-	nil
A & B	Ethelwoldo E. Fernandez	Director/Corp. Sec.	3,048,474/811,204	-do-	0.01/nil
A & B	Regis V. Puno	Director	10,000 -	-do-	nil
A & B	***Val Antonio B. Suarez	Director	1	-do-	nil
A & B	Cresencio C. Yap	Director	10,559,618/ 18,404,560	-do-	0.032 / 0.84
A	Ramon T. Diokno	Chief Finance Officer	443,168 / -	-do-	nil
A & B	Ma. Lourdes B. Tuason	Vice Pres./Treasurer	19,025,823 / 13,092,177	-do-	0.058 / 0.060
A & B	Odette A. Javier	Vice Pres./Asst Corp Sec	8,780,297/4,665,592	-do-	0.027 / 0.021
A & B	Rene F. Chanyungco	Vice President	3,882,141/4,568,095	-do-	0.012/ 0.021
A & B	Abigail Y. Ang	Vice President	5,697,283/7,039,747	-do-	0.017 / 0.032
A & B	Pablo T. Ayson, Jr.	Vice President	866,516 / 2,720,074	-do-	0.003 / 0.012
A & B	Cherry H. Tan	Asst. Vice President	3,932,893 / 2,613,089	-do-	0.012 / 0.012
A & B	Knestor Jose Y. Godino	Vice Pres./HR	989,090/659,693	-do-	nil
A & B	Vladimir B. Bumatay	Asst. Vice President/Legal	8,748 / 12,135	-do-	nil
A & B	*Aggregate as a group*		*675,639,777/ 218,239,656*		*2.06 /1.00*

* - Power to dispose of shares is vested in: F. Yap Securities - Pacita K. Yap; Voting rights/proxies for F. Yap Securities have been granted to Mr. Felipe U. Yap.

** - Power to dispose of shares is vested in their respective Board of Directors; Voting rights/proxies have been granted to: Atty. Regis V. Puno.

*** - Power to dispose of shares vested in the Board of Directors of Philex Mining Corporation; Voting rights/ proxies have been granted to Marilyn V. Aquino.

**** - Independent Directors

There is no arrangement which may result in a change in the control of the Company and there has been no such change since January 2017.

Legal Framework for Mining in the Philippines: The Philippine Mining Act

The 1987 Constitution provides that:

"All lands of the public domain, waters, minerals, coal, petroleum and other mineral oils, all forces of potential energy, fisheries, forests or timber, wildlife, flora and fauna, and other natural resources are owned by the State. With the exception of agricultural lands, all other natural resources shall not be alienated. The exploration, development and utilization of natural resources shall be under the full control and supervision of the State. The State may directly undertake such activities, 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. Such agreements may be for a period not exceeding twenty-five years, renewable for not more than twenty-five years, and under such terms and conditions as may be provided by law. XXX. *Section 2, Article XII, Philippine Constitution*.

Pursuant to the foregoing Constitutional provision, Republic Act No. 7942, otherwise known as the Philippine Mining Act, was enacted in 1995 under which rights to explore, develop and utilize minerals may be obtained through:

1. Exploration Permits- Valid for a period of two years, subject to annual review and relinquishment or renewal upon the recommendation of the Director of the Mines and Geosciences Bureau; An exploration permit shall grant to the permittee, his heirs or successors-in-interest, the right to enter, occupy and explore the area.
2. Mineral Agreements- shall grant to the contractor the exclusive right to conduct mining operations and to extract all mineral resources found in the contract area. In addition, the contractor may be allowed to convert his agreement into any of the modes of mineral agreements or financial or technical assistance agreement covering the remaining period of e original agreement subject to the approval of the Secretary of the DENR. Mineral Agreements may take any of the following forms:
    a. Mineral Production Sharing Agreement (MPSA)- an agreement where the government grants to the contractor the exclusive right to conduct mining operations within a contract area and shares in the gross output. The contractor shall provide the financing, technology, management and personnel necessary for the implementation of this agreement;
    b. Co-production Agreement- is an agreement between the Government and the contractor wherein the Government shall provide inputs to the mining operations other than the mineral resource.
    c. Joint Venture Agreement- an agreement where a joint venture company is organized by the Government and contractor with both parties having equity shares. Aside from earnings in equity, the Government shall be entitled to a share in the gross output.

3. Financial or Technical Assistance Agreement- Any qualified person with technical and financial capability to undertake large-scale exploration, development and utilization of mineral resources in the Philippines may enter into a financial or technical assistance agreement directly with the Government through the DENR.

The information in the following sections has been extracted from publicly available documents which have not been prepared or independently verified by the Company or any of their respective affiliates or advisors in connection with sale of the Subject Shares.

PHILIPPINE STOCK MARKET

BRIEF HISTORY

The Philippines initially had two stock exchanges, the Manila Stock Exchange, which was organized in 1927, and the Makati Stock Exchange, which began operations in 1963. Each exchange was self-regulating, governed by its respective Board of Directors elected annually by its members.

Several steps initiated by the Government have resulted in the unification of the two bourses into the PSE. The PSE was incorporated in 1992 by officers of both the Makati and the Manila Stock Exchanges. In March 1994, the licenses of the two exchanges were revoked. While the PSE maintains two trading floors, one in Makati City and the other in Pasig City, these floors are linked by an automated trading system which integrates all bid and ask quotations from the bourses.

In June 1998, the Philippine SEC granted the PSE a Self-Regulatory Organization ("SRO") status, allowing it to impose rules as well as implement penalties on erring trading participants and listed companies. On August 8, 2001, PSE completed its demutualization, converting from a non-stock member-governed institution into a stock corporation in compliance with the requirements of the SRC.

Classified into financial, industrial, holding firms, property, services, mining and oil sectors, companies are listed either on the Exchange's First Board, Second Board or the newly created Small and Medium Enterprises Board. Each index represents the numerical average of the prices of component stocks. The PSE has an index, referred to as the PHISIX, which as at the date hereof reflects the price movements of 34 selected stocks listed on the PSE, based on traded prices of stocks from the various sectors. The PSE shifted from full market capitalization to free float market capitalization effective April 3, 2006 simultaneous with the migration to the free float index and the naming of the PHISIX to PSEI. The new PSEI includes 30 selected stocks listed on the PSE.

With the increasing calls for good corporate governance, PSE has adopted an online daily disclosure system to improve the transparency of listed companies and to protect the investing public.

The PSE is a double auction market. Buyers and sellers are each presented by stockbrokers. To trade, bids or ask prices are posted on the PSE's electronic trading system. A buy (or sell) order that matches the lowest asked (or highest bid) price is automatically executed. Buy and sell orders received by one broker at the same price are crossed at the PSE at the indicated price. Payment of purchases of listed securities must be made by the buyer on or before the third trading any (the settlement date) after the trade.

Trading on the PSE starts at 9:30 a.m. and ends at 12:00 p.m., where there will be a one and a half hour recess. In the afternoon, trading resumes at 1:30 p.m. and ends at 3:30 p.m., including a 10-minute market run-off from 3:20 p.m. to 3:30 p.m. during which transactions may be conducted, provided that they are executed at the last traded price set prior to the market run-off and are only for the purpose of completing unfinished orders. Trading days are Monday to Friday, except legal holidays and days when the BSP clearing house is closed.

Minimum trading lots range from 5 to 1,000,000 shares depending on the price range and nature of the security traded. Odd-sized lots are traded by brokers on a board specifically designed for odd-lot trading.

To maintain stability in the stock market, daily price swings are monitored and regulated. Under current PSE regulations, when the price of a listed security moves up by 50% or down by 40% in one day (based on the previous closing price or last posted bid price, whichever is higher), the price of that

security is automatically frozen by the PSE, unless there is an official statement from the company or a government agency, justifying such price fluctuation, in which case the affected security can still be traded but only at the frozen price. If a company fails to submit such explanation a trading hall is imposed by the PSE on the listed security the following day. Resumption of trading shall be allowed only when the disclosure of the company is disseminated, subject again to the trading ban.

NON-RESIDENT TRANSACTIONS

When the purchase/sale of Philippine shares of stock involves a non-resident, whether the transaction is effected in the domestic or foreign market, it will be the responsibility of the securities dealer/broker to register the transaction with the BSP. The local securities dealer/broker shall file with the BSP, within three business days from the transaction date, an application in the prescribed registration form. After compliance with other required undertakings, the BSP shall issue a Certificate of Registration. Under BSP Rules, all registered foreign investments in Philippine securities including profits and dividends, net of taxes and charges, may be repatriated.

SETTLEMENT

The Securities Clearing Corporation of the Philippines (SCCP) is a wholly-owned subsidiary of the Philippine Stock Exchange, Inc. and was organized primarily as a clearance and settlement agency for SCCP-eligible trades executed through the facilities of the PSE. It is responsible for (a) synchronizing the settlement of transactions of funds and the transfer of securities through Delivery versus Payment (DVP) clearing and settlement of transactions of

Clearing Members, who are also Trading Participants of the Philippine SEC; (b) guaranteeing the settlement of trades in the event of a Trading Participants default through the implementation of its Fails Management System and administration of the Clearing and trade Guaranty Fund (CTGF), and; (c) performance of Risk Management and Monitoring to ensure final and irrevocable settlement.

SCCP settles PSE trades on a 3-day rolling settlement environment, which means that settlement of trades takes place three (3) business days after transaction date (T+3). The deadline for settlement of trades is 12:00 noon of T+3. Securities sold should be in scripless form and lodged under PDTC's book entry system. Each Trading Participants maintains a Cash Settlement Account with one of the two existing Settlement Banks of SCCP which are Banco de Oro Unibank, Inc., Rizal Commercial Banking Corporation, Metropolitan Bank & Trust Company, and Union Bank of the Philippines. Payment for securities bought should be in good, cleared funds and should be final and irrevocable. Settlement is presently on a broker level.

SCCP implemented its new clearing and settlement system called Central Clearing and Central Settlement (CCCS) on May 29, 2006, CCCS employs multilateral netting whereby the system automatically offsets "buy" and "sell" transactions on a per issue and a per flag basis to arrive at a net receipt or a net delivery security position for each Clearing Member. All cash debits and credits are also netted into a single net cash position for each Clearing Member. Novation of the original PSE trade contract occurs, and SCCP stands between the original trading parties and becomes the Central Counterparty to each PSE-Eligible trade cleared through it.

SCRIPLESS TRADING

In 1995, PDTC (formerly the Philippine Central Depository, Inc.) was organized to establish a central depository in the Philippines and introduce scripless or book-entry trading in the Philippines. On

December 16, 1996, the PDTC was granted a provisional license by the SEC to act as a central securities depository. All listed securities at the PSE have been converted into book-entry settlement in the PDTC. The depository service of the PDTC provides the infrastructure for lodgment and upliftment of securities, pledge of securities, securities lending and borrowing and corporate action including shareholders' meetings, dividend declarations and rights offerings. The PDTC also provides depository and settlement services for non-PSE trades of listed equity securities. For transactions on the PSE, the security element of the trade will be settled through the book-entry system, while the cash element will be settled through the current banks, Rizal Commercial Banking Corporation and Banco de Oro, Unibank Inc.

In order to benefit from the book-entry system, securities must be immobilized into the PDTC system through a process called lodgment. Lodgment is the process by which shareholders transfer legal title (but not beneficial title) over their shares of stock in favor of PCD Nominee Corporation ("PCD Nominee"), a corporation wholly owned by the PDTC whose sole purpose is to act as nominee and legal title holder of shares of stock lodged into the PDTC. "Immobilization" is the process by which

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the warrant or share certificates of lodging holders are cancelled by the transfer agent and a new warrant or stock certificate ("Jumbo Certificate") covering all the warrants or shares lodged is issued in the name of the PCD Nominee. This trust agreement between the participants and PDTC through the PCD Nominee is established by and explained in the PDTC Rules and Operating Procedures approved by the Philippine SEC. No consideration is paid for the transfer of legal title to PCD Nominee. Once lodged, transfers of legal title of the securities are accomplished via book-entry settlement. Under the current PDTC system, only participants (e.g., brokers and custodians) will be recognized by the PDTC as the beneficial owners of the lodge equity securities. All lodgments, trades and uplifts on these shares will have to be coursed through a participant. Ownership and transfers of beneficial interests in the shares will be reflected with respect to the participant's aggregate holdings, in the PDTC system, and with respect to each beneficial owner's holdings, in the records of the participants. Beneficial owners are thus advised that in order to exercise their rights as beneficial owners of the lodged shares, they must rely on their participant-brokers and/or participant-custodian.

Any beneficial owner of shares who wishes to trade his interests in the shares must course the trade through a participant. The participant can execute PSE trades and non-PSE trades of lodged equity securities through the PDTC system. All matched transactions in the PSE trading system will be fed through the SCCP find into the PDTC system. Once it is determined on settlement date (trading date plus three trading days) that there are adequate securities in the securities settlement account of the participant-seller and adequate cash or an appropriate bank limit in the system cash account of the participant-buyer, the PSE trades are automatically settled in the PDTC system, in accordance with the PDTC Rules and Operating Procedures. Once settled, the beneficial ownership of the securities is transferred from the participant-seller to the participant-buyer without the physical transfer of stock certificates covering the traded securities.

If a shareholder wishes to withdraw his stockholdings from the PDTC system, the PDTC has a procedure of upliftment under which PCD Nominee will transfer back to the shareholder the legal title to the shares lodged by surrendering the jumbo certificate of PCD Nominee to a transfer agent which then issues a new stock certificate in the name of the shareholders and a new jumbo certificate of PCD Nominee for the balance of the lodged shares. The expenses for upliftment are on the account of the uplifting shareholder.

The difference between the depository and the registry would be on the recording of ownership of the shares in the issuing corporations' books. In the depository set-up, shares are simply immobilized, wherein customers' certificates are cancelled and a new Jumbo Certificate is issued in the name of PCD Nominee. Transfers among /between broker and/or custodian accounts, as the case may be, will only

be made within the book-entry system of PDTC. However, as far as the issuing corporation is concerned, the underlying certificates are in the nominee's name. In the registry set-up, settlement recording of ownership of traded securities will already be directly made
in the corresponding issuing company's transfer agents' books or system. Likewise, recording will already be at the beneficiary level (whether it be a client or a registered custodian holding securities for its clients), thereby removing from the broker its current. "de facto" custodianship role.

AMENDED RULE ON LODGMENT OF SECURITIES

On June 24, 2009, the PSE issued Memorandum No. 2009-0320 amending the rule on lodgment of securities as follows:

Section 16. Lodgment of Securities – As a condition for the listing and trading of the securities of an applicant company, the applicant company shall electronically lodge its registered securities with the Philippine Depository and Trust Corporation (PDTC), or any other entity duly authorized by the

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Commission, without any jumbo or mother certificate in compliance with the requirements of Section 43 of the Securities Regulation Code. In compliance with the foregoing requirement, actual listing and trading of securities on the scheduled listing date shall take effect only after submission by the applicant company of the following:

(a) Sworn corporate secretary's certificate stating that all the securities have been issued in uncertified form in accordance with the requirements of Section 43 of the Securities Regulation Code and electronically lodged with the PDTC or any other authorized entity without any jumbo or mother certificate; and

(b) Written confirmation issued by the transfer agent confirming that it has the capability and capacity to handle the issuance and transfer of uncertificated securities; and

(c) Written confirmation issued by PDTC or any other authorized entity confirming the electronic lodgment of the applicant's securities.

The above requirements shall also apply to follow-on offerings and additional listing applications.

Pursuant to the said amendment, the PDTC issued an implementing procedure in support thereof to wit:

For new companies to be listed at the PSE as of July 1, 2009 the usual procedure will be observed but the Transfer Agent on the companies shall no longer issue a certificate to PCD Nominee Corp but shall issue a Registry Confirmation Advice, which shall be the basis for the PDTC to credit the holdings of the Depository Participants on listing date.

On the other hand, for existing listed\d companies, the PDTC shall wait for the advice of the Transfer Agents that it is ready to accept surrender of PCNC jumbo certificates and upon such advice the PDTC shall surrender all PNC jumbo certificates to the Transfer Agents for cancellation. The Transfer Agents shall issue a Registry Confirmation Advice to PCNC evidencing the total number of shares registered in the name of PCNC in the Issuer's registry as of confirmation date.

ISSUANCE OF STOCK CERTIFICATES FOR CERTIFICATED SHARES

On or after the listing of the shares on the PSE, any beneficial owner of the shares may apply with PDTC through his broker or custodian-participant for a withdrawal from the book-entry system and return to the conventional paper-based settlement. If a shareholder wishes to withdraw his stockholdings from the PDTC system, the PDTC has a procedure of upliftment under which PCD Nominee will transfer back to the shareholder the legal title to the shares lodged. The uplifting shareholder shall follow the Rules and Operating Procedures of the PDTC for the uplifting of the shares lodged under the name of the PCD Nominee. The transfer agent shall prepare and send a Registry Confirmation Advice to the PDTC covering the new number of shares lodged under PCD Nominee. The expenses for upliftment are on the account of the uplifting shareholder. Upon the issuance of stock certificates for the shares in the name of the person applying for upliftment, such shares shall be deemed to be withdrawn from the PDTC book-entry settlement system, and trading on such shares will follow the normal process for settlement of certificated securities. The expenses for upliftment of the shares into certificated securities will be charged to the person applying for upliftment. Pending completion of the upliftment process, the beneficial interest in the shares covered by the application for upliftment is frozen and no trading and book-entry settlement will be permitted until the relevant stock certificates in the name of the person applying for upliftment shall have been issued by the relevant company's transfer agent.

TAXATION AND FOREIGN EXCHANGE

Effective January 1, 2009, the corporation income tax rate was reduced to 30% from 35% of taxable net income pursuant to Republic Act 9337. Gross interest income from the Philippine currency bank deposits and yield from deposit substitutes, trust fund and similar arrangements as well as royalties from sources within the Philippines are subject to a final withholding tax of twenty per cent of the gross amount of such income.

Tax on Dividends

Cash and property dividends received from a domestic corporation by individual stockholders who are either citizens or residents of the Philippines are subject to tax of ten per cent. Cash and property dividends received by domestic corporations or resident foreign corporations are not subject to tax. Cash and property dividends received from a domestic corporation by a non-resident foreign corporation not engaged in trade or business in the Philippines are generally subject to tax at the rate of 30% effective January 1, 2009.

Subject to applicable preferential tax rates under relevant treaties, cash and/or property dividends received from a domestic corporation by a non-resident corporation are subject to final withholding tax at the rate of 15 per cent; provided that the country in which the non-resident foreign corporation is domiciled (i) imposes no taxes on foreign sources dividends or (ii) allows a credit against the tax due from the non-resident foreign corporation taxes deemed to have been paid in the Philippines equivalent to the difference between the regular income tax on corporations and the 15 per cent tax on dividends.

Cash and property dividends received by non-resident alien individuals engaged in trade or business in the Philippines from a domestic corporation are subject to a twenty percent (20%) tax on the gross amount thereof, while cash and property dividends received by non-resident alien individuals not engaged in trade or business in the Philippines from a domestic corporation are subject to tax at twenty five percent (25%) of the gross amount, subject, however, to the applicable preferential tax rates under tax treaties executed between the Philippines and the country of residence or domicile of such non-resident foreign individuals.

SALE, EXCHANGE OR DISPOSITION OF SHARES

Taxes on Capital Gains

Net capital gains realized by a resident or non-resident other than a dealer in securities during each taxable year from the sale, exchange or disposition of shares outside the facilities of the PSE, unless exempt under an applicable treaty, are subject to tax as follows; (a) five (5) per cent on gains not exceeding Php100,000; and (b) 10 percent on gains over Php100,000.
Taxes on Transfer of Shares Listed and Traded Through the PSE

A sale or other disposition of shares of stock listed and traded through the facilities of the Exchange by a resident or a non-resident holder, other than a dealer in securities, is generally subject to a stock transaction tax at the rate of one-half of one-percent (1/2% of 1%) of the gross selling price or gross value in money of the shares of stock sold or otherwise disposed which shall be paid by the seller or transferor. In addition, a value-added tax ("VAT") of 12 per cent is imposed on the commission earned by the Philippine Stock Exchange registered broker which is generally passed on to the client.

Documentary Stamp Tax

The original issue of shares is subject to documentary stamp tax of Php1.00 for each Php200.00, or fractional part thereof, of the par value of the shares issued. The transfer of shares is subject to a documentary stamp tax of Php0.75 for each Php200.00, or a fractional part thereof of the par value of the shares transferred. However, the sale, barter or exchange of shares of stock listed and traded through the local stock exchange shall not be subject to documentary stamp tax pursuant to Republic Act No. 9243 dated February 17, 2004 and Republic Act 9648 dated June 30, 2009.

PHILIPPINE FOREIGN INVESTMENT, EXCHANGE CONTROLS AND FOREIGN OWNERSHIP

Under the BSP regulations, a foreign investment in listed Philippine securities must be registered with the BSP if the foreign exchange needed to service the repatriation of capital and the remittance of dividends, profits and earnings which accrue thereon will be sources from the banking system.

The registration with the BSP of all foreign investments in the Subject Shares shall be the responsibility of the foreign investor. The application for registration must be filed by a stockbroker/dealer or an underwriter directly with the BSP or with a custodian bank designated by the investor.

It should be noted that Manila Mining Corporation was an exporter of metals and will export metals if/when it resumes production, so it will be able to generate its own foreign exchange.

Foreign Ownership of Shares in the Company, pursuant to the Philippine Constitution, is limited to 40%. As a built-in mechanism to ensure compliance with such a limitation, the Company has two classes of common shares, "A" and "B", and the "A" shares constituting 60% at any one time of the outstanding capital of the Company, is available only to Filipino citizens or corporations.

LEPANTO CONSOLIDATED MINING CO.

Lepanto Building, 8747 Paseo de Roxas, 1226 City of Makati, Philippines

SECURITIES AND EXCHANGE COMMISSION
Secretariat Building, PICC Complex
Roxas Boulevard, Metro Manila

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as going concern, disclosing, as applicable matters related to going concern and using the going concern basis of accounting unless management either intends to liquidated 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 financial statements including the schedules attached therein, and submits the same to the stockholders.

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

Signature:

FELIPE U. YAP
Chairman of the Board
SSS#06-0091101-0

Signature:

BRYAN U. YAP
President
SSS#33-3067339-5

Signature:

RAMON T. DIOKNO
Chief Finance Officer
SSS#03-2133095-4

Signed this 20th day of March 2017.

Surface Mail: P.O. Box 1460, Makati Central Post Office, 1226, City of Makati, Philippines
Air Mail: P.O. Box 7507, Domestic Airport Post Office, 1300, Domestic Road, Pasay City, Philippines
Telephone No. (0632) 815-9447: Fax No. (0632) 810-5583; E-Mail – info@lepantomining.com

SUBSCRIBED AND SWORN TO before me this 20th day of March 2017 at Makati City, affiant exhibiting to me their SSS ID nos. indicated above.

Doc. No. 135 :
Page No. 27 :
Book No. I :
Series of 2017.

MARVIN LESTER N. DE PAZ
Notarial Appointment No. M-459
Notary Public for Makati City
Until 31 December 2017
21st Floor Lepanto Building
8747 Paseo de Roxas, 1226 Makati City
Roll No. 63424
IBP No. 1055074; 12-28-16; PPLM
PTR No. 5918342; 01-11-17 Makati City
MCLE Compliance No. V-0021547; 05-13-16

Lepanto Consolidated Mining Company and Subsidiaries

Consolidated Financial Statements
December 31, 2016 and 2015
and Years Ended December 31, 2016, 2015 and 2014

and

Independent Auditor's Report

SGV

Building a better working world

SGV
Building a better working world

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
Lepanto Consolidated Mining Company

Opinion

We have audited the consolidated financial statements of Lepanto Consolidated Mining Company and its Subsidiaries ("the Group"), which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, and the 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, 2016, 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, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2016 in accordance with accounting principles generally accepted in the Philippines.

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 audit 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 Property, Plant and Equipment

The Group has property, plant and equipment amounting to ₱6.2 billion, which includes mine and mining properties of ₱5.9 billion as at December 31, 2016, which is about 38% of the Group's consolidated total assets. The Group is required to perform an impairment testing of its property, plant and equipment if there are indicators of impairment. The Group's property, plant and equipment belongs to the Parent Company cash generating unit.

The Group is adversely affected by the continued decline in precious and base metal prices in the market. In the event that an impairment indicator is identified, the assessment of the recoverable amount, specifically the value-in-use, of the property, plant and equipment requires significant judgment and involves estimation and assumptions about future production levels and costs, as well as external input such as commodity prices, discount rate and foreign currency exchange rates. Hence, such assessment is a key audit matter in our audit. See Note 9 to the consolidated financial statements.

Audit Response

We obtained an understanding of the Group's impairment assessment process and the related controls. We involved our internal specialist in evaluating the methodologies and the assumptions used. These assumptions include future production levels and costs, as well as external input such as commodity prices, discount rates and foreign currency exchange rates. We compared the key assumptions used against external data such as analysts' reports, benchmarks and ore reserves estimates. We tested the parameters used in the determination of the discount rate against market data. We also reviewed the Group's disclosures about those assumptions to which the outcome of the impairment test is most sensitive; specifically those that have the most significant effect on the determination of the recoverable amount of property, plant and equipment.

Recoverability of Mine Exploration Costs

The ability of the Group to recover its mine exploration costs would depend on the commercial viability of the reserves. The carrying values of mine exploration costs amounted to ₱6.3 billion which is about 38% of the Group's consolidated total assets as at December 31, 2016. The substantial amount of this account, the level of additions during the year and the significant management judgment required in assessing whether there is any indication that the mine exploration costs may be impaired are key areas of focus in our audit. See Note 12 to the consolidated financial statements.

Audit Response

We obtained an understanding of the Group's capitalization policy and tested whether the policy has been applied consistently. We obtained management's assessment on whether there are impairment indicators affecting the recoverability of the mine exploration costs and inquired into the status of these projects and their plans on operations. We obtained the summary of the status of each exploration project as of December 31, 2016, as certified by the Group's technical group head. We reviewed contracts and agreements, and the budget for exploration costs. We inspected the licenses, permits and correspondence with regulatory agencies 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

The estimation of ore reserves involves significant management estimates and assumptions. Reserves are key inputs to depletion and decommissioning provisions. As discussed in Note 9 to the consolidated financial statements, the Group's mine and mining properties amounting to ₱5.9 billion as of December 31, 2016 are amortized using units of production method. This matter is significant to our audit because the estimation of mineable ore reserves in Makanyan mine requires significant estimation from management.

Audit Response

We obtained an understanding of management's processes and controls in the estimation of mineable ore reserves. We evaluated the competence, capabilities and objectivity of the management's specialist. We 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 relevant areas of the consolidated financial statements including depletion and decommissioning provisions.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2016, 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, 2016 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, 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 Audit 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 Jaime F. del Rosario.

SYCIP GORRES VELAYO & CO.

Jaime F. del Rosario
Partner
CPA Certificate No. 56915
SEC Accreditation No. 0076-AR-4 (Group A),
May 1, 2016, valid until May 1, 2019
Tax Identification No. 102-096-009
BIR Accreditation No. 08-001998-72-2015,
March 24, 2015, valid until March 23, 2018
PTR No. 5908689, January 3, 2017, Makati City

March 20, 2017

LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Amounts in Thousands)

	December 31	
	2016	2015
ASSETS		
Current Assets		
Cash (Note 4)	**₱86,234**	₱66,387
Receivables (Note 5)	**241,474**	306,755
Inventories (Note 6)	**430,008**	520,387
Advances to suppliers and contractors (Note 7)	**335,866**	442,810
Other current assets (Note 8)	**641,493**	614,741
Total Current Assets	**1,735,075**	1,951,080
Noncurrent Assets		
Property, plant and equipment - net (Note 9)	**7,195,819**	6,974,495
Mine exploration costs (Note 12)	**6,302,261**	6,521,173
Available-for-sale (AFS) financial assets (Note 10)	**188,027**	477,155
Investments in and advances to associates (Note 11)	**561,205**	566,831
Deferred income tax assets - net (Note 18)	**419,371**	431,716
Other noncurrent assets	**77,173**	71,441
Total Noncurrent Assets	**14,743,856**	15,042,811
TOTAL ASSETS	**₱16,478,931**	₱16,993,891
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Note 13)	**₱1,538,233**	₱1,422,554
Short-term borrowings and other interest-bearing liabilities (Note 14)	**68,065**	–
Income tax payable	**5,561**	891
Total Current Liabilities	**1,611,859**	1,423,445
Noncurrent Liabilities		
Advances from Far Southeast Services Limited (FSE; Note 30)	**5,933,221**	5,843,343
Long-term borrowings (Note 14)	**–**	47,060
Liability for mine rehabilitation cost (Note 15)	**64,748**	65,095
Retirement benefits liability (Note 16)	**1,682,674**	1,782,137
Deferred income tax liabilities - net (Note 18)	**224,894**	229,036
Deposit for future subscriptions	**69,200**	69,200
Stock subscriptions payable	**11,443**	107,784
Total Noncurrent Liabilities	**7,986,180**	8,143,655
Total Liabilities	**9,598,039**	9,567,100
Equity attributable to the equity holders of the Parent Company:		
Capital stock (Note 19)	**5,134,706**	5,134,706
Additional paid-in capital	**4,336,231**	4,336,231
Remeasurement loss on retirement benefits liability	**(416,988)**	(521,258)
Net unrealized gain (loss) on AFS financial assets (Note 10)	**38,665**	(44,735)
Deficit	**(2,469,320)**	(1,728,477)
	6,623,294	7,176,467
Non-controlling interests (NCI; Note 20)	**257,598**	250,324
Total Equity	**6,880,892**	7,426,791
TOTAL LIABILITIES AND EQUITY	**₱16,478,931**	₱16,993,891

See accompanying Notes to Consolidated Financial Statements.

LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Thousands, Except Loss per Share)

	Years Ended December 31		
	2016	2015	2014
REVENUES (Note 33)			
Sale of metals - net (Note 29)	**₱1,431,928**	₱1,146,416	₱1,428,634
Service fees and other operating income	**102,128**	66,486	50,804
	1,534,056	1,212,902	1,479,438
COST OF SALES (Note 22)	**(1,876,404)**	(1,525,139)	(1,777,188)
COST OF SERVICES (Note 23)	**(113,848)**	(200,659)	(124,560)
OPERATING EXPENSES (Note 24)	**(234,233)**	(248,916)	(195,063)
FINANCE COSTS (Note 27)	**(101,634)**	(110,901)	(90,956)
FOREIGN EXCHANGE GAINS (LOSSES) - net	**3,062**	(19,417)	16,543
SHARE IN NET LOSSES OF ASSOCIATES (Note 11)	**(6,752)**	(20,579)	(13,481)
OTHER INCOME - net (Note 28)	**52,515**	71,363	15,897
LOSS BEFORE INCOME TAX	**(743,238)**	(841,346)	(689,370)
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 18)			
Current	**30,364**	6,407	5,023
Deferred	**(40,033)**	11,623	18,893
	(9,669)	18,030	23,916
NET LOSS	**(₱733,569)**	(₱859,376)	(₱713,286)
Net income (loss) attributable to:			
Equity holders of the Parent Company	**(₱740,843)**	(₱858,981)	(₱718,366)
NCI (Note 20)	**7,274**	(395)	5,080
	(₱733,569)	(₱859,376)	(₱713,286)
OTHER COMPREHENSIVE INCOME (LOSS)			
Item that will be reclassified to profit or loss in subsequent periods:			
Net unrealized gain on AFS financial assets (Note 10)	**₱83,400**	₱206,781	₱55,154
Item that will not be reclassified to profit or loss in subsequent periods:			
Remeasurement gain (loss) on retirement benefits liability (Note 16)	**148,956**	106,443	(369,530)
Income tax effect (Note 16)	**(44,686)**	(31,933)	110,859
	104,270	74,510	(258,671)
OTHER COMPREHENSIVE INCOME (LOSS)	**187,670**	281,291	(203,517)
TOTAL COMPREHENSIVE LOSS	**(₱545,899)**	(₱578,085)	(₱916,803)
Total comprehensive income (loss) attributable to:			
Equity holders of the Parent Company	**(₱553,173)**	(₱577,690)	(₱921,883)
NCI (Note 20)	**7,274**	(395)	5,080
	(₱545,899)	(₱578,085)	(₱916,803)
BASIC/DILUTED LOSS PER SHARE (Note 21)	**(₱0.0140)**	(₱0.0170)	(₱0.0160)

See accompanying Notes to Consolidated Financial Statements.

LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

	Years Ended December 31		
	2016	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before income tax	**(₱743,238)**	(₱841,346)	(₱689,370)
Adjustments for:			
Depletion, depreciation and amortization (Note 9)	**750,892**	708,741	734,467
Gain on disposal of property, plant and equipment and other investments (Note 28)	**(116,025)**	(2,699)	(32)
Finance costs (Note 27)	**101,634**	110,901	90,956
Realized loss on disposal of AFS financial assets (Notes 10 and 28)	**63,868**	–	–
Unrealized foreign exchange losses - net	**40,849**	(5,824)	1,255
Movement in retirement benefits liability	**(25,845)**	(135,170)	(45,969)
Share in net losses of associates (Note 11)	**6,752**	20,579	13,481
Gain on reversal on deferred income tax liability	**3,549**	–	–
Interest income (Note 28)	**(110)**	(503)	(360)
Gain on disposal of investment in associates	**–**	(1,427)	–
Gain on change in estimate	**–**	–	(13,916)
Loss on disposal of equity instruments	**–**	–	2,638
Dividend income (Note 10)	**–**	–	(75)
Operating income (loss) before working capital changes	**82,326**	(146,748)	93,075
Decrease (increase) in:			
Receivables	**65,170**	(43,126)	(154,872)
Inventories	**19,683**	36,402	(46,472)
Advances to suppliers and contractors	**83,987**	3,254	27,327
Other current assets	**(26,752)**	(27,569)	(35,735)
Increase in trade and other payables	**111,630**	241,763	234,821
Net cash flows from operations	**336,044**	63,976	118,144
Interest received	**110**	503	360
Income taxes paid	**(25,694)**	(6,857)	(4,295)
Net cash flows from operating activities	**310,460**	57,622	114,209
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to:			
Mine exploration costs	**(526,501)**	(393,431)	(229,993)
Property, plant and equipment (Notes 9 and 26)	**(213,782)**	(543,818)	(495,801)
Investments in associates (Note 11)	**–**	–	(136,605)
Advances to an associate:			
Extension of advances	**(757)**	–	(2,035)
Collection of advances	**–**	2,281	–
Proceeds from disposal of:			
Property, plant and equipment	**171,591**	4,132	5,991
AFS financial assets (Note 10)	**308,292**	–	–
Investment in associates (Note 11)	**–**	12,285	–
Dividends received	**–**	–	75
Decrease in subscription payable	**(96,341)**	–	–
Decrease (increase) in other noncurrent assets	**(6,851)**	10,979	(43,816)
Net cash flows used in investing activities	**(364,349)**	(907,572)	(902,184)
CASH FLOWS FROM FINANCING ACTIVITIES			
Changes in advances from FSE	**89,878**	130,827	125,201
Proceeds from issuance of shares	**–**	614,445	959,212
Availment of additional loans	**–**	–	64,250
Payments of:			
Interest	**(16,142)**	(105,016)	(33,259)
Borrowings	**–**	(109,201)	(30,190)
Dividends	**–**	–	(11)
Net cash flows from financing activities	**73,736**	531,055	1,085,203
NET INCREASE (DECREASE) IN CASH	**19,847**	(318,895)	297,228
CASH AT BEGINNING OF YEAR	**66,387**	385,282	88,054
CASH AT END OF YEAR (Note 4)	**₱86,234**	₱66,387	₱385,282

See accompanying Notes to Consolidated Financial Statements.

LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014

(Amounts in Thousands)

	Attributable to Equity Holders of the Parent Company									
	Capital Stock (Note 19)									
	Issued	Subscribed	Sub-total	Additional Paid-in Capital	Remeasurement Gain (Loss) on Retirement Benefits Liability	Net Unrealized Gain (Loss) on AFS Financial Assets (Note 10)	Deficit	Sub-total	NCI (Note 20)	Total
Balances at January 1, 2016	₱5,136,596	(₱1,890)	₱5,134,706	₱4,336,231	(₱521,258)	(₱44,735)	(₱1,728,477)	₱7,176,467	₱250,324	₱7,426,791
Net income (loss)	–	–	–	–	–	–	(740,843)	(740,843)	7,222	(733,621)
Other comprehensive income	–	–	–	–	104,270	83,400	–	187,670	52	187,722
Total comprehensive income (loss)	–	–	–	–	104,270	83,400	(740,843)	(553,173)	7,274	(545,899)
Balances at December 31, 2016	₱5,136,596	(₱1,890)	₱5,134,706	₱4,336,231	(₱416,988)	₱38,665	(₱2,469,320)	₱6,623,294	₱257,598	₱6,880,892
Balances at January 1, 2015	₱5,136,596	(₱616,341)	₱4,520,255	₱4,336,237	(₱595,768)	(₱251,516)	(₱869,496)	₱7,139,712	₱250,719	₱7,390,431
Issuance/subscription of shares	–	614,451	614,451	(6)	–	–	–	614,445	–	614,445
Net loss	–	–	–	–	–	–	(858,981)	(858,981)	(395)	(859,376)
Other comprehensive income	–	–	–	–	74,510	206,781	–	281,291	–	281,291
Total comprehensive income (loss)	–	–	–	–	74,510	206,781	(858,981)	(577,690)	(395)	(578,085)
Balances at December 31, 2015	₱5,136,596	(₱1,890)	₱5,134,706	₱4,336,231	(₱521,258)	(₱44,735)	(₱1,728,477)	₱7,176,467	₱250,324	₱7,426,791
Balances at January 1, 2014	₱4,346,350	(₱2,007)	₱4,344,343	₱3,552,937	(₱337,097)	(₱306,670)	(₱151,130)	₱7,102,383	₱245,639	₱7,348,022
Issuance/subscription of shares	790,246	(614,334)	175,912	783,300	–	–	–	959,212	–	959,212
Net income (loss)	–	–	–	–	–	–	(718,366)	(718,366)	5,080	(713,286)
Other comprehensive income (loss)	–	–	–	–	(258,671)	55,154	–	(203,517)	–	(203,517)
Total comprehensive income (loss)	–	–	–	–	(258,671)	55,154	(718,366)	(921,883)	5,080	(916,803)
Balances at December 31, 2014	₱5,136,596	(₱616,341)	₱4,520,255	₱4,336,237	(₱595,768)	(₱251,516)	(₱869,496)	₱7,139,712	₱250,719	₱7,390,431

See accompanying Notes to Consolidated Financial Statements.

LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. General Information and Authorization for Issue of the Consolidated Financial Statements

Lepanto Consolidated Mining Company

Lepanto Consolidated Mining Company (Parent Company; the Company) was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on September 8, 1936, primarily to engage in 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. On January 29, 1985, the SEC approved the extension of the Parent Company's corporate term for another 50 years after the expiration of its original term on September 8, 1986.

The Company's shares are listed and traded on the Philippine Stock Exchange (PSE).

On January 14, 1997, the Company was registered with the Board of Investments (BOI) under Executive Order (EO) No. 226 as a new export producer of gold bullion on a preferred non-pioneer status. This registration entitled the Company to a four (4) year income tax holiday (ITH), which can be further extended for another three (3) years subject to compliance with certain conditions, and lower tariff rates on acquisition of capital equipment. It is required to maintain a base equity of at least 25% as one of the conditions of the registration.

On April 1, 1997, the Company started the commercial operations of its gold mine (Victoria Project) located in Mankayan, Benguet, Philippines and suspended its copper mining operations. Consequently, in October 1997, the Company temporarily ceased operating its roasting plant facilities in Isabel, Leyte, Philippines for an indefinite period. The roasting plant facility was registered with the Philippine Economic Zone Authority (PEZA) on December 17, 1985 pursuant to the provisions of Presidential Decree No. 66, as amended, and EO No. 567 as a zone export enterprise to operate a roasting plant for the manufacture of copper calcine at the Isabel Special Export Processing Zone.

On March 30, 2000, the Company registered its copper flotation project with the BOI as a new producer of copper concentrates on a preferred non-pioneer status. This registration entitled the Company to a four (4) year ITH, subject to compliance with certain conditions, simplified customs procedures, additional deduction for labor expense and unrestricted use of consigned equipment for a period of ten (10) years. It is required to maintain a base equity of at least 25% as one of the conditions of the registration. The copper flotation project was suspended at the end of 2001; the BOI registration was cancelled on July 11, 2006.

On April 10, 2001, the BOI approved the Company's request for ITH bonus year for a period of one year from April 2001 to March 2002 for its gold bullion project. On June 21 and September 21, 2005, the Company obtained the necessary approval for the ITH bonus periods of April 2002 to March 2003 and April 2003 to March 2004, respectively.

The Company currently operates the Victoria Mine in Mankayan, Benguet Philippines.

On January 5, 2004, the Company was registered with the BOI under EO No. 226 as new export producer of gold bullion on a non-pioneer status for its Victoria II (renamed Teresa) Project located also in Mankayan, Benguet, Philippines. This registration entitles the Company to ITH with the same incentives that were granted on their registration with BOI on January 14, 1997. The Teresa Project commenced its commercial operations in April 2004.

On November 21, 2006, the Company was registered with the BOI under EO No. 226 as new export producer of copper-gold concentrate on a non-pioneer status for its copper-gold flotation project located also in Mankayan, Benguet, Philippines. This registration entitles the Company to ITH for four (4) years, which can be further extended for another three (3) years subject to compliance with certain conditions, and duty-free importation of equipment, spare parts and accessories for five (5) years.

On May 20, 2009, the BOI approved the Company's request for ITH bonus year for the period April 2008 to March 2009 for its Teresa Project.

The registrations mentioned above enable the Parent Company to avail of the rights, privileges and incentives granted to all registered enterprises.

The Company has its principal office at the 21st Floor, Lepanto Building, Paseo de Roxas, Makati City.

Diamond Drilling Corporation of the Philippines (DDCP)
DDCP is a wholly owned subsidiary by the Parent Company and was incorporated and registered with the SEC on August 8, 1971, primarily to provide technical, engineering and management services for the purpose of engaging in mining, mineral or oil exploration, construction or other business activity, particularly but not limited to drilling, boring and sinking holes for the purposes of mineral exploration.

In 1994, DDCP's Articles of Incorporation was amended to include in Article II the following secondary purpose: to engage in the business of exploration, development, processing and marketing of minerals that may be found anywhere in the Philippines either by original acquisition, joint venture or operating agreements with other holders of existing mining rights. On April 21, 2008, the stockholders of the DDCP passed a resolution authorizing it to engage directly in the business of mining or otherwise make investments in mining projects.

DDCP primarily provides drilling services to the Parent Company and Manila Mining Corporation (MMC), an associate.

DDCP's principal office is at 344 South Superhighway, Brgy. Sun Valley, Parañaque City.

Shipside, Incorporated (SI)
SI, a Company existing and incorporated in the Philippines and registered with SEC on November 13, 1958, is a wholly owned subsidiary by the Parent Company and was originally organized to engage in handling all kinds of materials, products and supplies in bulk and maintaining and operating terminal facilities such as pier and warehouses.

With the expiration in 1985 of its twenty-five (25) year Grant of Development Right to construct and operate pier and wharfage facilities in Poro, San Fernando, La Union, SI included in its activities the leasing of its properties which include apartments/guesthouses and warehouses. Pier-related activities continued to be limited to handling materials and supplies.

On July 18, 2008, the SEC approved the extension of SI's corporate term for another fifty (50) years after the expiration of its original term on November 13, 2008.

SI's principal office is located at 21st Floor, Lepanto Building, 8747 Paseo de Roxas, Makati City.

Lepanto Investment & Development Corporation (LIDC)
LIDC, a wholly owned subsidiary of the Parent Company, was incorporated and registered with the SEC on April 8, 1969, primarily to act as a general agent, broker or factor of any insurance company, whether domestic or foreign, or as a commercial broker, real estate dealer or broker, agent or factor of any person, partnership, corporation or association engaged in any lawful business, industry or enterprise.

LIDC's principal office is located at 21st Floor, Lepanto Building, 8747 Paseo de Roxas, Makati City.

Far Southeast Gold Resources, Inc. (FSGRI; the Project)
FSGRI was incorporated, primarily to operate mines and prospect, explore, mine and deal with all kinds of ores, metals and minerals. The Company was incorporated and registered with the Philippine SEC on February 2, 1989.

FSGRI, a 60%-owned subsidiary of the Parent Company and 40%-owned by Gold Fields Switzerland Holding AG, a company incorporated in Switzerland.

The Parent Company will continue to provide financial and administrative support to FSGRI. As at December 31, 2016, it is still in the pre-operating stage.

Deferred exploration costs incurred for all exploration projects are expected to be recovered upon the start of commercial operations. Despite technical difficulties in developing the ore body, the current improving trend in metal prices and integration of recent breakthroughs in both mining and milling technologies enhance the economic feasibility of the Project. This project is considered one of the priority mining projects of the Philippine Government.

FSGRI's principal office is located at 19th Floor, Lepanto Building, Paseo de Roxas, Barangay Bel-Air, Makati City.

Diamant Manufacturing and Trading Corporation (DMTC)
DMTC, which was incorporated and registered with the SEC on September 7, 1972, is a wholly owned subsidiary of LIDC. DMTC is primarily engaged in manufacturing, distributing, selling and buying machinery and equipment of all kinds and descriptions, general merchandise and articles of every nature, particularly but not limited to diamond core and non-core bits, reamer shells, casing bits, diamond circular segmental and diamond gang saws, tubular and other products allied to the diamond core drilling industry.

On June 26, 2012, SEC approved the Company's application for change in name from Diamant Boart Philippines, Inc. to Diamant Manufacturing and Trading Corporation.

DMTC's principal office is located at Km. 14 344 West Service, Brgy. Sun Valley, Parañaque City.

Authorization for Issue of the Consolidated Financial Statements
The consolidated financial statements of the Group as at December 31, 2016 and 2015 and for each of the three years in the period ended December 31, 2016 were authorized for issue by the Board of Directors (BOD) on March 20, 2017.

2. **Basis of Preparation, Statement of Compliance and Summary of Significant Accounting Policies**

Basis of Preparation
The consolidated financial statements of the Group have been prepared on a historical cost basis, except for AFS financial asset measured at fair value in the consolidated statements of financial position. The consolidated financial statements are presented in Philippine Peso, the Group's functional and presentation currency in compliance with accounting principles generally accepted in the Philippines. All values are rounded to the nearest thousand (₱000), except when otherwise indicated.

The specific accounting policies followed by the Group are disclosed in the following section.

Statement of Compliance
The consolidated financial statements of the Group have been prepared in accordance with accounting principles generally accepted in the Philippines. The Parent Company prepared its financial statements in accordance with Philippine Financial Reporting Standards (PFRS), except for the exemption from the fair value requirement of Philippine Accounting Standards (PAS) 39, *Financial Instruments: Recognition and Measurement*, on long-term commodity hedging contracts entered into by the Parent Company and outstanding as of January 1, 2005, which was permitted by the Philippine SEC (see Note 30).

Basis of Consolidation
The consolidated financial statements comprise the financial statements of the Group as at December 31, 2016 and 2015. The financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company using consistent accounting policies.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has all of the following:

- 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 the amount of the Parent Company's 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; and
- The Group's voting rights and potential voting rights.

The relevant activities are those which significantly affect the subsidiary's returns. The ability to approve the operating and capital budget of a subsidiary and the ability to appoint key management personnel are decisions that demonstrate that the Group has the existing rights to direct the relevant activities of a subsidiary.

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 losses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary. Where the Group's interest is less than 100%, the interest attributable to outside shareholders is reflected in NCI.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Parent of the Group and to the NCI, even if this results in the NCI 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.

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 related assets (including goodwill), liabilities, NCI and other components of equity, while any resultant gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.

Subsidiaries are deconsolidated from the date on which control ceases.

Subsidiaries
Subsidiaries are entities over which the Parent Company has control.

NCI
Where the ownership of a subsidiary is less than 100%, and therefore a NCI exists, any losses of that subsidiary are attributed to the NCI even if that results in a deficit balance.

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 NCI;
- Derecognizes the cumulative translation differences, recognized 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; and
- Reclassifies the Parent Company's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate.

The consolidated financial statements include the accounts of the Parent Company and the following subsidiaries:

		2016		2015	
	Nature of	**% of Ownership**		% of Ownership	
Subsidiaries	Business	**Direct**	**Indirect**	Direct	Indirect
DDCP	Service	**100**	**–**	100	–
SI	Service	**100**	**–**	100	–
LIDC	Investment	**100**	**–**	100	–
FSGRI [*]	Mining	**60**	**–**	60	–
DMTC [a]	Manufacturing/Selling	**–**	**100**	–	100

[*] *Pre-operating subsidiary*
[a] *Held by the Group through LIDC*

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year, except that the Group adopted the following new accounting pronouncements starting January 1, 2016. The adoption of these pronouncements did not have a significant impact on the Group's financial position or performance unless otherwise indicated.

- Amendments to PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities*, and PAS 28, *Investments in Associates and Joint Ventures - Investment Entities: Applying the Consolidation Exception*
- Amendments to PFRS 11, *Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations*
- PFRS 14, *Regulatory Deferral Accounts*
- Amendments to PAS 1, *Presentation of Financial Statements - Disclosure Initiative*
- Amendments to PAS 16, *Property, Plant and Equipment* and PAS 38, *Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortization*
- Amendments to PAS 16 and PAS 41, *Agriculture - Agriculture: Bearer Plants*
- Amendments to PAS 27, *Separate Financial Statement - Equity Method in Separate Financial Statements*
- Annual Improvements to PFRSs 2012 - 2014 Cycle
    - Amendment to PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations - Changes in Methods of Disposal*
    - Amendment to PFRS 7, *Financial Instruments: Disclosures - Servicing Contracts*
    - Amendment to PFRS 7, *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
    - Amendment to PAS 19, *Employee Benefits - Discount Rate: Regional Market Issue*
    - Amendment to PAS 34, *Interim Financial Reporting - Disclosure of Information 'Elsewhere in the Interim Financial Report'*

Standards and Interpretations Issued but not yet Effective

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Group does not expect that the future adoption of the said pronouncements to have a significant impact on its financial statements. The Group intends to adopt the following pronouncements when they become effective.

Effective January 1, 2017

- Amendment to PFRS 12, *Clarification of the Scope of the Standard* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)

  The amendments clarify that the disclosure requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

  The Group will include the required disclosures in its 2017 consolidated financial statements.

- Amendments to PAS 7, *Statement of Cash Flows*, *Disclosure Initiative*

  The amendments to PAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendments, entities are not required to provide comparative information for preceding periods. Early application of the amendments is permitted.

  Application of amendments will result in additional disclosures in the 2017 financial statements of the Group.

- Amendments to PAS 12, *Income Taxes*, *Recognition of Deferred Tax Assets for Unrealized Losses*

  The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

  Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. Early application of the amendments is permitted.

Effective January 1, 2018

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

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

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

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

  The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the forthcoming insurance contracts standard. They allow entities to choose between the overlay approach and the deferral approach to deal with the transitional challenges. The overlay approach gives all entities that issue insurance contracts the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when PFRS 9 is applied before the new insurance contracts standard is issued. On the other hand, the deferral approach gives entities whose activities are predominantly connected with insurance an optional temporary exemption from applying PFRS 9 until the earlier of application of the forthcoming insurance contracts standard or January 1, 2021.

  The overlay approach and the deferral approach will only be available to an entity if it has not previously applied PFRS 9.

  The amendments are not applicable to the Group since none of the entities within the Group have activities that are predominantly connected with insurance or issue insurance contracts.

- PFRS 15, *Revenue from Contracts with Customers*

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

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

  The Group is currently assessing the impact of adopting this standard on its consolidated financial statements.

- PFRS 9, *Financial Instruments*

  PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

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

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

  The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss (FVPL). They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. The amendments should be applied retrospectively, with earlier application permitted.

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

  The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.

- Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC) 22, *Foreign Currency Transactions and Advance Consideration*

  The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The interpretation may be applied on a fully retrospective basis. Entities may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

Effective January 1, 2019

- PFRS 16, *Leases*

  Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, *Leases*. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

  The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

  Entities may early adopt PFRS 16 but only if they have also adopted PFRS 15. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs.

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

Deferred effectivity

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

  The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, the Financial Reporting Standards Council postponed the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

Summary of Significant Accounting Policies

Presentation of Consolidated Financial Statements
The Group has elected to present all items of recognized income and expense in one single consolidated statement of comprehensive income.

Cash
Cash includes cash on hand and with banks.

Financial Instruments
A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Initial Recognition and Measurement
Financial instruments are recognized in the consolidated statement of financial position when the Group 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 market place are recognized on the trade date.

Financial instruments are recognized initially at fair value of the consideration given (in the case of an asset) or received (in the case of a liability). Except for financial assets and liabilities at FVPL, the initial measurement of financial assets and liabilities includes transaction costs. Financial assets under PAS 39 are classified as either financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments or AFS financial assets. The Group classifies its financial instruments upon initial recognition. The classification depends on the purpose for which the investments are acquired and whether they are quoted in an active market. The Group's financial assets are in the nature of loans and receivables and AFS financial assets. Also, under PAS 39, financial liabilities are classified as at FVPL or other financial liabilities. The Group's financial liabilities are in the nature of loans and borrowings, trade and other payables.

As at December 31, 2016 and 2015, the Group does not have financial instruments at FVPL and HTM investments.

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. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets held for trading designated as AFS financial assets or designated as at FVPL. This accounting policy relates to the consolidated statements of financial position captions "Cash" and "Receivables", which arise primarily from sale and other types of receivables. Loans and receivables are classified as current when these are expected to be realized within one (1) year, after the end of the reporting period or within the Group's normal operating cycle, whichever is longer. All others are classified as noncurrent.

Receivables are recognized initially at fair value, which normally pertains to the billable amount. After initial measurement, receivables are subsequently measured at amortized cost using the effective interest rate (EIR) method, less allowance for impairment losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The EIR amortization, if any, is included in "Finance costs" caption in the consolidated statement of comprehensive income. The losses arising from impairment of receivables are recognized in "Provision for impairment losses on receivables" account on "Operating expenses" caption in the consolidated statement of comprehensive income. The level of allowance for impairment losses is evaluated by management on the basis of factors that affect the collectability of accounts (see accounting policy on Impairment of Financial Assets).

AFS Financial Assets
AFS financial assets include investments in equity and debt securities. Equity investments classified as AFS financial assets are those which are neither classified as held for trading nor designated at FVPL. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, AFS financial assets are subsequently measured at fair value with unrealized gains or losses recognized in OCI and credited in the "Unrealized gain (loss) on AFS financial assets" until the investment is derecognized, at which time the cumulative gain or loss is recognized in profit or loss, or the investment is determined to be impaired, when the cumulative loss is reclassified from "Unrealized gain (loss) on AFS financial assets" to profit or loss.

The Group evaluates its AFS financial assets whether the ability and intention to sell its AFS financial assets in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets in active markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for foreseeable future until maturity.

Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or until maturity. Reclassification to the HTM category is permitted only when the entity has the ability and intention to hold the financial asset accordingly.

For a financial asset reclassified from AFS financial assets category, any previous gain or loss on that asset that has been recognized in equity and is amortized to profit or loss over the remaining life of the investment using the EIR and the fair value carrying amount of the date of reclassification becomes its new amortized cost. Any difference between the new amortized cost and the maturity amount is also amortized over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the profit or loss.

The Group's AFS financial assets pertain to its investment in equity shares as at December 31, 2016 and 2015.

Loans and Borrowings, and Trade and Other Payables
Issued financial instruments or their components, which are not designated as at FVPL, are classified as loans and borrowings, and trade and other payables where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The

components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole, the amount separately determined as the fair value of the liability component on the date of issue.

After initial measurement, loans and borrowings, and trade and other payables are subsequently measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR. The EIR amortization is included as finance costs in the statement of profit or loss and OCI. Gains and losses are recognized in the consolidated statement of comprehensive income when the liabilities are derecognized, as well as through the amortization process. Any effects of restatement of foreign currency-denominated liabilities are also recognized in the consolidated statements of comprehensive income. Loans and borrowings, and trade and other payables are classified as current when these are expected to be settled within one (1) year after the end of reporting period or within the Group's normal operating cycle, whichever is longer. All others are classified as noncurrent liabilities.

This accounting policy applies primarily to the Group's trade and other payables, borrowings and other interest bearing liabilities.

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.

Fair Value Measurement
The Group measures financial instruments at fair value at each reporting period. Also, from time to time, the fair values of non-financial assets and liabilities are required to be determined, e.g., when the entity acquires a business, or where an entity measures the recoverable amount of an asset or cash-generating unit (CGU) at fair value less costs of disposal. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 31.

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 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 consolidated financial statement 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 - Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
- Level 3 - Techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data

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.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

"Day 1" Profit or Loss
Where the transaction price in a non-active market is different from the fair value from other observable current market transactions 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" profit or loss) in the consolidated statements of comprehensive income unless it qualifies for recognition as some other type of asset. In cases where use is made of data that is not observable, the difference between the transaction price and model value is recognized in the consolidated statement of comprehensive income only when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the "Day 1" profit or loss amount.

Embedded Derivatives
Embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract, with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met: a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and c) the hybrid or combined instrument is not recognized as at FVPL.

Embedded derivatives are measured at fair value, and are carried as assets when the fair value is positive and as liabilities when the fair value is negative. The Group has opted not to designate any embedded derivative transactions as accounting hedges. Consequently, changes in fair values are recognized directly through the consolidated statements of comprehensive income. The Group assesses whether embedded derivatives are required to be separated to the host contracts when the Group first become a party to the contract. Reassessment of embedded derivatives is only done when there are change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of FVPL.

Impairment of Financial Assets

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), 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 debtors or a group of debtors 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 observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Assets Carried at Amortized Cost

The Group first assesses whether impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial asset with similar credit risk characteristics and collectively assesses them 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.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR.

The factors in determining whether objective evidence of impairment exist, include, but are not limited to, the length of the Group's relationship with the debtors, their payment behavior and known market factors. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty; breach of contract such as default or delinquency in interest or principal payments; the granting to the borrower a concession that the lender would not otherwise consider; 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.

If there is objective evidence that an impairment loss on financial assets carried at amortized cost (e.g. receivables) has been incurred, the amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original EIR. The carrying amount of the asset shall be reduced through use of an allowance account. The amount of the loss shall be recognized in the consolidated statements of comprehensive income. Receivables together with the associated allowance are written-off when there is no realistic prospect of future recovery. If a future write-off is later recovered, the recovery is recognized in the consolidated statement of comprehensive income.

Impairment losses are estimated by taking into consideration the following information: current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Management is responsible for deciding the length of this period which can extend for as long as one (1) year.

If, in a subsequent period, the amount of the estimated impairment loss decreases or increases because of an asset occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account.

AFS Financial Assets
For AFS financial assets, the Group assesses at each reporting period 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. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. The Group treats "significant" generally as 20% or more and "prolonged" as greater than twelve (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 previously recognized-is removed from OCI and recognized in profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognized in OCI.

The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

In the case of debt instruments classified as AFS financial assets, the impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss. Future interest continues to be accrued at the original EIR on the reduced carrying amount of the asset and is recorded as part of "Interest income" in profit or loss. If subsequently, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss.

<u>Derecognition of Financial Assets and Financial Liabilities</u>
Financial Asset
A financial asset (or, where applicable a part of a financial asset or part of a group of financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired or have been transferred;
- 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 has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained the risk and rewards of the asset but has transferred the 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 an 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 expired. When 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. The difference in the respective carrying amounts of a financial liability (or a part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or the liabilities assumed is recognized in the consolidated statements of comprehensive income.

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position 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.

Business Segment
A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

For management purposes, the Group is organized into three (3) major operating segments (mining, services and others) according to the nature of products and the services provided with each segment representing a strategic business unit that offers different products and serves different markets. The entities are the basis upon which the Group reports its primary segment information. Financial information on business segments is presented in Note 33.

Inventories
Inventories include parts and supplies. These are carried at the lower of cost or net realizable value (NRV). Any provision for obsolescence is determined by reference to specific items of stock. Cost of parts and supplies on hand are determined using moving average method. Parts and supplies in-transit is valued at invoice cost. NRV is the value of the inventories when sold at their condition at the end of the reporting period. In determining the NRV, the Group considers any adjustments necessary for obsolescence.

Advances to Suppliers and Contractors
Advances to suppliers and contractors are non-financial assets arising from payments made by the Group to its suppliers and contractors before goods or services have been received or rendered. These are classified as current since these are expected to be offset against future short-term billings and are recognized in the books at amounts initially paid.

Other Current Assets
The Group's other current assets include various prepayments, deferred costs and excess creditable input VAT. These are classified as current since the Group expects to realize or consume the assets within twelve (12) months after the end of the reporting period.

Input Value-Added Tax (VAT)
Input VAT represents the VAT paid on purchases of applicable goods and services, net of output tax, which can be claimed for refund or recovered as tax credit against future tax liability of the Group upon approval by the Philippine Bureau of Internal Revenue (BIR) and/or the Philippine Bureau of Customs.

Input VAT on capitalized assets is subject to amortization and any excess may be utilized against output VAT, if any, beyond twelve (12) months from the reporting period or can be claimed for refund or as tax credits with the Philippine Department of Finance. This is presented as part of "Prepayments and other current assets" in the consolidated statement of financial position and stated at its estimated NRV.

Investments in and Advances to Associates
The Group's investments in associates are accounted for using the equity method. These are entities in which the Group has significant influence and which are neither subsidiaries nor joint ventures of the Group.

Under the equity method, the investments in associates are carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associates, less any allowance for impairment losses. Goodwill relating to an associate included in the carrying amount of the investment and is not tested for impairment individually.
The carrying amount of an investment in associate also includes other long-term interests in an associate, such as loans and advances. Advances and loans granted by the Group are in the nature of cash advances or expenses paid by the Group on behalf of its associates. These are based on normal credit terms, unsecured, interest-free and are recognized and carried at original amounts advanced.

The consolidated statements of comprehensive income reflect the Group's share of the results of operations of the associates. Where there has been a change recognized directly in the equity of the associates, the Group recognizes its share of any changes. Profits and losses resulting from transactions between the Group and the associates are eliminated to the extent of the interest in the associates.

The following are the Group's associates with the corresponding percentage of ownership:

	Percentage of Ownership	
	2016	2015
MMC	**19.60%**	19.60%
Philippine Fire and Marine Insurance Corporation (PhilFire) (see Note 11)	–	12.38%

The financial statements of the associates are prepared for the same financial reporting period as the Parent Company. Where necessary, adjustments are made, bringing the accounting policies in line with those of the Group.

The Group discontinues the use of equity method from the date when the investment ceases to be an associate, such as:

a) when the investment becomes a subsidiary,
b) If the retained interest in the former associate or joint venture is a financial asset, the Group shall measure the retained interest at fair value. The fair value of the retained interest shall be regarded as its fair value on initial recognition, as a financial asset in accordance with the relevant standards. The Group shall recognize the profit or loss the difference in:
    i. the fair value of any retained interest and any proceeds from disposing of a part interest in the associate; and
    ii. the carrying amount of the investment at the date the equity method was discontinued.
c) The Group shall account for all amounts previously recognized in OCI in relation to that investment on the same basis as would have been required if the investee had directly disposed of the related assets.

Investment in Philfire has been reclassified to AFS financial assets in 2015 (see Note 11).

Property, Plant and Equipment

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

The initial cost of property, plant and equipment comprises its purchase price or construction cost, any directly attributable costs of bringing the asset into operation, the initial estimate of the rehabilitation obligation, and, for qualifying assets (where relevant), borrowing costs. The purchase price or construction cost is aggregate amount paid and the fair value of any other consideration given to acquire the asset. Such cost includes the cost of replacing part of such property, plant and equipment when that cost is incurred if the recognition criteria are met. Expenditures incurred after the property, plant and equipment have been put into operations, such as repairs and maintenance, are normally charged to expense in the period when the costs are incurred.

In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property, plant and equipment. Major maintenance and major overhaul costs that are capitalized as part of property, plant and equipment are depreciated on a straight-line basis over the shorter of their estimated useful lives, typically the period until the next major maintenance or inspection, and the estimated useful lives of the related property, plant and equipment.

Land is stated at cost, less any impairment in value.

Borrowing costs incurred for the construction of any qualifying assets are capitalized during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are charged to expense.

Construction in-progress is recorded at cost and the related depreciation starts upon transfer to the appropriate account of the completed project.

Mine and mining properties also consist of the fair value attributable to mineral reserves and the portion of mineral resources considered to be probable of economic extraction at the time of an acquisition. When a mine construction project moves into the production phase, the capitalization of certain mine construction costs ceases, and costs are either regarded as part of the cost of inventory or expensed, except for costs which qualify for capitalization relating to mining asset additions, improvements or new developments, underground mine development or mineable reserve development.

Depreciation on assets are calculated using the straight-line method to allocate the cost of each property, plant and equipment less its residual value, if any, over its estimated useful life, as follows:

Type of asset	Estimated useful life in years
Buildings and improvements	2-15
Plant machinery and equipment	2-20
Office furniture and fixtures	3-5

Mine exploration and development costs of mineral properties already in operations are capitalized as mine and mining property and are included in "Property, plant and equipment" account.

Depletion of mine and mining properties is computed based on ore extraction over the estimated volume of proved and probable ore reserves as estimated by the Parent Company's mine engineer or geologist and certified by a competent person.

The estimated recoverable reserves, depreciation and depletion methods applied are reviewed at the end of reporting period to ensure that the estimated recoverable reserves, depreciation and depletion methods are in line with expected pattern of consumption of the future economic benefits from PPE. If there has been significant change, the method shall be changed to reflect the changed pattern.

The property, plant and equipment's residual values, if any, and useful lives are reviewed and adjusted, if appropriate, at the end of the reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the property, plant and equipment's carrying amount is greater than its estimated recoverable amount.

When assets are sold or retired, the cost and related accumulated depletion and depreciation, and accumulated impairment in value are removed from the accounts. Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the consolidated statement of comprehensive income.
Fully-depreciated property, plant and equipment are maintained in the accounts until these are no longer in use.

Mine Exploration Costs
Pre-license costs relate to costs incurred before the Group has obtained legal rights to explore in a specific area. These costs are expensed in the period in which they are incurred. Once the legal right to explore has been acquired, exploration and evaluation expenditure is deferred as asset when future economic benefit is more likely than not be realized. These costs include materials and fuels used, surveying costs, drilling costs and payments made to contractors. The Group capitalizes any further evaluation costs incurred to exploration and evaluation assets up to the point when a commercial reserve is established.

In evaluating whether expenditures meet the criteria to be capitalized, several different sources of information are utilized. The information that is used to determine the possibility of future benefits depends on the extent of exploration and evaluation that has been performed.

Once commercial reserves are established, exploration and evaluation assets are tested for impairment and transferred to mine and mining properties. No amortization is charged during the exploration and evaluation phase. If the area is found to contain no commercial reserves, the accumulated costs are expensed.

Other Noncurrent Assets

Other noncurrent assets of the Group include the Mine Rehabilitation Fund (MRF) and funds to satisfy environmental obligations, deferred charges, intangible asset and various deposits. These are classified as noncurrent since the Group expects to utilize the assets beyond 12 months from the end of the reporting period.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangibles, excluding capitalized development costs, are not capitalized and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in profit or loss in the amortization expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognized.

The Group's accounting software is calculated using the straight line method over its estimated useful life of five (5) years.

Impairment of Nonfinancial Assets

Inventories

The Group determines the NRV of inventories at each end of the reporting period. If the cost of the inventories exceeds its NRV, the asset is written down to its NRV and impairment loss is recognized in the consolidated statement of comprehensive income in the period the impairment incurred. In case the NRV of the inventories increased subsequently, the NRV will increase carrying amount of inventories but only to the extent of the impairment loss previously recognized.

Property, Plant and Equipment and Other Nonfinancial Assets
Property, plant and equipment and other nonfinancial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If any such indication exists, as when the carrying amount of an asset exceeds its recoverable amount, the asset or CGU is written down to its recoverable amount. The recoverable amount is the higher of an asset's or CGU's fair value less cost to sell and its value in use. The fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's-length transaction less the costs of disposal while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. 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, in which case, the asset is tested as part of a larger CGU to which it belongs. If the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Management has assessed its CGUs as being individual mines, which is the lowest level for which cash inflows are largely independent of those of other assets. Impairment losses are recognized in profit or loss. In calculating value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset/CGU. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators. The Group bases its impairment calculation on detailed budgets and forecasts, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated based on the life-of-mine plans. The estimated cash flows are based on expected future production, metal selling prices, operating costs and forecast capital expenditure, and cash flows beyond eight years are based on life-of-mine plans.

Value in use does not reflect future cash flows associated with improving or enhancing an asset's performance, whereas anticipated enhancements to assets are included in fair value less cost to sell calculations.

An assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's/CGU's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset/CGU does not exceed either its recoverable amount, or the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset/CGU in prior years. Such a reversal is recognized in the statement of profit or loss and other comprehensive income as other income.

Impairment losses of continuing operations are recognized in profit or loss in those expense categories consistent with the function of the impaired asset.

Investments in Associates
After application of the equity method for investment in associates, the Group determines whether it is necessary to recognize an additional impairment loss of the Group's investments in its associates. The Group determines at the end of the reporting period whether there is any objective evidence that the investment in associate is impaired. If this is the case, the Group calculates the amount of impairment as being the difference between the recoverable amount of the associate and

the acquisition cost and recognizes the amount in the consolidated statements of comprehensive income. Recoverable amount is determined as the higher between fair value less cost to sell and value in use.

Mine Exploration Costs
An impairment review is performed, either individually or at the CGU level, when there are indicators that the carrying amount of the assets may exceed their recoverable amounts. To the extent that this occurs, the excess is fully provided against, in the financial period in which this is determined. Exploration assets are reassessed on a regular basis and these costs are carried forward provided that at least one of the following conditions is met:

- such costs are expected to be recouped in full through successful development and exploration of the area of interest or alternatively, by its sale; or
- exploration and evaluation activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area are continuing, or planned for the future.

Provisions
General
Provisions are recognized when the Group has a present obligation (legal and 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, 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 profit or loss 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 part of finance costs in the statement of comprehensive income.

Liability for Mine Rehabilitation
Mine rehabilitation costs will be incurred by the Group either while operating, or at the end of the operating life of, the Group's facilities and mine properties. The Group assesses its liability for mine rehabilitation at each reporting date. The Group recognizes a liability for mine rehabilitation where it has a legal and constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made. The nature of these restoration activities includes: dismantling and removing structures; rehabilitating mines and tailings dams; dismantling operating facilities; closing plant and waste sites; and restoring, reclaiming and revegetating affected areas.

The obligation generally arises when the asset is installed or the ground/environment is disturbed at the mining operation's location. When the liability is initially recognized, the present value of the estimated costs is capitalized by increasing the carrying amount of the related mining assets to the extent that it was incurred as a result of the development/construction of the mine. Any rehabilitation obligations that arise through the production of inventory are recognized as part of the related inventory item. Additional disturbances which arise due to further development/construction at the mine are recognized as additions or charges to the corresponding assets and rehabilitation liability when they occur. Costs related to restoration of site damage (subsequent to start of commercial production) that is created on an ongoing basis during

production are provided for at their net present values and recognized in profit or loss as extraction progresses.

Changes in the estimated timing of rehabilitation or changes to the estimated future costs are dealt with prospectively by recognizing an adjustment to the rehabilitation liability and a corresponding adjustment to the asset to which it relates, if the initial estimate was originally recognized as part of an asset measured in accordance with PAS 16.

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 the statement of comprehensive income.

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. If, for mature mines, the estimate for the revised mine assets net of liability of mine rehabilitation exceeds the recoverable value, that portion of the increase is charged directly to expense.

Over time, the discounted liability is increased for the change in present value based on the discount rates that reflect current market assessments and the risks specific to the liability. The periodic unwinding of the discount is recognized in the statement of comprehensive income as part of finance costs.

For closed sites, changes to estimated costs are recognized immediately in the statement comprehensive income.

The Group recognizes neither the deferred tax asset in respect of the temporary difference on the decommissioning liability nor the corresponding deferred tax liability in respect of the temporary difference on a decommissioning asset.

Rehabilitation trust funds committed for use in satisfying environmental obligations are included within "Other noncurrent assets" in the consolidated statement of financial position.

Stock Subscriptions Payable

Stock subscriptions payable pertains to the Group's unpaid subscription to shares of stock of other entities. These are recognized and carried in the books at the original subscription price in exchange of which, the shares of stock will be issued.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Sale of Metals (i.e., Gold and Silver)

Income from the sale of metals (i.e., gold and silver bullions) is recognized upon production. Net revenue is measured based on shipment value price based on quoted metal prices in the London Bullion Market, for both gold and silver, weight and assay content, less smelting and treatment charges. Contract terms for the Group's sale of gold and silver bullion allow for a price adjustment based on final assay results of the metal in concentrate by the customer to determine the content.

The terms of metal sales contracts with third parties contain provisional pricing arrangements whereby the selling price 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 six (6) months. Provisional shipment up to 98% of total value for gold and silver based on provisional prices is collected upon shipment, while the remaining 2% for gold and silver is collected upon the determination of the final shipment value based on final weight and assay for metal content and prices during the applicable quotational period less applicable smelting and treatment charges.

Service Fees
Service fees are recognized upon performance of the services.

Interest Income
Interest income is recognized as it accrues using EIR method.

Rental Income
Rental income arising from operating leases on land is accounted for on a straight-line basis over the lease terms and included in revenue due to its operating nature.

Other Income
Other income are miscellaneous income and expenses which are not directly related to the Group's regular results of operations. These include interest income, gain on disposal of assets and gain due to retrenchment.

Cost and Expenses
Cost and expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decrease in equity, other than those relating to distributions to equity participants. Cost of sales, cost of services and operating expenses are recognized in the consolidated statement of comprehensive income in the period these are incurred.

Capital Stock and Additional Paid-in Capital (APIC)
Common shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in the consolidated statements of changes in equity as a deduction from proceeds. The excess of proceeds from issuance of shares over the par value of shares are credited to APIC.

Where the Parent Company purchases its own shares (treasury shares), the consideration paid including any directly attributable incremental costs is deducted from equity attributable to the Parent Company's stockholders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Parent Company's stockholders.

Deposit for Future Stock Subscriptions
This pertains to the amount of cash and advances from stockholders as payment for future issuance of stocks. This is classified as an equity instrument when the Group will deliver a fixed number of its own equity instruments in exchange for a fixed amount of cash or another financial asset. Otherwise, it is classified under liabilities.

Deficit
Deficit represents accumulated losses of the Group.

OCI
OCI comprises items of income and expense (including items previously presented under the consolidated statement of changes in equity) that are not recognized in the profit or loss for the year in accordance with Philippine Financial Reporting Standards (PFRSs).

Earnings (Loss) Per Share (EPS)
Basic EPS amounts are calculated by dividing the net income (loss) attributable to ordinary equity holders of the Parent Company by the weighted average number of ordinary shares outstanding, adjusted for any stock dividends declared and stock rights during the year.

Diluted EPS amounts are calculated by dividing the net income (loss) attributable to ordinary equity holders of the Parent Company by the weighted average number of ordinary shares outstanding, adjusted for any stock dividends declared during the year plus weighted average number of ordinary shares that would be issued on the conversion of all the dilutive ordinary shares into ordinary shares. The Group has no dilutive potential common shares as at December 31, 2016 and 2015.

Leases
Determination of Whether an Arrangement Contains a Lease
The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the date of inception. The arrangement is assessed to determine whether fulfilment is dependent on the use of a specific assets and the arrangement conveys a right to use the assets, even if those assets are not explicitly specified in an arrangement. The Group is not a lessor in any transactions, it is only lessee. A reassessment is made after inception of the lease only if one of the following applies:

(a) There is a change in contractual terms, other than a renewal or extension of the arrangement;
(b) A renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
(c) There is a change in the determination of whether fulfillment is dependent on a specified asset; or
(d) There is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

Operating Lease - Group as a Lessee
Leases where the lessor retains substantially all the risks and rewards of ownership of the asset are classified as operating lease. Operating lease payments are recognized as an expense in the consolidated statements of comprehensive income on a straight-line basis over the lease term.

Employee Benefits
The net defined retirement benefits 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 retirement benefits liability or asset
- Remeasurements of net defined retirement benefits 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 retirement benefits liability or asset is the change during the period in the net defined retirement benefits 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 retirement benefits liability or asset. Net interest on the net defined retirement benefits liability or asset is recognized as expense or income in 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 retirement benefits liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods. Remeasurements recognized in OCI after the initial adoption of Revised PAS 19 are not closed to any other equity account and is shown as a separate item in equity under "Remeasurement loss on retirement benefits liability".

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 Group, 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 retirement benefits liability, 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 Group's right to be reimbursed of some or all of the expenditure required to settle a defined retirement benefits liability is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

Termination Benefit
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 (12) months after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period.

Foreign Currency Transaction
Transactions in foreign currencies are initially recorded using the exchange rate at the date of the transaction qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated using the closing rate of exchange at the end of the reporting period. All differences are taken to the statement of comprehensive income.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transaction. 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.

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 tax authority. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted as at the end of the reporting period.

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

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

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

- When the deferred income 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, where the timing of the reversal of the temporary differences can be controlled the parent and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that sufficient future taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilized, except:

- Where the deferred income 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 profit nor taxable profit or loss; and

- In respect of deductible temporary differences associated with investments in subsidiaries, associates 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 profit will be available against which the temporary differences can be utilized.

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

Deferred income tax assets and liabilities are measured at the tax rate that is expected to apply to 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 by the end of the reporting period.

Deferred income tax relating to items recognized in OCI or equity is recognized in OCI or equity and not in profit or loss.

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

Dividend Distribution

Dividend distribution to the Parent Company's stockholders and NCI is recognized as a liability in the Group's consolidated financial statements in the period in which the dividends are approved or declared by the Group's BOD.

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 consolidated financial statements but disclosed when an inflow of economic benefits is probable. Contingencies, if it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the financial statements.

Events After the End of the Reporting Period

Events after the end of the reporting period that provide additional information about the Group's financial position at the end of the reporting period (adjusting events) are reflected in the consolidated financial statements. Events after the end of the reporting period that are not adjusting events are disclosed when material.

3. Summary of Significant Accounting Judgments, Estimates and Assumptions

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses, and the disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the judgments assumptions used in arriving at the estimates to change. The effects of any change in judgments and estimates are reflected in the consolidated financial statements as they become reasonably determinable.

Judgments, estimates and assumptions 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. However, actual outcome can differ from these estimates.

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 effect on the amounts recognized in the consolidated financial statements.

Determining Functional Currency

Based on the economic substance of the underlying circumstances relevant to the Group, the functional currency of the Parent Company and each of its Subsidiaries has been determined to be the Philippine Peso. The Philippine Peso is the currency of the primary economic environment in which the Group operates.

The functional currency of the individual companies within the Group has been determined by the management based on the currency that most faithfully represents the primary economic environment in which the individual company operates and it is the currency that mainly influences the underlying transactions, events and conditions relevant to the individual companies within the Group.

Classification of Financial Instruments

The Group classifies a financial instrument, or its component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual agreement and the definitions of a financial asset, a financial liability or an equity instrument, rather than its legal form, governs its classification in the consolidated statements of financial position.

The Group has no intention of selling its investments in stocks in the near term. These are being held indefinitely and may be sold in response to liquidity requirements or changes in market condition. Accordingly, the Group has classified its investments in stocks as AFS financial assets.

The Group has no plans to dispose its AFS financial assets within 12 months from the end of the reporting period.

Determination of Control

The Parent Company determines control when it is exposed, or has rights, to variable returns from its involvement with an entity and has the ability to affect those returns through its power over the entity.

The Parent Company controls an entity if and only if the Parent Company has all the following:

a. power over the entity;
b. exposure, or rights, to variable returns from its involvement with the entity; and
c. the ability to use its power over the entity to affect the amount of the Parent Company's returns.

Assessing Existence of Significant Influence
In assessing whether significant influence still exists, the Group considered not only its percentage ownership but other factors such as the board seat representations it has in the associate's governing body and its interchange of managerial personnel with the associate, among others.

As at December 31, 2016, the Group assessed that it has significant influence over MMC and has accounted for the investment as an associate (see Note 11).

Bill and Hold Sales
The Group recognized sale on deliveries classified as bill and hold when there is transfer of risk and reward from the Group to the buyer due to the following:

- It is probable that delivery will be made;
- The item is on hand, identified and ready for delivery to the buyer at the time the sale is recognized;
- The buyer specifically acknowledges the deferred delivery instructions; and
- The usual payment terms apply.

Mine Exploration Costs
The application of the Group's accounting policy for exploration and evaluation expenditure requires judgment in determining whether it is likely that future economic benefits are likely either from future exploitation or sale or where activities have not reached a stage which permits a reasonable assessment of the existence of reserves. The determination of a resource is itself an estimation process that requires varying degrees of uncertainty depending on sub-classification and these estimates directly impact the point of deferral of exploration and evaluation expenditure. The deferral policy requires management to make certain estimates and assumptions about future events or circumstances, in particular whether an economically viable extraction operation can be established. Estimates and assumptions made may change if new information becomes available. If, after expenditure is capitalized, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalized is written off in profit or loss in the period when the new information becomes available. Mine exploration costs amounted to ₱6,302,261 and ₱6,521,173 as at December 31, 2016 and 2015, respectively (see Note 12).

Revenue Recognition
The Parent Company recognizes revenue from sale of metals (i.e. gold and silver bullions and copper concentrates) at the time these are delivered to buyer smelters. Revenue is measured based on shipment value based on quoted metal prices in the London Bullion Market or Shanghai Gold Exchange, for gold and silver, and weight and assay for metal content net of smelting and treatment charges. Provisional shipment values up to ninety 98% bullion while the remaining balance is collected upon determination of the final shipment value based on final weights and assays for metal content and prices during the applicable quotational period less deduction for smelting and treatment charges. Total recognized revenue relating to sale of metals amounted to ₱1,431,928, ₱1,146,416 and ₱1,428,634, net of smelting and treatment charges of ₱3,882, ₱3,214 and ₱2,853, in 2016, 2015 and 2014, respectively (see Note 29).

Estimates and Assumptions
The Group's consolidated financial statements prepared in accordance with PFRS require management to make estimates and assumptions that affect amounts reported in the consolidated financial statements and related notes. The estimates and assumptions used in the consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the Group's consolidated financial statements. Actual results could differ from such estimates.

Estimating Allowances for Impairment Losses on Receivables
The provision for impairment losses on receivables is based on the Group's assessment of the collectability of payments from customers, employees, other third parties and associates. This assessment requires judgment regarding the outcome of disputes and the ability of each of the debtors to pay the amounts owed to the Group. The Group assesses individually the receivable based on factors that affect the collectability of the receivables, such as the length of the relationship of the Group with the debtor, the historical payment behavior, a review of the age and status of its receivable, the probability of insolvency of the counterparty, as well as its significant financial difficulties.

In addition to specific allowance against individually significant loans and receivables, the Group also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective allowance is based on any deterioration in the Group's assessment of the accounts since their inception. The Group assessments take into consideration factors such as any deterioration in country risk, industry, and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

Receivables, net of provision for impairment losses, amounted to ₱241,474 and ₱306,755 as at December 31, 2016 and 2015, respectively (see Note 5).

Estimating Allowance for Inventory Obsolescence
Parts and supplies inventories, which are used in the Group's operations, are stated at the lower of cost or NRV. Allowance due to obsolescence is established when there is evidence that the equipment where the parts and supplies were originally purchased for are no longer in service. Materials which are non-moving or have become unusable are priced at their recoverable amount.

Inventories carried at lower of cost or NRV, amounted to ₱430,008 and ₱520,387 as at December 31, 2016 and 2015, respectively (see Note 6).

Estimating Impairment on Property, Plant and Equipment and Other Nonfinancial Assets
The Group assesses impairment on property, plant and equipment and other nonfinancial assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

The factors that the Group considers important which could trigger an impairment review include the following:

- Significant underperformance relative to expected historical or projected future operating results;
- Significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- Significant negative industry or economic trends.

In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Group is required to make estimates and assumptions such as commodity prices, discount rates and foreign currency exchange rates that can materially affect the consolidated financial statements. Commodity prices and foreign exchange rates are based on the current and forecasts in different banks. Discount rate estimate is computed using the weighted average cost of capital.

An impairment loss would be recognized whenever evidence exists that the recoverable amount is less than the carrying amount. For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

The recoverable amount of the asset is determined as the higher of its fair value less costs to sell and value in use. Fair value less costs to sell is determined as the amount that would be obtained from the sale of the asset in an arm's-length transaction between knowledgeable and willing parties, net of direct costs of selling the asset. When value in use has been undertaken, fair value is estimated by discounting the expected future cash flows using a discount factor that reflects the market rate for a term consistent with the period of expected cash flows.

The aggregate net book values of property, plant and equipment amounted to ₱7,195,819 and ₱6,974,495 as at December 31, 2016 and 2015, respectively (see Note 9).

The carrying amount of other nonfinancial assets, which include advances to officers and employees, advances to suppliers, other current assets and other noncurrent assets amounted to ₱1,058,226 and ₱1,136,617 as at December 31, 2016 and 2015, respectively.

Estimating Impairment of Investments in and Advances to Associates
The Group assesses whether there are any indicators of impairment for investments in and advances to associates at the end of the reporting period. These assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If any such indication exists and where the carrying value exceeds the estimated recoverable amount, the investment is written down to its recoverable amount.

Investments in and advances to associates amounted to ₱561,205 and ₱566,831 as at December 31, 2016 and 2015, respectively (see Note 11).

Estimating Impairment on AFS Financial Assets
The Group treats AFS financial assets as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment.

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 equities. Fair value of AFS financial assets amounted to ₱188,027 and ₱477,155 as at December 31, 2016 and 2015, respectively (see Note 10).

Estimating Recoverability of Mine Exploration Costs
Mineral property acquisition costs are capitalized until the viability of the mineral interest is determined. Exploration, evaluation and pre-feasibility costs are charged to "Mine exploration costs" until such time as it has been determined that a property has economically recoverable reserves, in which case subsequent exploration costs and the costs incurred to develop a property are capitalized to mine and mining properties. The Group reviews the carrying values of its mineral property interests whenever events or changes in circumstances indicate that their carrying

values may exceed their estimated net recoverable amounts. Mine exploration costs amounted to ₱6,302,261 and ₱6,521,173 as at December 31, 2016 and 2015, respectively (see Note 12).

As at December 31, 2016, mine exploration costs capitalized to mine and mining properties amounted to ₱745,413 (see Note 12).

Estimating Mineral Reserves and Resources
Mineral reserves and resources estimates for development projects are, to a large extent, based on the interpretation of geological data obtained from drill holes and other sampling techniques and feasibility studies which derive estimates of costs based upon anticipated tonnage and grades of ores to be mined and processed, the configuration of the ore body, expected recovery rates from the ore, estimated operating costs, estimated climatic conditions and other factors. Proven reserve estimates are attributed to future development projects only where there is a significant commitment to project funding and extraction and for which applicable governmental and regulatory approvals have been secured or are reasonably certain to be secured. All proven reserve estimates are subject to revision, either upward or downward, based on new information, such as from block grading and production activities or from changes in economic factors including product prices, contract terms or development plans.

Estimates of reserves for undeveloped or partially developed areas are subject to greater uncertainty over their future life than estimates of reserves for areas that are substantially developed and depleted. As an area goes into production, the amount of proven reserves will be subject to future revision once additional information becomes available. As those areas are further developed, new information may lead to revisions. The estimated recoverable reserves are used in the calculation of depletion, depreciation, amortization and testing for impairment, the assessment of life of mine, and forecasting the timing of the payment of provision for mine rehabilitation and decommissioning. As at December 31, 2016 and 2015, mine and mining properties presented under property, plant and equipment amounted to ₱5,899,019 and ₱5,628,542, respectively (see Note 9).

Assessing Recoverability of Deferred Tax Assets
The Group reviews the carrying amounts of deferred income tax assets at the end of the reporting period and reduces the amounts to the extent that it is no longer probable that sufficient future taxable profit and taxable temporary timing differences will be available to allow all or part of the deferred income tax assets to be utilized.

The Group has deferred income tax assets amounting to ₱419,371 and ₱431,716 as at December 31, 2016 and 2015, respectively (see Note 18). No deferred income tax assets were recognized for temporary differences amounting to ₱1,374,622 and ₱1,159,554 as at December 31, 2016 and 2015, respectively, since there is no assurance that the Group will generate sufficient future taxable income to allow all or part of its deferred income tax assets to be utilized (see Note 18).

Retirement Benefit Expense
The cost of defined retirement obligation as well as the present value of the defined benefit obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, expected rates of return on assets, future salary increases, mortality rates and future retirement increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligation are highly sensitive to changes in these assumptions. All assumptions are reviewed at each end of the reporting period. As at December 31, 2016 and 2015, the retirement benefits liability of the Group amounted to ₱1,682,674 and ₱1,782,137, respectively. Net retirement costs

amounted to ₱136,857, ₱90,197 and ₱115,400 in 2016, 2015 and 2014, respectively (see Note 16).

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. Further details about the assumptions used are provided in Note 16.

Estimating Liability for Mine Rehabilitation Cost
The ultimate cost of mine rehabilitation and decommissioning is uncertain and cost estimates can vary in response to many factors including changes to the relevant legal requirements, the emergence of new restoration techniques or experience. The expected timing of expenditure can also change, for example in response to changes in ore reserves or production rates. As a result, there could be significant adjustments to the provision for mine rehabilitation and decommissioning, which would affect future financial results.

The provision for mine rehabilitation and decommissioning costs is based on estimated future costs using information available at the end of the reporting period. To the extent the actual costs differ from these estimates, adjustments will be recorded and the profit or loss may be impacted. As at December 31, 2016 and 2015, provision for mine rehabilitation and decommissioning amounted to ₱64,748 and ₱65,095, respectively (see Note 15).

Estimating Fair Values of Financial Assets and Liabilities
PFRS requires that certain financial assets and liabilities be carried at fair value, which requires the use of accounting judgment and estimates. While significant components of fair value measurement are determined using verifiable objective evidence (e.g. foreign exchange rates, interest rates, volatility rates), the timing and amount of changes in fair value would differ with the valuation methodology used. Any change in the fair value of these financial assets and liabilities would directly affect the consolidated statements of comprehensive income.

Estimating Contingencies
By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events (see Note 30).

4. Cash

	2016	2015
Cash on hand	**₱1,384**	₱1,241
Cash with banks	**84,850**	65,146
	₱86,234	₱66,387

Cash with banks earn interest at the respective bank deposit rates.

Interest income earned from cash in banks amounted to ₱110, ₱348 and ₱360 in 2016, 2015 and 2014, respectively.

The Group has United States dollar-(US$) denominated cash in banks amounting to US$601 and US$796 as at December 31, 2016 and 2015, respectively (see Note 31).

5. Receivables

	2016	2015
Trade	**₱116,376**	₱74,894
Nontrade	**137,543**	235,016
Officers and employees	**3,694**	7,625
	257,613	317,535
Less allowance for impairment losses	**16,139**	10,780
	₱241,474	₱306,755

Trade receivables include the Parent Company's receivables arising from its shipments of gold and silver to refinery and smelter customer under the Refining Agreements (RA; see Note 29).

Nontrade and other receivables comprise mainly of receivables from subcontractors and other third parties, while receivables from officers and employees pertain to cash advances made by employees for the operations of the Group. Unliquidated receivables from officers and employees are collectible on demand or considered as salary deduction.

Trade, nontrade and receivables from officers and employees are non-interest bearing and are generally collectible on demand.

Most of the receivables of the Group consist of individually significant accounts and were therefore subject to the specific impairment approach. The Group recognized allowance for impairment losses amounting to ₱16,139 and ₱10,780 as at December 31, 2016 and 2015, respectively, covering those receivables specifically identified as impaired. Receivables which were not individually significant and individually significant loans for which no specific impairment were assessed were subjected to collective assessment. Based on the assessment done, the Group has not recognized any provision for receivables which were assessed collectively.

Provision for impairment losses on receivables amounting to ₱5,359, ₱257 and ₱314 were recognized by the Group in 2016, 2015 and 2014, respectively (see Note 24).

Movements of allowance for impairment losses are as follows:

	2016	2015
Balance at beginning of year		
Trade	**₱10,263**	₱10,249
Nontrade	**517**	537
Provision during the year (Note 24)	**5,359**	257
Write-off	**–**	(263)
Balance at end of year	**₱16,139**	₱10,780

The Group has US$-denominated trade receivables amounting to US$1,291 and US$1,185 as at December 31, 2016 and 2015, respectively (see Note 31).

6. Inventories

	2016	2015
Parts and supplies:		
On hand (at NRV)	**₱430,008**	₱520,280
In-transit (at cost)	–	107
	₱430,008	₱520,387

Parts and supplies on hand include materials and supplies stored in Metro Manila, Bulacan, Mankayan and Leyte. Cost of parts and supplies on hand at NRV amounted to ₱477,339 and ₱565,164 as at December 31, 2016 and 2015, respectively.

Movements in allowance for inventory obsolescence on parts and supplies on hand in 2016 and 2015 are as follow:

	2016	2015
Balances at beginning of year	**₱44,777**	₱43,577
Provision during the year (see Note 22)	**2,554**	1,200
Balances at end of year	**₱47,331**	₱44,777

Parts and supplies inventories charged to profit and loss under "Consumables and supplies" account amounted to ₱325,662, ₱174,937 and ₱329,367 in 2016, 2015 and 2014, respectively (see Notes 22, 23 and 24).

7. Advances to Suppliers and Contractors

Advances to suppliers and customers are non-financial assets arising from advanced payments made by the Group to its suppliers and contractors before goods and services have been received or rendered. These are classified as current since these are expected to be offset against future short-term billings and are recognized in the books at the amounts initially paid.

Advances to suppliers and contractors are attributable to contracts generally requiring advance payments. Amounts deposited will be applied as part of the full payment of the contract price upon completion of the contract.

As at December 31, 2016 and 2015, the Group has advances to suppliers and contractors amounting to ₱335,866 and ₱442,810, respectively. These advances will be offset against future billings.

8. Other Current Assets

	2016	2015
Creditable input VAT	**₱594,898**	₱570,734
Prepaid expenses	**29,157**	18,821
Deferred costs	**14,302**	20,873
Others	**3,136**	4,313
	₱641,493	₱614,741

By virtue of Revenue Memorandum Order 9-2000 dated March 29, 2000, all sales of goods, property and services made by a VAT-registered person to the Parent Company, being a 100% exporter, are automatically zero-rated for VAT purposes effective August 8, 2001.

Input VAT represent VAT paid on purchases of applicable goods and services, net of output tax, which can be claimed for refund or recovered as tax credit against certain future tax liability of the Group upon approval by the BIR and/or the Philippine Bureau of Customs.

Prepaid expenses include advance payments for taxes, insurance, rent and other services.

Deferred costs represent withdrawal of tubings to be used in drilling operations. Costs of which are amortized based on meters drilled.

Others pertain to rental deposits that are refundable at the end of the lease term.

9. **Property, Plant and Equipment** - net

	2016					
	Mine and mining properties	**Buildings and improvements**	**Plant, machinery, equipment, and office furniture and fixtures**	**Land**	**Construction in-progress**	**Total**
Cost:						
Balances at beginning of year	**₱9,893,068**	**₱568,188**	**₱3,229,256**	**₱768,400**	**₱45,477**	**₱14,504,389**
Additions	**37,433**	**5,794**	**225,489**	**–**	**15,764**	**284,480**
Transfers	**–**	**4,700**	**17,063**	**–**	**(21,763)**	**–**
Capitalized cost of mine and mining properties	**745,413**	**–**	**–**	**–**	**–**	**745,413**
Adjustment to capitalized cost of mine rehabilitation and decommissioning (Note 9)	**(3,228)**	**–**	**–**	**–**	**–**	**(3,228)**
Retirements/disposals	**–**	**(5,811)**	**(221,932)**	**(54,931)**	**–**	**(282,674)**
Balances at end of year	**10,672,686**	**572,871**	**3,249,876**	**713,469**	**39,478**	**15,248,380**
Accumulated depletion, depreciation and amortization:						
Balances at beginning of year	**4,264,526**	**430,654**	**2,810,782**	**–**	**–**	**7,505,962**
Depletion, depreciation and amortization	**509,141**	**31,540**	**209,093**	**–**	**–**	**749,774**
Retirements and disposals	**–**	**(5,493)**	**(221,614)**	**–**		**(227,107)**
Balances at end of year	**4,773,667**	**456,701**	**2,798,261**	**–**	**–**	**8,028,629**
Allowance for impairment:						
Balances at beginning and end of year	**–**	**19,241**	**4,691**	**–**	**–**	**23,932**
Net book values	**₱5,899,019**	**₱96,929**	**₱446,924**	**₱713,469**	**₱39,478**	**₱7,195,819**

	2015					
	Mine and mining properties	Buildings and improvements	Plant, machinery, equipment, and office furniture and fixtures	Land	Construction in-progress	Total
Cost:						
Balances at beginning of year	₱9,587,855	₱539,853	₱2,993,799	₱768,336	₱77,780	₱13,967,623
Additions	298,262	16,121	247,495	64	(20,647)	541,295
Transfers	(1,961)	12,214	1,403	–	(11,656)	–
Retirements/disposals	–	–	(13,441)	–	–	(13,441)
Adjustment to capitalized cost of mine rehabilitation and decommissioning (Note 9)	8,912	–	–	–	–	8,912
Balances at end of year	9,893,068	568,188	3,229,256	768,400	45,477	14,504,389
Accumulated depletion, depreciation and amortization:						
Balances at beginning of year	3,806,673	399,988	2,602,568	–	–	6,809,229
Depletion, depreciation and amortization	457,853	30,666	220,222	–	–	708,741
Retirements and disposals	–	–	(12,008)	–		(12,008)
Balances at end of year	4,264,526	430,654	2,810,782	–	–	7,505,962
Allowance for impairment:						
Balances at beginning and end of year	–	19,241	4,691	–	–	23,932
Net book values	₱5,628,542	₱118,293	₱413,783	₱768,400	₱45,477	₱6,974,495

Prior to 2005, the Group adopted the revaluation model and engaged an independent firm of appraisers to determine the fair value of its land classified under "property, plant and equipment" in the consolidated statement of financial position, which is equal to the amount in terms of money at which the property would exchange in the current real estate market, between willing parties both having knowledge of all relevant facts. The fair value was estimated using the market data approach, which is based on sales and listings of comparable property registered within the vicinity that considered factors such as location, size and shape of the properties.

In adopting the revaluation model, the Group applied the fair value as deemed cost exemption under PFRS 1, *First-time Adoption of PFRS*, to measure the Group's land at fair value at January 1, 2004. In 2012, the Group closed out the revaluation increment amounting to ₱511,504 as at January 1, 2010 to retained earnings. The revaluation reserve pertains to the remaining deemed cost adjustment on its land when the Group transitioned to PFRS in 2005 (see Note 30).

Mine and mining properties include provision for mine rehabilitation and decommissioning amounting to ₱44,759 and ₱56,014 as at December 31, 2016 and 2015, respectively.

The rates used by the Parent Company in computing depletion are ₱1,967, ₱1,758 and ₱1,200 per ton in 2016, 2015 and 2014, respectively, as a result of the costs capitalized under "Mine and mining properties" for the development of the Victoria Project.

Construction in-progress pertains to various mining operations requirements that undergo in-house constructions and fabrications in Mankayan. As at December 31, 2016 and 2015, the Group transferred construction in-progress amounting to ₱21,763 and ₱11,656, respectively, to buildings and improvements, and plant, machinery, equipment, office furniture and fixtures.

As at December 31, 2016, the Group capitalized inventories amounted to ₱70,698 to "Plant, machinery, equipment and office furniture and fixtures".

Fully depreciated property, plant and equipment are retained in the books until they are no longer in use. The cost of fully depreciated property, plant and equipment still being used in operations amounted to ₱2,893,429 and ₱2,263,356 as at December 31, 2016 and 2015, respectively.

10. AFS Financial Assets

The Group's AFS financial assets consist of investments in:

	2016	2015
Quoted equity shares	**₱57,343**	₱346,471
Unquoted equity shares	**130,684**	130,684
	₱188,027	₱477,155

The following table shows the movement of "Net unrealized gain (loss) on AFS financial assets" shown as a separate component of equity.

	2016	2015
Balance at beginning of year	**(₱44,735)**	(₱251,516)
Unrealized gains on AFS financial assets during the year	**19,532**	206,781
Unrealized loss reclassified to profit or loss (Note 28)	**63,868**	–
Balance at end of year	**₱38,665**	(₱44,735)

AFS financial assets in quoted equity shares pertain to investment in common shares of various local public companies and golf club shares. Quoted shares are carried at fair value with cumulative changes in fair value presented as "Net unrealized gain (loss) on AFS financial assets", a separate component in equity.

AFS financial assets in unquoted equity shares pertain to investments in private local companies and therefore have no fixed maturity date or coupon rate. Unquoted shares have been carried at cost less any impairment losses since fair value of AFS financial assets cannot be reliably determined as they have no available exit market price.

In 2014, SI disposed its quoted equity shares which pertain to 100,000 shares of Cebu Air, Inc. amounting to ₱4,685.

In 2014, the Parent Company, together with its subsidiaries, LIDC and SI, redeemed their quoted and unquoted equity shares pertaining to 24,525 shares of Philippine Long Distance Telephone Company amounting to ₱104.

Dividend income earned by the Group amounted to nil in 2016 and 2015 and ₱75 in 2014.

The Parent Company executed a deed of assignment in favor of LCMC Employee Pension Plan ("the Plan") on December 22, 2016 covering 160,568,775 of 180,000,000 of its Prime Orion Philippines, Inc. shares for a total consideration of ₱308,292.

Further, the unrealized loss in OCI amounted to ₱63,868 which is reclassified to profit or loss in 2016 (see Note 28). The obligation to pay the balance of stocks subscriptions payable of ₱96,341 has been agreed and accepted by the Plan.

As at December 31, 2016, the Group has no intention to dispose its unquoted equity shares. The aggregate cost of these investments amounted to ₱130,684 as at December 31, 2016 and 2015.

Loss of Significant Influence in Investment in Philfire
During 2015, management assessed that the Group has no significant influence over its investment in Philfire due to the loss of representation in the BOD (see Note 11). As a result, the Group discontinued the use of equity method of accounting for its investment in Philfire and reclassified the investment in Philfire to AFS financial assets effective July 1, 2015. The carrying amount of the investment at the date the equity method was discontinued amounted to ₱81,982.

11. Investments in and Advances to Associates

2016	**MMC**
Acquisition cost:	
Balance at beginning and end of year	**₱518,426**
Accumulated equity:	
Share in net earnings (loss):	
Balance at beginning of year	**46,922**
Net loss	**(6,752)**
Unrealized gain on AFS financial assets	**369**
Balance at the end of year	**40,539**
Investments in associate	**558,965**
Advances to associate (Note 17)	**2,240**
	₱561,205

2015	Makeway	MMC	PhilFire	Total
Acquisition cost:				
Balances at beginning of year	₱15,000	₱518,426	₱19,437	₱552,863
Disposals	(15,000)	–	(19,437)	(34,437)
Balances at end of year	–	518,426	–	518,426
Accumulated equity:				
Share in net earnings (loss):				
Balances at beginning of year	(7,830)	63,136	71,732	127,038
Net loss	–	(15,604)	(4,975)	(20,579)
Disposals	7,830	–	(63,069)	(55,239)
Unrealized loss on AFS financial assets	–	(610)	(3,688)	(4,298)
Balances at the end of year	–	46,922	–	46,922
Investments in associate	–	565,348	–	565,348
Advances to associate (Note 17)	–	1,483	–	1,483
	₱–	₱566,831	₱–	₱566,831

Investment in Makeway
Makeway is domestic corporation engaged primarily in the business of handling in bulk all kinds of materials, products, and supplies capable of being handled by any type of loading and unloading equipment. Its principal place of business is at 5th floor Lepanto Building, 8747 Paseo de Roxas, Makati City.

The Group has realized 30% ownership in Makeway as at December 31, 2014. The investment in Makeway is measured using the equity method and financial statements are prepared for the same financial reporting period as the Group.

During 2015, the Group disposed all of its investments in Makeway for a consideration of ₱12,285. As as result, the Group recognized a gain on disposal amounting to ₱5,115 (see Note 28).
Investment in Philfire
Philfire is a domestic corporation engaged primarily in the business of nonlife insurance. Its principal place of business is at 5th floor, Lepanto Building, 8747 Paseo de Roxas, Makati City.

As at December 31, 2016 and 2015, investment in Philfire is recognized under AFS financial asset.

The Group has 12.38% effective ownership in Philfire as at December 31, 2015. The investment in Philfire is measured using the equity method and prepares financial statement for the same financial reporting period as the Group. Due to loss of significant influence, the Group classified Philfire as AFS financial assets effective July 1, 2015 and the investment is measured at fair value.

In 2014, Philfire increased its capital stock by issuing additional 17,000,000 shares, but the Group did not subscribe to the additional capital stock which resulted in a further dilution in its interest in Philfire. Further, the Group assessed the loss of significant influence over Philfire due to the loss of significant representation in Philfire's board of directors.

Investment in MMC
The Group effectively has 19.60% ownership in MMC in 2016 and 2015. Thus, the Group assessed that it still has significant influence over MMC due to the following:
(a) The Group has four (4) out of nine (9) board seats and three (3) out of nine (9) representations; and
(b) The Group has at least nine (9) and three (3) managerial personnel serving as part of MMC's corporate management.

The Group measured the investment under the equity method and prepares financial statements for the same financial reporting period as the Group.

As at December 31, 2016, the fair value of MMC shares A and B amounted to ₱0.011 and ₱0.012, respectively. As at December 31, 2015, the fair value of MMC shares A and B amounted to ₱0.01. Fair market value of the investment in MMC amounted to ₱592,952 and ₱508,780 as at December 31, 2016 and 2015, respectively.

On April 30, 2014, the PSE BOD approved the application covering the Offer Shares of MMC. The Parent Company, LIDC, and SI exercised their respective preemptive rights corresponding to an aggregate additional investment of ₱136,605.

The following table illustrates summarized financial information of the Group's investments in associates:

2016	**MMC**
Assets:	
Current Assets	**₱247,126**
Noncurrent Assets	**2,942,727**
Total Assets	**3,189,853**
Liabilities:	
Current Liabilities	**138,527**
Noncurrent Liabilities	**68,904**
Total Liabilities	**207,431**
Net Assets	**₱2,982,422**
Net Loss	**(₱34,449)**

2015	MMC	PhilFire*
Assets:		
Current Assets	₱345,517	₱462,148
Noncurrent Assets	2,876,786	194,603
Total Assets	3,222,303	656,751
Liabilities:		
Current Liabilities	139,340	401,778
Noncurrent Liabilities	67,977	60,595
Total Liabilities	207,317	462,373
Net Assets	₱3,014,986	₱194,378
Net Loss	(₱79,618)	(₱28,180)

**June 30, 2015 balances*

12. Mine Exploration Costs

	2016	2015
Balance at beginning of year	**₱6,521,173**	₱6,125,219
Additions	**526,501**	395,954
	7,047,674	6,521,173
Capitalized to mine and mining properties	**(745,413)**	–
Balance at end of year	**₱6,302,261**	₱6,521,173

Pursuant to the agreement between Gold Fields Limited, FSGRI and the Parent Company, ongoing exploration and pre-development expenses are being incurred on the Far Southeast Project (see Note 30).

Depreciation expense capitalized as part of mine exploration costs in 2016 and 2015 amounted to ₱13,560 and ₱23,863, respectively.

No allowance for impairment losses on mine exploration costs was recognized in 2016 and 2015.

13. Trade and Other Payables

	2016	2015
Trade	**₱987,508**	₱870,679
Accrued expenses and other liabilities	**293,569**	253,390
Trust receipts	**53,423**	110,358
Due to related parties (Note 17)	**56,084**	56,084
Employee related expenses	**50,894**	48,394
Payable to regulatory authorities	**29,543**	30,718
Unclaimed dividends	**26,695**	26,699
Accrued utilities	**32,815**	19,629
Accrued production tax	**7,702**	6,603
	₱1,538,233	₱1,422,554

Nature, terms and conditions of the Group's liabilities:

- Trade payables include import and local purchases of equipment and inventories such various parts and supplies used in the operations of the Group. These are non-interest bearing and are normally settled on sixty (60) days' terms.
- Accrued expenses and other liabilities are noninterest-bearing and are normally settled on a thirty (30) to sixty (60) days' term. These include other operating expenses that are payable to various suppliers and contractors.
- Trust receipts refer to arrangements of the Group with banks related to its importations of inventories and various equipment which are interest bearing and have an average term of ninety (90) to one hundred twenty (120) days.
- Employee related expenses include unclaimed wages, accrued vacation and sick leave and accrued payroll. These are non-interest bearing and are payable in thirty (30) days' term.
- Unclaimed dividends pertain to unpaid cash dividends declared by the Parent Company to its stockholders. These are non-interest bearing and are payable upon demand of the payee.
- Payable to regulatory agencies include withholding taxes and other government contributions related to employees of the Group. These are non-interest bearing and are normally remitted within ten (10) days from the close of each month.
- Accrued utilities pertain to unpaid billings for power, communication, light and water charges. These are non-interest bearing and are normally settled within thirty (30) to ninety (90) days.
- Accrued production taxes pertain to excise taxes on metal sales. These are non-interest bearing and are settled within fifteen (15) days after the end of each quarter.

Interest incurred on trust receipts and export advances amounted to ₱22,528, ₱21,165 and ₱22,942 in 2016, 2015 and 2014, respectively (see Note 27).

The Group has US$-denominated trade and other payables amounting to US$8,992 and US$8,276 as at December 31, 2016 and 2015, respectively. The Group has Australian dollar (AU$)-denominated trade and other payables amounting to AU$1 and AU$371 as at December 31, 2016 and 2015, respectively (see Note 31).

14. Short-term and Long-term Debt and other Interest-bearing Liabilities

	2016	2015
Gold Delivery Agreement (US$1,000 in 2016 and 2015)	**₱49,720**	₱47,060
Obtained from Local Bank US$-denominated loans (US$369 in 2016)	**18,345**	–
Total borrowings	**68,065**	47,060
Less current portion/short term-borrowings	**68,065**	–
	₱–	₱47,060

Gold Delivery Agreement (GDA):
In December 1998, the Parent Company entered into a Loan and Hedging Facilities Agreement (the Agreement) with NM Rothschild & Sons (Australia) Ltd. (Rothschild) and Dresdner Bank AG (Dresdner) which provides for borrowings up to US$30 million and hedging facility up to 300,000 ounces of gold as may be agreed upon by the parties up to December 2002. A minimum hedging amount of 250,000 ounces was imposed to secure the payment of the loan. The loan was intended to finance the working capital requirements of the Victoria Project (see Note 1).

The loan was secured by real and chattel mortgages of all the Parent Company's present and future properties and its rights, title and interests under the Mineral Production Sharing Agreement (MPSA) with the Philippine Government in connection with the Victoria Project. The Agreement contains certain covenants which include, among others, payment of interest, the maintenance of certain financial and project ratios such as debt service, loan life, project life, total liabilities to net worth and current ratios; prohibition from incurring additional long-term indebtedness; limitation on certain advances or loans; and restrictions as to substantial asset sales, capital expenditures and cash dividends.

The Agreement was first amended in 2000, and further amended in 2002 principally with respect to the repayment of the loan. The 2002 deed of amendment provides for the extension of the loan agreement up to September 2007. As at December 31, 2004, the loans obtained from Rothschild and Dresdner have been fully paid.

In accordance with the hedging facility, the Parent Company entered into various forward gold contracts with Rothschild and Dresdner (Lenders) which provide for the buying or selling of gold in fixed quantities at certain fixed prices for delivery in various maturity dates in the future. Any gains or losses on the forward sales contracts are recognized upon closing of the pertinent contracts.
At December 31, 2004, the Parent Company's forward gold contracts to sell 169,043 ounces of gold at an average price of US$295 per ounce will mature on various dates in the future and are being rolled forward relative to the ongoing discussion with Lenders. These contracts had a negative mark-to-market valuation of US$24 million based on the spot rate of US$437 per ounce as at December 31, 2004.

The Parent Company does not recognize any derivative financial liability under the hedging contracts with Dresdner. After months of discussion and negotiations, the Parent Company and Dresdner agreed in December 2005 on a commercial resolution to their controversy which was formalized through a GDA that was signed on January 25, 2006. Under the GDA, a gold loan of about US$14 million shall be repaid by way of minimum monthly installments starting from February 1, 2006 up to September 30, 2009 of the cash equivalent in US$ of 200 ounces of gold computed at the spot price in the market and any remaining balance to be fully repaid by the final delivery on September 30, 2009. The Parent Company also has an option to settle by delivery of quantity of gold.

The GDA contains certain covenants, which include, among others, payment of interest, strict compliance with regulatory provisions regarding internal revenue taxes and environmental requirements, restrictions in the incurrence of indebtedness and certain derivative transactions, limitation in the disposal and transfer of assets and prohibitions in the purchase of issued shares, reduction in capital and issuance of shares other than for cash or make a distribution of assets or other capital to its stockholders.

As from September 28, 2010, the rights of Commerzbank AG (Commerzbank; formerly constituted as Dresdner Bank AG) under the GDA have been transferred to Statham Capital Corporation (Statham). Accordingly, Statham is substituted for Commerzbank as the financier under the GDA. An amendment to the GDA was entered into by the Parent Company. On October 5, 2010, a moratorium was agreed on, providing for the resumption of monthly deliveries of 200 ounces in January 2011 and a final delivery date of December 31, 2011. Total amount under the GDA is US$10,027.

On February 10, 2011, another moratorium and restructure agreement was entered into by the Parent Company. This resulted in a reduction in the total outstanding liability, with the corresponding gain included in "Service fees and other operating income" in the consolidated statements of comprehensive income. In 2014, the Parent Company and Statham entered into another restructure agreement wherein the due date was extended to 2017. As at December 31, 2016 and 2015, the remaining obligation owing to Statham under the GDA amounting to US$1,000 is payable on December 31, 2017.

The Parent Company filed a civil case against Rothschild for the declaration of the nullity of the forward gold contracts to sell 97,476 ounces of gold. Rothschild filed a motion to dismiss and this was denied by the Regional Trial Court (RTC) and subsequently by the Court of Appeals in December 2006. Rothschild elevated the matter to the Supreme Court (SC) in February 2007.

On November 28, 2011, the SC denied the Motion to Dismiss of Rothschild and upheld the jurisdiction of the RTC over the person of Rothschild in the case for nullity of hedging contracts filed by the Parent Company in 2005. The case is in trial stage, and the Parent Company has completed its presentation of evidence.

Bank Loans

Borrowings from a local bank are all clean loans with interest rates ranging from 5.00% in 2016 and 5.00% to 7.00% in 2015.

In September 2016, the Parent Company obtained credit accommodations from the Bank of Commerce which turned past due and had an outstanding principal balance in the total amount of US$432, exclusive of interest and penalties as of May 31, 2016, evidenced by trust receipts. Total interest on the above mentioned loans for the years 2016 and 2015 amounted to ₱886 and ₱3,222, respectively (see Note 27).

15. Liability for Mine Rehabilitation Cost

	2016	2015
Balance at beginning of year	**₱65,095**	₱53,830
Effect of change in estimate (Note 9)	**(3,228)**	8,912
	61,867	62,742
Accretion of interest (Note 27)	**2,881**	2,353
Balance at end of year	**₱64,748**	₱65,095

The Parent Company makes a full provision for the future cost of rehabilitating the mine site and other future costs on a discounted basis amounting to ₱64,748 and ₱65,095 as at December 31, 2016 and 2015, respectively. Provision for mine rehabilitation and decommissioning represents the present value of future rehabilitation and other costs. These provisions have been created based on the Parent Company's internal estimates. Assumptions, based on the current economic environment, have been made which management believes are reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual costs will ultimately depend upon future market prices for the necessary works required which will reflect market conditions at the relevant time. Furthermore, the timing of the rehabilitation and expenditure of other costs is likely to depend on when the mine ceases to produce at economically viable rates, and the timing that the event for which the other provisions provided for will occur.

Discount rate used by the Parent Company is 4.63% and 4.37% in 2016 and 2015, respectively.

16. Retirement Plan

The Parent Company and DMTC have funded, noncontributory defined benefit retirement plans covering substantially all regular employees, while DDCP, FSGRI and SI have unfunded defined benefit retirement plans. Benefits are dependent on the years of service and the respective employee's compensation. The defined benefit retirement obligation is determined using the projected unit credit method.

The amounts of defined benefit retirement expense recognized in the consolidated statements of comprehensive income follow:

	2016			2015			2014		
	Funded	**Unfunded**	**Total**	Funded	Unfunded	Total	Funded	Unfunded	Total
Current service cost (Note 25)	**₱57,327**	**₱3,989**	**₱61,316**	₱66,347	₱6,858	₱73,205	₱58,869	₱1,158	₱60,027
Interest cost - net (Note 27)	**72,304**	**3,237**	**75,541**	80,254	2,623	82,877	53,567	1,806	55,373
Gain on retrenchment	**–**	**–**	**–**	(65,885)	–	(65,885)	–	–	–
	₱129,631	**₱7,226**	**₱136,857**	₱80,716	₱9,481	₱90,197	₱112,436	₱2,964	₱115,400

The Group has current service costs capitalized to mine exploration costs amounted to ₱906 in 2016 and nil in 2015 and 2014. Further, interest costs capitalized to mine exploration costs in 2016 and 2015 amounted to ₱202 and nil, respectively.

The amounts of remeasurement gain (loss) recognized in the consolidated other comprehensive income follow:

	2016	2015	2014
Remeasurement gain (loss) on retirement	**₱148,956**	₱106,443	(₱369,530)
Less deferred tax	**(44,686)**	(31,933)	110,859
Remeasurement gain (loss) on retirement liability, net of tax	**₱104,270**	₱74,510	(₱258,671)

The amounts of defined benefit retirement obligation recognized in the consolidated statements of financial position follow:

	Funded			**Unfunded**	
2016	**Defined Benefit Liability**	**Fair Value of Plan Assets**	**Net Defined Benefit Liability**	**Defined Benefit Liability**	**Total**
Balances at beginning of year	**₱1,867,725**	**₱159,309**	**₱1,708,416**	**₱73,721**	**₱1,782,137**
Interest cost/income	**79,044**	**6,740**	**72,304**	**3,237**	**75,541**
Current service cost	**57,327**	**–**	**57,327**	**3,989**	**61,316**
Benefits paid	**(84,968)**	**(84,968)**	**–**	**(2,916)**	**(2,916)**
Actuarial gain/loss:					
Change in financial assumptions	**(92,154)**	**61,529**	**(153,683)**	**(7,098)**	**(160,781)**
Change in demographic assumptions	**(₱80,664)**	**₱–**	**(₱80,664)**	**₱–**	**(₱80,664)**
Experience adjustment	**85,369**	**–**	**85,369**	**7,119**	**92,488**
Contributions	**–**	**84,447**	**(84,447)**	**–**	**(84,447)**
Balances at end of year	**₱1,831,679**	**₱227,057**	**₱1,604,622**	**₱78,052**	**₱1,682,674**

	Funded			Unfunded	
2015	Defined Benefit Liability	Fair Value of Plan Assets	Net Defined Benefit Liability	Defined Benefit Liability	Total
Balances at beginning of year	₱2,077,348	₱202,078	₱1,875,270	₱66,005	₱1,941,275
Interest cost/income	88,903	8,649	80,254	2,623	82,877
Current service cost	66,347	–	66,347	6,858	73,205
Benefits paid	(138,874)	(138,874)	–	(3,659)	(3,659)
Gains due to retrenchment	(65,885)	–	(65,885)	–	(65,885)
Actuarial gain/loss:					
Change in financial assumptions	(25,568)	(51,777)	26,209	(2,480)	23,729
Change in demographic assumptions	(263,415)	–	(263,415)	1,557	(261,858)
Experience adjustment	128,869	–	128,869	2,817	131,686
Contributions	–	139,233	(139,233)	–	(139,233)
Balances at end of year	₱1,867,725	₱159,309	₱1,708,416	₱73,721	₱1,782,137

The overall expected return on plan assets is determined based on the market prices prevailing on that date applicable to the period over which the obligation is to be settled.

The major categories of the Group's plan assets as a percentage of the fair value of total plan assets follow:

	2016	2015	2014
Cash and cash equivalents	**1.14%**	1.88%	1.80%
Equity investments:			
Quoted	**98.79%**	98.02%	98.13%
Unquoted	**0.07%**	0.10%	0.07%
	100.00%	100.00%	100.00%

The principal assumptions used in determining pension and post-employment benefits for the Group's plan assets in 2016, 2015 and 2014 follow:

	2016	2015	2014
Discount rate	**4.23%**	4.23%	4.28%
Expected rate of return on plan assets	**4.23%**	4.23%	4.28%
Salary increase rate	**3.00%**	3.00%	3.00%
Turnover rate	**Across the board 5% rate**	Across the board 5% rate	Across the board 5% rate
Mortality rate	**1983 US Group Annuity Mortality**	1983 US Group Annuity Mortality	1983 US Group Annuity Mortality

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined retirement benefits liability as of the end of the reporting period, assuming all other assumptions were held constant:

	Increase (decrease)	2016	2015
Discount rates	+0.25%	(₱44,588)	(₱44,284)
	-0.25%	₱44,917	₱46,936
Salary increase rate	+1.00%	₱53,349	₱52,352

Shown below is the maturity analysis of the undiscounted benefit payments as at December 31, 2016:

Less than one (1) year	₱153,026
More than one (1) year to five (5) years	193,066
More than five (5) years to ten (10) years	794,142
More than ten (10) years to fifteen (15) years	489,503
More than fifteen (15) years to twenty (20) years	636,930
More than twenty (20) years	2,091,596
	₱4,358,263

17. Related Party Disclosures

Related party relationships exist when one party has the ability to control, directly or indirectly through one or more intermediaries, the other party 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 enterprise, or between and/or among the reporting enterprise and their key management personnel, directors, or its stockholders.

Intercompany transactions are eliminated in the consolidated financial statements. The Group's related party transactions, which are under terms that are no less favorable than those arranged with third parties, are as follows:

	2016			
	Amount/ Volume	**Outstanding Balance**	**Terms**	**Conditions**
Subsidiaries				
Receivables				
DDCP	**₱394,093**	**₱141,865**	On demand; non-interest-bearing and collectible in cash	Unsecured, no impairment, no guarantee
LIDC	**150**	**88,905**	On demand; non-interest bearing and collectible in cash	Unsecured, no impairment, no guarantee
DMTC	**1,946**	**2,364**	On demand; non-interest bearing and collectible in cash	Unsecured, no impairment, no guarantee
FSGRI	**8,815**	**827**	On demand; non-interest bearing and collectible in cash	Unsecured, no impairment, no guarantee
SI	**21,445**	**–**	On demand; non-interest bearing and collectible in cash	Unsecured, no impairment, no guarantee
Advances				
FSGRI	**–**	**94,140**	On demand; non-interest bearing and collectible in cash	Unsecured, no impairment, no guarantee
Payables				
DDCP	**365,683**	**138,495**	On demand; non-interest bearing and collectible in cash	Unsecured, no impairment, no guarantee
SI	**128,193**	**151,233**	On demand; non-interest bearing and collectible in cash	Unsecured, no impairment, no guarantee

	Amount/ Volume	**Outstanding Balance**	**Terms**	**Conditions**
Rental				
SSI	**₱437**	**₱–**	Non-interest bearing and normally settled on 30-day term	Unsecured, no impairment, no guarantee
Services				
DDCP	**374,686**	**–**	Non-interest bearing and normally settled on 30-day term	Unsecured, no impairment, no guarantee
SI	**8,455**	**–**	Non-interest bearing and normally settled on 30-day term	Unsecured, no impairment, no guarantee
Revenue				
DMTC	**475**	**–**	Non-interest bearing and normally settled on 30-day term	Unsecured, no impairment, no guarantee
Other Expense				
SI	**2,667**	**–**	Non-interest bearing and normally settled on 30-day term	Unsecured, no guarantee
DMTC	**67**	**–**	Non-interest bearing and normally settled on 30-day term	Unsecured, no guarantee
DDCP	**812**	**–**	Non-interest bearing and normally settled on 30-day term	Unsecured, no guarantee

2015				
	Amount/ Volume	Outstanding Balance	Terms	Conditions
Subsidiaries				
Receivables				
DDCP	₱97,545	₱142,283	On demand; noninterest-bearing and collectible in cash	Unsecured, no impairment, no guarantee
LIDC	200	88,755	On demand; noninterest-bearing and collectible in cash	Unsecured, no impairment, no guarantee
DMTC	6,068	1,954	On demand; noninterest-bearing and collectible in cash	Unsecured, no impairment, no guarantee
FSGRI	7,123	1,321	On demand; noninterest-bearing and collectible in cash	Unsecured, no impairment, no guarantee
Advances				
FSGRI	–	94,140	On demand; noninterest-bearing and collectible in cash	Unsecured, no impairment, no guarantee
Payables				
SI	11,476	44,486	On demand; noninterest-bearing and are normally settled in cash	Unsecured, no guarantee
Rental				
SSI	301	–	Noninterest-bearing and are normally settled in cash on 30-days' term	Unsecured, no guarantee
Services				
DDCP	213,670	–	Noninterest-bearing and are normally settled in cash on 30-days' term	Unsecured, no guarantee
SI	10,087	–	Noninterest-bearing and are normally settled in cash on 30-days' term	Unsecured, no guarantee
Sales				
DMTC	198	–	Noninterest-bearing and are normally settled in cash on 30-days' term	Unsecured, no guarantee
Other Expense				
SI	2,984	–	Non-interest bearing and normally settled on 30-day term	Unsecured, no guarantee
DMTC	470	–	Non-interest bearing and normally settled on 30-day term	Unsecured, no guarantee

a. In the normal course of business, the Group grants and receives advances to and from its associates and stockholders, which are considered related parties.
The corresponding receivables and payables arising from the said transactions, including operational support as at December 31, 2016 and 2015 are as follows:

2016				
	Amount/ Volume	**Outstanding Balance**	**Terms**	**Conditions**
Associate				
Receivable:				
MMC (Note 11)	**₱757**	**₱2,240**	Non-interest bearing and are normally settled in cash on 30-day term	Unsecured, no impairment, no guarantee
Stockholders:				
Payables:				
Various (Note 13)		**56,084**	Non-interest bearing and are normally settled in cash on 30-day term	Unsecured, no guarantee

	2015			
	Amount/ Volume	Outstanding Balance	Terms	Conditions
Associate				
Receivable:				
MMC (Note 11)	₱1,259	₱1,483	Non-interest bearing and are normally settled in cash on 30-day term	Unsecured, no impairment, no guarantee
Stockholders:				
Payables:				
Various (Note 13)	–	56,084	On demand; noninterest- bearing and collectible in cash	Unsecured, no guarantee

b. On April 17, 2000, the Parent Company entered into a Trust Agreement with LIDC for the latter to serve as a second trustee for the Parent Company's retirement fund.

On March 31, 2003, the Parent Company entered into a separate Trust Agreement with LIDC whereby the latter ceased to be the second trustee of the Plans and instead to become the principal trustee. Prior to the Trust Agreement, the actual disbursements of the fund for the Plans, or payments to the retiree or beneficiaries had been the responsibility of a local bank as the principal trustee. The Parent Company has decided to terminate the services of the local bank and consolidated to LIDC the administration of the Plans.

The carrying amount and fair value of the retirement fund amounted to ₱227,057 and ₱159,309 as at December 31, 2016 and 2015, respectively (see Note 16).

The retirement fund consists of cash and cash equivalents, investments in quoted and unquoted equity securities which accounts for 1.14% and 98.79% and 0.07% of the trust fund, respectively (see Note 16).

The voting rights on the shares of stock rest on the trustees of the retirement fund, who are also the key management personnel of the Parent Company.

The Group made contributions to the trust fund amounting to ₱84,447 and ₱139,233 in 2016 and 2015, respectively (see Note 16).

c. Compensation of key management personnel are as follows:

	2016	2015	2014
Short-term benefits	**₱49,100**	₱51,400	₱48,200
Post-employment benefits	**10,100**	10,100	10,100
	₱59,200	₱61,500	₱58,300

18. Income Taxes

Current provision for income tax in 2016 pertains to FSGRI's Minimum Corporate Income Tax (MCIT) and DDCP's, DMTC's and SI's Regular Corporate Income Tax (RCIT). In 2015, current provision for income tax in pertains to DMTC's and SI's MCIT and DDCP's RCIT. In 2014, the current provision for income tax pertains to DMTC's MCIT and DDCP's RCIT.

The components of the Group's deferred tax assets and liabilities at December 31, 2016 and 2015 follow:

	Deferred Tax Assets - net		**Deferred Tax Liabilities** - net	
	2016	2015	**2016**	2015
Accrual of:				
Retirement benefits liability	**₱317,714**	₱272,486	**₱9,167**	₱8,780
Liability for mine rehabilitation cost	**19,424**	19,529	**–**	–
Various expense	**4,956**	4,956	**–**	–
Provisions for:				
Inventory obsolescence	**11,723**	11,723	**312**	312
Impairment losses on property, plant and equipment	**7,180**	7,180	**–**	–
Impairment losses on receivables	**4,307**	2,771	**71**	71
Unrealized foreign exchange losses	**12,090**	1,839	**–**	–
Cash deposits from customers	**51**	51	**–**	–
Recognized directly in other comprehensive income:				
Retirement benefits liability	**143,385**	219,168	**–**	–
Deferred income tax assets	**520,830**	539,703	**9,550**	9,163
Revaluation increment in land	**(86,565)**	(90,447)	**(107,600)**	(119,187)
Cost of mine rehabilitation and decommissioning	**(13,428)**	(16,804)	**–**	–
Unrealized foreign exchange gains	**(1,466)**	(736)	**(126,844)**	(119,012)
Deferred tax liabilities	**(101,459)**	(107,987)	**(234,444)**	(238,199)
Net deferred tax assets (liabilities)	**₱419,371**	₱431,716	**(₱224,894)**	(₱229,036)

The Group did not recognize deferred income tax assets on certain NOLCO and MCIT because management believes that it is more likely than not that the carryforward benefits will not be realized in the near future.

	2016	2015
NOLCO	**₱1,348,420**	₱1,145,738
MCIT	**64**	1,674
Provisions	**18,974**	557
Others	**7,164**	11,585
	₱1,374,622	₱1,159,554

As at December 31, 2016 and 2015, the Group has NOLCO that can be claimed as deduction from future taxable income and income tax payable and MCIT that can be claimed as tax credit, respectively, as follows:

Year Incurred	Year of Expiration	NOLCO	MCIT
2014	2017	₱358,718	₱–
2015	2018	572,654	53
2016	2019	417,048	11
		₱1,348,420	₱64

Movements of NOLCO and excess MCIT for the years ended December 31 follow:

NOLCO	**2016**	2015
Balances at beginning of year	**₱1,145,738**	₱588,623
Additions	**417,047**	576,665
Applications	**(4,010)**	(5,971)
Expiration	**(210,355)**	(13,579)
Balances at end of year	**₱1,348,420**	₱1,145,738

MCIT	**2016**	2015
Balances at beginning of year	**₱1,674**	₱9,010
Additions	**11**	128
Expirations	**(1,621)**	(7,464)
Balances at end of year	**₱64**	₱1,674

The reconciliation of the Group's provision for income tax for the three years ended December 31, 2016 computed at the statutory tax rates to actual provision (benefit) shown in the consolidated statements of comprehensive income follow:

	2016	2015	2014
Tax at statutory income tax rates	**(₱222,971)**	(₱252,404)	(₱206,811)
Additions to (reductions in) income taxes resulting from tax effects of:			
Change in unrecognized deferred income tax assets	**64,333**	162,116	67,209
Accelerated deduction	**–**	87,345	(4,380)
Expired NOLCO and MCIT	**64,527**	11,741	135,511
Share in operating results of associates	**2,026**	6,174	(4,044)
Nondeductible expenses	**100,298**	2,253	71,911
Interest income subjected to final tax	**(14,565)**	(105)	(108)
Tax-exempt dividend income	**–**	–	(22)
Others	**(3,317)**	910	(35,350)
Tax at effective income tax rates	**(₱9,669)**	₱18,030	₱23,916

19. Capital Stock

The Parent Company's authorized share capital is ₱6.64 billion divided into 66.4 billion shares at ₱0.10 par value each, consisting of 39.8 billion Class "A" and 26.6 billion Class "B" common shares.

Only Philippine nationals are qualified to acquire, own, or hold Class "A" shares. The total number of Class "B" shares of stock subscribed, issued or outstanding at any time shall in no case exceed two/thirds (2/3) of the number of Class "A" shares or 40 of the aggregate number of Class "A" and Class "B" shares then subscribed, issued or outstanding.

	2016		2015	
	No. of shares	**Amount**	No. of shares	Amount
Issued				
Class "A"	**30,808,913,158**	**₱3,080,891**	30,808,913,158	₱3,080,891
Class "B"	**20,546,335,012**	**2,054,634**	20,546,335,012	2,054,634
	51,355,248,170	**5,135,525**	51,355,248,170	5,135,525
Subscribed				
Class "A"	**10,682,201**	**1,068**	10,682,201	1,068
Class "B"	**34,182**	**3**	34,182	3
	10,716,383	**1,071**	10,716,383	1,071
Total shares issued and subscribed	**51,365,964,553**	**5,136,596**	51,365,964,553	5,136,596
Less subscription receivable		**(1,890)**		(1,890)
		₱5,134,706		₱5,134,706

As at December 31, 2016 and 2015, subscriptions receivable amounted to ₱1.9 million was presented as a deduction to capital stock.

On August 15, 2005, the Parent Company's BOD approved the offer of 2,558,803,769 Class "A" shares and 1,705,868,182 Class "B" shares, or 1 share for every 5 shares held by shareholders as at September 21, 2005 from the Parent Company's unissued capital stock at the offer price of ₱0.20 per share. The offer of shares was exempt from registration. As at the end of that year, the Parent Company had twenty-two thousand thirty-five (22,035) stockholders.

On July 17, 2006, the Parent Company's BOD approved the offer of 1,919,102,827 Class "A" shares and 1,279,401,137 Class "B" shares, or 1 share for every 8 shares held by shareholders as at August 16, 2006 from the Parent Company's unissued capital stock at the offer price of ₱0.20 per share. The sale of shares was exempt from registration. As at the end of that year, the Parent Company had twenty-one thousand seven hundred eighty-eight (21,788) stockholders.

On November 19, 2007, the Parent Company's BOD approved the grant of the 17th Stock Option Awards (Awards) to selected employees, directors and officers of the Group in accordance with the BOD approved Revised Stock Option Plan ("RSOP"). The Awards cover a total of 420,000,000 common shares consisting of 252,000,000 Class "A" and 168,000,000 Class "B" shares from the Parent Company's unissued capital stock, exercisable at the price of ₱0.32 per share, within five (5) years from the date of SEC approval of the same. The option price of ₱0.32 per share was computed based on a new formula in the RSOP, i.e., the amount equivalent to 80% of the average closing price of the stock for the ten (10) trading days immediately preceding the date of the approval of the Grant by the Parent Company's BOD. The SEC approved the Awards and the RSOP on February 1, 2008.

On February 18, 2008, the Parent Company's BOD approved the offer of 2,467,419,971 Class "A" shares and 1,644,944,414 Class "B" shares, or one (1) share for every seven (7) shares held by shareholders as at March 25, 2008 from the Parent Company's unissued capital stock at the offer price of ₱0.25 per share. The offer of shares was exempt from registration. As at the end of that year, the Parent Company had twenty-one thousand four hundred thirty-nine (21,439) stockholders. By virtue of the 1:7 stock rights offering at the price of ₱0.25 per share approved by the Parent Company's BOD on February 18, 2008, the shares covered by the Awards increased by 36,000,000 Class "A" shares and 24,000,000 Class "B" shares. The average option price was accordingly adjusted to ₱0.3112 per share.

During the annual meeting of the stockholders on April 20, 2009, the shareholders approved the increase in the authorized capital stock from ₱3.35 billion to ₱6.64 billion. The stockholders also approved the one-time waiver of their pre-emptive right to subscribe to issues or dispositions of shares of the Parent Company in proportion to their respective shareholdings but only with respect to the issues or dispositions of shares in support of the increase in the authorized capital stock to ₱6.64 billion, provided that the shares to be issued to support such increase in the Authorized Capital Stock shall not exceed 20% of the stock subscribed, issued and outstanding after such issuance.

On October 18, 2010, the Parent Company's BOD approved the offer of 6,031,372,952 Class "A" shares and 4,020,909,888 Class "B" shares, or one (1) share for every 3.3 shares held by shareholders as at December 3, 2010 at the offer price of ₱0.30 per share to support the increase in the Parent Company's authorized capital stock from ₱3.35 billion to ₱6.64 billion. The offer was approved and confirmed by the SEC as an exempt transaction on November 9, 2010. As at the end of that year, the Parent Company had twenty-one thousand one hundred seventy-three (21,173) stockholders.

By virtue of the 1:3.3 stock rights offering at ₱0.30 per share approved by the Parent Company's BOD on October 18, 2010, the number of shares covered by the Awards, specifically those for the fourth and fifth years of the option, increased by 33,409,662 Class "A" and 22,273,108 Class "B" shares. Accordingly, the average option price was adjusted to ₱0.3086 per share.

There were no outstanding stock options as at December 31, 2016 and 2015.

On September 15, 2014, the BOD approved an offer to shareholders, on record as at November 12, 2014, the right to subscribe to one (1) share of common stock for every 5.5 shares held on such record date at the price of ₱0.20 per share from the Parent Company's unissued capital stock. Proceeds from the offering were utilized for the settlement of debts as well as for the exploration programs covering the Victoria, Enargite, and Honeycomb areas.

The Parent Company had twenty seven thousand and nine hundred fifty nine (27,959), twenty seven thousand and nine hundred seventy four (27, 974), and twenty seven thousand and nine hundred seventy three (27,973) stockholders as at December 31, 2016, 2015 and 2014, respectively.

20. Non-controlling Interests

NCI represent third parties' interests in FSGRI.

Financial information of subsidiary that has material NCI is provided below:

	Principal Place of Business	**2016**	2015
FSGRI	Philippines	**40.00%**	40.00%

Equity attributable to material NCI:

	2016	2015
FSGRI	**₱257,598**	₱250,324

Net income (loss) and OCI attributable to material NCI:

	2016	2015
FSGRI	**₱7,274**	(₱395)

The summarized financial information of this subsidiary is provided below. This information is based on amounts before intercompany eliminations.

	2016	2015
Operating expenses	**(₱761)**	(₱4,624)
Other income	**26,641**	4,016
Finance income	**17**	23
Income (loss) before income tax	**25,897**	(585)
Benefit from income tax	**(7,843)**	(402)
Net income (loss)	**18,054**	(987)
Other comprehensive income	**130**	–
Total comprehensive income (loss)	**₱18,184**	(₱987)
Attributable to NCI	**₱7,274**	(₱395)

Summarized statements of financial position as at December 31:

	2016	2015
Current assets	**₱673,054**	₱744,963
Noncurrent assets	**6,397,268**	6,216,442
Current liabilities	**(185,045)**	(196,940)
Noncurrent liabilities	**(6,065,037)**	(6,139,349)
Total equity	**₱820,240**	₱625,116

Attributable to:	**2016**	2015
Equity holders of the Parent Company	**₱377,061**	₱374,792
NCI	**257,598**	250,324

Summarized cash flow information for the years ended December 31:

	2016	2015
Operating	**₱72,574**	₱1,221
Investing	**(176,298)**	(115,298)
Financing	**89,384**	131,425
Effect of exchange rate changes on cash	**10,960**	(7,673)
Net increase (decrease) in cash	**(₱3,380)**	₱9,675

21. Loss Per Share

Basic loss per share is calculated by dividing the profit attributable to equity holders of the Parent Company by the weighted average number of common shares in issue during the period.

In computing for the diluted loss per share, the Parent Company considered the effect of its potentially dilutive stock options outstanding as at December 31, 2016 and 2015. There were no outstanding stock options as of December 31, 2016 and 2015.

	2016	2015	2014
Net loss attributable to equity holders of the Parent Company	**(₱740,843)**	(₱858,981)	(₱718,366)
Weighted average number of common shares for basic loss per share	**51,355,248,170**	50,843,561,361	44,900,607,349
Adjusted weighted average number of common shares for diluted loss per share	**51,355,248,170**	50,843,561,361	44,900,607,349
Basic loss per share	**(₱0.0140)**	(₱0.0170)	(₱0.0160)
Diluted loss per share	**(₱0.0140)**	(₱0.0170)	(₱0.0160)

22. Cost of Sales

	2016	2015	2014
Depletion, depreciation and amortization	**₱678,998**	₱651,881	₱711,914
Personnel costs (Note 25)	**374,754**	330,746	361,250
Consumables and supplies (Note 6)	**287,305**	84,335	275,543
Utilities	**224,038**	212,641	192,003
Repairs and maintenance	**138,450**	89,468	77,600
Contractual services	**42,037**	45,025	43,262
Freight and handling charges	**31,893**	32,741	39,809
Production tax	**28,639**	22,928	19,633
Insurance expense	**15,490**	16,482	15,171
Taxes, duties and licenses	**12,716**	14,727	18,465
Professional fees	**12,645**	9,172	4,640
Outside services	**8,263**	6,699	15,689
Provision for inventory losses (Note 6)	**2,554**	1,200	142
Transportation and travel	**135**	78	–
Others	**18,487**	7,016	2,067
Total	**₱1,876,404**	₱1,525,139	₱1,777,188

23. Cost of Services

	2016	2015	2014
Personnel costs (Note 25)	**₱24,591**	₱76,380	₱44,596
Consumables and supplies (Note 6)	**31,449**	66,839	48,008
Professional fees	**25,736**	6,234	3,971
Depreciation and amortization	**14,096**	20,948	12,850
Utilities	**7,764**	7,281	2,502
Taxes, duties and license fees	**3,211**	2,018	1,970
Transportation and travel	**875**	9,124	2,219
Repairs and maintenance	**444**	5,451	1,693
Others	**5,682**	6,384	6,751
	₱113,848	₱200,659	₱124,560

24. Operating Expenses

	2016	2015	2014
Personnel costs (Note 25)	**₱100,235**	₱99,907	₱95,190
Depreciation and amortization	**21,065**	12,049	9,703
Taxes, duties and license fees	**12,946**	22,899	7,714
Outside services	**12,659**	12,721	12,244
Professional fees	**12,285**	7,583	5,491
Transportation and travel	**10,349**	10,431	11,102
Rentals	**7,830**	7,406	7,557
Insurance expense	**7,637**	2,754	2,826
Consumables and supplies (Note 6)	**6,908**	23,763	5,816
Representation and entertainment	**6,710**	7,863	5,415
Provision for impairment losses on receivables (Note 5)	**5,359**	257	314
Utilities	**4,759**	5,416	6,017
Security and janitorial fees	**4,227**	4,149	3,782
Repairs and maintenance	**3,175**	6,773	8,602
Consultancy and directors' fees	**2,994**	1,676	2,404
Stockholders' meeting and expenses	**2,177**	2,343	–
Bank charges	**1,231**	4,312	4,636
Contribution and donation	**48**	–	–
Settlement expenses	–	5,000	–
Others	**11,639**	11,614	6,250
	₱234,233	₱248,916	₱195,063

25. Personnel Costs

	2016	2015	2014
Cost of sales (Note 22)	**₱374,754**	₱330,746	₱361,250
Cost of services (Note 23)	**24,591**	76,380	44,596
Operating expenses (Note 24)	**100,235**	99,907	95,190
	₱499,580	₱507,033	₱501,036

Details of personnel costs follow:

	2016	2015	2014
Salaries and wages	**₱402,908**	₱414,442	₱408,708
Retirement benefits (Note 16)	**60,410**	73,205	60,027
Others	**36,262**	19,386	24,220
	₱499,580	₱507,033	₱492,955

26. Supplemental Disclosure to Statements of Cash Flows

Non cash investing activities pertain to additions to property, plant and equipment and AFS financial assets.

Investing Activities

	2016	2015
Increase (decrease) in:		
AFS financial assets	**(₱308,292)**	₱81,982
Investments in and advances to associates	**–**	(81,982)
Property, plant and equipment	**812,883**	8,912
Liability for mine rehabilitation costs	**3,228**	(8,912)
Inventories	**(70,698)**	–
Mine exploration costs	**(745,413)**	–
Stock subscription payable	**96,341**	–
Trade and other payables	**211,951**	–

27. Finance Costs

	2016	2015	2014
Interest cost on retirement liability - net (Note 16)	**₱75,339**	₱82,877	₱55,373
Interest expense:			
Trust receipts and export advances (Note 13)	**22,528**	21,165	22,942
Short-term and long-term borrowings (Note 14)	**886**	3,222	7,628
Accretion of interest on mine rehabilitation costs (Note 15)	**2,881**	2,353	2,205
Others	**–**	1,284	2,808
	₱101,634	₱110,901	₱90,956

28. Other Income

	2016	2015	2014
Gain on disposal of property, plant and equipment - net	**₱116,025**	₱2,699	₱32
Realized loss on disposal of AFS financial assets (Note 10)	**(63,868)**	–	–
Gain on reversal of deferred income tax liability	**4,399**	–	–
Interest income	**110**	503	360
Gain due to retrenchment (Note 16)	–	65,885	–
Gain (loss) on disposals of equity instruments (Note 11)	–	5,115	(2,638)
Loss on deemed disposal of Philfire	–	(3,688)	–
Change in estimate of mine rehabilitation cost	–	–	13,916
Miscellaneous income	**(4,151)**	849	4,227
	₱52,515	₱71,363	₱15,897

29. Refining Agreements

The Parent Company entered into RA with Heraeus Limited (Heraeus) in 2005 for the refining of the former's gold and silver bullion production. Each shipment of materials under the agreement will consist of no less than twenty (20) kilograms of materials.

At settlement, the prices for all sales are as follows:

- Gold - the London Bullion Market Association PM fixing in US$
- Silver - the London Bullion Market Association fixing in US$

Heraeus shall settle the metal payables initially up to 98% of the provisional values less smelting and treatment charges while the remaining balance shall be paid after determining the final assayed gold and silver contents of refined materials for each shipment.

Smelting and refining charges include refining, transportation and insurance charges incurred by Heraeus. These charges are deducted from the amount receivable from Heraeus. In 2016, 2015 and 2014, smelting and refining charges amounted to ₱3,882, ₱3,214 and ₱2,853, respectively.

On January 1, 2008, the RA was renewed under the same terms. A further renewal was made on October 1, 2013, effective for two years. Heraeus confirmed purchase of gold and silver for the year 2015, also under the same and existing terms, in their letter dated April 1, 2015.

As at December 31, 2016 and 2015, the Group's embedded derivatives on provisionally priced sales are immaterial relative to the consolidated financial statements.

30. Commitments, Agreements, Contingent Liabilities and Other Matters

(a) The Parent Company's BOD approved its execution of an Option and Shareholders' Agreement ("Agreement") with Gold Fields Switzerland Holding AG ("GFS"), a wholly owned subsidiary of Gold Fields Limited, in relation to the development and operation of the Far Southeast Project.

The Agreement grants GFS an option to subscribe to new shares of stock of FSGRI representing a 20% interest in FSGRI within eighteen (18) months from the execution of the Agreement or ten (10) days from the issuance of a Financial or Technical Assistance Agreement (FTAA) over the Project area, whichever comes later. If the option is exercised by GFS, the Parent Company's interest in FSGRI will be reduced from 60% to 40%.

The Parent Company was paid a non-refundable option fee of US$10 million. The option requires GFS to sole-fund pre-development expenses including exploration and a feasibility study of the Project and contribute US$110 million into FSGRI. GFS must also contribute its proportionate share of the development cost at which point GFS will receive its 20% interest in FSGRI.

Advances from FSE to FSGRI are mainly for funding of its ongoing exploration activities. As at December 31, 2016 and 2015, the advances amounted to ₱5,933,221 and ₱5,843,343, respectively. These advances will be converted to equity upon Gold Field's exercise of the Option in accordance with the Agreement.

(b) In an agreement entered into with Philippine Associated Smelting & Refining Corporation (PASAR) on April 21, 1983, the Parent Company committed to deliver to PASAR and PASAR committed to take in a minimum quantity of its calcine production from its roaster plant in accordance with the pricing and payment terms defined in the agreement. The agreement is for an indefinite period unless otherwise terminated or cancelled pursuant to agreed terms or by the parties' mutual consent. In 1998, the agreement was suspended for an indefinite period in view of the temporary cessation of the Parent Company's roaster plant operations.

(c) On March 3, 1990, FSGRI entered into a MPSA with the Philippine Government through the Department of Environment and Natural Resources (DENR) and the Parent Company pursuant to Executive Order No. 279. Under the terms of the agreement, FSGRI shall pay the Philippine Government a production share of 2% on gross mining revenues and 10% on net mining revenues payable within thirty (30) days at the end of each financial reporting year and such will commence upon the start of FSGRI's commercial operations. The said government shares have been effectively revised by Republic Act. No. 7942 or the Philippine Mining Act, Sec. 84 of which states that the excise tax on mineral products provided under Sec. 151 of the National Internal Revenue Code shall be the government share under the MPSA.

The initial term of this agreement shall be twenty-five (25) contract years from the effective date, subject to termination as provided in the agreement, renewable for another period of twenty-five (25) years upon such terms and conditions as may be mutually agreed upon by the parties or as may be provided for by law.

In November 2011, pursuant to the Agreement with GFS, the Parent Company filed a letter of intent with the Mine and Geosciences Bureau to convert portions of MPSA No. 01-90-CAR, MPSA No. 151-2000-CAR and APSA No. 096 with an aggregate area of 424.3477 hectares into an FTAA.

On August 13, 2013, the BOD resolved to renew MPSA No. 01-90 that will be expiring in March 2015. FSGRI will join LCMC in its application for the renewal of the MPSA without prejudice to FSGRI's pending application for conversion to FTAA. The assignment documents whereby the two (2) parties exchanged properties, with FSGRI obtaining about 304.08 hectares of the MPSA and the Parent Company getting the balance remain pending with the DENR.

The Parent Company and co-contractor FSGRI (the "Applicants") filed a joint application for the renewal (the "Application") of MPSA 001-90-CAR with the Mines and Geosciences Bureau-Cordillera Administrative Region (MGB-CAR) on June 4, 2014. In a letter dated August 20, 2014, the MGB-CAR informed the applicants that they had substantially complied with the requirements for the renewal of the said MPSA and that the Application will be indorsed to the National Commission on Indigenous Peoples (NCIP) for appropriate action. The Applicants replied that the imposition of new requirements such as the Free and Prior Informed Consent or the endorsement of the Application to the NCIP impairs the contractors' vested rights under the MPSA, the Mining Act (MA) and the Constitution, including, but not limited to, the contractors' right under Section 32 of the MA to a renewal of the MPSA "under the same terms and conditions." Since, despite good faith efforts of the Applicants, the matter had remained unresolved as of mid-February 2015, a month prior to the expiry of the initial term of the MPSA, the Applicants initiated Arbitration proceedings against the Republic of the Philippines, represented by the DENR, pursuant to Sections 12.1 and 12.2 of the MPSA. Pursuant to the Republic Act (Rep. Act) No. 876, Arbitration Act, Rep. Act No. 9285, the Alternative Dispute Resolution (ADR) Act of 2004, and the Special ADR Rules, the applicants filed with the Regional Trial Court a Petition for Interim Measures of Protection whereby their prayed for the issuance of a writ of Preliminary Injunction against the DENR, MGB and the NCIP to be assured of uninterrupted operations during the pendency of the Arbitration.

In December 2015, the Applicants obtained the Arbitral Tribunal's Final Award upholding their position. Specifically, the Final Award confirmed that the Free and Prior Informed Consent and Certification Precondition requirements under the Indigenous Peoples' Rights' Act may not be validly imposed as requirements for the renewal of the MPSA, and the latter should be renewed under the same terms and conditions, without prejudice to changes mutually agreed upon by the parties. The matter is now subject of a Petition for Review with the Court of Appeals.

(d) Under a memorandum of agreement entered into on October 18, 1991 by FSGRI and the Parent Company among residents of various barangays of Mankayan, Benguet, the municipal government of Mankayan, the Benguet provincial government, the DENR, FSGRI and the Parent Company (collectively as "Group"), among other things, are mandated to abide by certain commitments to the barangays as contained in the said agreement in return for the continued implementation of the Far Southeast Project. The agreement likewise provides that: (1) the implementation of the project is subject to the conditions imposed or may be imposed by the DENR specifically on certain environmental concerns; and the residents shall not hinder the implementation of the project and shall assist the Group and the DENR in the peaceful solution of conflicts relative to the Group's operations.

In April 1998, the Parent Company entered into a separate memorandum of agreement with the Office of Municipal Mayor and Sangguniang Bayan of Mankayan, DENR and MGB. Under the agreement, the Parent Company is mandated to establish and maintain a Monitoring Trust Fund and MRF amounting to ₱50 and ₱5,000, respectively. The funds are to be used for physical and social rehabilitation, reforestation and restoration of areas and communities

affected by mining activities and for pollution control, slope stabilization and integrated community development. The rehabilitation fund to be maintained by the Parent Company in a mutually acceptable bank, subject to annual review of MRF committee, is payable in four (4) equal quarterly payments of ₱1,250 up to March 1999. As at December 31, 2016 and 2015, the rehabilitation fund of ₱5,000, which does not meet the features provided under Philippine Interpretation IFRIC 5, is presented under "Other noncurrent assets" account in the consolidated statements of financial position.

(e) The Parent Company is either a defendant or co-defendant in certain civil and administrative cases which are now pending before the courts and other governmental bodies. In the opinion of management and the Parent Company's legal counsel, any adverse decision on these cases would not materially affect the Parent Company's financial position as at December 31, 2016 and 2015, and results of operations for the years ended December 31, 2016, 2015 and 2014.

(f) The Parent Company filed a petition with the Panel of Arbitrators of the MGB-Cordillera Autonomous Region (CAR), Baguio City for the cancellation of the mining claims of the Gaffneys after discovering that the Gaffneys' 6 patentable mining claims were floating claims in violation of Section (Sec.) 28 of the Philippine Bill of 1902, hence void ab initio. However, the Panel of Arbitrators, relying on a 1991 decision of the 1st Division of the Supreme Court (SC) ("Poe Mining Association vs. Garcia", 202 SCRA 222) which has already been discarded and overruled by the SC En Banc in the 1997 case "Itogon-Suyoc Mines, Inc. vs. DENR Secretary, et al." (which states that "the requirement that a mining claim must have valid tie points, i.e., must be described with reference to a permanent object, cannot be dispensed with and non-compliance therewith renders the mining claims null and void) erroneously sustained the validity of the mining claims of the Gaffneys. The Panel further entertained the monetary counterclaim of the Gaffneys and awarded them damages notwithstanding that it has no jurisdiction whatsoever over money claims. This is clear in Sec. 77 of the Philippine Mining Act and in the case of "Jorge Gonzales and the Panel of Arbitrators vs. Climax Arimco Mining Corp., et al.", G.R. No. 161957, where the SC, reiterating its ruling in "Philex Mining Corp. vs. Zaldivia", 150 PHIL 547 (1972), stated that contractual violations such as fraud, misrepresentation, non-payment of royalties, compensation, validity of contracts and the like, are judicial questions that only the courts, not the Panel of Arbitrators, could hear and decide. The Parent Company appealed this ruling to the Mines Adjudication Board which affirmed the decision of the Panel of Arbitrators in June 2011 but ordered the MGB Central Offices to review and determine the reasonable amount of monetary awards to which the Gaffneys are entitled. Both parties filed motions for reconsideration. Acting on the said motions, the MAB affirmed its decision in respect of the validity of the mining claims, but reversed itself on the monetary awards, stating that monetary claims can only be determined through a competent court. Both parties appealed, the Parent Company in respect of the validity of the Gaffneys' mining claims and the Gaffneys in respect of the jurisdiction of the Panel of Arbitrators over their monetary claims. The Gaffneys' appeal was dismissed by the Court of Appeals and they have filed a motion for reconsideration. The Parent Company's appeal was granted by the Court of Appeals, declaring as null and void the mining claims of the Gaffneys, which ruling has been affirmed with finality by the Supreme Court.

(g) The Parent Company leases lands where its roasting plant and central warehouse is constructed. Lease agreement for the roasting plant, which expired in April 2016, was extended to another term of six (6) years while the other lease agreement covering the Parent Company's warehouse will extend until February 2018. Rent expense recognized relating to the said agreements aggregated to ₱3,437, ₱3,243 and ₱3,101 in 2016, 2015 and 2014, respectively.

The minimum annual lease payments subsequent to reporting dates follow:

	2016	2015
Less than one (1) year	**₱3,406**	₱2,330
More than one (1) year but less than five (5) years	**11,171**	1,960
Total	**₱14,577**	₱4,290

The Parent Company leases out some of its properties which include land, a warehouse, guesthouses and other facilities to various entities. Rental income for 2016, 2015 and 2014 amounted to ₱4,304, ₱6,210 and ₱4,023, respectively. Lease term of the rent agreements are valid for one (1) year and are renewable at the discretion of the contracting parties.

(h) As at December 31, 2016 and 2015, the Parent Company has no unused credit lines with various banks. These facilities can be availed of through short-term loans, opening of import letters of credit and outright purchase of negotiable bills.

(i) In an execution sale held on December 12, 2001, DDCP acquired a 40% interest in the Guinaoang Project of Crescent Mining and Development Corporation (Crescent) which is covered by MPSA No. 057-096-CAR. The execution sale was done in connection with the case filed by DDCP before the RTC-Makati City against Pacific Falcon Resources Corporation (Pacific Falcon) for the payment of drilling services rendered at the Guinaoang Project amounting to US$307,187. Per records of the MGB and the Joint Venture Agreement between Crescent and Pacific Falcon (formerly known as Trans Asian Resources Ltd.), Pacific Falcon has a 40% interest in the subject MPSA. DDCP had the pertinent certificate of sale registered with the MGB and requested the MGB for approval of the transfer to DDCP of Pacific Falcon's 40% interest in MPSA No. 057-096-CAR. The MGB having refused to effect such transfer, DDCP filed a motion with the RTC of Makati praying that an Order be issued directing the MGB and the DENR to amend the MPSA of Crescent to reflect DDCP's 40% interest therein, which the RTC granted, subject to the pertinent provisions of mining law and its Implementing Rules and Regulations ("IRR"). The DENR filed a petition for review of the said Order with the Court of Appeals but the same was dismissed for lack of merit. On the other hand, Crescent filed a Petition for Review with the Court of Appeals, claiming that the Decision of the RTC dated 23 April 2001 could no longer be executed because it was barred by prescription. The CA granted the petition. DDCP elevated the matter to the Supreme Court where it is pending resolution.

(j) SEC Transitional Relief in PAS 39

The SEC, in its Notice (the Notice) dated November 30, 2006 pursuant to Resolution No. 493, provided transitional relief allowing certain commodity derivative contracts of mining companies be "grandfathered" and exempted from the fair value requirements of PAS 39.

The said exemption will apply only if the following requirements are met:

1. Commodity derivative contracts entered into and effective prior to January 1, 2005;
2. Commodity derivative contracts with original maturity of more than one (1) year; and
3. Commodity derivative contracts that would have qualified under PAS 39 hedge accounting rules had these been applied at inception of such contracts.

The Parent Company notified SEC that it is availing of the exemption from compliance with PAS 39 pursuant to the Notice on its letter to SEC dated December 19, 2006.

Had the Parent Company qualified and was not exempted from PAS 39, retained earnings will be reduced and liabilities will be increased as at January 1, 2005 by ₱1,280,000.

(k) Reclassification adjustment

1. The Parent Company and its subsidiary, SI, has restated its previous year financial statements to close out the revaluation increment in land account with the balance amounting to ₱511,504, to retained earnings. The revaluation increment pertains to the remaining balance of the deemed cost adjustment on land which arose when the Group transitioned to PFRS in 2005.

   As at December 31, 2016 and 2015, the balance of retained earnings which will not be available for dividend distribution, includes the remaining balance of the deemed cost adjustment amounting to ₱471,529 and ₱511,504, respectively.

2. The consolidated financial statements reflected the proper accounting for the Group's revaluation increment in land.

3. As of December 31, 2016 and 2015, total cash investments received by FSGRI from its stockholders amounted to ₱173,000. This amount represents deposits for future stock subscriptions.

   The deposits for future stock subscription is presented as a noncurrent liability in the 2016 and 2015 financial statements since the fixed number of shares corresponding to the amount ₱173,000 has not yet been determined to date.

(l) EO No. 79

On July 12, 2012, EO No. 79 was released to lay out the framework for the implementation of mining reforms in the Philippines. The policy highlights several issues that includes area of coverage of mining, small-scale mining, creation of a council, transparency and accountability and reconciling the roles of the national government and local government units. Management believes that EO 79 has no major impact on its current operations since the mine is covered by an existing MPSA with the government. Section 1 of EO No. 79, provides that mining contracts approved before the effectivity of the EO shall continue to be valid, binding, and enforceable so long as they strictly comply with existing laws, rules and regulations and the terms and conditions of their grant.

The EO could, however, delay the processing of the Company's Application for Production Sharing Agreements given the provision of the EO on the moratorium on the granting of new mineral agreements by the government until a legislation rationalizing existing revenue sharing schemes and mechanisms shall have taken effect.

On March 7, 2013, the MGB has recommended with the DENR the lifting of DENR Memorandum Order No. 2011-01 on the suspension of acceptance of all types of mining applications. Effective March 18, 2013, MGB has started accepting mining applications for Exploration Permits (Eps) and Financial or Technical Assistance Agreement (FTAA) pursuant to DENR Administrative Order (DAO) No. 2013-11.

(m) DENR Issues on Mining Operations

In accordance with DENR Memorandum Order (DMO) No. 2016-01, *Audit of All Operating Mines and Moratorium on New Mining Projects,* the DENR conducted Mine Audit ("Audit") of the Parent Company. On 22 August 2016, the Parent Company received an audit report ("Report") signed by the Audit team leader, which Lepanto's Vice President and Resident Manager co-signed, stating that "The Company substantially complied with the pertinent provisions of the Environmental and Mining laws, rules and regulations, thus No penalty is recommended by the Team." Subsequently, the DENR transmitted to the Parent Company the results of the Audit, which included the Report and another conflicting report, albeit a draft, which recommended that a show cause be issued to the Parent Company for violation of certain laws. The Parent Company submitted its comments and other explanations to the Report in a letter dated November 3, 2016.

31. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise cash and cash equivalents and interest-bearing borrowings. The main purpose of the Group's financial instruments is to fund the Group's operations. The Group has other financial instruments such as receivables, AFS financial assets and trade and other payables, which arise directly from operations. The main risks arising from the use of financial instruments are credit risk, foreign exchange risk, interest rate risk, equity price risk, commodity price risk and liquidity risk.

The Group's BOD reviews and approves the policies for managing each of these risks and they are summarized below.

Credit Risk

Credit risk refers to the potential loss arising from any failure by counterparties to fulfill their obligations, as and when they fall due. It is inherent to the business as potential losses may arise due to the failure of its customers and counterparties to fulfill their obligations on maturity dates or due to adverse market conditions.

All gold exports when priced are practically settled on cash basis. Parent Company's existing contracts with gold refineries allow for advances of 98% of payable metals paid in two (2) working days from pricing. Full settlement is normally received within three (3) working days. For copper concentrates, Parent Company's existing contracts with smelters allow for advances of 90% of payable metals paid within two (2) to five (5) working days from pricing. Full settlement, however, takes three (3) to six (6) months.

The Parent Company enters into marketing contracts only with refineries and smelters of established international repute. Since the Parent Company became a primary gold and copper concentrates producer, it has entered into exclusive marketing contracts with Heraeus for gold and Trafigura Beheer BV and Shanghang County Jinshan Trading Co., Ltd. for copper concentrates. The Group has a significant concentration of credit risk in relation to its trade receivables from Hereaus. Such risk is managed by securing the specific approval of the BOD before entering into contracts with refineries and by assessing the creditworthiness of such refineries.

The credit risk arising from these financial assets arises from default of the counterparty, with maximum exposure equal to the carrying amount of these instruments. The Group's gross maximum exposure to credit risk is equivalent to the carrying values since there are no collateral agreements for these financial assets.

The table below shows the maximum exposure to credit risk without consideration to collaterals or other credit enhancements for the components of the consolidated statements of financial position as at December 31, 2016 and 2015.

	2016	2015
Cash with banks (Note 4)	**₱84,850**	₱65,146
Mine rehabilitation fund	**5,711**	5,441
Trade receivables (Note 5)	**116,376**	74,894
AFS financial assets (Note 10)		
Quoted instruments	**57,343**	346,471
Unquoted instruments	**130,684**	130,684
Total credit risk exposure	**₱394,964**	₱622,636

Aging analysis of the Group's financial assets as at December 31, 2016 and 2015 are summarized below:

2016	**Neither Past Due Nor Impaired**	**Past Due But Not Impaired (30-180 days)**	**Past Due and Individually Impaired**	**Total**
Cash with banks	**₱84,850**	**₱–**	**₱–**	**₱84,850**
MRF	**5,711**	**–**	**–**	**5,711**
Trade receivables	**97,815**	**4,449**	**14,112**	**116,376**
AFS financial assets				
Quoted	**57,343**	**–**	**–**	**57,343**
Unquoted	**130,684**	**–**	**–**	**130,684**
Total	**₱376,403**	**₱4,449**	**₱14,112**	**₱394,964**

2015	Neither Past Due Nor Impaired	Past Due But Not Impaired (30-180 days)	Past Due and Individually Impaired	Total
Cash with banks	₱65,146	₱–	₱–	₱65,146
MRF	5,441	–	–	5,441
Trade receivables	61,162	3,338	10,394	74,894
AFS financial assets				
Quoted	346,471	–	–	346,471
Unquoted	130,684	–	–	130,684
Total	₱608,904	₱3,338	₱10,394	₱622,636

Accordingly, the Group has assessed the credit quality of the following financial assets that are neither past due nor impaired:

- Cash with banks are assessed as high grade since the related amounts are deposited with the country's reputable banks duly approved by BOD.
- The carrying amount of MRF approximate their fair values since they are restricted cash with bank. MRF earns interest based on prevailing market rates repriced monthly. Cash with banks and other noncurrent assets are considered high-grade since these are deposited in reputable banks.
- Trade receivables, which pertain mainly to receivables from sale of ore, are assessed as high-grade. These are assessed based on past collection experience of full settlement within three days after invoice date with no history of default.
- Quoted equity shares are assessed as substandard grade due to the low performance of shares in the local stock market.

- Unquoted equity instruments are assessed as high grade as this pertain to the lone copper smelter in the country that operates in an industry which has a potential growth.

The above high grade credit quality financial assets pertain to financial assets with insignificant risk of default based on historical experience. Substandard grade credit quality financial assets pertain to financial assets with more than insignificant risk of default based on historical experience and/or counterparty credit standing.

Market Risk

Market risk is the risk of loss to future earnings, to fair values or to future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in foreign currency exchange rates, interest rates, equity prices and other market changes.

Foreign Exchange Risk

Foreign exchange risk is the risk to earnings or capital arising from changes in foreign exchange rates. The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its consolidated financial statements and consolidated statements of cash flows. The Group follows a policy to manage its currency risk by closely monitoring its cash flow position and by providing forecast on all other exposures in non-Philippine Peso currencies.

The Group sells its product to the interstates national market. All metal sales are denominated in US$. Dollar conversion of metal sales to Philippine Peso is based on the prevailing exchange rate at the time of sale. The Group also has purchase transactions denominated in AU$.

The Group's US$ and AU$ denominated monetary assets and liabilities as at December 31, 2016 and 2015 follow:

	2016		2015	
	Original Currency	**Peso Equivalent**	Original Currency	Peso Equivalent
Assets				
Cash	**US$601**	**₱29,882**	US$796	₱37,460
Trade receivables	**1,291**	**64,189**	1,185	55,766
	US$1,892	**₱94,071**	US$1,981	₱93,226
Liabilities				
Trade payables and accrued expenses	**US$8,992**	**₱447,082**	US$8,276	₱389,469
	AU$1	**36**	AU$371	12,714
Borrowings	**US$1,369**	**68,067**	US$1,000	47,060
	US$10,361	**515,149**	US$9,276	₱436,529
	AU$1	**36**	AU$371	12,714
Net liabilities in US$	**(US$8,469)**	**(₱421,078)**	(US$7,295)	(₱343,303)
Net liabilities in AU$	**(AU$1)**	**(₱36)**	(AU$371)	(₱12,714)

As at December 31, 2016 and 2015, the exchange rate of the Philippine Peso to the US$ is ₱49.72 and ₱47.06, respectively to US$1 while the exchange rate of the Philippine Peso to the AU$ is ₱35.78 and ₱34.27, respectively, to AU$1.

The sensitivity to a reasonably possible change in the US$ and AU$ exchange rate, with all other variables held constant, of the Group's income before income tax as of December 31, 2016 and 2015 is as follows:

2016	**Change in foreign exchange rate**	**Sensitivity of pretax income**
US$	**Strengthens by ₱0.65**	**₱5,505**
	Weakens by 0.48	**4,065**
AU$	**Strengthens by ₱1.05**	**₱1**
	Weakens by 0.98	**1**

2015	Change in foreign exchange rate	Sensitivity of pretax income
US$	Strengthens by ₱0.23	₱1,678
	Weakens by 0.55	4,012
AU$	Strengthens by ₱0.99	₱368
	Weakens by 0.82	305

There is no other impact on the Group's equity other than those already affecting the consolidated profit or loss.

Interest Rate Risk
The Group's exposure to the risk for changes in market interest rate relates primarily to its long-term borrowings with floating interest rates. The Group regularly monitors its exposure to interest rates movements. Management believes that cash generated from operations is sufficient to pay for its obligations under the loan agreements as they fall due.

Nominal interest rates vary from floating rate of three (3) month LIBOR plus fixed margin of 1% and Dollar prime plus margin of 3% for US$ denominated long-term borrowings and one (1)-month PDST-F rate plus 3% minimum spread on Peso denominated long-term borrowings.

Based on the historical movement of the interest rates, management believes that the reasonably possible change for the next twelve (12) months would result to an increase (decrease) of one hundred (100) basis points for 2016 and 2015. There is no other impact on the Group's equity other than those already affecting the consolidated profit or loss.

Since the amount of long-term borrowings subject to interest rate risk is immaterial relative to the consolidated financial statements, management opted not to disclose the interest rate risk sensitivity analysis for 2016 and 2015.

Equity Price Risk
Equity price risk is the risk to earnings or capital arising from changes in stock exchange indices relating to its quoted equity securities. The Group's exposure to equity price risk relates primarily to its AFS financial asset investment in POPI.

The Group's policy is to maintain its risk to an acceptable level. Movement of share price is monitored regularly to determine impact on the consolidated statements of financial position.

Based on the historical movement of the stock exchange index, management's assessment of reasonable possible change was determined to be an increase (decrease) of 13.07% in 2016 and 15.29% in 2015, resulting to a possible effect in the equity of increase (decrease) of ₱3,756 in 2016 and an increase (decrease) of ₱35,642 in 2015.

Commodity Price Risk
The Group is exposed to the risk of fluctuations in prevailing market commodity prices on the mix of mineral products it produces.

The Group's policy is to maintain the risk to an acceptable level. Movement in metal price is monitored regularly to determine the impact on its consolidated statements of financial position.

Since the amount of financial assets and liabilities subject to commodity price risk is immaterial relative to the consolidated financial statements, management opted not to disclose commodity price risk sensitivity analysis for 2016 and 2015.

Liquidity Risk
Liquidity risk arises from the possibility that the Group may encounter difficulties in raising funds to meet maturing obligations from financial instruments or that a market for derivatives may not exist in some circumstances.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of advances from related parties. The Group considers its available funds and its liquidity in managing its long-term financial requirements. For its short-term funding, the Group's policy is to ensure that there are sufficient capital inflows to match repayments of short-term debt. As part of its liquidity risk management, the Group regularly evaluates its projected and actual cash flows. It also continuously assesses conditions in the financial markets for opportunities to pursue fund raising activities, in case any requirements arise. Fund raising activities may include bank loans and capital market issues. Accordingly, its loan maturity profile is regularly reviewed to ensure availability of funding through an adequate amount of credit facilities with financial institutions.

The table below summarizes the maturity analysis of the Company's financial assets as at December 31, 2016 and 2015 that are used to manage the liquidity risk of the Company:

2016	**On demand**	**Less than 3 months**	**3 to 6 months**	**6 to 12 months**	**1 to 2 Years**	**More than 2 years**	**Total**
Cash in banks	**₱84,850**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱84,850**
Trade receivables	**96,977**	**5,207**	**80**	**–**	**–**	**14,112**	**116,376**
Total	**₱181,827**	**₱5,207**	**₱80**	**₱–**	**₱–**	**₱14,112**	**₱201,226**

2015	On demand	Less than 3 months	3 to 6 months	6 to 12 months	1 to 2 Years	More than 2 years	Total
Cash in banks	₱65,146	₱–	₱–	₱–	₱–	₱–	₱65,146
Trade receivables	55,773	–	19,121	–	–	–	74,894
Total	₱120,919	₱–	₱19,121	₱–	₱–	₱–	₱140,040

The table below summarizes the maturity profile of the Group's financial liabilities as at December 31, 2016 and 2015 based on contractual undiscounted payments. Long-term debt consists of principal and future interest payments.

2016	**On demand**	**Less than 3 months**	**3 to 6 months**	**6 to 12 months**	**1 to 2 Years**	**More than 2 years**	**Total**
Trade and other payables	**₱1,197,766**	**₱282,315**	**₱70,456**	**₱46,309**	**₱2,755**	**₱3,283**	**₱1,602,884**
Borrowings	**–**	**–**	**–**	**68,065**	**–**	**–**	**68,065**
	₱1,197,766	**₱282,315**	**₱70,456**	**₱114,374**	**₱2,755**	**₱3,283**	**₱1,670,949**

2015	On demand	Less than 3 months	3 to 6 months	6 to 12 months	1 to 2 Years	More than 2 years	Total
Trade and other payables	₱920,893	₱293,201	₱126,092	₱5,485	₱499	₱39,063	₱1,385,233
Borrowings	–	–	–	–	43,522	–	43,522
	₱920,893	₱293,201	₱126,092	₱5,485	₱44,021	₱39,063	₱1,428,755

Fair Values

PFRS defines fair value as 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. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models, as appropriate.

Cash and Cash Equivalents, Trade Receivables and Trade and Other Payables

The carrying amounts of cash and cash equivalents, receivables and trade and other payables, which are all subject to normal trade credit terms and are short-term in nature, approximate their fair values.

AFS Financial Assets

Fair values of investments are estimated by reference to their quoted market price at the end of the reporting period. Unquoted equity securities are carried at cost, net of impairment in value, since fair value of these AFS securities cannot be reliably determined as these securities are not listed and have no available bid price.

Loans Payable and Borrowings

The outstanding short-term borrowings and long-term borrowings as at December 31, 2016 and 2015 bear floating rates that are repriced monthly and quarterly.

The fair value of the interest bearing long-term debt in 2015 and 2014 is based on the discounted value of future cash flows using the applicable rates for the similar types of loans. For floating rate long-term borrowings which are repriced quarterly, the fair value is determined by discounting the principal amount plus the next interest payment using the prevailing market rate for the period up to the next repricing date.

Financial Instruments

PFRS defines fair value as 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. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models, as appropriate.

Fair Values of Financial Instruments

The following table shows the carrying values and fair values of the Group's financial instruments, whose carrying values does not approximate its fair values as at December 31 of each year:

	Carrying Values		Fair Values	
	2016	2015	**2016**	2015
Other Financial Liability				
Short-term debt	**₱68,065**	–	**₱68,065**	–

Cash, Receivables and Trade and Other Payables

The carrying amounts of cash, short-term investments, trade receivables and trade and other payables approximate their fair values due to the short-term nature of these financial instruments accounts.

AFS Financial Assets

The fair value of quoted equity instrument is determined by reference to market bid quotes at the end of the reporting period. For unquoted equity securities for which no reliable basis of fair value measurement is available, these are carried at cost, less any impairment losses.

Long-term Borrowings

Fair value of long-term debt and other interest-bearing liabilities is estimated using the discounted cash flow methodology using the benchmark risk free rates for similar types of long-term debt and other interest-bearing liabilities.

The Group uses the following hierarchy for determining and disclosing the fair value by valuation technique:

- Quoted prices in active markets for identical asset or liability (Level 1);
- Those involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and
- Those inputs for asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The fair value hierarchy of the financial assets and liabilities as at December 31of each year is presented as follows:

2016	**Level 1**	**Level 2**	**Level 3**	**Total**
AFS financial asset	**₱57,343**	**₱–**	**₱130,684**	**₱188,027**
Short-term debt	**–**	**–**	**(68,065)**	**(68,065)**
	₱57,343	**₱–**	**₱62,619**	**₱119,962**

2015	Level 1	Level 2	Level 3	Total
AFS financial asset	₱346,471	₱–	₱130,684	₱477,155
Long-term debt	–	–	(43,522)	(43,522)
	₱346,471	₱–	₱87,162	₱433,633

There were no transfers between levels of fair value measurement as at December 31, 2016 and 2015.

32. Capital Management

The primary objective of the Group's capital management is to ensure that the Group maintains positive cash balance in order to support their businesses, pay existing obligations and maximize shareholder value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may obtain additional advances from stockholders or issue new shares. No changes were made in the objectives, policies or processes during the year ended December 31, 2016 and 2015. The Group monitors capital using the consolidated financial statements.

As at December 31, 2016 and 2015, the Group's capital, which is composed of common shares and additional paid-in capital, amounted to ₱9,470,937.

33. Segment Information

The primary segment reporting format is determined to be business segments as the Group's risks and rates of return are affected predominantly by differences in the products and services produced. The operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. The Group derives revenue from the following main operating business segments:

Mining Activities
This segment engages in 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.

Service
This segment derives its income from drilling, hauling and sawmilling services to its related and outside parties.

Others
This segment is engaged in the trading, manufacturing, investing and insurance broker activities of the Group.

Transfer prices between business segments are set on an arm's-length basis in a manner similar to transactions with third parties. Segment revenue, segment expense and segment result include transfers between business segments. Those transfers are eliminated in consolidation.

The Group operates and generates revenue principally in the Philippines. Thus, geographical segmentation is not required.

The following tables present certain information regarding the Group's operating business segments:

2016	**Mining**	**Service**	**Others**	**Elimination**	**Total**
Revenue from external customers:					
Sale of metals - net	**₱1,431,928**	**₱–**	**₱–**	**₱–**	**₱1,431,928**
Others	**4,304**	**78,697**	**19,127**	**–**	**102,128**
Inter-segment revenue	**–**	**403,776**	**11,204**	**(414,980)**	**–**
Segment revenue	**1,436,232**	**482,473**	**30,331**	**(414,980)**	**1,534,056**
Cost and operating expenses	**(2,049,558)**	**(138,474)**	**(36,453)**	**–**	**(2,224,485)**
Inter-segment expenses	**(108,846)**	**(310,122)**	**(2,667)**	**421,635**	**–**
Share in operating results of associates	**–**	**–**	**–**	**(6,752)**	**(6,752)**
Income (loss) before income tax	**(722,172)**	**33,877**	**(8,789)**	**(97)**	**(697,181)**
Finance cost, net of other income	**(109,697)**	**(8,265)**	**71,905**	**–**	**(46,057)**
Inter-segment expenses	**6,427**	**295**	**–**	**(6,722)**	**–**
Provision for income tax	**20,268**	**(8,371)**	**(2,228)**	**–**	**9,669**
Inter-segment provision for income tax	**–**	**–**	**–**	**–**	**–**
Net income (loss)	**(₱805,174)**	**₱17,536**	**₱60,888**	**(₱6,819)**	**(₱733,569)**

2016	**Mining**	**Service**	**Others**	**Elimination**	**Total**
Segment assets	**₱16,041,601**	**₱576,711**	**₱778,648**	**(₱918,028)**	**₱16,478,932**
Investments and advances to associate	**960,819**	**–**	**110,499**	**(510,113)**	**561,205**
Segment liabilities	**(9,333,059)**	**(451,201)**	**(248,385)**	**434,606**	**(9,598,039)**
Depreciation	**701,425**	**41,273**	**7,076**		**749,774**
Capital expenditures:					
Tangible fixed assets	**6,286,235**	**164,914**	**16,490**	**54,819**	**6,522,458**
Intangible assets	**310,809**	**–**	**362,552**	**–**	**673,361**
Cash flows arising from (used in):					
Operating activities	**354,318**	**103,515**	**(109,892)**	**(26,521)**	**321,420**
Investing activities	**(413,405)**	**(107,199)**	**109,019**	**47,336**	**(364,249)**
Financing activities	**72,480**	**–**	**150**	**1,106**	**73,736**

2015	Mining	Service	Others	Elimination	Total
Revenue from external customers:					
Sale of metals - net	₱1,146,416	₱–	₱–	₱–	₱1,146,416
Others	6,210	42,432	17,844	–	66,486
Inter-segment revenue	–	235,284	12,715	(247,999)	–
Segment revenue	1,152,626	277,716	30,559	(247,999)	1,212,902
Cost and operating expenses	(1,875,951)	(64,599)	(34,164)	–	(1,974,714)
Inter-segment expenses	(55,368)	(193,508)	(2,984)	251,860	–
Share in operating results of associates	–	–	–	(20,579)	(20,579)
Income (loss) before income tax	(778,693)	19,609	(6,589)	(16,718)	(782,391)
Finance cost, net of other income	(56,733)	(3,052)	830	–	(58,955)
Inter-segment expenses	5,806	297	58,403	(64,506)	–
Provision for income tax	(12,163)	(5,623)	(244)	–	(18,030)
Inter-segment provision for income tax	–	–	(18,763)	18,763	–
Net income (loss)	(₱841,783)	₱11,231	₱33,637	(₱62,461)	(₱859,376)

2015	Mining	Service	Others	Elimination	Total
Segment assets	₱16,440,319	₱619,266	₱720,854	(₱786,548)	₱16,993,891
Investments and advances to associate	960,062	–	110,499	(503,730)	566,831
Segment liabilities	(9,115,992)	(512,672)	(252,832)	314,396	(9,567,100)
Depreciation	684,929	17,620	6,192	–	708,741
Capital expenditures:					
Tangible fixed assets	6,069,296	98,551	23,537	54,819	6,246,203
Intangible assets	325,005	–	403,287	–	728,292
Cash flows arising from (used in):					
Operating activities	(91,221)	42,274	7,587	98,982	57,622
Investing activities	(803,508)	(73,237)	(7,117)	(23,710)	(907,572)
Financing activities	576,301	37,500	200	(82,946)	531,055

2014	Mining	Service	Others	Elimination	Total
Revenue from external customers:					
Sale of metals - net	₱1,428,634	₱–	₱–	₱–	₱1,428,634
Others	4,217	30,649	15,938	–	50,804
Inter-segment revenue	–	120,919	16,071	(136,990)	–
Segment revenue	1,432,851	151,568	32,009	(136,990)	1,479,438
Cost and operating expenses	(2,014,103)	(139,140)	(33,932)	90,980	(2,096,195)
Share in operating results of associates	–	–	–	(13,481)	(13,481)
Income (loss) before income tax	(581,252)	12,428	(1,923)	(59,491)	(630,238)
Finance cost, net of other income	(52,658)	(746)	(2,873)	–	(56,277)
Provision for income tax	(19,124)	(4,390)	(402)	–	(23,916)
Net income (loss)	(₱653,034)	₱7,292	(₱5,198)	(₱59,491)	(₱710,431)

2014	Mining	Service	Others	Elimination	Total
Segment assets	₱16,387,392	₱592,386	₱669,754	(₱740,432)	₱16,909,100
Investments and advances to associate	–	–	–	683,665	683,665
Segment liabilities	(9,116,894)	(532,087)	(235,012)	365,322	(9,518,671)
Depreciation	693,852	3,537	10,738	–	708,127
Capital expenditures:					
Tangible fixed assets	6,302,991	10,327	42,323	–	6,355,641
Intangible assets	324,941	403,287	250	–	728,478
Cash flows arising from (used in):					
Operating activities	(15,691)	11,712	(2,207)	–	(6,186)
Investing activities	(840,120)	(1,024)	(26,308)	–	(867,452)
Financing activities	126,775	–	25,706	–	152,481

34. Events After End of Reporting Period

a. DENR Issues on Mining Operations

On February 14, 2017, the Parent Company received Notice of Issuance of an Order ("Order") from DENR suspending its mining operation under MPSA No. 001-90-CAR covering the area in Mankayan, Benguet and directing the Parent Company to implement appropriate mitigating measures within the period of not more than three (3) months from receipt of Order. The Order states that the Parent Company violated certain provisions of the following laws, rules and regulations:

- PD. No. 1586 entitled "Establishing an Environmental Impact Statement System including other Environmental Management related Measures and for other Purposes";

  DAO No. 2003-30 or the IRR of the Philippine Environmental Impact Statement System; and

- Rep. Act No. 7942, otherwise known as "The Philippine Mining Act of 1995";

  DAO No. 2010-21 or the "Revised Implementing Rules and Regulations of Rep Act. 7942, otherwise known as the Philippine Mining Act of 1995"; and

  DAO No. 2000-98 or the Mine Safety and Health Standards.

On the same date, the Parent Company filed a Notice of Appeal with the Office of the President in accordance with Administrative Order No. 22, Series of 2011, which filing effectively stayed the execution of the Order. On March 15, 2017, the Parent Company filed its Memorandum on Appeal with the Office of the President, praying for the reversal of the

Order and that the same be declared null and void on the following grounds; i) the DENR Secretary is without authority or power to issue the Order; ii) assuming, without admitting, that the DENR Secretary has the power to issue the Order, her imposition of the penalty of suspension upon the Parent Company is without basis in fact and in law; and iii) the DENR Secretary violated the Parent Company's right to due process of law when the DENR issued the Order. As of March 20, 2017, the Parent Company did not received any response from DENR and Office of the President.

SGV
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BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULE

The Board of Directors and the Stockholders
Lepanto Consolidated Mining Company and Subsidiaries
21st Floor, Lepanto Building
Paseo de Roxas, Makati City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Lepanto Consolidated Mining Company and Subsidiaries as at December 31, 2016 and 2015, and for each of the three years in the period ended December 31, 2016, included in this Form 17-A, and have issued our report thereon dated March 20, 2017. Our audits were made for the purpose of forming an opinion on the 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 Company'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 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.

Jaime F. del Rosario
Partner
CPA Certificate No. 56915
SEC Accreditation No. 0076-AR-4 (Group A),
May 1, 2016, valid until May 1, 2019
Tax Identification No. 102-096-009
BIR Accreditation No. 08-001998-72-2015,
March 24, 2015, valid until March 23, 2018
PTR No. 5908689, January 3, 2017, Makati City

March 20, 2017

LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES
ANNUAL AUDITED FINANCIAL REPORT
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DECEMBER 31, 2016

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SCHEDULE I
RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION PURSUANT TO SRC RULE 68, AS AMENDED AND SEC MEMORANDUM CIRCULAR NO.11
As of December 31, 2016
(Amounts in thousands)

Unappropriated Retained Earnings, beginning		(₱1,728,477)
Adjustments (see adjustments in previous year's reconciliation		(513,354)
Unappropriated Retained Earnings, as adjusted, beginning		(2,241,831)
Add: Net loss actually earned/realized during the period	(740,791)	
Net loss during the period closed to Retained Earnings		
Less: Non-actual/unrealized income net of tax	–	
Equity in net income of associate/joint venture	6,752	
Unrealized foreign exchange gain - net (except those attributable to cash and cash equivalents)	1,466	
Fair value adjustment (mark-to-market gains)	–	
Fair value adjustment of investment property resulting to gain	–	
Adjustment due to deviation from PFRS/GAAP – gain	–	
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under PFRS	346,202	
Subtotal	(386,371)	
Add: Non-actual losses		
Depreciation on revaluation increment (after tax)	–	
Adjustment due to deviation from PFRS/GAAP – loss	–	
Loss on fair value adjustment of investment property (after tax)	–	
Subtotal	–	
Net loss actually incurred during the period	(386,371)	
Add (Less):		
Dividend declarations during the period	–	
Appropriations of retained earnings during the period	(471,529)	
Reversals of appropriations	–	
Effects of prior period adjustments	–	
Treasury shares	–	
Subtotal	(471,529)	**(857,900)**
TOTAL RETAINED EARNINGS, END AVAILABLE FOR DIVIDEND		**₱–†**

†Amount is zero since the reconciliation results to a deficit

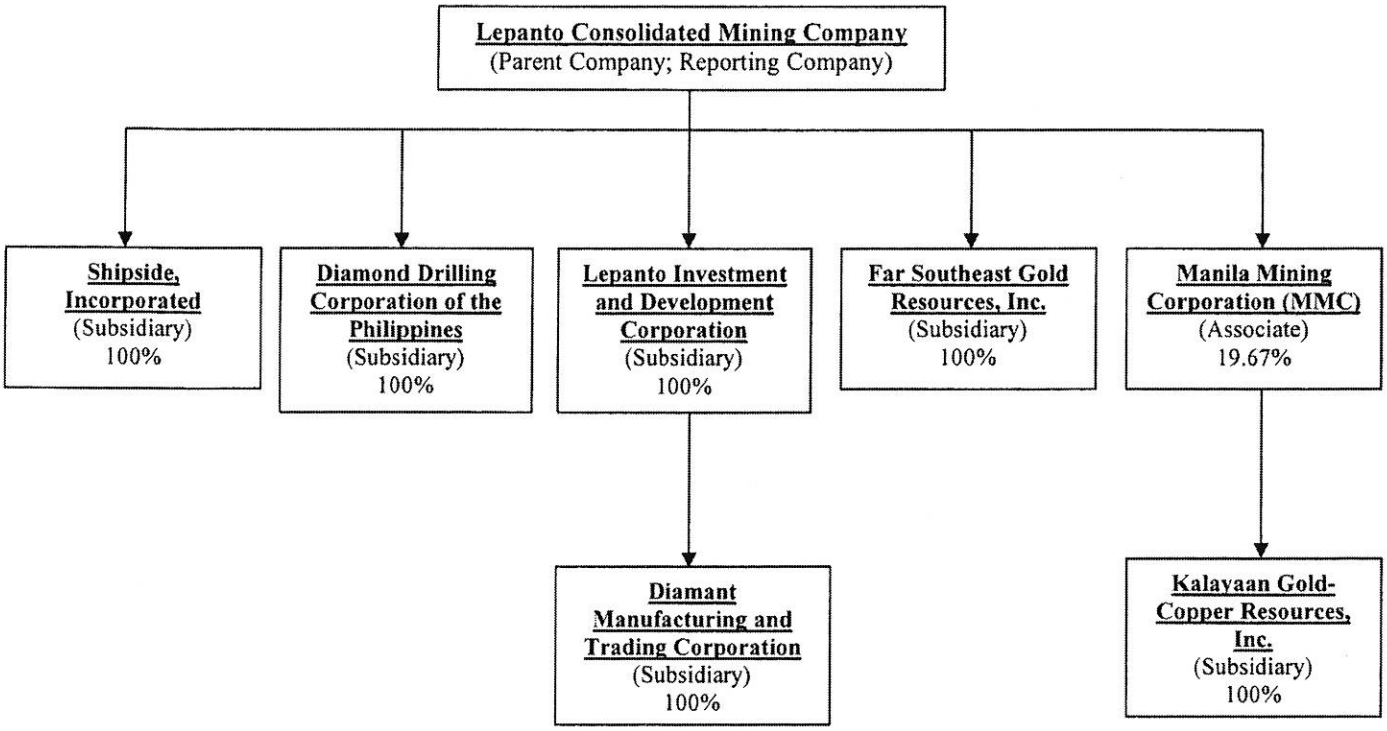
SCHEDULE II
LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES
FINANCIAL RATIOS PURSUANT TO SRC RULE 68, AS AMENDED
DECEMBER 31, 2016

	2016	2015
Profitability Ratios:		
Return on assets	**(4.38%)**	(5.07%)
Return on equity	**(10.25%)**	(11.60%)
Gross profit margin	**(29.74%)**	(42.29%)
Net profit margin	**(47.82%)**	(70.85%)
Liquidity and Solvency Ratios:		
Current ratio	**1.08:1**	1.37:1
Quick ratio	**0.20:1**	0.26:1
Solvency ratio	**(0.076:1)**	(0.090:1)
Financial Leverage Ratios:		
Asset to equity ratio	**2.39:1**	2.29:1
Debt to equity ratio	**1.39:1**	1.29:1
Interest coverage ratio	**0.02:1**	0.14:1

SCHEDULE III

LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES

MAP OF THE RELATIONSHIPS OF THE COMPANIES WITHIN THE GROUP
PURSUANT TO SRC RULE 68, AS AMENDED
DECEMBER 31, 2016



SCHEDULE IV
LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES
TABULAR SCHEDULE OF EFFECTIVE STANDARDS AND INTERPRETATIONS UNDER THE PFRS PURSUANT TO SRC RULE 68, AS AMENDED DECEMBER 31, 2016

I. List of Philippine Financial Reporting Standards (PFRSs) [which consist of PFRSs, Philippine Accounting Standards (PASs) and Philippine Interpretations] and Philippine Interpretations Committee (PIC) Q&As effective as at December 31, 2016:

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2016		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
PFRSs Practice Statement Management Commentary		✓		
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards			✓
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
	Amendments to PFRS 2: Definition of vesting condition			✓
	Amendments to PFRS 2: Classification and Measurement of Share-based payment transactions			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2016		Adopted	Not Adopted	Not Applicable
PFRS 3 (Revised)	Business Combinations	✓		
	Amendment to PFRS 3: Accounting for contingent consideration in a business combination			✓
	Amendments of PFRS 3: Scope for Joint Ventures			✓
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PFRS 4: Applying PFRS 9 Financial Instruments with PFRS 4, Insurance contracts*			✓
PFRS 5	Noncurrent Assets Held for Sale and Discontinued Operations			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources	✓		
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition			✓
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities			✓
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures			✓
	Amendments to PFRS 7: Servicing contracts	✓		
	Amendments to PFRS 7: Applicability to the condensed interim financial statements			✓
PFRS 8	Operating Segments	✓		
	Amendments to PFRS 8: Aggregation of operating segments	✓		
	Amendments to PFRS 8: Reconciliation of the total reportable segments' assets to entity's assets	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2016		Adopted	Not Adopted	Not Applicable
PFRS 9	Financial Instruments (2014 version)*	Not early adopted		
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures	Not early adopted		
	Financial Instruments Hedge Accounting and amendments to PFRS 9, PFRS 7 and PAS 39*	Not early adopted		
PFRS 10	Consolidated Financial Statements	✓		
	Amendments to PFRS 10: Consolidated Financial Statements – Investment Entities	✓		
	Amendments to PFRS 10: Investment Entities: Applying the Consolidation Exception	✓		
	Amendments to PFRS 10: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	Not early adopted		
PFRS 11	Joint Arrangements	✓		
	Amendments to PFRS 11: Accounting for Acquisition of Interest in Joint Operation	✓		
PFRS 12	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 12: Investments Entities: Applying the Consolidation Exception	✓		
PFRS 13	Fair Value Measurement	✓		
	Amendments to PFRS 13: Portfolio Exceptions	✓		
PFRS 14	Regulatory Deferral Accounts	✓		
PFRS 15	Revenue from contracts with customers	✓		
	Amendments to PFRS 15: Clarification to PFRS 15*	Not early adopted		
PFRS 16	Leases	✓		
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendments to PAS 1: Disclosure Initiative	✓		
PAS 2	Inventories	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2016		Adopted	Not Adopted	Not Applicable
PAS 7	Statement of Cash Flows	✓		
	Amendments to PAS 7: Disclosure Initiative*	Not early adopted		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Balance Sheet Date	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✓		
	Amendments to PAS 12: Recognition of Deferred Tax Assets for Unrealized Losses*	Not early adopted		
PAS 16	Property, Plant and Equipment	✓		
	Amendments to PAS 16: Revaluation method proportionate restatement of accumulated depreciation	✓		
	Amendments to PAS 16: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
	Amendments to PAS 16: Agriculture: Bearer of Plants			✓
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19	Employee Benefits	✓		
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures			✓
PAS 19 (Amended)	Employee Benefits	✓		
	Amendments to PAS 19: Discount rate: regional market issue	✓		
	Amendments to PAS19: Defined Benefit Plans – Employee Contribution			✓
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation			✓
PAS 23 (Revised)	Borrowing Costs			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2016		Adopted	Not Adopted	Not Applicable
PAS 24 (Revised)	Related Party Disclosures	✓		
	Amendments to PAS 24: Key Management Personnel	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27 (Amended)	Separate Financial Statements	✓		
	Amendments to PAS 27: Equity Method in Separate Financial Statements	✓		
PAS 28 (Amended)	Investments in Associates and Joint Ventures	✓		
	Amendments to PAS 28: Sale or Contribution of Assets between and Investor and its Associate or Joint Venture*	Not early adopted		
	Amendments to PAS 28: Investment Entities: Applying the Consolidation Exception	✓		
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 32: Classification of Rights Issues			✓
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities			✓
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting			✓
	Amendment to PAS 34: Disclosure of information 'elsewhere in the interim financial support			✓
PAS 36	Impairment of Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
	Amendment to PAS 38: Revaluation method proportionate restatement of accumulated	✓		
	Amendments to PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2016		Adopted	Not Adopted	Not Applicable
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition			✓
	Amendments to Philippine Interpretation IFRIC 9 and PAS 39: Embedded Derivatives			✓
	Amendment to PAS 39: Eligible Hedged Items			✓
PAS 40	Investment Property			✓
	Amendment to PAS 40: Clarifying the interrelationship between PFRS 3 and PAS 40 when classifying property as investment property or owner-occupied property			✓
PAS 41	Agriculture			✓
	Amendments to PAS 41: Agriculture: Bearer Plants			✓
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities	✓		
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	✓		
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
IFRIC 8	Scope of PFRS 2			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2016		Adopted	Not Adopted	Not Applicable
IFRIC 9	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓
IFRIC 10	Interim Financial Reporting and Impairment			✓
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement			✓
IFRIC 15	Agreements for Construction of Real Estate			✓
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners			✓
IFRIC 18	Transfers of Assets from Customers			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies			✓
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-15	Operating Leases - Incentives			✓
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			✓
SIC-29	Service Concession Arrangements: Disclosures.			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs			✓

*Standards or amendments which will be effective subsequent to December 31, 2016

SCHEDULE A

LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES
FINANCIAL ASSETS
DECEMBER 31, 2016

Name of issuing entity and association of each issue	Number of shares or principal amounts of bonds and notes	Amount shown in the balances sheet (figures in thousands)	Income received and accrued
AFS Financial Assets:			
Prime Orion Philippines, Inc.	21,491,225	₱41,321,798	₱–
Philippine Associated Smelting & Refining Corp.	37,407,798	37,408	–
Filsyn Corp.	4,545,034	–	–
Philippine Fire and Marine Insurance Corp.	330,613	81,982	–
Manila Peninsula Hotel	1,304,632	10,395	–
Crown Fruits	20,000	–	–
Alabang Country Club Inc.	1	3,800	–
Canlubang Golf & Country Club Inc.	1	900	–
Club Filipino	1	170	–
Makati (Sports) Club Inc.	1	400	–
Manila Polo Club	1	13,000	–
PHILAM Properties Corp.	1	500	–
Others	1	8	–

SCHEDULE B

LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES

AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)

DECEMBER 31, 2016

Name and Designation of Debtor	Balance at Beginning period	Additions	Amounts Collected	Amounts Written off	Current	Not Current	Balance at end of period
			NOT APPLICABLE				

SCHEDULE C

LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES
AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS
DECEMBER 31, 2016

Name and Designation of Debtor	Balance at Beginning of period	Additions	Amounts Collected / Settled	Amounts Written off	Current	Not Current	Balance at end period
DDCP	₱142,282,698	₱394,092,802	₱394,510,550	₱–	₱141,864,950	₱–	₱141,864,950
FSGRI	95,461,296	8,814,694	103,448,756	–	827,234	–	827,234
SSI	–	21,445,244	21,445,244	–	–	–	–
DMTC	1,953,719	1,945,951	1,535,252	–	2,364,418	–	2,364,418
LIDC	88,755,103	150,016	–	–	88,905,119	–	88,905,119

SCHEDULE D

LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES
INTANGIBLE ASSETS - OTHER ASSETS
DECEMBER 31, 2016

Description	Beginning balance	Additions at cost	Charged to cost and expenses	Charged to other accounts	Other changes additions (deductions)	Ending balance
Intangible Asset	₱–	₱8,382,165	₱1,117,622	₱–	₱–	₱7,264,543

SCHEDULE E

LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES
LONG TERM DEBT
DECEMBER 31, 2016

Title of Issue and type of obligation	Amount authorized by Indenture	Amount shown under the caption "Current Portion of long-term borrowings" in related balance sheet	Amount shown under the caption "Long-term borrowings- net of current portion" in related balance sheet
Statham Capital Corporation - *Gold Delivery Agreement*	₱–	₱49,720,000	₱–
Bank of Commerce - *FCDU Loan Payable*	–	18,346,680	–

SCHEDULE F

LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES
INDEBTEDNESS TO RELATED PARTIES
(LONG-TERM LOANS FROM RELATED COMPANIES)
DECEMBER 31, 2016

Name of Related Party	Balance at beginning of period	Balance at end of period
NOT APPLICABLE		

SCHEDULE G

LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES
GUARANTEES OF SECURITIES OF OTHER ISSUERS
DECEMBER 31, 2016

Name of issuing entity of securities guaranteed by the company for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding	Amount owed by person for which statement is filed	Nature of guarantee

NOT APPLICABLE

SCHEDULE H

LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES
CAPITAL STOCK
DECEMBER 31, 2016

The Parent Company's authorized share capital is ₱6.64 billion divided into 66.4 billion shares at ₱0.10 par value each, consisting of 39.8 billion Class "A" and 26.6 billion Class "B" common shares. As at December 31, 2016, total shares issued and outstanding is 51,365,964,553 held by 27,958 shareholders.

Title of Issue	Number of shares authorized	Number of shares issued and outstanding as shown under related balance sheet caption	Number of shares reserved for options, warrants, conversions and other rights	Related parties	No of shares held by Directors and Officers	Others
Common Stock						
Class A	39,840,000,000	30,819,595,359	–	30,920	675,763,141	30,143,801,298
Class B	26,560,000,000	20,546,369,194	–	783,523	218,609,422	20,326,976,249

COVER SHEET

1 0 1

S.E.C. Registration Number

L E P A N T O C O N S O L I D A T E D M I N I N G C O

(Company's Full Name)

2 1 S T F L O O R L E P A N T O B U I L D I N G

8 7 4 7 P A S E O D E R O X A S

M A K A T I C I T Y

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

ODETTE A. JAVIER

Contact Person

815-9447

Company Telephone Number

1 2 3 1

Month Day

Fiscal Year

1 7 - Q

FORM TYPE

3rd Monday of April

Month Day

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total no. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

Remarks = please use **black ink** for scanning purposes

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended: **September 30, 2017**

2. Commission identification number: **101** 3. BIR Tax Identification No.: **000-160-247**

4. Exact name of issuer as specified in its charter:

LEPANTO CONSOLIDATED MINING COMPANY

5. Province, country or other jurisdiction of incorporation or organization:
Makati City, Philippines

6. Industry Classification Code: [ ] (SEC Use Only)

7. Address of issuer's principal office:

21st Floor, Lepanto Building
8747 Paseo de Roxas, Makati City, Philippines

8. Issuer's telephone number, including area code:

(632) – 815-9447

9. Former name, former address and former fiscal year, if changed since last report: **N/A**

10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

Title of each Class	Number of shares of common stock outstanding:
Class "A"	**32,815,484,914**
Class "B"	**21,881,305,295**

Amount of Debt Outstanding: **Please refer to the attached Balance Sheet (Annex "B")**

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

Yes [**x**] No [ ]

If yes, state the name of such Stock Exchange and the class/es of securities listed therein.

Philippine Stock Exchange **Classes "A' and "B"**

12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports)

Yes [**x**] No [ ]

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

Yes [ ] No [**x**]

PART I- FINANCIAL INFORMATION

Item 1. Financial Statements:	*Income Statement*	- ***Annex "A"***
	Balance Sheet	- ***Annex "B"***
	Statement of Cash Flow	- ***Annex "C"***
	Stockholders' Equity	- ***Annex "D"***
	Notes to Financial Statements	- ***Annex "E"***
	Aging of Accounts Receivable-Trade	- ***Annex "F"***
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations		- ***Annex "G"***
Item 3. Impact of Current Global Financial Condition		- ***Annex "H"***
Item 4. Financial Ratios		- ***Annex "I"***

PART II- OTHER INFORMATION (None)

SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Issuer	:	**LEPANTO CONSOLIDATED MINING COMPANY**
Signature	:	**RAMON T. DIOKNO**
Title	:	Chief Finance Officer
Date	:	November 16, 2017
Signature	:	**ODETTE A. JAVIER**
Title	:	Vice President/Assistant Corporate Secretary
Date	:	November 16, 2017

ANNEX "A"

LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES
STATEMENT OF INCOME
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017
(With Comparative Figures for 2016)
(Amounts In Thousand , Except Loss Per Share)

	FOR THE THIRD QUARTER		FOR NINE MONTHS ENDED SEPTEMBER 30	
	2017	2016	2017	2016
REVENUES				
Sale of metals	P 415,930	P 388,411	P 1,068,289	P 1,046,847
Service fees and other operating income	(14,254)	38,653	34,325	74,348
	401,676	427,064	1,102,614	1,121,195
COSTS AND EXPENSES				
Mining, milling, smelting, refining and and other related charges; administrative expenses; depreciation, amortization and depletion; and other charges	(585,354)	(592,882)	(1,651,544)	(1,658,721)
LOSS FROM OPERATIONS	(183,678)	(165,818)	(548,930)	(537,526)
FINANCE COST, net	(5,117)	(4,961)	(15,945)	(16,010)
FOREIGN EXCHANGE GAINS (LOSS) - net	(2,764)	938	(8,507)	802
OTHER INCOME, net	(1,280)	1,856	1,576	79,961
SHARE IN NET LOSSES OF ASSOCIATES	(122)	(247)	(856)	(21,468)
LOSS BEFORE INCOME TAX	(192,961)	(168,232)	(572,662)	(494,241)
PROVISION FOR (BENEFIT FROM) INCOME TAX				
CURRENT	44	349	118	6,309
DEFERRED	56	(38)	(6)	0
	100	311	112	6,309
NET LOSS	P (193,061)	P (168,543)	P (572,774)	P (500,550)
Attributable to:				
Stockholders of the parent company	(193,013)	(168,495)	P (572,417)	P (500,387)
Non-controlling interests	(48)	(48)	(357)	(163)
Net Loss	P (193,061)	P (168,543)	P (572,774)	P (500,550)
LOSS PER SHARE attributable to stockholders of the parent company Basic & Diluted	(0.00376)	(0.00328)	(0.01115)	(0.00974)
	(-P193,013,195 / 51,355,248,170 shares)	(-P168,495,091 / 51,355,248,170 shares)	(-(P572,417,761) / 51,355,248,170 shares)	(-P500,387,010 / 51,355,248,170 shares)

ANNEX "B"

LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Amounts in thousands)

	SEPTEMBER 30 2017	*DECEMBER 31 2016
ASSETS		
CURRENT ASSETS		
Cash and cash equivalent	P 138,467	P 86,234
Receivables, net	308,746	241,474
Inventories, net	503,694	430,008
Advances to suppliers and contractors	491,809	335,866
Other current assets	703,967	641,493
Total current assets	2,146,683	1,735,075
NON-CURRENT ASSETS		
Property, plant and equipment, net	7,216,682	7,195,819
Available-for-sale financial assets	188,027	188,027
Investments and advances in associates	573,808	561,205
Mine exploration cost	6,491,711	6,302,261
Deferred income tax assets	417,273	419,371
Other noncurrent assets	102,175	77,174
Total non-current assets	14,989,676	14,743,857
Total assets	P 17,136,359	P 16,478,932
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Trade and other payables	P 1,984,952	P 1,511,539
Short-term borrowings	228,811	68,065
Unclaimed dividends	26,695	26,695
Income tax payable	133	5,561
Total current liabilities	2,240,591	1,611,860
NON-CURRENT LIABILITIES		
Advances from Far Southeast Services Limited	5,974,948	5,933,221
Long-term borrowings	156,609	-
Liability for mine rehabilitation cost	66,995	64,748
Retirement benefit obligations	1,606,127	1,682,674
Deferred income tax liabilities	224,888	224,894
Stock subscriptions payable	11,443	11,443
Deposit for future stock subscriptions	69,200	69,200
Total non-current liabilities	8,110,210	7,986,180
Total liabilities	10,350,801	9,598,040
EQUITY		
Capital stock	5,469,706	5,134,706
Additional paid-in capital	4,499,345	4,336,231
Re-measurement loss on retirement plan	(418,303)	(416,988)
Cumulative changes in fair values of AFS investments	38,665	38,665
Deficit	(3,061,043)	(2,469,268)
	6,528,370	6,623,346
Non-controlling interests	257,188	257,546
Total equity	6,785,558	6,880,892
Total liabilites and equity	P 17,136,359	P 16,478,932

* - **AUDITED**

LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017

(With comparative figures for 2016)
(Amounts in thousand pesos)

	FOR THE QUARTER ENDED ENDED SEPTEMBER 30		FOR NINE MONTHS ENDED SEPTEMBER 30	
	2017	2016	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES				
Loss before tax	P (192,961)	F (168,232)	P (572,662)	F (494,241)
Adjustments for:				
Depreciation and depletion	210,886	184,871	577,856	567,057
Equity in net losses of affiliated companies	121	247	856	889
Foreign exchange losses (income), net	8,507	(1,552)	8,507	(1,416)
Provision for retirement benefit cost	379	1,231	2,910	3,481
Re-measurement gain on retirement plan	(1,315)	-	(1,315)	-
Deferred income tax assets, net	2,154	(38)	2,092	-
Loss (gain) on sale of asset	1,535	-	1,535	(4)
Interest income	(39)	(18)	(140)	(54)
Interest expense	5,117	4,961	15,945	16,010
Provision for income tax	(100)	(311)	(112)	(6,309)
Operating income before changes in working capital	34,284	21,159	35,473	85,414
Decrease (Increase) in:				
Receivables and advances to suppliers	(105,282)	(4,183)	(223,643)	(11,996)
Inventories and PPE	(61,621)	146,285	(143,247)	442,965
Prepayments and other assets	(1,565)	(20,790)	(87,475)	(21,294)
Increase (Decrease) in:				
Accounts payable and accrued expenses	547,266	70,892	438,457	341,185
Liability for mine rehabilitation cost	749	720	2,247	2,161
Cash generated from operations	413,831	214,083	21,811	838,434
Retirement benefits paid	(30,538)	(21,591)	(79,457)	(67,505)
Interest received	39	18	140	54
Net cash provided by (used in) operating activities	383,332	192,510	(57,506)	770,983
CASH FLOWS FROM INVESTING ACTIVITIES				
Investments, net	(13,030)	-	(13,030)	-
Acquisition of property and equipment	(234,751)	(117,318)	(530,693)	(425,744)
Unrecovered exploration costs and other assets	(104,434)	(109,755)	(189,450)	(442,373)
Net cash used in investing activities	(352,215)	(227,073)	(733,173)	(868,117)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from:				
Borrowings	6,448	13,020	41,727	71,889
Payments of:				
Borrowings	11,745	19,924	317,355	19,924
Interest	(2,460)	(5,136)	(14,283)	(16,169)
Capital and other reserves	(1,874)	-	498,114	-
Net cash provided by financing activities	13,859	27,808	842,913	75,644
NET INCREASE (DECREASE) IN CASH	44,976	(6,755)	52,233	(21,490)
Beginning of period	93,492	51,652	86,234	66,387
CASH AT END OF THE PERIOD	P 138,467	P 44,897	P 138,467	F 44,897

LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED SEPTEMBER 30, 2017 & 2016
(Amounts in thousands)

	SEPTEMBER 30 2017	SEPTEMBER 30 2016
Authorized - P 6.64 billion Share capital at par value	P 5,135,525	P 5,135,525
Subscribed capital (net of subscriptions receivable)	334,181	(819)
Share premium	4,499,345	4,336,231
Cumulative changes in fair values of AFS investments	38,664	(44,735)
Re-measurement loss on retirement plan	(418,303)	(521,258)
Retained earnings		
Beginning balance	(2,488,625)	(1,728,478)
Net loss for the period	(572,417)	(500,387)
	(3,061,042)	(2,228,865)
Equity attributable to the Stockholders of the Parent Company	6,528,370	6,676,079
Non-controlling interests	257,188	250,160
	P 6,785,558	P 6,926,239

ANNEX "E"

LEPANTO CONSOLIDATED MINING COMPANY

NOTES TO FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2017 and DECEMBER 31, 2016

Note 1 - General information

Lepanto Consolidated Mining Company (parent company) was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on September 8, 1936 primarily to engage in 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. On January 29, 1985, the SEC approved the extension of the parent company's corporate term for another fifty (50) years after the expiration of its original term on September 8, 1986.

The Parent company's shares are listed and traded in the Philippine Stock Exchange. In January 1999, the Parent Company and the Bank of New York, as depository, formed a depository receipt facility to facilitate secondary market trading in the international capital markets of the parent company's class "B" common shares. On January 28, 2005, the Company formally closed the depository receipt facility.

On January 14, 1997, the Parent Company was registered with the Board of Investments (BOI) under Executive Order No. 226 as a new export producer of gold bullion on a preferred non-pioneer status. This registration entitles the Parent Company to a four (4) year income tax holiday (ITH), which can be further extended for another three (3) years subject to compliance with certain conditions, and lower tariff rates on acquisition of capital equipment. The Parent Company is required to maintain a base equity of at least 25% as one of the conditions of the registration.

On April 1, 1997, the Parent company started the commercial operations of its Victoria Project gold mine. Consequently, in October 1997, the parent company temporarily ceased operating its copper concentrate roasting plant facilities in Isabel, Leyte for an indefinite period. The Roasting plant facility was also registered with the Philippine Economic Zone Authority (PEZA) on December 17, 1985 pursuant to the provisions of Presidential Decree No. 66, as amended, and Executive Order No. 567 as a zone export enterprise to operate a roasting plant for the manufacture of copper calcine at the Isabel Special Export Economic Processing Zone.

On March 30, 2000, the Parent Company registered its copper flotation with the BOI as a new producer of copper concentrates on a preferred non-pioneer status. This registration entitles the Parent Company to a four (4) year ITH, subject to compliance with certain conditions, simplified customs procedures, additional deduction for labor expense, and unrestricted use of consigned equipment for a period of ten (10) years. It is required to maintain a base equity of at least 25% as one of the conditions of the registration. The Copper Flotation project has been suspended at the end of 2001; BOI registration was cancelled on July 11, 2006.

On April 10, 2001, the BOI approved the Parent Company's request for ITH bonus year for a period of one year from April 2001 to March 2002 for its gold bullion project. On

June 21 and September 21, 2005, the Parent Company obtained necessary approval for the ITH bonus years of April 2002 to March 2003 and April 2003 to March 2004, respectively.

On January 5, 2004, the Parent Company was registered with the BOI under Executive Order No. 226 as new export producer of gold bullion on a non-pioneer status, for its Victoria II (renamed Teresa) Project, located also in Mankayan, Benguet, Philippines. This registration entitles the Parent Company to ITH with the same incentives that were granted on their registration with the BOI on January 14, 1997. The Teresa Project commenced its commercial operations in April 2004.

On November 21, 2006, the Parent Company was registered with the BOI under Executive Order No. 226 as new export producer of copper-gold concentrate on a non-pioneer status for its copper-gold flotation project located also in Mankayan, Benguet, Philippines. This registration entitles the Company to ITH for four (4) years, which can be further extended for another three (3) years subject to compliance with certain conditions, and duty-free importation of equipment, spare parts and accessories for five (5) years.

On May 20, 2009, the BOI approved the Parent Company's request for ITH bonus year for the period April 2008 to March 2009 for its Teresa Project.

The registrations mentioned above enable the Parent Company and its subsidiaries to avail of the rights, privileges, and incentives granted to all registered enterprises.

The Parent Company currently operates the Victoria Project gold mine in Mankayan, Benguet, Philippines and has also commenced commercial operation of its Copper-Gold Project in third quarter of 2017.

The Parent Company has its principal office at the 21st Floor, 8747 Lepanto Building, Paseo de Roxas, Makati City.

Note 2 – Compliance with Generally Accepted Accounting Principles

The consolidated financial statements of Lepanto Consolidated Mining Company Group (the Group) have been prepared in accordance with the accounting principles generally accepted in the Philippines. The Group prepared its consolidated financial statements in accordance with Philippine Financial Reporting Standards (PFRS) except for the exemption from the fair value requirement of the Philippine Accounting Standards (PAS) 39, Financial Instruments: Recognition and Measurement, on long term commodity hedging contracts entered into by the parent company and outstanding as of January 1, 2005, which was permitted by the SEC.

The accounting policies adopted in the preparation of the financial statements are consistent with the most recent annual financial statements.

Note 3 – Cash and Cash Equivalents

	09/30/2017	12/31/2016
Cash on hand	**3,374**	1,383
Cash in banks	**135,093**	84,850
	138,467	86,234

Cash in banks earn interest at the respective bank deposit rates.

Note 4 – Receivables

	09/30/2017	12/31/2016
Trade	**165,176**	116,376
Nontrade	**137,015**	137,543
Advances to officers and employees	**21,290**	3,694
	323,480	257,614
Less: Allowance for impairment losses	**14,734**	16,139
	308,746	241,474

The Parent Company's trade receivables arise from its shipments of gold and silver metals and copper - gold concentrate to a refinery and smelter customer based on contract/agreement.

Trade and nontrade are non-interest bearing and are generally collectible on demand. Nontrade receivables comprise mainly of receivables from subcontractors and other third parties, while receivables from officers and employees pertain to cash advances made by employees for the operations of the Group.

Receivables from officers and employees are non-interest bearing and are generally subject to liquidation. Unliquidated receivables from officers and employees are collectible on demand or considered as salary deduction.

Note 5 – Inventories

	09/30/2017	12/31/2016
Copper-gold concentrate	**62,348**	-
Parts and supplies	**441,346**	430,008

Inventories include production cost of copper-gold concentrate in bags totaling 494 dry metric ton warehoused at Mankayan, Benguet and San Fernando City, La Union. Materials and supplies are stored in Metro Manila, Bulacan, Benguet, Surigao del Norte and Leyte. The increase in the amount of P73.7 million represents the copper-gold concentrate and the restocking of imported materials for use in operations.

Note 6 – Advances to suppliers and contractors

Advances to suppliers and contractors are non-financial assets arising from advanced payments made to suppliers and contractors before goods and services have been received or rendered. These are classified as current since these are expected to be

offset against future short-term billings and are recognized in the books at the amounts initially paid.

Advances to suppliers and contractors are attributable to contracts generally requiring advance payments. Amounts deposited will be applied as part of the full payment of the contract price upon completion of the contract or consummation of transactions and receipt of all related documents.

Note 7 – Other current assets

	09/30/2017	12/31/2016
Input VAT	**643,240**	594,898
Deferred costs	**2,508**	14,302
Prepayments	**55,082**	29,157
Others	**3,136**	3,136
	703,966	641,493

By virtue of Revenue Memorandum Order 9-2000 dated March 29, 2000, all sales of goods, property and services made by a Value Added Tax (VAT) - registered person to the Parent Company, being a one hundred percent (100%) exporter, are automatically zero-rated for VAT purposes effective August 8, 2001.

Input VAT represent VAT paid on purchases of applicable goods and services, net of output VAT, which can be claimed for refund or recovered as tax credit against certain future tax liability of the Company upon approval by the Philippine Bureau of Internal Revenue (BIR) and/or the Philippine Bureau of Customs.

Deferred costs represent cost of withdrawn tubings to be used in drilling operations. Aforesaid costs are amortized based on meters drilled.

Prepaid expenses include advance payments for taxes, insurance, rent and other services.

Note 8 – Trade and other payables

Composed of trade, due to related parties, accrued expenses and other liabilities, trust receipts, employee related expenses, unclaimed dividends, payables to regulatory authorities, accrued utilities and accrued production tax.

Nature, terms and conditions of the Group's liabilities:

- Trade payables include import and local purchases of equipment and inventories such as various parts and supplies used in the operations of the Group. These are non-interest bearing and are normally settled on sixty (60) days' terms.
- Accrued expenses and other liabilities are noninterest-bearing and are normally settled on a 30 to sixty (60) days' term. These include other operating expenses that are payable to various suppliers and contractors.
- Trust receipts refer to arrangements of the Group with banks related to its importations of inventories and various equipment which are interest bearing and have an average term of ninety (90) to one hundred twenty (120) days.

- Employee related expenses include unclaimed wages, accrued vacation and sick leave and accrued payroll. These are non-interest bearing and are payable in thirty (30) days' term.
- Unclaimed dividends pertain to unpaid cash dividends declared by the Parent Company to its stockholders. These are non-interest bearing and are payable upon demand of the payee.
- Payables to regulatory agencies include withholding taxes and other government contributions related to employees of the Group. These are non-interest bearing and are normally remitted within ten (10) days from the close of each month.
- Accrued utilities pertain to unpaid billings for power, communication, light and water charges. These are non-interest bearing and are normally settled within thirty (30) to ninety (90) days.
- Accrued production taxes pertain to excise taxes on metal sales. These are non-interest bearing and are settled within fifteen (15) days after the end of each quarter.

Note 9 - Business Segments

The Group derives revenue from the following main operating business segments:

Mining activities –This segment engages in exploration and mining of gold, silver, copper, lead, zinc and all kinds of ores, metals, minerals, oil, gas, and coal and related by-products.

Investment activities – This segment derives its income as a general agent, broker or factor of any insurance company or as a commercial broker, agent or factor of any person, partnership, corporation or association engaged in any lawful business, industry or enterprise. Income is derived from commissions, which represent income on non-life insurance policies underwritten by a subsidiary for certain principals.

Hauling and Leasing activities – This segment engages in handling all kinds of material, products and supplies in bulk and maintaining and operating terminal facilities such pier and warehouses. Income is derived mainly from hauling fees and warehouse rentals.

Insurance activities – This segment derives its revenues from premiums from short duration insurance contracts, which are recognized over a period of the contracts using the 24th month method.

Drilling activities – This segment derives its income from drilling services to its related and outside parties.

Manufacturing and Trading – This segment derives its revenue from manufacturing, distributing, selling and buying machinery and equipment, general merchandise and articles related to diamond core drilling industry.

The assets, liabilities and results of the business segments of the LCMC Group for the 3rd quarter of the year 2017 and 2016 are as follow:

Mining activities

	2017 (in thousands)	2016 (in thousands)
CURRENT ASSET	1,808,262	1,655,806
NON-CURRENT ASSET	14,734,665	14,727,606
CURRENT LIABILITES	2,002,645	1,666,665
NON-CURRENT LIABILITIES	7,870,382	7,897,374
GROSS INCOME	1,068,289	1,046,847
NET INCOME / (LOSS)	(538,630)	(508,896)

Investment activities

	2017 (in thousands)	2016 (in thousands)
CURRENT ASSET	155	5,283
NON-CURRENT ASSET	201,349	204,144
CURRENT LIABILITES	89,204	88,989
NON-CURRENT LIABILITIES	18,763	18,763
GROSS INCOME	-	-
NET INCOME / (LOSS)	(4,496)	(157)

Hauling and Leasing Activities

	2017 (in thousands)	2016 (in thousands)
CURRENT ASSET	158,841	164,679
NON-CURRENT ASSET	406,215	406,823
CURRENT LIABILITES	6,094	5,183
NON-CURRENT LIABILITIES	128,749	139,291
GROSS INCOME	20,830	23,331
NET INCOME / (LOSS)	(2,016)	60,838

Insurance Activities

	2017 (in thousands)	2016 (in thousands)
CURRENT ASSET	-	406,828
NON-CURRENT ASSET	-	137,957
CURRENT LIABILITES	-	457,256
GROSS UNDERWRITING INCOME	-	43,259
UNDERWRITING INCOME / (LOSS)	-	25,881
NET INCOME / (LOSS)	-	(4,767)

Drilling Activities

	2017 (in thousands)	2016 (in thousands)
CURRENT ASSET	410,875	579,178
NON-CURRENT ASSET	137,502	124,467
CURRENT LIABILITES	419,354	517,101
NON-CURRENT LIABILITIES	41,879	40,983
GROSS INCOME	220,536	350,657
NET INCOME / (LOSS)	(26,777)	46,670

Manufacturing and Trading Activities

	2017 (in thousands)	2016 (in thousands)
CURRENT ASSET	-	41,604
NON-CURRENT ASSET	-	4,376
CURRENT LIABILITES	-	26,706
NON-CURRENT LIABILITIES	-	6,830
GROSS INCOME	-	37,607
NET INCOME / (LOSS)	-	4,714

Note 10 – Seasonality

There are no seasonality or cyclical factors in the company's operations.

ANNEX "F"

LEPANTO CONSOLIDATED MINING CO.

AGING OF ACCOUNTS RECEIVABLE - TRADE

AS OF SEPTEMBER 30, 2017

CUSTOMERS	*CURRENT*	*OVER 30 DAYS*	*OVER 60 DAYS*	*TOTAL*
HERAEUS LTD.	25,835,363	-	-	25,835,363
LOUIS DREYFUS	109,533,252	-	-	109,533,252
	135,368,615	-	-	135,368,615

MANAGEMENT's DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULT OF OPERATIONS

As of September 30, 2017

Consolidated revenues for the third quarter of 2017 amounted to P401.7 million compared with P427.1 million in 2016. Net loss increased to P193.1 million versus P168.5 million the previous year.

For the nine months ended September 2017, consolidated revenues decreased to P1,102.6 million versus P1,121.2 million in the same period last year. Net loss totaled P572.8 million compared with P500.6 million in 2016.

Mining Operations

July – September 2017 versus July – September 2016

Copper-gold concentrate produced from initial runs of the rehabilitated copper flotation plant totaled 1,541 dry metric tons (DMT) containing 3,523 oz. of gold; 18,744 oz. of silver; and 593,413 lbs. of copper. There were no copper operations last year. Of the copper-gold concentrate produced, about 500 DMT was in the inventory with an estimated value of around P100 million.

Combined with the bullion production of 3,494 oz. of gold and 1,813 oz. of silver, total gold production amounted to 7,017 oz. versus 5,989 oz. last year; and total silver production was 20,557 oz. versus 11,334 oz. last year. Metal sales went up by P27.52 million to P415.93 million due largely to copper-gold concentrate production. However, net loss increased to P177.49 million compared with last year's P145.65 million, as a third of the copper-gold concentrate production was yet unsold, and because of the higher tonnage, impacting mining, milling and depletion costs. The depletion cost covers the development of both the Victoria and the Copper-Gold projects.

Gold price averaged US$1,288.37/oz. versus US$1,338.34/oz. while silver price averaged US$16.95/oz. versus US$19.31/oz. the preceding year. Copper price averaged US$2.92. The P/US$ exchange rate averaged P50.92/US$1 compared with P46.93/US$1 last year.

Cost and expenses increased by 11% to P588.13 million from P531.15 million as the tonnage milled increased to 109,250 tonnes from 68,230 tonnes in 2016. Mining cost went up from P174.6 million to P217.0 million; milling cost increased by P24.9 million to P76.5 million; depletion by P29.6 million to P157.0 million. Overhead cost went up to P96.1 million from P86.2 million attributable to the higher cost of handling, freight and delivery of copper-gold concentrate and materials and supplies.

Excise tax went up by 31% to P10.2 million due to higher metal revenue and production. Finance cost was almost unchanged at P5.0 million. Payment of dollar-denominated loans resulted in a foreign exchange loss of P1.8 million compared with a gain of P1.6 million the

previous period. Other income increased by P1.5 million arising from the disposal of obsolete equipment.

January – September 2017 versus January – September 2016

Total gold production (in bullion and in concentrate) reached 17,338 oz. versus 17,214 oz. last year while total silver production amounted to 29,034 oz. versus 34,706 oz. last year. Copper production totaled 593,413 pounds. Tonnage milled increased to 226,900 tonnes from 201,290 tonnes in 2016.

Metal sales increased by P21.4 million to P1,068.3 million due mainly to the higher metal production and copper sales. Net loss increased by P29.2 million to P537.7 million compared with last year's P508.5 million on account of the higher costs and the copper-gold concentrate inventory.

Gold price averaged US$1,258.68/oz. versus US$1,265.24/oz. while silver price averaged US$17.18/oz. versus US$17.47/oz. the preceding year. Copper price averaged US$2.92. The P/US$ exchange rate averaged P50.18/US$1 compared with P46.97/US$1 last year.

Cost and expenses increased by 3% to P1,586.3 million from P1,543.4 million last year due largely to the higher tonnage milled and the resumption of the copper flotation circuit. Mining cost went up by P12.3 million to P505.4 million; milling cost by P29.0 million; and depletion by P23.5 million to P410.9 million. Overhead costs went up by P47.7 million to P283.5 million attributable to lime consumption, lump sum payments made pursuant to the collective bargaining agreements with two mine-based unions; and handling, freight and delivery of copper-gold concentrate and materials and supplies.

Excise tax increased by 11% to P23.2 million due to the higher metal production and revenue. Finance cost dropped slightly from P16.0 million to P15.8 million following the settlement of short-term loans. Payment of dollar-denominated loans resulted in a foreign exchange loss of P7.3 million compared with a gain of P1.4 million the previous period. Other income increased to P1.4 million in relation to the disposal of obsolete equipment.

BALANCE SHEET MOVEMENTS

September 30, 2017 versus December 31, 2016

Cash and cash equivalents increased by P52.2 million on account of the remittance at the end of the quarter of partial proceeds of the sale of copper-gold concentrate. Receivables increased by P67.3 million representing the unpaid portion of a copper-gold concentrate shipment. Inventories increased by 17.14% largely on account of the yet unsold copper-gold concentrate. Advances to suppliers went up by 46.43% on account of the increased materials and supplies requirements of operations. Other current assets increased by 9.74% to P703.9 million due mainly to the increase in Input Value-Added-Tax and prepaid charges on importations.

The increase in other noncurrent assets of P25.0 million was due mainly to deferred charges awaiting final recording.

On liabilities, trade and other payables increased by 31.32% representing purchases of materials and services. Short-term and long-term borrowings increased by P160.7 million and P156.6 million, respectively, due to reclassification of liabilities. Income tax payable decreased due to the payment in April 2017 of last year's tax liability. The decrease in retirement benefit obligations is attributable to the continuous contribution of Parent Company to its retirement fund.

Capital stock increased by 6.5% on account of the stock subscription by way of private placement totaling 3.35 billion shares at P0.15 per share.

Deficit increased by P591.8 million representing the net loss from January to September 2017 operations.

CAPITAL EXPENDITURES

Capital expenditures for the quarter totaled P248.3 million, of which P104.4 million went to exploration; P58.7 million to machinery and equipment; P82.1 million to mine development; and, P3.0 million to maintenance of tailings storage facility 5A.

For the nine months ended September 2017, total capital expenditures amounted to P518.9 million; of which P189.7 million went to exploration; P109.4 million to machinery and equipment; P210.1 million to mine development; and P9.8 million to maintenance of tailings storage facility 5A.

OUTLOOK FOR THE YEAR

The Copper-Gold Project has commenced commercial operation in October 2017. The projected metal output for the year is 24,500 oz. of gold, 53,400 oz. of silver and 1.15 million pounds of copper.

Exploration and development of the Copper-Gold Project will continue this year with a view to ramping milling tonnage up to 2,500 metric tonnes per day by 2018.

SUBSIDIARIES

The key performance indicator used for the subsidiaries is net income for the nine months ended September 2017 versus the same period the previous year.

From a net income last year of P46.7 million, Diamond Drilling Corporation of the Philippines reported a net loss of P26.8 million on account of cost-related losses on a drilling project. Lepanto Investment and Development Corporation reported a net loss of P4.5 million compared with last year's net loss of P156.9 thousand due to a loss arising from the partial divestment in a subsidiary. Shipside, Incorporated registered a net loss of P2.1 million against last year's net income of P60.8 million which arose from the sale of land.

* - **KEY PERFORMANCE INDICATORS-LCMC**

Tonnes Milled which indicate the amount of ore taken for processing, **Milled Head** is the amount of gold per ton milled and **Gold production** which is the final product of the operations. **Metal sales**, **Cost and Expenses** and **Net Income** round up the review process on how the company is performing vis-à-vis the performance of the same period last year. **Average Gold price** for the period adds another parameter that needs watching notwithstanding that the company has no direct influence on its movement.

ANNEX "H"

LEPANTO CONSOLIDATED MINING COMPANY
Impact of Current Global Financial Condition

Credit Risk

Credit risk refers to the potential loss arising from any failure by counterparties to fulfill their obligations, as and when they fall due. It is inherent to the business as potential losses may arise due to the failure of its customers and counterparties to fulfill their obligations on maturity dates or due to adverse market conditions.

All gold exports when priced are practically settled on cash basis. Parent Company's existing contracts with gold refineries allow for advances of 98% of payable metals paid in two (2) working days from pricing. Full settlement is normally received within three (3) working days. For copper concentrates, Parent Company's existing contracts with smelters allow for advances of 90% of payable metals paid within two (2) to five (5) working days from pricing. Full settlement, however, takes three (3) to six (6) months.

The Parent Company enters into marketing contracts only with refineries and smelters of established international repute. Since the Parent Company became a primary gold and copper concentrates producer, it has entered into exclusive marketing contracts with Heraeus for gold and Trafigura Beheer BV, Shanghang County Jinshan Trading Co., Ltd. and Louis Dreyfus Company Metals Suisse SA for copper concentrates.
The Group has a significant concentration of credit risk in relation to its trade receivables from Heraeus. Such risk is managed by securing the specific approval of the BOD before entering into contracts with refineries and by assessing the creditworthiness of such refineries.

The credit risk arising from these financial assets arises from default of the counterparty, with maximum exposure equal to the carrying amount of these instruments. The Group's gross maximum exposure to credit risk is equivalent to the carrying values since there are no collateral agreements for these financial assets.

There is no significant exposure to credit risk.

Market Risk

Market risk is the risk of loss to future earnings, to fair values or to future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in foreign currency exchanges rates, interest rates, equity prices and other market changes.

Foreign Exchange Risk

Foreign exchange risk is the risk to earnings or capital arising from changes in foreign exchange rates. The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its consolidated financial statements and consolidated statements of cash flows.

The Group follows a policy to manage its currency risk by closely monitoring its cash flow position and by providing forecast on all other exposures in non-Philippine Peso currencies.

The Group sells its product to the interstates national market. All metal sales are denominated in US$. Dollar conversion of metal sales to Philippine Peso is based on the prevailing exchange rate at the time of sale. The Group also has purchase transactions denominated in AU$.

Foreign currency-denominated liabilities of Parent Company totaled US$1.6 million at the end of third quarter this year. US$1 million was revalued at the start of the year based on an exchange rate of P49.72/US$. No revaluation of said liabilities during the current year. Foreign exchange gain or losses due to the movement of the Philippine peso vis a vis the US$ are recognized at year-end on outstanding US$ denominated assets and liabilities. The gain/(loss) on Philippine peso appreciation/(depreciation) against the dollar as a result of settlement of liabilities is reflected as foreign exchange gain/(loss) in the financial statements.

As of the end of the quarter, Far Southeast Gold Resources, Inc., a 60%-owned subsidiary, had total foreign currency-denominated liabilities of US$144.8 million. Said foreign currency liabilities are converted to Philippine peso at the time of their incurrence. No revaluation of said liabilities is done on account of the appreciation/depreciation of the Philippine peso; hence, no foreign exchange gain/loss is recognized for the quarter ended. Settlement of these obligations will be at their recorded value based on the agreement with the creditor/investor.

Interest Rate Risk

The Group's exposure to the risk for changes in market interest rate relates primarily to its long-term borrowings with floating interest rates. The Group regularly monitors its exposure to interest rates movements. Management believes that cash generated from operations is sufficient to pay for its obligations under the loan agreements as they fall due.

Liquidity Risk

Liquidity risk arises from the possibility that the Group may encounter difficulties in raising funds to meet maturing obligations from financial instruments or that a market for derivatives may not exist in some circumstances.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of advances from related parties. The Group considers its available funds and its liquidity in managing its long-term financial requirements. For its short-term funding, the Group's policy is to ensure that there are sufficient capital inflows to match repayments of short-term debt.
As part of its liquidity risk management, the Group regularly evaluates its projected and actual cash flows. It also continuously assesses conditions in the financial markets for opportunities to pursue fund raising activities, in case any requirements arise. Fund raising activities may include bank loans and capital market issues. Accordingly, its loan maturity profile is regularly reviewed to ensure availability of funding through an adequate amount of credit facilities with financial institutions.

Fair Values

PFRS defines fair value as 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. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models, as appropriate.

Cash, Receivables, Trade Payables and Accrued Expenses
The carrying amounts of cash and cash equivalents, receivables and trade and other payables, which are all subject to normal trade credit terms and are short-term in nature, approximate their fair values.

AFS Investments
Fair values of investments are estimated by reference to their quoted market price at the end of the reporting period. Unquoted equity securities are carried at cost, net of impairment in value, since fair value of these AFS securities cannot be reliably determined as these securities are not listed and have no available bid price.

Loans Payable and Borrowings
Carrying value of the loans payable and borrowings as at end of the quarter approximate their fair values. Borrowings from local banks are all clean loans with interest rates ranging from 5.0% to 7.0%.

ANNEX "I"

LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES
FINANCIAL RATIOS
PURSUANT TO SRC RULE 68, AS AMENDED
SEPTEMBER 30, 2017
(With Comparative Annual Figures for 2016)

		3RD QUARTER SEPTEMBER 2017	YEAR ENDED DECEMBER 2016
Profitability Ratios:			
	Return on assets	-3.34%	-4.38%
	Return on equity	-8.44%	-10.25%
	Gross profit margin	-32.94%	-29.74%
	Net profit margin	-51.95%	-47.82%
Liquidity and Solvency Ratios:			
	Current ratio	0.96:1	1.08:1
	Quick ratio	0.20:1	0.20:1
	Solvency ratio	0.00:1	-0.076:1
Financial Leverage Ratios:			
	Asset to equity ratio	2.53:1	2.39:1
	Debt to equity ratio	1.53:1	1.39:1
	Interest coverage ratio	34.91:1	0.02:1

TECHNICAL REPORT ON THE EXPLORATION RESULTS AND MINERAL RESOURCES OF THE LEPANTO COPPER-GOLD PROJECT

Mankayan, Benguet, Philippines

EXP-2017-001

Covered by

MPSA No. 001-90

By: Joel S. Diaz

B.Sc. Geology 1977
Registered Geologist, PRC Lic. No. 0497
Competent Person - PMRC/GSP CP Reg. No. 12-10-3
Exploration Results and Mineral Resource Estimation of
Epithermal Gold Exploration and Porphyry Copper-Gold Deposits

26 August 2017

CERTIFICATION AND CONSENT OF COMPETENT PERSON

I, Joel S. Diaz, Filipino, of legal age, and with residence address at Unit 603 Cityland Pasong Tamo, 6264 Calle Estacion, Brgy Pio Del Pilar, Makati City, depose and state THAT:

- I am a Licensed Geologist registered with the Professional Regulations Commission of the Philippines (PRC No. 0497).

- I graduated from the University of the Philippines, Diliman in 1977 with a Bachelor of Science degree in Geology.

- I hold the following Professional Qualifications, and have been in good standing with the following professional organizations:
  Geological Society of the Philippines (GSP) – Member
  Philippine Mineral Reporting Code (PMRC)/Geological Society of the Philippines (GSP) – Accredited Competent Person (CP Reg. No. 12-10-3 valid until November 2018)

- I have practiced my profession since my graduation in 1977, and have worked as an Exploration Geologist and Mining Geologist, and on occasions, as Geological Consultant for over 35 years. I have been involved in mineral exploration on properties in the Philippines, Indonesia and Brazil, and have undertaken project generation activities in these same areas.

- I have extensive experience and know-how in the evaluation of mineral properties, in particular, exploration, evaluation and exploitation of epithermal gold and/or copper vein deposits and porphyry copper and gold deposits. My experience is well beyond the minimum required by the PMRC and other equivalent reporting codes.

- I am aware of the definition of “Competent Person” as defined in the Philippine Mineral Reporting Code ("PMRC"), and certify that by virtue of my education, training, related work experience as well as affiliation and accreditation with the sole professional organization for Geologists, that I fulfill the requirements for a “Competent Person” set out by the Philippine Mineral Reporting Code.

- I was employed by Lepanto Consolidated Mining Company ("Lepanto") from April 1977 to December 1977 and from February 1992 and March 1995 but am no longer connected with the Company; I am presently, and since April 2011 has been, employed by Cordillera Exploration Company Incorporated as Exploration Manager.

- It is my professional opinion that the Mineral Resource Estimates, as prepared by the technical staff of Lepanto is a result of diligent and systematic geological work, systematic drilling programs, and maintenance of an impeccable and functional geological database.

- I have no vested interest whatsoever in Lepanto which has engaged me to review the mineral resource estimates prepared by the company's technical staff and consultants for its Enargite Operations at its Mankayan Mine Operation in Mankayan, Benguet Province, covered by MPSA No. 001-90-CAR.

- I have read the guidelines set out by the Philippine Mineral Reporting Code and certify that this review has been prepared in accordance with the Code.

- I consent to the filing of this certification with the Philippine Stock Exchange and other regulatory government authorities and any publication by Lepanto for regulatory and disclosure purposes, including electronic publication in the public company files on their websites

accessible by the public, of this technical review, in the form and context in which it appears.

Signed in Lepanto, Mankayan, Benguet, this 26th day of August, 2017.

Signed by and Sealed:

JOEL S. DIAZ
Competent Person
Reg. No. 12-10-3
Licensed Geologist
PRC Lic. No. 0497
PTR No. A-3245343
Issued on 18 January 2017
Issued in Taguig City

SUBSCRIBED AND SWORN to before me this 26th day of AUGUST 2017 in BAGUIO CITY, PHILIPPINES, affiant exhibiting to me his SSS No. 03-4048296-4.

Doc. No. 168;
Page No. 34;
Book No. LXVII;
Series of 2017

ATTY OMAR R. EVANGELISTA
NOTARY PUBLIC
UNTIL DECEMBER 31, 2018
P.A. NO. 39-NC-17-R
3-B TACAY ROAD, PINSAO PROPER, BAGUIO CITY
IBP NO. 40195/MAY 3, 1995
PTR NO. 2346042/JANUARY 3, 2017/BAGUIO CITY
O.R. NO. 1056802/JANUARY 3, 2017/BAGUIO-BENGUET CHAPTER
MCLE COMPLIANCE NO. V-0002754/JULY 3, 2014

EXECUTIVE SUMMARY

Lepanto had been a copper-gold mine for about 60 years until the discovery of Victoria and Teresa intermediate sulfidation epithermal gold deposits in 1995 which prompted the company to switch to gold mining. From 1997 up to present, Lepanto has been producing gold and silver bullions from the Victoria and Teresa ore bodies. Now that the gold veins are nearing depletion, Lepanto has reverted to exploring the unmined portions of the old enargite mining area largely through underground drilling with the aim of blocking sufficient mineral resources that would warrant the re-opening of the copper-gold mine.

The present Copper-Gold Project of Lepanto involves the recently delineated Au + Ag ± Cu bearing quartz-pyrite-gold (QPG) and enargite-luzonite breccia veins. The QPG breccia veins represent a late-stage precious metal mineralization event associated with the high sulfidation epithermal Cu + Au (enargite-luzonite) deposits. The QPG breccia veins are deposited largely along steeply-dipping faults and associated tensional fractures and to a lesser extent along lithological unconformities. Typical alteration minerals associated with the breccia veins include dickite + pyrophyllite + illite ± alunite. Precious metal minerals include native gold, electrum, argentite, and gold-silver tellurides.

This PMRC-compliant technical report, prepared by the Lepanto technical staff Exploration team under the supervision of Mr. Joel S. Diaz, PMRC/GSP-accredited Competent Person, discloses information related to the results of exploration activities and mineral resource estimation of Lepanto's Copper-Gold Project effective 28 July 2017. This report has been also prepared for submission to the Philippine Stock Exchange (PSE) as support to the Company's listing application for Stock Right's Offering.

The updated mineral resource estimates of Lepanto, also referred to as Run 9A, cover the enargite-QPG ore bodies comprising of Carmen, NW QPG, Florence, Elena and Easterlies. The estimates utilized all available drillhole data generated up to June 07, 2017 and all channel cut data available from 2001 up to May 31, 2017. A total of 981 drillholes equivalent to more than 173.0 km of drill cores and 25,558 channel cut samples were considered in the current resource model and estimate. All resource estimation processes such as database validation, geological modeling, geostatistical analysis, block modeling and estimation were carried out using GEMS v6.5 software.

The latest estimates of the enargite-QPG at 1.0% CuEq cutoff yielded a total indicated resource of 6.86 million tonnes averaging 1.96 g/t Au and 0.91% Cu and an inferred resource of 0.89 million tonnes grading 2.11 g/t Au and 0.79% Cu.

In addition to the above mineral resources, an exploration target estimated at 7.29 million tonnes with a potential grade of 2.02 g/t Au and 1.69% Cu has likewise been identified based on ongoing drilling as well as historic drillhole and underground stope data from abandoned mined areas. This potential will be the main object of Lepanto's next exploration drilling program in order to bring these areas it into inferred and indicated resource categories.

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1.0 INTRODUCTION

1.1 Purpose of Report

This technical report, commissioned by the Lepanto Consolidated Mining Co., discloses and validates all information related to the results of exploration activities and mineral resource estimates carried out by Lepanto for its Copper-Gold Project in Mankayan, Benguet.

This report is intented to be submitted to the Philippine Stock Exchange (PSE) in fulfillment of its requirement for mining companies that are applying to conduct capital raising activity such as Stock Rights Offering through the agency.

1.2 Scope of Work

Activities leading to the preparation of this report, such as compilation of results of exploration works, data validation, geological modeling and mineral resource estimation, were undertaken by the Lepanto exploration team.

The preparation of this technical report was likewise carried out by the Lepanto Exploration team while review and evaluation of information contained in the report was done by Mr. Joel S. Diaz, a PMRC/GSP-qualified Competent Person commissioned by Lepanto to ensure that the report was in accordance with the standards and guidelines outlined in the Philippine Mineral Reporting Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. Aside from the over-all responsibility, Mr. Diaz also concentrated in reviewing the database used in the resource estimation, geological modeling, geostatistical analysis, estimation parameters, block modeling, resource classification and estimates.

Joey Nelson R. Ayson, also a PMRC/GSP-qualified Competent Person acted as peer reviewer and assisted in the data validation and verification from sample generation, logging, preparation, analysis including QA/QC protocols.

1.3 Members of the Technical Report Preparation Team

The following Lepanto Exploration personnel, who are licensed Professional Geologists registered with the Professional Regulation Commission, have contributed in the preparation of the following chapters in this report:

Leo L. Subang *Exploration Manager*	- Chapter 7. Regional and District Geology - Chapter 8. Mineral Property Geology - Chapter 9. Mineralization in the Mineral Property
Mervin C. Delos Santos *Chief Exploration Geologist*	- Chapter 3. Tenement and Mineral Rights - Chapter 5. Previous Work - Chapter 6. History of Production
Angeline B. Abrenica *Resource Geologist*	- Chapter 4. Geographic Features - Chapter 10. Exploration

- Chapter 11. Mineral Resource Estimation

Compilation and organization of the whole manuscript was carried out by Angeline B. Abrenica under the supervision of Mr. Joel S. Diaz, designated Competent Person, who is accordingly responsible and accountable for the correctness of information provided within the technical report.

1.4 Compliance of Report with PMRC

This report follows the format outlined in the PSE Implementing Rules and Regulations for the 2007 Philippine Mineral Reporting Code (PMRC). The mineral resource classification outlined in the PMRC was also adopted in the report.

2.0 RELIANCE ON OTHER EXPERTS AND COMPETENT PERSONS

The undersigned CP has relied on the data provided by Lepanto's exploration team with expertise on various fields related to geological and exploration aspects, as well as resource estimation. All work done by them that is connected to the preparation of the report has been reviewed by the undersigned CP and the CP peer reviewer. This Report, certified by the undersigned CP, can only be as good as the data provided that was used to make it.

3.0 TENEMENT AND MINERAL RIGHTS

3.1 Description of Mineral Rights

The Lepanto tenement comprises 302 mining claims covering an area of 4,168.18 hectares spread across different barangays within the municipality of Mankayan, in the province of Benguet. It includes two Mineral Production Sharing Agreements (MPSA) that have been approved by the Philippine Government and four applications for Production Sharing Agreement (APSA) (Figure 3-1).

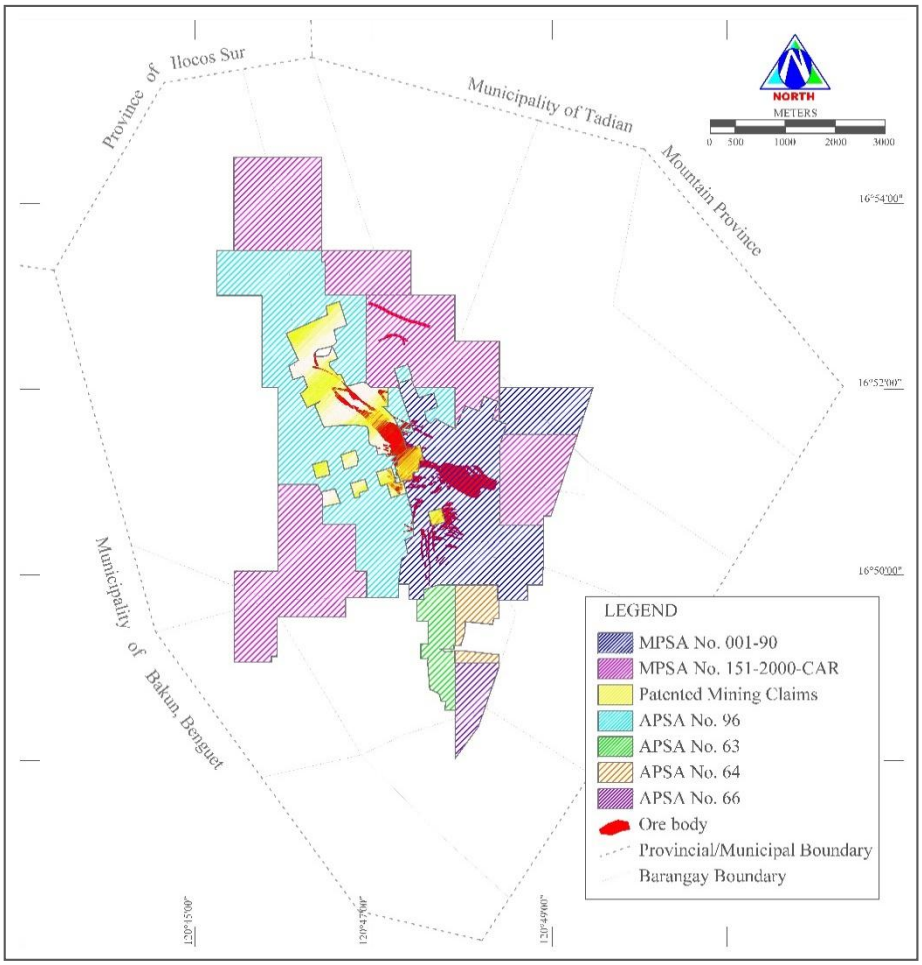


Figure 3-1. Lepanto tenement map.

3.2 History of Mineral Rights

Lepanto's Mankayan tenements aggregating approximately 4,168.18 ha was controlled by Lepanto until the late 1980's when the leasehold system was abolished. The leasehold system was implemented from the 1935 Constitution through Commonwealth Act No. 137 (Mining Act of 1936) and carried over into the 1973 Constitution through Presidential Decree 463. The enactment of the 1987 Constitution resulted in the replacement of the leasehold scheme with a contract system (Article XII, Section 2), through Executive Order Nos. 211 and 279. Eventually the Philippine Mining Act of 1995 or Republic Act 7942 was passed. Thus, the Lepanto Mankayan tenements consist of Patented Claims, MPSA-001-90-CAR, MPSA-151-2000-CAR and APSA 96.

3.3 Agreements with Respect to Mineral Rights

MPSA or Mineral Production Sharing Agreement is normally valid for 25 years and renewable for another 25 years typically under the same term and condition as the original contract. APSA is an Application for MPSA that is yet to be perfected/approved by the Philippine government.

Patented Claims are pre-1935 Constitution that implemented the Regalian Regime leasehold system. Patented mineral land is a legacy from the Philippine Bill of 1902, which grants both mineral and surface rights to claimants that perfected their application. It does not expire as long

as it is maintained accordingly.

3.4 Validity of Current Mineral Rights

Lepanto controlled tenements with their respective area and date of approval (or date filed if pending approval) are summarized in Table 3-1.

Table 3-1. List of mining claims of Lepanto and their date of approval/filing.

Claim	Area (hectares)	Date Approved/Filed
Patented	336.00	
MPSA-001-90-CAR	945.65	3/3/1990
MPSA-151-2000-CAR	1829.36	3/9/2000
APSA No. 96	1057.17	6/3/1999
Total	4168.18	

Option agreement with private claim owners Brett-Panganiban was also secured in tenements covering the old Suyoc Mine in the south through APSA 63, 64 and 66.

Lepanto and subsidiary Far Southeast Gold Resources, Inc. (FSGRI), joint contractors of MPSA No. 001-90-CAR (the "MPSA"), jointly filed on June 4, 2014 (nine months prior to expiry of the MPSA) an application for renewal of the MPSA. A dispute arose among Lepanto, FSGRI and the Republic of the Philippines, represented by the DENR, as to whether or not Lepanto and FSGRI may be required to comply with the Free and Prior Informed Consent (FPIC) and Certification Precondition requirements of the Indigenous People's Rights Act of 1997 (IPRA) in connection with the renewal considering that the IPRA was promulgated in 1997, seven years after the issuance of the MPSA and two years after the promulgation of the Philippine Mining Act. Under the terms of the MPSA and Section 32 of the Philippine Mining Act, the MPSA was renewable for another term not exceeding 25 years under the same terms and conditions without prejudice to changes mutually agreed by the parties. There can thus be no additional requirements for renewal. The dispute was submitted to arbitration and the arbitral tribunal ruled that the FPIC and Certification Precondition requirements may not be validly imposed as requirements for the renewal of the MPSA. The matter has been elevated to/ now subject of a Petition with, the Court of Appeals. Meanwhile, Lepanto continues its mining activities within MPSA No. 001-90-CAR."

All of Lepanto's planned exploration and mining operation will be within MPSA-001-90-CAR and/or Patented Claims (Figure 3-1).

3.5 Payments Made to the Government

Listed in the table below are the payments made by Lepanto to the government in the form of taxes, licensing and permitting fees for the period 2010 – 2016.

Table 3-2. Payments made by Lepanto to the government from 2010 up to 2016.

	2010	2011	2012	2013	2014	2015	2016
TAXES/LICENSES/FEES/PERMITS:							
Real Estate Tax	6,828,099.12	5,768,132.16	6,112,170.00	6,797,000.04	6,797,600.03	6,594,600.00	6,823,717.97
Business Tax		2,195,531.26	2,407,959.65	3,075,863.76	2,916,375.00	2,066,708.94	1,609,778.84
Professional Tax	61,025.00	56,340.00	37,035.00	41,400.00	55,245.00	71,600.00	61,370.00
Water Rights Permit/Filing Fee/Renewal	3,936.40	33,720.11	83,600.11	33,724.00	33,716.22	33,720.11	89,401.25
Treasurer's certification fee for business permit	40.00	40.00	40.00	40.00	40.00	40.00	40.00
Blaster's Licenses/Processing fees	47,720.00	28,995.00	50,040.00	36,535.00	45,089.00	10,441.00	43,924.60
Annual Provincial Permit	50,000.00	50,000.00		50,000.00	50,000.00	50,000.00	50,000.00
Mayor's Permit Fee	2,000.00	2,000.00	2,000.00	2,000.00	2,000.00	2,000.00	2,000.00
Community Tax Certificate - Class B	6,500.00	6,500.00	6,500.00	10,500.00	10,500.00	10,500.00	10,500.00
Business Permit Fee	50,000.00	50,000.00	50,000.00				
BIR Annual Registration Fee	500.00	500.00	500.00	500.00	500.00	500.00	500.00
Occupation Fees (MPSA 001)	208,374.45	448,774.45	208,374.45	208,374.45	208,425.00	208,425.00	208,425.00
Others	1,003,164.47	2,431,746.71	979,267.39	761,822.46	1,171,973.48	498,498.12	982,590.13
PRODUCTION TAX - BATCH 18							
Copper – 68100	4,527.49						
Gold - 68200	25,477,730.87	30,500,943.26	41,172,401.61	39,129,123.85	27,824,497.78	22,240,042.58	28,002,078.05
Silver - 68300	721,028.66	1,056,964.82	1,315,225.94	1,270,057.26	716,105.05	688,294.31	636,488.41
CUSTOM DUTY - 63405	18,456,430.13	5,955,753.32	6,216,882.46	7,411,986.37	7,140,634.98	5,210,502.79	2,184,992.23
T O T A L	**52,921,076.59**	**48,585,941.09**	**58,641,996.61**	**58,828,927.19**	**46,972,701.54**	**37,685,872.85**	**40,705,806.49**

4.0 GEOGRAPHIC FEATURES

4.1 Location and Accessibility

The Lepanto Copper-Gold Project is located within the Lepanto Mine in the municipality of Mankayan in the province of Benguet. Geographically, the mine site is confined within coordinates 16°49’00” to 16°54’33” north latitudes and 120°45’20” to 120°49’33” south longitudes (Figure 4-1). Physiographically, the mine is situated within the northernmost municipality of Benguet bounded by the municipality of Cervantes, Ilocos Sur on the north, Bakun, Benguet on the south, Bauko, Mountain Province on the east and Buguias, Benguet on the west.

The mine, approximately 250 aerial kilometers north of Manila, can be reached either through land or air transports. By land, the project area can be accessed in approximately eight to nine hours travel utilizing a sealed, well-formed and maintained national highway up to Baguio City and through Halsema – Abatan, Buguias highway. By air, the mine can be reached by a light plane in fifty minutes, with Manila as take-off point and landing at the mine site’s 850-meter long airstrip.

Figure 4-1. Location map of Lepanto Copper-Gold Project. *Source: Encarta 2009, inset from Google Map*.

4.2 Topography, Physiography, Drainage and Vegetation

The project area is characterized by mostly rugged terrain with elevation reaching to about 1,000 to 1,500 meters above sea level. Because of the mostly rugged topography, the very steep slope conditions encourage rapid run-off of water. The major natural drainage system consists of tributaries like the Camanpaguey and Gambang rivers to the west, Guinaoang-Suyoc rivers in the south and the Guillong-Baguyos rivers to the north.

Vegetation within the forest lands is mostly of Benguet pine trees while agricultural lands are usually planted to high-land vegetables such as cabbage, potatoes, carrots and the like.

4.3 Climate and Population

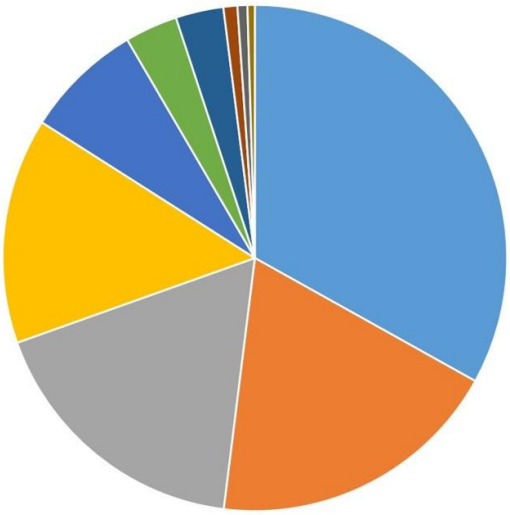
The climate that prevails over the region is classified as Type I based on the Modified Corona Classification of the Philippine Atmospheric, Geophysical and Astronomical Services Administration (PAGASA). The dry season begins in November and ends in April, while the rainy season is experienced between the months of May and October. The average rainfall per annum is 340 cm and the average temperature is 18° Celsius.

The municipality of Mankayan has a population of 35,953 residents based on the government's latest census in 2015. This includes 5,744 individuals residing in the principal host barangay, Brgy. Paco. Though the population is composed mostly of indigenous communities of the highlands, the mining community has become a melting pot of people coming from La Union, Pangasinan and

even from the southern part of Mindanao.

4.4 Land Use

The chart below illustrates the land use pattern in Mankayan according to area covered:



	Mankayan Land Use	Area (Ha)	Percentage
	Forest Land	2,900.2	33%
	Agricultural Land	1,656.0	19%
	Grass/Pasture Lands	1,542.7	18%
	Idle Lands	1,265.5	14%
	Mineral Lands	662.3	8%
	Industrial	296.2	3%
	Residential	268.7	3%
	Institutional	78.3	1%
	Recreational	55.5	1%
	Infa/Utilities	41.3	0%
	Total	8,766.7	100%

Figure 4-2. Land use pattern in Mankayan, Benguet.

4.5 Socio-Economic Environment

The municipality of Mankayan is generally known as a mining town, being the location of several mines, including Lepanto. Outside of the mining community, the main source of income in the municipality is agriculture which is shown by the second highest classification of land use in the area.

In order to ensure sustainable improvement in the socio-economic situation of the community, the company maintains a Social Development and Management Plan that is aimed at building the capability of the community within the municipality and its neighboring areas to enable them to work progressively towards self-reliance. This is achieved through, but not limited to, health programs, arts, education, roads, bridges, housing, livelihood, peace and order and religious programs that would harness and mobilize both human and institutional resources in the community in pursuit of environmental goals.

5.0 PREVIOUS WORK

5.1 History of Previous Work

Lepanto lies within Mankayan Mineral District (MMD) and has an estimated mineral resource of 8 Mt Cu and 37 Moz Au. Similar to other world-class mineral districts, it has complex geological history and is subject to continuous scientific studies and thus evolving geological knowledge. It has been studied by Gonzales (1956, 1959), Sillitoe and Angeles (1985), Tejada (1989), Concepcion and Cinco (1989), Garcia (1991), Arribas et al. (1995), Mancano and Campbell (1995), Hedenquist et al. (1998), Claveria (1997), Cuison et al. (1998), Imai et al. (1999), Sillitoe (2000),

Sajona et al. (2002), Cooke et al. (2005), Deyell et al. (2010), Chang et al. (2011), Tanaka (2012), and Gaibor et al. (2013) and other previous workers. Current data, research and exploration results are being compiled in an ongoing technical write-up care of Subang et al. (in prep.) for the latest evolving geological understanding.

In September 2009, Lepanto released an internal report prepared by Project Engineering Group entitled "Enargite Project Feasibility Update" covering nine enargite areas within the mine, namely Carmen Main, Carmen South, Carmen Northeast, Carmen Northwest, Florence South, Florence North, Florence West, Elena and Northwest (Project Engineering, 2009). These areas were reported to have an estimated combined mineral resource of 8.7 million tonnes of ore with average grades of 1.99% Cu and 2.84 g/t Au. The report does not specify who conducted the resource estimation of the enargite ore bodies although a short statement related to tonnage and grade estimations were included in the write-up. The enargite resource tonnages and grades reported in the 2009 feasibilty report have since been utilized by Lepanto for its annual declaration of mineral resources.

In late 2014, Lepanto commissioned an external Resource Geologist consultant in the person of Cyrill Orssich, P.Geo. to conduct an estimation of the Carmen mineral resource and propose a drilling program to upgrade its resources (Orssich, 2014). In 2015, he was again requested by the company to carry out the same for Elena and Florence deposits. The estimation parameters and procedures used by Mr. Orssich during his previous estimates served as the main basis and guide for the Lepanto Exploration team for its subsequent resource update of the Enargite-QPG ore bodies (Orssich, 2016a, 2016b and 2016c).

5.2 Description and Conclusion of Previous Workers

There are three main types of deposit/mineralization in MMD. These are porphyry copper (e.g. FSE deposit, Bulalacao prospect, Guinaoang deposit, Buaki-Palidan prospect), high-sulfidation enargite-luzonite vein (e.g. Lepanto Cu-Au deposit), and intermediate-sulfidation quartz-gold vein (e.g. Suyoc deposit, Nayak-Palidan prospect, QPG deposit, Victoria-Teresa deposit).

For the FSE – Enargite deposit evolution, synthesis of previous work essentially state that the origin or source of volatiles and fluids responsible for high-sulfidation Cu-Au mineralization to have been attributed to out-gassing and migration of fluids from the Far Southeast porphyry Cu-Au system. This has been based on several fluid inclusion and stable isotope studies (indicating decreasing temperature and fluid dilution away from FSE), coupled with the mapped outward flaring morphology of massive enargite-luzonite lenses, away from the FSE porphyry. This model is likely appropriate for the main historically mined massive enargite lenses along the FSE tapping Lepanto Fault.

The Enargite deposit consists of an open-space filling and replacement type copper-arsenic sulfide deposit in silicified metavolcanics and dacitic host rocks. The main orebody is made-up essentially of elongated breccia-filling of 4 to 50-meter widths and striking N55°W. East-west trending structures also occur in zones with 2 to 100-meter widths and appear to branch-off from the main ore body in both hanging wall and foot wall. The main orebody developed over a strike length exceeding 2 kilometers. Ore minerals are principally enargite and luzonite; while gold and silver are present as tellurides and native metals. Closer to the porphyry hydrothermal engine/driver,

enargite is deemed more abundant relative to its lower temperature dimorph luzonite.

The Far Southeast porphyry Cu-Au deposit is a WNW-trending and longitudinally bell-shaped body with its top lying 650 m below surface. Main host rocks, which display the classic porphyry copper alteration pattern with extensive overprints, are the FSE Quartz Diorite Porphyry and the Balili Volcaniclastics. Centrally truncating the FSE deposit is a steep hypabyssal breccia pipe, which in itself is also mineralized. Mineralization consists principally of bornite and chalcopyrite as dissemination or veinlet. Gold is associated with the sulfides.

The Victoria-Teresa quartz-gold vein is an intermediate sulfidation epithermal deposit. It has been mined in 13 mining levels from 1200 down to 670. Underground workings with significant drill intercept show an arcuate vein strike and ore shoot trending NE, ENE, E-W, WNW, NW, NNW to N-S from deeper to shallower ore zones, respectively, at SE/east in Victoria towards west/SW in Teresa veins. Vein systems are generally steeply dipping south, SW and east at around 70° to 85°. Localization of the veins were controlled by interconnected northeast and northwest trending conjugate shears and their associated east-west trending tensional fractures, forming arcuate linear structures and cymoid loops fault kinematics.

6.0 HISTORY OF PRODUCTION

6.1 Production History

Metal extraction from the Lepanto ore deposit started as early as the thirteenth century. Earliest records have mentioned copper in the Province of Tuy, now the Mountain Provinces. Authentic Chinese records proved that a considerable trade in copper was carried on at lIocos ports by Chinese sea merchants before the coming of the Spaniards to the Philippines. Chinese relics also point to the area as a copper source during the Ming Dynasty (1368-1644 AD).

In 1668, the Spaniards led by Admiral Pedro Duran Monforte made an attempt to find the source of copper in the area and was successful in locating the mine in Mankayan. The group was composed of 100 Spaniards, 2,000 Indios, and 3 Agustinian friars. In 1833, Galvey was able to pinpoint the Igorot mines which is the source of copper. He sent samples to the Spanish authorities in Spain prompting the Spanish Queen to issue a royal decree creating a commission led by Sainz de Baranda to undertake exploration of the mines. On February 3, 1850, Engineer D. Antonio Hernandez made an investigation on the ore deposit, mapped out the route and collected samples which confirmed the existence of copper in the area.

In 1856, Senor Tomas Balbas y Castro applied for the demarcation of the properties. In 1864, the Spanish government issued a mining regulation to govern the operation on the mines in the Philippines. A large-scale mining operation in the area commenced soon after an 1865 agreement with the different rancherias in the area paying an amount of Five Hundred Pesos ($200) and a guaranteed employment of the Igorots in the mines at regular fixed rates. The agreement which was approved by the government led to the creation in 1865 of a stock company "Sociedad Minero-Metalurgica Cantabro-Filipino de Mancayan" headed by Senor Balbas (Eveland, 1905:19). Approximately 10 years later in 1875, it ceased operation after producing about 2.5 million pounds (1136 tonnes) of copper due to the death of the engineer, Don Jose Maria Santos.

On January 1900, after the Spanish-American war, an American party of eight came to the area and witnessed the rich mineral ore. Among them was Leonard Lehlbech who conducted further exploration of the area and examination of its ores. This venture was later made successful by John Muller and Victor E. Lednicky. In 1932 the Halsema road was opened to vehicular traffic primarily to serve as access to the mines to bring supplies more conveniently.

On September 21, 1936, Lepanto Consolidated Mining Company was incorporated through the efforts of Victor E. Lednicky to operate the property, particularly the enargite mine. A road leading to Lepanto was built, a mill with 400 tons per day crushing capacity was constructed and in 1937, Lepanto started mining operations.

On December 8, 1941, when the Japanese struck without warning, Lepanto's first mill was burned at the request of the U.S. Army to prevent the mine to fall into the hands of the Japanese for their use in the war. In 1942, the Japanese took immediate control of the mines due to the importance of copper needed to support the armaments of the Japanese Imperial Army. The Mitsui Mining Company of Japan re-opened and operated Lepanto Mines together with Suyoc Mines and called it Mitsui Mankayan Copper Mines. They operated the mines until 1945 producing some 11,000 metric tons of copper.

Post-war rehabilitation commenced in early 1947 and on June 28,1948, anew 450 mtpd mill started operations. Increases in production capacity were made in 1950 to 900 mtpd, in 1966 to 1,800 mtpd, in 1969 to 2,700 mtpd, and in 1973 to 3,600 mtpd with a separate gold mill. Capacity was decreased in 1977 to 3,000 mtpd with one concetrator. In 1985, production was increased to 3,300 mtpd and then 3,600 mtpd in 1993.

After more than sixty (60) years of mining operation, by the end of February 1997, the company decided to temporarily stop the operation of the Enargite Mine and concentrate on the operation of Victoria gold ore. On March 16, 1997, the completion of the CIP Plant designed to process Victoria gold ore at 1,500 mtpd marked the shift of Lepanto's mining operation from copper to gold. Production ramped up to 2200 tpd in 2004 before tapering around to 1500 tpd per present and current year's production. Summary of historical metal production to 2017 is summarized and described in Table 6-1.

Table 6-1. Production* total ore/metal and average grade from 1948 (post world-war II) to Jan. 2017 is presented. Victoria-Teresa Cu grade is assumed at 0.22 % Cu average#. Total Cu metal production during Spanish period and World War II is also shown. Not accounted for are the Au production of numerous groups of artisanal miners on top and south of Teresa, within Lepanto's tenement area.

Source	K mt Cu	M oz Au	M oz Ag	Mt ore	% Cu	g/t Au	g/t Ag
1865 - 1875 Spanish Co.	1	-	-	-	-	-	-
1942 - 1945 Japanese Co.	11	-	-	-	-	-	-
Lepanto Enargite	743	2.96	12.5	36.3	2.19	3.4	11
Victoria - Teresa	4	1.39	2.4	10.7	#	4.4	18
***Total/Average**	**759**	**4.35**	**14.9**	**47.0**	**1.74**	**3.6**	**13**

6.2 Mining Areas

Enargite – QPG Cu-Au resource and Victoria – Teresa Au-Ag resource areas are also the general location of previous and recent mining activity. Historical and current mineral resource as well as production/mining area is presented and described in Figure 6-1.

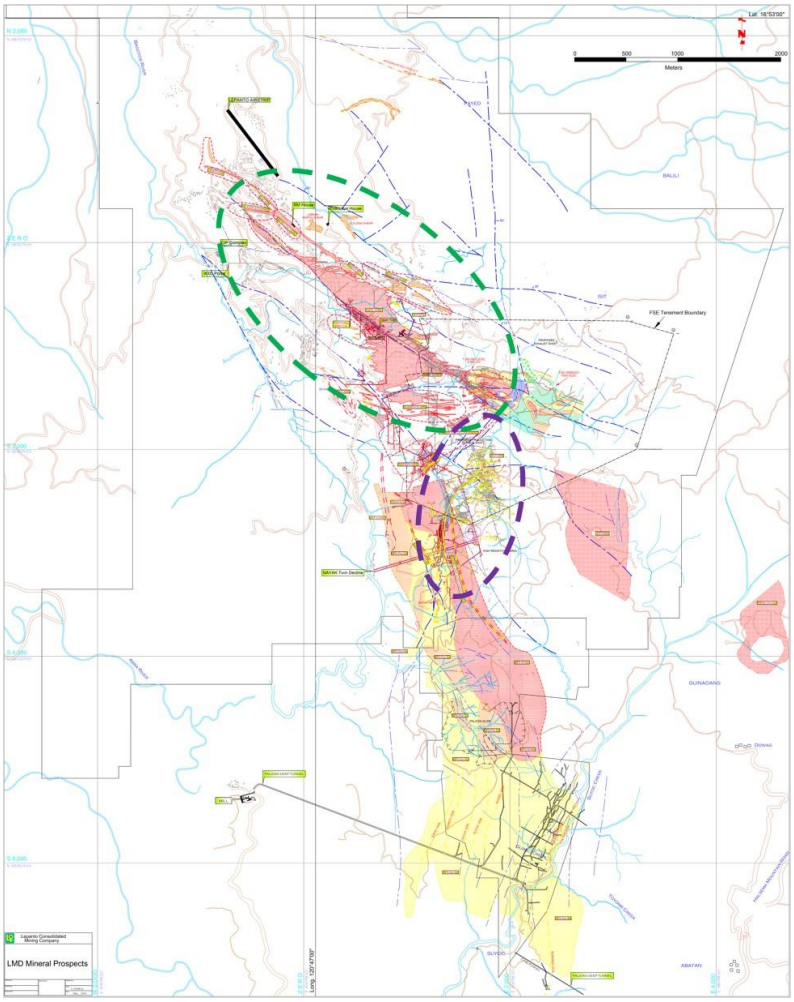


Figure 6-1. Enargite – QPG Cu-Au resource covered in this report as well as the historical mining area are composited on the red zones encircled in green. The Victoria – Teresa Au-Ag resource, whose ore reserves are currently mined are the yellow lines encircled in purple. Lepanto tenement/controlled area are the black outline outside the encircled resource area.

7.0 REGIONAL AND DISTRICT GEOLOGY

7.1 Regional Geologic Setting

The Mankayan Mineral District is situated on the eastern limb of a broad north-trending anticline whose core is the Bagon Intrusive Complex. The intrusive complex forms the backbone of Luzon Central Cordillera and is made up of gabbro, diorite/tonalite, trondhjemite and aplites. The eastern flank of the anticline consists of gentle to moderately steep east-dipping, north to NE-trending layered volcanic, clastic and volcaniclastic rocks.

The oldest exposed unit in the layered column is the Cretaceous-Paleocene Lepanto Metavolcanics, a submarine volcanic pile, probably of an ophiolitic origin (Ringenbach et. al., 1990), composed of

basaltic-diabasic flows and pillow lavas with the upper portions intercalated with spilites, cherts and narrow dacitic to andesitic dikes. The regional metamorphism of this rock unit into greenschist facies is probably partly related to high heat flow at its point of origin during ophiolite generation (Ringenbach, et al., 1990).

7.2 Stratigraphy

The stratigraphy of MMD has been summarized by Gonzales (1956, 1959), Sillitoe and Angeles (1985), Concepcion and Cinco (1989), Garcia (1991), and Claveria (1997). The district is underlain by the Late Cretaceous to Middle Miocene volcanic and volcaniclastic sedimentary sequences of the Lepanto volcanics, Apaoan volcaniclastics and Balili volcaniclastics. These were intruded by the Middle Miocene Bagon tonalite intrusive complex. During the Pliocene, eruption of the Imbanguila dacite porphyry and related pyroclastic rocks preceded the formation of the 1.4 Ma FSE porphyry Cu-Au deposit (Arribas et al., 1995; Hedenquist et al., 1998). The Imbanguilia units are partly host to the FSE porphyry Cu-Au, Lepanto enargite and Victoria-Teresa gold deposits. The Pleistocene Bato dacite porphyry and pyroclastics, together with the Recent Lapangan tuff cover most of the porphyry and epithermal deposits in the district (Figure 7-1).

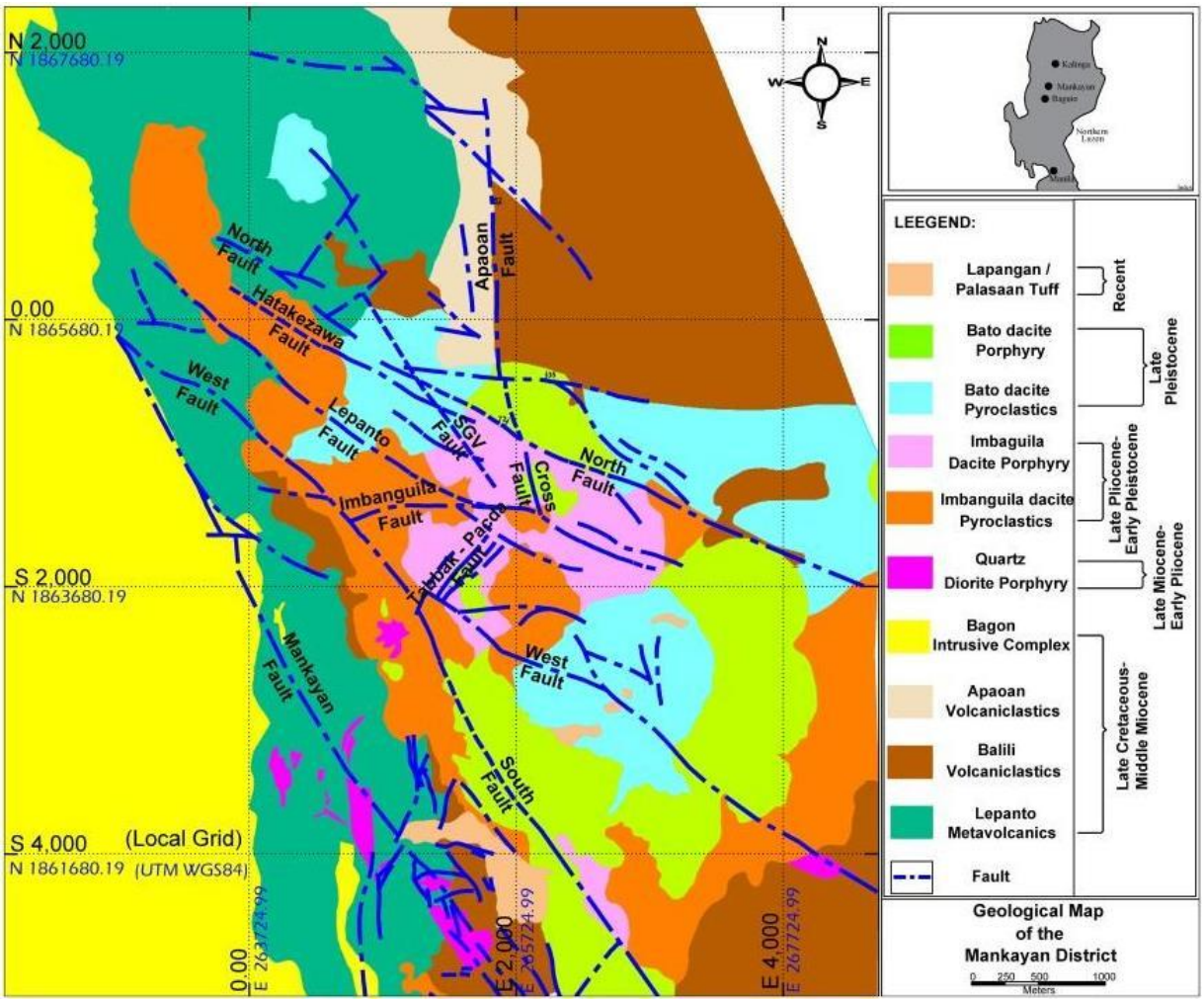


Figure 7-1. Map of the Mankayan district stratigraphy and major fault structures.

7.3 Structural Geology

The Mankayan district has been dissected by a series of faults generated by wrenching along the northern splays of the Philippine Fault. The north-northwest trending Abra River Fault is one such splay, and sinistral strike-slip movements along it have generated northwest and northeast trending secondary conjugate shears, east-west trending tensional normal faults, and north-south trending extensional normal faults. These faults helped to localize porphyry and epithermal deposits in the Mankayan district. Palidan, Honeycomb, Matulinak, and Buaki porphyry deposits are aligned along N15°-25°W trending shear parallel to the Abra River Fault. The Far Southeast, Bulalacao and Guinaoang porphyry deposits and the Lepanto enargite orebody were emplaced along the N45°-60°W trending Lepanto fault and subsidiary structures, wherease the Lepanto enargite branch veins are hosted by N80°E-E/W-N80°W trending tensional structures. The Carmen and Elena enargite veins are hosted by N45°-60°E shears. The Victoria intermediate sulfidation epithermal gold – silver – base metal veins are hosted by a combination of N45°-60°E and N45°-60°W trending shears and N80°E-N80°W trending tensional faults, whereas the Teresa intermediate sulfidation gold-silver veins are hosted by N5°E-N15°W trending extensional faults (Figure 7-2).

7.4 Mineralization

There are three mineralization styles found in the Mankayan district, namely: 1) porphyry Cu-Au; 2) high sulfidation epithermal Cu-Au; and 3) intermediate sulfidation epithermal Au-Ag. The quartz – pyrite – gold veins are a transitional style of mineralization, containing both high and intermediate sulfidation state features in the same structures. The most studied examples of these mineralization styles are the FSE porphyry Cu-Au, the Lepanto high sulfidation epithermal Cu-Au and the Victoria intermediate sulfidation epithermal Au-Ag (Figure 7-2).

7.4.1 Far Southeast (FSE) porphyry Cu-Au

The FSE deposit is a deeply concealed porphyry deposit situated immediately east of the Lepanto enargite and north of the Victoria. It was discovered by Lepanto in 1980. The FSE has since been evaluated by more than 200 diamond drill holes under joint venture partnerships with Galactic Resources, Conzinc Rio Tinto of Australia (CRA) and Gold Fields of South Africa (GFA). On September 2012, GFA publicly announced an inferred resource of 892 Mt at 0.5 % Cu and 0.7 g/t Au, equivalent to 19.8 Moz Au and 4.6 Mt Cu (Gaibor et al., 2013).

The porphyry mineralization is hosted in a quartz diorite-dacite complex that intrudes the Lepanto basaltic basement volcanics. The intrusion complex was emplaced at the intersection of the Lepanto fault with the Imbanguila fault. Mineralization in FSE is associated with quartz – anhydrite vein – stockwork system, the reopening of which has hosted chalcopyrite, bornite and chalcocite copper ore minerals with magnetite and/or pyrite. This was accompanied by 3 main alteration phases: 1) potassic alteration consisting of early biotite-magnetite assemblage mostly encountered at deeper levels; 2) sodic alteration consisting of sericite (paragonite)-chlorite-albite (SCA) which overprints potassic alteration; and 3) intermediate argillic alteration consisting of sericite (muscovite)-chlorite-illitic clay (SCC) which grades outwards from the SCA alteration (Hedenquist et. al, 1998; Gaibor et al., 2013). The highest Cu and Au grades in FSE are found in zones of intense quartz-anhydrite veining with SCA alteration developed within the quartz diorite.

Latest findings shows that the dominant porphyry veining orientation is parallel to the Imbanguila fault (Gaibor et al., 2013).

7.4.2 Lepanto high sulfidation epithermal Cu-Au

The enargite-luzonite breccia veins have an aggregate strike length of about 2.5 km, hosted within dilational segments of the NW trending Lepanto-Northwest wrench fault couple (main ore bodies) and their associated east-west trending tensional structures (Branch Veins and Easterlies). Mushroom-shaped to stratiform bonanza orebodies are also found where the faults intersect the contact between the basement volcanics-volcaniclastics and the overlying Imbanguila dacite pyroclastics (Gonzales, 1959; Garcia and Bongolan, 1989).

Mineralization in the Lepanto deposit consists of: 1) early stage enargite-luzonite-pyrite as open space fillings in hydrothermal breccias, tensional gashes and zones of vuggy residual quartz; 2) intermediate stage tennantite- chalcopyrite-sphalerite overprinted on the earlier Cu ore minerals as replacements, intergrowths and crosscutting veinlets; and 3) late stage gold-telluride hosted on digenite that preferably replaces pyrite rather than enargite and luzonite. The gold occurs in native form, electrum, calaverite, and petzite. Au and Ag bearing guanajuatite (Bi_2Se_3) grains were also observed with colusite hosted in digenite (Tejada, 1989; Imai et al., 1999; Claveria, 2001). Alteration associated with the Lepanto enargite mineralization consists of fracture-controlled central zone of vuggy residual quarz, which grades outward into a zone of dickite-alunite-pyrophyllite-diaspore, thru to a zone of illite-smectite, and into an outer zone of chlorite-epidote. Ore mineralization is almost entirely confined within the central zones of advanced argillic alteration (Claveria, 2001).

7.4.3 Victoria intermediate sulfidation epithermal Au-Ag

The Victoria deposit, located immediately south of the FSE deposit, is a vein-type intermediate sulfidation epithermal Au-Ag deposit which has a published resource of 17.28 Mt at 7.71 g/t Au and 0.35 % Cu. It was discovered in 1995, opened up in 1996 and started producing in 1997 – a record period of only 18 months from discovery to production (Cuison et al., 1998; Sillitoe, 2000; Claveria, 2001; Sillitoe and Hedenquist, 2003). The gold veins of Victoria are hosted mainly in dacite pyroclastics. Vein gangue consists of anhydrite/gypsum > quartz at the eastern and southern sections, quartz > anhydrite/gypsum > rhodochrosite/siderite at the central section and quartz > rhodochrosite/siderite at the northern and western sections. Unlike the wide alteration haloes of the enargite orebodies, the wallrock alteration at Victoria is limited to narrow zones along vein selvages, moving outwards from quartz to illite-smectite and then to chlorite (Claveria, 2001). Gold occurs in native form, and with silver in electrum and tellurides (calaverite, hessite, petzite, sylvanite, and stützite). Deposit-wide the precious metal mineralization is associated with intermediate sulfidation state mineral assemblages consisting of sphalerite-galena-chalcopyrite with subordinate tennantite-tetrahedrite (Claveria, 2001). The eastern and southern sections of the deposit contain more abundant tennantite-tetrahedrite, mixed with lesser amounts of high sulfidation state mineral assemblages consisting of early pyrite-bornite-covellite and late enargite-luzonite-famatinite with minor colusite-nekrasovite and stannoidite-mawsonite and occasional bismuthinite, stibnite, emplectite, and chalcostibite (Tanaka, 2012).

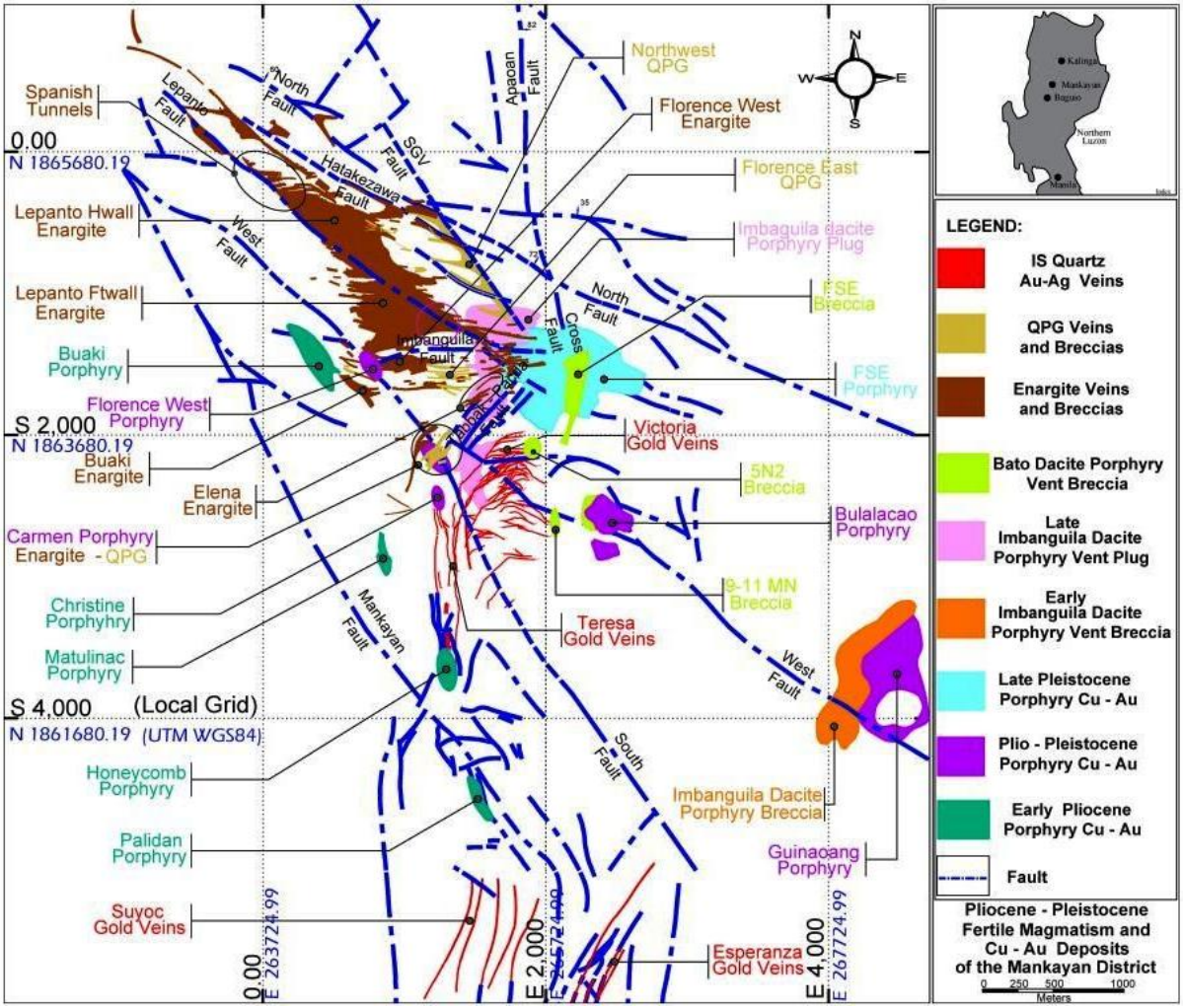


Figure 7-2. Map of the Mankayan district showing locations of the Far Southeast porphyry Cu-Au, enargite and quartz – pyrite – gold high sulfidation epithermal Cu-Au and Victoria-Teresa intermediate sulfidation epithermal Au-Ag deposits with respect to the major structures in the area.

8.0 MINERAL PROPERTY GEOLOGY

There are three world renowned copper and gold deposits in Mankayan Mineral District, northern Luzon, Philippines. These are the Enargite-Luzonite-Gold Deposit, the Far Southeast Porphyry Copper Deposit and the Victoria-Teresa Gold-Silver Deposit. There are other copper and gold prospects identified in the district and this further posts a challenge in the search for new big deposits.

8.1 Rock Types and Geological Relationship

The Lepanto basement andesite and the Balili volcaniclastic sequence underlie the Mankayan Mineral District. They are intruded by the tonalitic to gabbroic Bagon Intrusive followed later by diorite-quartz diorite intrusions. The diatreme emplacement of the dacite pyroclastics and porphyries took place in a much later volcanic event. Most of the faults found in the district form a conjugate fracture pattern dominated by north and northwest trending shears, east-west trending extensional fractures and few north-south trending fissures.

The late Miocene-early Pliocene Imbanguila dacite pyroclastics and porphyries predominantly host the major veins of the Victoria gold deposit. There are few narrow veins hosted by the middle Miocene Balili volcaniclastics and the pre-Eocene Lepanto metavolcanics.

The Victoria gold deposit lies within the LCMC property, which also bounds the two well-known Cu-Au deposits, the Enargite epithermal copper (+gold) and the FSE porphyry copper (+gold) deposits. The gold deposit could have some genetic associations with the Enargite deposit and probably indirectly with the FSE porphyry system. It is relatively apparent that the Victoria quartz-gold-base metal veins could have occurred similarly as the quartz-gold roots overprinting the enargite mineralization. This overprinting signifies the waning stages of the entire hydrothermal system.

8.2 Property Geology Description

The enargite-luzonite-gold deposit is characteristically a high sulfidation vein-replacement type of mineralization. It is hosted by andesites and dacitic rocks. The principal ore minerals are enargite and luzonite, with significant presence of tennantite-tetrahedrite, base metals, electrum and tellurides. Pervasive alteration zonations are commonly observed from silicification outward to advance argillic then to propylitic zone. Enargite mineralization is related to dilational structures.

The FSE porphyry-copper deposit is a deep-seated bell-shaped deposit with strong zonation features both in alteration and sulfide mineralization. It is centered on a quartz diorite intrusive complex characterized by the presence of a mineralized melanocratic variety and a relatively barren leucocratic variety. The deposit is truncated by a north trending hydrothermal breccia pipe, which in itself is also mineralized with copper and gold.

The Victoria vein systems are divided into zones based on continuity. In each zone are major veins and associated spits. The veins generally trend east-northeast with 75-80 dips towards the south. The longest vein can be traced fairly continuously for a horizontal distance of about 600 meters. The vertical persistence of major veins exposed on three (3) level drives has a range of 150 meters and can reach as much as 400 meters based on drill hole intercepts. The vein widths vary from 2 to 8 meters. Right lateral movements of either the NW or NE shear faults could have produced the east trending tensional fractures. The development of ore shoot patterns was recognized and has been helpful to the mining operations. Cymoid loops with defined pinch and swell features are noted both laterally and vertically. Complementing the structural pattern is the distribution of gold values along veins where lateral and vertical continuity is also observed.

8.3 Stratigraphy, Structure and Mineralization

The Mankayan Mineral District lies within a 150-km long mineralized belt in the Central Cordillera. This belt is also manifested by the presence of intrusives of intermediate calc-alkaline composition. It is apparent that the distributions of Cu-Au districts are related to the occurrences of the calc-alkaline intrusives and to the Philippine Fault system. Immediately west of the Mankayan District is the Abra River Fault, which is north trending and one of the northern splays of the Philippine Fault.

The distribution of the different lithologies underlying the Mankayan Mineral District is shown in Figure 7-1. The figure shows the major rock units consisting of the Dacite Complexes (Imbanguila and Bato), the Volcaniclastics (Balili and Apaoan), the Lepanto Metavolcanics and the Bagon Intrusive Complex.

The oldest exposed lithological unit in the district is the Cretaceous-Paleogene Lepanto metavolcanics. It was proposed to be of ophiolitic origin (Riggenbach et.al., 1990). It is a submarine volcanic pile made up of andesitic-basaltic flows and pillow lavas (with intercalated spilites and cherts), intruded by narrow dikes composed of diabases, andesites and few dacites. This unit has undergone partial low-grade metamorphism.

Tectonic events probably related to major movements along the Philippine Fault resulted to the emplacement of Early Miocene Bagon Intrusive Complex along the Abra River Fault, which is considered a splay of the Philippine Fault. This intrusive is predominantly tonalitic in composition but variations of gabbroic to dioritic compositions are also observed. It also forms the core of a broad north trending anticline with the Mankayan Mineral District found at the eastern limb of the anticline.

Sedimentary and volcaniclastic rocks unconformably overly the andesitic basement. The lower member is made up of thin-bedded red and green sandstones, shales and volcaniclastics (Apaoan Sequence). The upper member is made up of basal polymictc conglomerates (with andesitic clasts and matrices), interbedded sandstone and shale, few andesitic–dacitic flows, andesitic breccias, tuffs and limestones (Balili Sequence).

The deposition of the volcaniclastics was followed by the intrusion of diorite and quartz diorite complexes which brought about the high level emplacements of some porphyry copper-gold deposits. There are two belts of quartz diorite complexes. One is a west-northwest trending FSE belt consisting of the Guinaoang and FSE deposits and the other is a north trending Nayak belt consisting of the Buaki-Pacda, Nayak and Palidan prospects.

The dacite complex consists of pyroclastics, which is made up of dacitic breccias, lapilli and lithic tuffs intruded by dacitic porphyry dikes and domes. This corresponds to the early to late stage units of the Makayan diatreme of Baker (1992), the diatremes and endogenous domes of Sillitoe and Angeles (1985) and the dacite pyroclastics and porphyries (Imbanguila and Bato) of Garcia and Bongolan (1989). The Imbanguila dacites are host to Enargite, FSE and Victoria mineralization. Bato dacites are however barren of any mineralization (being post-mineralization dacites of Pliocene to late Pleistocene age). It was noted that the Imbanguila and Bato dacites apparently have no distinct differences in composition implying a possible single source (Hedenquist et.al., 1998).

The major lineaments around the district are oriented mostly towards the northwest southeast with few trending northeast southwest. Most of the faults found in the district form a conjugate fracture pattern dominated by north and northwest trending shears, east-west trending extensional fractures and few north-south trending fissures. The large or major faults found in the district are those associated with the Philippine fault as northern splays. The Abra River fault is one of the major structures, which cuts through the Mankayan Mineral District. Prominent triangular facets are commonly observed along the fault zone. Previous interpretations on the structural set up of the

Mankayan district (e.g. Baker, 1992; Corbett and Leach, 1994) have mentioned the presence of dilational structures, which were correlated to the different ore occurrences in the area. These extensional structures were also observed in known deposits such as in El Indio, Chile and in Acupan, Philippines. Forming part of the Abra River Fault is the Lepanto Fault that outcrops inside the Lepanto mine area. The Lepanto Fault is considered the main hydrothermal mineralization structure acting as passageway of sulfide rich fluids. The Lepanto fault, which host the enargite mineralization, is also important to the FSE related mineralization. Other northwest southeast structures occur as branch veins, which also carries mineralization. The major northwest faults parallel to the Lepanto fault are the North shear and the Hatekazawa faults. Another prominent fault is the Pusdo Fault located east of Mankayan.

9.0 MINERALIZATION IN THE MINERAL PROPERTY

There are three types of mineralization in the Mankayan Mineral District. These are the porphyry coppers (e.g. FSE deposit, Bulalacao prospect, Guinaoang deposit, Buaki-Palidan prospects), the enargite-luzonite vein replacements (e.g. Lepanto Enargite deposit), and the quartz-gold-base metal veins (e.g. Suyoc deposit, Nayak-Palidan prospects, quartz-gold zones in enargite, Victoria gold deposit). Concepcion and Cinco (1989) were able to discern two- (2) porphyry copper belts and are identified as exploration targets. These are the FSE belt (FSE, Bulalacao and Guinaoang) and the Nayak belt (Buaki, Nayak and Palidan).

9.1 Mineralization Types Deposit Example

9.1.1 The Enargite-Luzonite-Gold Deposit

A classic example of an acid-sulfate or high sulfidation type of epithermal mineralization is the Lepanto Cu-Au (enargite) deposit. The enargite ore body is made up of essentially the main breccia ore and different branch veins. In the main ore body, the ore occurs as breccia or as open space infillings, as matrices and fragments in breccia and as replacements in dominantly fractured and silicified host rocks. The branch veins trend oblique from the main ore body. These are the foot wall and the hanging wall branch veins. Most of the ore occur as tensional fracture infillings. Banding, crustification and comb structures are very common. Other ore occurrences are the Easterlies, the bonanza stratiform and stratabound ore zones and the northwest ore zones.

The enargite-luzonite mineralization is located on a dilational jog with the Lepanto fault being a major dilational structure between the main trace of the Abra River fault at the east. Corbett and Leach (1997) have classified the enargite deposits to be one of the structurally controlled high sulfidation systems. The presence of dilational fault system has created permeabilities (as ideal channel ways) where lateral outflows of solutions take place. Ore deposition is more evident along receptive zones brought about by profuse brecciation and “horsetailing” along the fault zones.

Distinguishable alteration zonation patterns are observed from the center of the vein towards the outermost unaltered wall rock. Silicification (and residual silica) is observed adjacent to the veins and grades into advance argillic alteration. Intermediate argillic-sericitic alteration forms an outer contiguous zone to advance argillic alteration. The propylitic alteration constitutes the farthest alteration zone. The development of the high sulfidation alteration in the enargite deposit could

have been brought about by the interaction of predominantly magmatic vapor with meteoric waters. The varying intensity of fluid-rock interaction, taking into consideration the pH of the fluids would form the alteration zonation (Claveria, 1997).

Mineralization, especially copper, occurs in the form of enargite and luzonite. Associated minerals such as tennantite-tetrahedrite, chalcopyrite and covellite are found in minor amounts. Gold (and silver) occurs as electrum and tellurides (Gonzales, 1959; Claveria and Hedenquist, 1994). Gangue minerals are quartz, kaolinite or dickite, alunite, barite and anhydrite. In a paragenetic study made by Claveria (1997) on the sulfides, two (2) episodes of mineralization were mentioned. The first is the residual silica-sulfide (sulfosalt) episode followed by the sulfide-sulfate-veining episode. In each episode, consistent stages of sulfide evolution are observed. These are the enargite-luzonite-pyrite stage, followed by tennantite-chalcopyrite-sphalerite stage and a late gold-telluride stage. These stages conform with an earlier paragenetic study (Claveria and Hedenquist, 1994) on two (2) stages of mineralization leading to the formation of gold electrum and tellurides. Figure 4 shows the observed paragenetic sequence in the formation of minerals related to the enargite mineralization.

Quartz-gold epithermal veins are found to occur in the enargite mineralization. They occur in zones made up of auriferous pyrite-quartz stringers. Garcia (1991) observed localized occurrences of these gold veins in the enargite mineralization, 1) as zones occurring below or peripheral to the main enargite ore body, 2) as steeply dipping zones crosscutting the enargite body, 3) as roots of branch veins, and 4) as zones crosscutting enargite related alteration. These epithermal veins commonly have an assemblage of pyrite-galena-spahalerite-gold. The formation of the quartz-gold epithermal veins could be attributed to the apparent waning stages of the hydrothermal system manifested by changes in the composition of the fluids from magmatic to meteoric, resulting to the formation of near-neutral pH conditions.

Figure 9-1 and Figure 9-2 below illustrate the spatial relationship and occurrence of enargite and quartz-pyrite-gold mineralization in Florence, Buaki, Elena, Carmen and NW QPG with respect to structural and lithological controls (Subang et a., in prep).

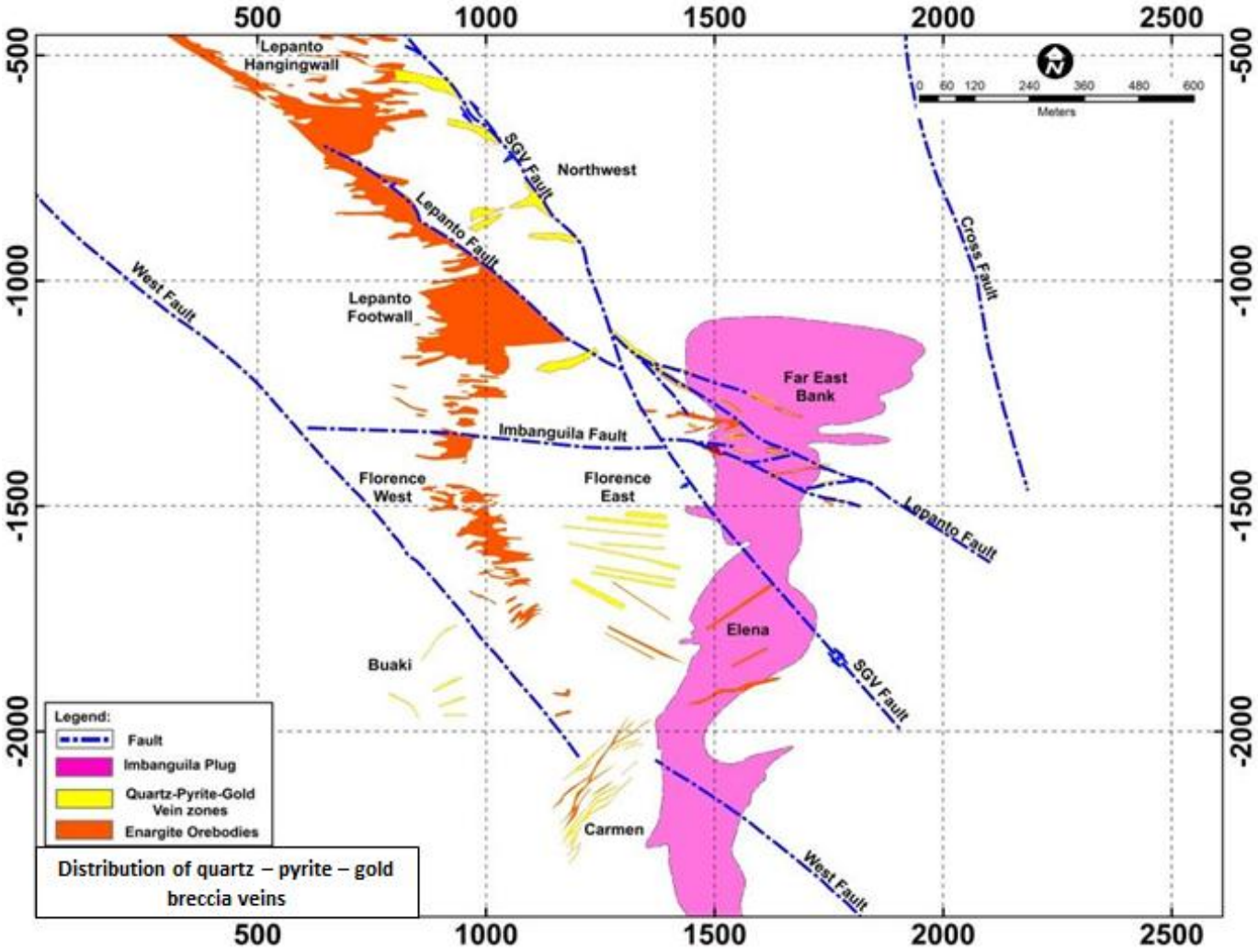


Figure 9-1. Footprint of the enargite and quartz – pyrite – gold breccia vein mineralization at 900L at the areas of Northwest, Elena, Florence East and West, Carmen, and Buaki. These deposits are generally clustered along a north-northwest band that lies in-between the band of main enargite orebodies at the west and the Imbanguila vent at the east.

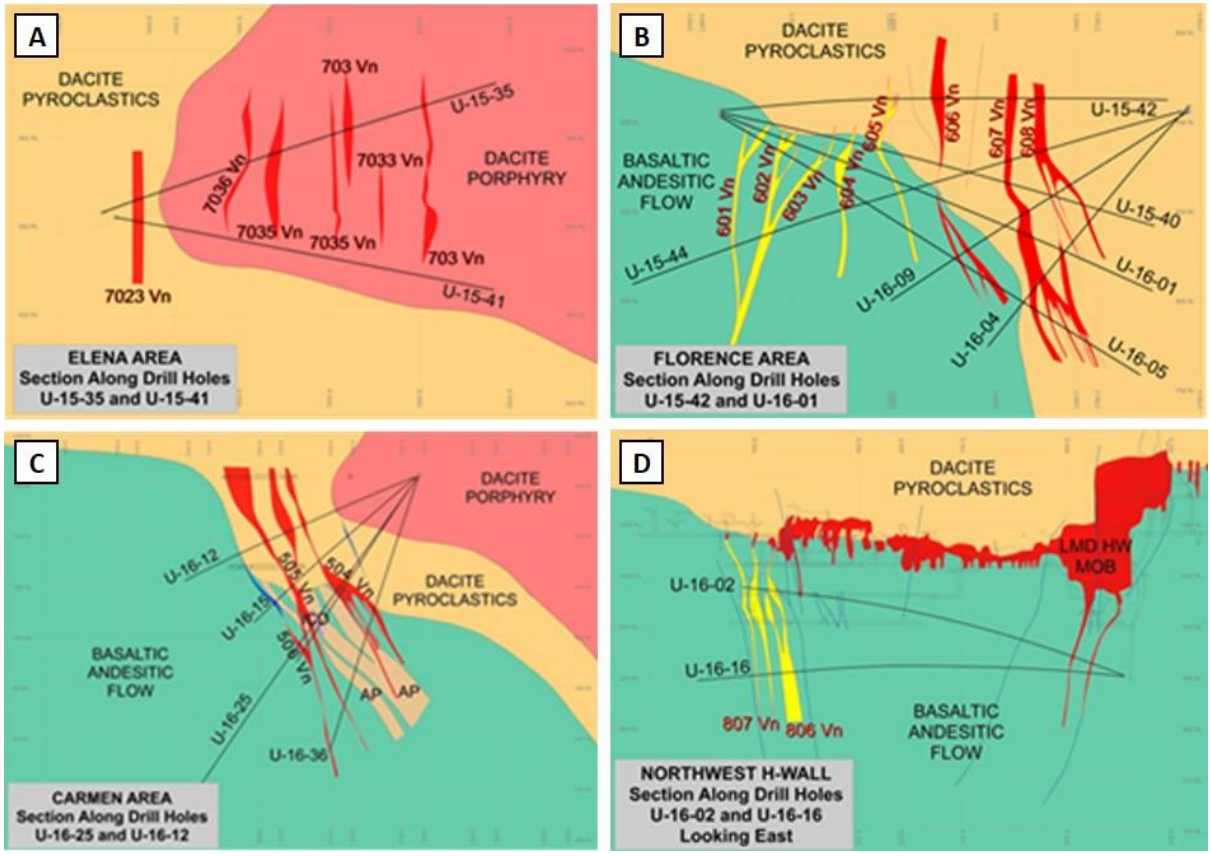


Figure 9-2. Cross sections across enargite and quartz – pyrite – gold veins at different parts of the dacitic dome-diatreme architecture. At the vent center (**A**), veins are characteristically narrow (<1m to 5m wide), widely spaced and due to the impermeable nature of the dacite porphyry plug. At the vent margin (**B** and **C**), occupied by phreato-magmatic breccias which are more permeable due to their clastic nature, the veins are relatively thicker (1m to 15m wide). At the basement country rocks (**C** and **D**), the veins have individual widths of 1m to 10m, but could form a group of closely spaced veins of up to 100m wide in a cymoid loop configuration with multiple tensional gashes. At the shallow dipping contact zones (**D**) between the basement volcanics and overlying diatreme apron breccias that were intersected by vertical feeder faults, individual ore zone dimensions at the Lepanto enargite deposit could be as much as 30-100m wide, 150-250m long and 150-200m deep, forming mushroom-shaped orebodies.

9.1.2 Far South East Copper-Gold Deposit

Most of the FSE Cu-Au mineralisation is hosted in the intrusion complex and to a lesser extent the basaltic country rocks of the Lepanto volcanic unit. The mineralization is characterized by disseminated sulfides along hairline micro-fractures, and multiple sulfide-bearing vein sets which show strong spatial and temporal variations. Hydrothermal alteration related to the porphyry mineralization is intense and overprinted by epithermal style alteration related to the overlying Enargite deposits and Victoria veins.

The main alteration related to the porphyry system consists of several different phases and mineral assemblages. Early potassic alteration is characterized by biotite-magnetite assemblages occurs at depth, predominantly in the quartz diorite and surrounding basaltic country rocks. This is overprinted by a sodic assemblage of sericite (paragonite)-chlorite-albite (SCA) which grades outwards into sericite (muscovite)-chlorite-illite alteration (SCC). The SCA alteration is associated with the most intense development of stockwork mineralization and coincides closely with the

higher Au and Cu grades. Phyllic alteration overprints the SCA and SCC alteration and is characterized by sericite-quartz-anhydrite, with varying amounts of pyrophyllite in the upper part of the phyllic zone. The latter mineral indicates a transition to advanced argillic alteration at higher levels in the system closer to the enargite ore bodies of the Lepanto mine. Phyllic alteration is also intensely developed in the central phreatomagmatic breccia pipe. More distal propylitic alteration surrounds the above mentioned alteration assemblages. Calc-silicate alteration consisting of diopside-garnet±epidote assemblages also occurs locally at depth in the basaltic rocks of the Lepanto volcanic unit close to intrusion contacts.

Mineralization is mainly associated with a multi-episode vein stockwork system, in which re-opening of veins occurred with precipitation of polyphase copper sulfides. There is widespread evidence for metal remobilisation during later phases, which has implication for zones of metal enrichment and metal depletion.

Sulfide zonation is observed and is characterized by bornite-chalcopyrite-magnetite in the potassic core, chalcopyrite-magnetite-hematite-pyrite-molybdenite in the chlorite-illite zones and chalcopyrite-pyrite-hematite in the propylitic zone. Gold occurs in native form and is intimately associated with chalcopyrite-bornite, and in most cases show positive correlation with copper and magnetite. In the hydrothermal breccia pipe, the related sulfide zonations are characterized by chalcopyrite-magnetite-pyrite-bornite-molybdenite in the deeper sericitic-illite zone of the breccia, and chalcopyrite-pyrite-hematite-enargite-covellite-molybdenite at the upper advance argillic zones of the breccia. The major controlling structures for the localization of the deposit are the west-northwest trending Lepanto and east-west trending extension of Imbanguila Faults, as well as the north to northwest trending Cross Fault.

The highest Au and Cu grades occur in the sodic alteration zone (SCA) within the quartz diorite and are associated with the most intense development of quartz vein stockworks. Where stockworks are well-developed the veins show no preferred orientation, but where less well-developed the veins tend to be orientated parallel or sub-parallel to the Imbanguila fault zone (110 – 120 deg).

Five veins categories have been recognised based upon age relationships and mineralogy. Contact relationships between veins are very complex because of overprinting alteration and vein associations.

- Type 1 veins are grey coloured quartz-anhydrite veins, a few millimetres to centimetres in width which mainly carry bornite and chalcopyrite, and rarely chalcocite, covellite and digenite in the deeper parts of the porphyry system.
- Type 2 veins carry chalcopyrite and bornite, molybdenite and are related with the highest copper and gold grades and range from a few millimetres up to a metre in width. They have a characteristic lavender colour hue due to very fine haematite crystals contained in abundant fluid inclusions in the quartz.
- Type 3 veins are generally seen as a reopening in the type 1 and 2 veins. They mainly carry bornite, chalcopyrite and less commonly chalcocite, as well as molybdenite. Rarely gold is seen in this type of veins.

- Type 4 veins are the last veins that were related with the porphyry fluids. They are composed of magnetite, chalcopyrite and pyrite, with minor quartz and anhydrite. Magnetite is dominant at depth, giving way to chalcopyrite in the middle zones, and to pyrite in the top of the deposit, all of them overprinting the previous veins.
- Type 5 veins are of epithermal character and consist of two contrasting types. High sulphidation veins (type 5a) are composed of quartz - anhydrite with pyrite, enargite and less commonly baryte. Intermediate sulphidation quartz - anhydrite –carbonate veins (type 5b) contain sphalerite, galena and minor thetrahedrite-tenantite. Both of these vein types cross-cut the porphyry veins and overprint the porphyry alteration.

In the upper parts of the deposit in the phyllic alteration zone disseminated bornite, chalcocite and minor chalcopyrite occurs along micro-fractures and is believed to be the result of late-stage enrichment due to metal remobilization from lower in the deposit.

Gold is rarely seen. It occurs as native gold and in tellurides which include calaverite, hessite, and petzite. Some gold grains are associated with palladium.

The FSE deposit is recognized as one of the largest deep-seated porphyry copper orebody. Since the deposit has a high temperature gradient, successful mining would require sophisticated refrigeration. Additional studies on the project are now being reviewed to address this issue as well as the mining method.

9.1.3 The Victoria Gold Deposit

The epithermal quartz-gold-base metal veins occur along tensional structures and it is common to observe crustiform and banded and breccia infilling textures with few gradational features and partial replacements among the sulfides and gangue minerals. It is an open space infilling type of mineralization. The predominant base metals present are sphalerite, galena and chalcopyrite. In relatively high gold zones, the abundant sulfides are sphalerite and galena. In relatively high copper zones, there is an abundance of chalcopyrite (in some portions massive) with associated tetrahedrite.

Gold is associated with quartz and sulfides specifically sphalerite, galena and chalcopyrite. It occurs in clusters or peppered randomly in quartz. Sphalerite is abundant in most of the gold rich samples. It is inferred that gold occurs in the lattices of sphalerite. Color differences in sphalerite are observed with the yellow (-green) variety being more abundant than the reddish (-brown) type. The sphalerite varieties occur separately in bands and in most cases interlocking with each other. Based from XRD analyses, the sphalerite has the characteristics of the high temperature wurtzite. Galena is always associated with sphalerite but less in abundance. There are however some portions where they appear massive with no sphalerite. Chalcopyrite occurs either as separate bands from or associated with sphalerite-galena (Figure 7A). In most cases tetrahedrite is always associated with chalcopyrite. Chalcopyrite and tetrahedrite appears contemporaneous with sphalerite and galena but in some portions the former cuts the latter sulfides. Pyrite is a ubiquitous sulfide mineral. In some grains, chalcopyrite (and some sphalerite) replaces pyrite.

Copper occurrences (e.g. with a cut off of 0.2%) apparent have lateral and vertical continuity throughout the individual zones and veins. With this observation and using an arbitrary Cu cut-off grade of 0.5%, Victoria could appropriately be classified as a "copper rich gold deposit". The massive appearance of chalcopyrite, tetrahedrite and pyrite with few occurrences of bornite and chalcocite identified copper rich veins. These associated copper ore minerals either occur together, partly with some replacement features or are segregated in bands. Chalcopyrite and tetrahedrite also occur as open space in-fillings in veins and in breccia matrices (with colloform banding textures) mostly associated with bladed and crustiform quartz. Few occur as disseminated grains scattered throughout the silicified host rock. There are some veins that are composed mainly of massive chalcopyrite (and few tetrahedrite) with a thickness reaching to about 8 to 10 cm. Bornite and chalcocite are not abundantly observed. Bornite, occurring in blebs, is found associated with chalcopyrite and tetrahedrite. There are portions where they also occur in bands. Chalcocite, characteristically sooty, is observed in very few samples.

The close association between chalcopyrite, tetrahedrite, galena and sphalerite manifests a contemporaneous stage of formation. There are however few portions where chalcopyrite (and tetrahedrite) occur in micro-fractures cutting sphalerite and pyrite grains, with partial replacements (e.g. projecting a brecciated pyrite grain with chalcopyrite in-fillings). Chalcocite occurs as replacement mineral after chalcopyrite, tetrahedrite and bornite.

Among wider veins, brecciation features are commonly observed. Sulfides, carbonates and quartz support the angular and subrounded altered hostrock fragments. Banded massive sulfides occur along the margins of the altered fragments. Rhodochrosite follows the deposition of the massive bands of galena-sphalerite-chalcopyrite. There are portions where rhodochrosite is found in alternating bands with the sulfides. Quartz is the predominant mineral in the veins. They occur in massive veins with some portions grading into open space crustiform quartz. Sulfide grains are sometimes observed as open space infillings scattered in voids left by the crustiform quartz. There are fragments of rhodochrosite (some with sulfides) enveloped by quartz. Gypsum and anhydrite are found as fracture infillings and as veinlets with some containing sulfide blebs.

In the distribution of the different vein minerals, it was observed that the high amounts of sulfides (and gold) are closely associated with abundant carbonates (+quartz). A vertical trend among carbonates however shows decreasing amounts as one goes from higher to lower elevations. At lower elevations sulfides are more associated with quartz. Initial observations indicate a general carbonate distribution trend with a drift towards the north-northwest from lower to higher elevations. Such drift manifests the southeast moderately dipping vein structures. There is also a general increase of sulfate occurrence with increasing elevations.

In general there are three stages of mineralization based on preliminary paragenetic studies (Figure 8). These are the early quartz (-gold) stage followed by a carbonate stage and a late gypsum stage. Prior to the gypsum stage, it is common to observe a late quartz event partly cross cutting the early quartz-sulfides and replacing the carbonates. This late quartz is characteristically unmineralized. The abundance of base metals relatively decreases towards the gypsum stage. Among the sulfides, initial observations on the paragenetic association of the Cu-Pb-Zn sulfides show that they were deposited at the same stage of mineralization. Such stage is characterized by different times of sulfide deposition producing the banded structures. In general, the sequence of deposition starts

(from wall rock) with tetrahedrite (+ bornite + chalcopyrite) ± chalcopyrite (+ tetrahedrite) ± galena-sphalerite (+ chalcopyrite) ± open space deposition of quartz, carbonates and sulfates. With respect to individual sulfides, in a single depositional stage, there would be an early contemporaneous formation of chalcopyrite, tetrahedrite (+ bornite), galena and sphalerite, and followed much later by the replacement stage of chalcocite.

Quartz and sphalerite crystals show temperatures of formation ranging from 180.9 to 227.8°C based from the initial fluid inclusion studies made by MGB-Petrolab (1996). Most of the samples contain fluid rich inclusions hosted by quartz and few by sphalerite. The inclusions are mostly primary in origin. Based on homogenization temperature readings, the temperatures for quartz formation cover a wide range from 180.9 to 218.0 °C. Sphalerite could have been deposited from hydrothermal fluids at temperatures 184.2 to 227.5 °C. Copper mineralization could have taken place also at this temperature as indicated by the association of chalcopyrite and sphalerite. The homogenization temperature readings for quartz exhibit a bimodal distribution indicating more than one depositional stage. This is apparently confirmed by the observed presence of late stage quartz veins.

The zonation of sulfide-sulfosalt mineralization associated with Au deposition in the Victoria is reflected by a corresponding zonation in Ag and Cu grade distribution. Global mine assay values for Au, Ag and Cu projected on 900L show that while zones of low and high grade Au are evenly distributed within the deposit, zones of Ag and Cu exhibit a general increase in values to the southeast, corresponding to the increase in argentiferous and cupriferous higher sulfidation state sulfosalts. Ore mineragraphy of vein samples also show that, towards the southeast sections of Victoria, the occurrence of native Au-electrum decreases while the occurrence of Au/Ag-tellurides (as inclusions locked mostly in tennantite-tetrahedrite and chalcopyrite) increases. This increase in tellurides, which was observed by Tanaka (2012) to be associated with bismuth- and tin-bearing minerals (bismuthinite, emplectite, colusite-nekrasovite and stannoidite-mawsonite), suggests increasing content of magmatic component in the southeast Victoria mineralization that were possibly derived from spatially associated andesitic-dacitic porphyries (Giggenbach, 1981; Simmons et al., 1987; Henley, 1990; Jensen and Barton, 2000; Cooke et al., 2001; Cooke and McPhail). Since the Victoria veins are temporally linked to the Bato enargite-mineralized diatreme vent breccias that form the eastern boundary of the veins, it is highly possible that there is a close genetic link between them. The cyclic intrusion of dacitic finger porphyries during the waning stages of the Bato volcanism could have contributed heat, magmatic fluids, CO2 and H2S gases and metals (Au, Te, Bi, and Sn) to the hydrothermal system that generated the Victoria intermediate sulfidation epithermal Au-Ag deposit.

10.0 EXPLORATION

10.1 Drilling, Logging and Sampling

10.1.1 Drilling Programs

The deposits within the Lepanto mine are defined principally by underground diamond drillholes and by some surface diamond drillholes. During the enargite mining operations from 1956 to 1996,

aggressive drilling campaign was carried out targeting the different enargite ore bodies. When Lepanto shifted to gold mining beginning 1997, majority of the drillholes had been focused in the exploration and definition of the Victoria and Teresa veins, while enargite drilling became limited to a few exploratory holes only. Now that the Victoria and Teresa gold ores are nearing depletion, Lepanto has reverted to drilling the remaining enargite ore bodies starting 2015 up to present with the primary aim of blocking new copper-gold resources that will help augment the life of the Lepanto mine.

The table below summarizes the total number and length of all of Lepanto drillholes based on year of drilling and deposit. Enargite-related deposits pertain to enargite ore bodies such as Buaki Enargite, Carmen, Cristine Enargite, Elena, Enargite Main, Florence, Florence West, Florence East, Northwest, SGV and NW QPG.

Table 10-1. Summary of all Lepanto drillholes.

Year	Deposit/Area	No. of DH	Length (m)
1956 - 1996	Enargite-related	864	133,847.81
	Buaki	13	2,764.96
	Bulalacao	16	9,727.85
	Cristine	13	3,327.65
	Far Southeast	106	68,073.87
	Madaymen	6	2,759.90
	Navajo	2	809.10
	Nayak	2	360.51
	Palasaan	16	5,392.14
	Teresa	37	6,541.10
	Victoria	15	6,099.66
	Undefined	3	1,199.75
Sub-total		*1,093*	*240,904.30*
1997 - 2014	Enargite-related	86	22,242.96
	Buaki	4	1,319.50
	Bulalacao	10	8,624.90
	Cristine	4	1,080.30
	Fatima	5	4,612.40
	Matulinac	1	500.60
	Teresa	352	92,802.90
	Victoria	486	128,554.57
Sub-total		*948*	*259,738.13*
2015 - present	Enargite-related	230	48,808.30
	HCG	8	1,558.20
	Honeycomb	1	163.60
	Teresa	43	3,810.00
	Victoria	55	5,434.85
Sub-total		*337*	*59,774.95*
Grand Total		**2,378**	**560,417.38**

10.1.2 Drillhole Spacing and Length

The ore bodies covered in the updated enargite-QPG resource estimates were drilled at variable spacing. During the enargite mining operations, majority of the holes were drilled between 1050L and 850L underground mining levels. When the exploration of the enargite-QPG ore bodies resumed in 2015, drilling has been constrained dominantly at 900L with some holes collared at 1150L, 950L and 700L. Approximate drillhole spacing, orientation and length are as follows:

Carmen	30 m spacing between 1150L and 1050L; 20 m spacing between 1000L and 850L; horizontal and vertical fan drilling oriented NW-SE; average drillhole length is 230 m
Florence	50 m spacing between 1100L and 1050L; 20 m to 30 m spacing between 1000L and 850L; variable drill orientation but dominantly N-S; average drillhole length is 220 m
Elena	50 m to 60 m spacing between 1000L and 900L; horizontal and vertical fan drilling oriented NW-SE; average drillhole length is 320 m
NW QPG	35 m to 50 m spacing between 1000L and 950L and between 850L and 800L; 15 m to 20 m spacing at 900L; variable drill orientation but mostly N-S and NW-SE; average drillhole length is 210 m
Easterlies	80 m spacing at 700 m; NE-SW orientation; average drillhole length is 180 m

The current drilling program of Lepanto for its Copper-Gold Project is focused mainly on exploration and resource definition drilling hence the present drill spacing is still relatively wide. Lepanto is yet to employ twin hole drilling for testing historical data, checking the validity of assays or verifying significant drill intercepts.

10.1.3 Drilling Technique and Equipment

Majority of the diamond drilling activities in Lepanto have been carried out by the Diamond Drilling Corporation of the Philippines (DDCP), a 100% subsidiary of Lepanto Consolidated Mining Co. DDCP has been using various rigs from Boart Longyear including LM55, LM90, Kempe and Meter Eater for diamond coring.

In 2015 and 2016, Lepanto commissioned Major Drilling Group International (MDGI) to conduct drilling of some of the enargite-QPG holes at NW QPG, Carmen and Florence. MDGI used STM-1500 and LM-90 drill machines for diamond coring.

From 2016 up to present, Lepanto has been also engaging the services of Drill Corp of the Philippines (DCP) in the drilling of its enargite-QPG holes at Florence West and Florence Buaki areas. DCP has been using Diamec machines for diamond drilling.

All three drilling contractors utilized triple tube diamond coring and produced non-oriented drill cores of sizes PQ (82 mm), HQ (61 mm) and NQ (45 mm). Depending on drilling machine capacity and ground condition, drill runs range from less than 1.5 m in the shallow levels to 3.0 m going deeper.

10.1.4 Drillhole Data Collection

10.1.4.1 Drillhole Collar Survey

Based on the drill program prepared by the Exporation Department, the collar position of the proposed drillhole is located underground by the Survey team of the Mine Engineering Department. The Survey crew uses a high precision Total Station survey tool from Leica Instruments to determine the collar location and mark the drillhole azimuth's foresight and backsight. When drilling is completed, the Survey crew re-survey's the collar position for the final collar location.

10.1.4.2 Downhole Survey

There are no clear records how downhole surveys were conducted on historical drillholes. Looking at the survey table of the drillhole database, majority of the drillholes from 1994 and older do not have actual downhole survey and instead adopted the hole's collar survey for its downhole azimuth and inclination.

While Lepanto employed several proper survey tools for the more recent holes, a substantial number of drillholes were still surveyed using the crude Acid-Etched technique especially at times when the survey tools were unavailable or down.

The recent enargite-QPG drillholes from 2015 up to present were surveyed using proper survey tools at distance 15 meters from collar and at every 50 meters distance downhole. Aside from the downhole azimuth and inclination, the survey tools also measure the drillhole temperature, magnetic field strength, magnetic dip and roll angle.

The table below summarizes the downhole survey methods and tools used by Lepanto over the years of drilling.

Table 10-2. Survey method and tools used by Lepanto for its drillholes.

Survey Method/Tool	Years
Acid-Etched	1972-1973; 1995-2014
Eastman	2000
Tropari	1985; 1996-1999
Maxibor	2002-2011
Compaq Proshot	2014-2015
Reflex	2015-2016
Camteq	2016
Sling Shot	2016-2017

10.1.4.3 Drill Core Recovery

Drill core recovery data is collected systematically by assigned geotechnical aides at the core shed. Core recovery is recorded on a standard geotechnical logging form and later encoded in spreadsheet format. Digital encoding of core recovery, however, has been done and completed only for

drillholes from 2015 up to present. The core recovery data for the 2014 drillholes and older are only recorded in paper.

Summarized below is the drill meterage versus core recovery for period January 2015 up to June 2017.

Table 10-3. Drilling meterage vs recovery of drillholes from 2015 to June 2017.

Year	Drilled (m)	Recovered (m)	% Recovery
2015	13,680.40	12,180.04	89.03%
2016	27,108.40	23,703.57	87.44%
2017 (Jan to Jun)	8,343.70	7,306.44	87.57%
TOTAL	**49,132.50**	**43,190.05**	**87.91%**

10.1.4.4 Drill Core Photography

Once the drill cores arrive at the core house they are again cleaned using a water hose with careful consideration on argillized and faulted sections. The core boxes are then placed inside an enclosure to regulate lighting while being systematically photographed in their wet condition using a digital camera (Figure 10-1).

Figure 10-1. Sample photograph of wet drill cores.

10.1.4.5 Geological Logging

Detailed geological logging of drill cores is completed routinely at the Lepanto Exploration core house.

A standard Geological Logging Sheet is used by highly trained logging geologists to capture important geological data from drill cores. The logging sheet contains a column for Graphical Log, a detailed description of the core, abbreviated lithological coding, a checklist of alteration minerals, mineralization, oxidation and veining or structures present. Geological logging is normally carried out using paper and pencil and then later digitized by the logging geologist.

Figure 10-2. Geological logging of drill cores.

10.1.4.6 Geotechnical Logging

Detailed geotechnical logging is carried out by a skilled Geotechnical Aide using a standard Geotechnical Logging Form. The form includes columns for drill run intervals and corresponding core recovery, RQD, intact rock strength, number of defects and number of defect sets, defect type, roughness, fracture infill type, infill thickness and defect surface weathering. All geotechnical data are later encoded in a spreadsheet format by an assigned personnel.

Figure 10-3. Geological assistant measuring recovery of drill core.

10.1.4.7 Bulk Density Measurements

For many years, routine bulk density measurements for drill cores was discontinued in Lepanto. As a result, the mineral resource estimates which had been updated annually used constant historical density values that were long ago derived from mine samples and might or might no longer be applicable for current estimations.

In the second-half of 2016, Exploration Department initiated routine dry bulk density (DBD) measurements for recent enargite-QPG drill cores. The steps are carried out by collecting around 10 cm length of drill core piece from every meter from the vein, the hanging wall and the footwall. The sample is then dried, weighed and coated with wax to seal off the vugs and voids present in the core samples. The waxed sample is then weighed again and afterwards immersed into a glass filled with water. The density of the sample is determined using the Water Displacement Method (Archimedes Principle).

Figure 10-4. Steps in measuring bulk density of drill core samples. Core specimen is first dried either under the sun or halogen lamp, weighed and then coated with wax. The waxed sample is again weighed and then immersed in a glass filled with water. The volume and weight of the water displaced by the sample is then measured.

10.1.5 Drill Core Sampling

Once detailed geological logging is completed, the logging geologists mark up the side of the core box at appropriate intervals for cutting and sampling. Markings are placed on the edge of the core box immediately adjacent to the sample interval using a red permanent marker pen with arrows indicating the start and end of each sample interval.

Sampling interval depends on the type of mineralization or alteration being sampled and core recovery. When sampling epithermal veins, the minimum sampling length is 20 cm while the maximum sampling length is 1 meter. When sampling porphyry mineralization or pervasive

chloritized zone with veinlets, the maximum sampling length is 2 meters. At times when core recovery is low, the whole length of drill run is sampled.

Once sample marking is completed, drill core is delivered to the core cutting room in preparation for splitting. Core samples are cut into halves lengthwise using diamond core saws. One half of the drill core is placed in a plastic sample bag with a corresponding sample tag and later sealed off with plastic tie. The other half of the core is returned to the core tray for future reference.

Figure 10-5. Drill core sampling procedures. After logging, the core box is marked of the sampling interval. Afterwards, the cores are split into halves lengthwise. One half side is placed inside a plastic bag with a corresponding sample tag and then sealed off using a plastic tie.

10.1.6 Drill Core Storage

Un-sampled drill cores left in the core house are systematically stored according to drillhole name and depth in vertical stacks.

Figure 10-6. Core boxes in storage with the drillhole number, depth interval and box number. Core boxes are arranged orderly in vertical stacks.

10.2 Underground Sampling

Samples from underground openings are routinely collected by the Exploration Geologic Aides. Sampling starts by first locating a controlled or surveyed point underground that will serve as the reference point when gathering underground samples. Veins and structures encountered underground are normally sampled but there are cases such as when the opening is being driven in a relatively unexplored ground, even the rocks from the walls of the opening are collected.

Prior to channel sampling, the breaking width of the panel, true width of the vein or structure are recorded. Afterwards, the number of samples to be collected from the vein or structure is determined by dividing the vein or structure into portions not greater than 0.8 m. Channel sampling starts from the footwall to the hanging wall at breast height of the sampler. Each channel must be 6.0 inches in height and 2.0 inches in depth. A canvas is placed on the ground below the vein being sampled to catch the rock fragments falling from the channel. The collected rock fragments in the canvas are crushed to 1-2 inches diameter size, mixed and then quartered. The two opposite quarters are transferred into a cloth sample bag and assigned a sample ticket. Descriptions related to the geological characteristics of the sample are recorded on the corresponding sample ticket leaf.

Channel samples from veins or structures are normally collected from the face of the panel but at times when face sampling is not possible, samples from the roof or back of the opening are collected instead.

Upon reaching the core house office, the geologic aides must accomplish the Sample Description Form and plot the samples on the 1:200 m plan maps.

10.3 Sample Preparation, Analyses and Security

10.3.1 Security and Chain of Custody of Samples

Drill core sample splits are arranged orderly according to sample number and are stored in the core house room until they are ready to be shipped to the laboratory for analysis.

Lepanto engages the services of two assay laboratories for the analysis of its drill cores, one is Lepanto Assay Laboratory located within the mine site and the other is Intertek Laboratory in Muntinlupa,. If the core samples will be sent to the Lepanto Assay Laboratory, an assigned Exploration Supervisor will prepare two copies of the Assay Request Form (FRM-EXP-008) listing the indiviual sample numbers included in the batch, type of sample, elements to be analyzed, and other instructions for the laboratory. Upon delivery to the assay laboratory, a laboratory representative checks the samples and countersigns the request form and returns one of the two copies to the Exploration personnel present for filing. Meanwhile, if the core samples will be sent to Intertek Laboratory, a standard Sample Submission Form from Intertek will be filled out by an assigned geologist and signed off by the Exploration Manager. Once the samples arrived in Muntinlupa, the laboratory representative assigns a laboratory reference/work order number to the sample batch and countersigns the Sample Submission Form. Intertek also sends via email a Sample Receipt Confirmation form to the Exploration Manager.

All channel samples collected by the Exploration Samplers from underground are directly delivered to the Lepanto Assay Laboratory for analysis. Prior to delivery, an assigned sampler fills out and signs two copies of the standard Sample Submission Form (FRM-ASY-013A). Upon delivery to the Lepanto laboratory, a laboratory representative receives and checks the samples and countersigns the sample submission form and returns one of the two copies to the Exploration Sampler for filing.

10.3.2 Preparation and Assay Facility

All samples, whether from drillhole or channel cut, collected prior to 2015 were prepared and analyzed at the Lepanto Assay Laboratory.

When Lepanto resumed the exploration of its copper-gold ore bodies in 2015, the high sample volume generated from drilling and the limited element determination capability of the Lepanto assaying facility compelled the Lepanto management to engage the services of an additional assay laboratory for sample analysis.

The Lepanto Assay Laboratory still serves as the primary laboratory for Lepanto samples while Intertek Laboratory, an ISO 17025:2005 accredited company in Muntinlupa, serves as the secondary laboratory for sample preparation and additional multi-element determination including Ag, Pb, Zn, and As.

10.3.3 Sample Preparation

10.3.3.1 Lepanto Assay Laboratory

The core samples together with the sample ticket are placed in steel drying pans and are dried at 105°C. The samples are then crushed in a jaw crusher in two stages. Primary crushing output must be ½ inch while secondary crushing output must be 10 mesh. A screen test on 2 to 4 crushed samples per batch is carried out at random to ensure that the crushed samples are of acceptable grain size.

The crushed samples from the secondary crushing are then split with a rifle splitter to produce a 1.0 kg sample for pulverizing. The residual crushed materials or the coarse rejects are later retrieved by the Exploration personnel and stored at the Lepanto core house.

The 1.0 kg sample is pulverized until 90% passes 200 mesh. A screen test on 2 to 4 pulverized samples per batch is carried out at random to ensure that the pulverized samples are of acceptable grain size.

10.3.3.2 Intertek Laboratory

The core samples are placed in steel trays and are dried at 105°C. The samples are then crushed in a jaw crusher until 90% of the crushed samples is finer than 2 mm. The crushed samples are then split with a rifle splitter to produce a 1.5 kg sample for pulverizing. The residual crushed materials are stored in the laboratory as coarse reject samples.The 1.5 kg crushed sample is pulverized until 95% is finer than 200 mesh.

10.3.4 Analytical Methods Used

10.3.4.1 Lepanto Assay Laboratory

The analytical method used by Lepanto Assay Laboratory for gold and silver determinations is fire assay commonly followed by gravimetric finish. Sometimes atomic absorption spectrophotometer (AAS) is used if gold and silver contents are lower than 0.03 g/t. AAS is also employed for the quantitative analysis of other elements including copper, lead, zinc and antimony. The detection limits of the elements analyzed in the Lepanto laboratory are listed in the table below:

Table 10-4. Lepanto Assay Laboratory minimum detection limits for gravimetric and AAS methods.

Method	Fire Assay-Gravimetric			AAS				
Element	Au	Ag	As	Au	Cu	Pb	Zn	Sb
Units	ppm	ppm	ppm	ppm	ppm	ppm	ppm	ppm
Minimum Detection Limit	0.03	0.03	70	0.005	10	10	10	10

The basic procedure for fire assaying involves mixing a 30 g aliquot of pulverized sample material with 150 g of flux. The sample is then placed inside a furnace pre-heated to 1000 °C for about 45 to 55 minutes. Afterwards, the melted sample is poured into a conical mould and then left to cool and solidify. The lead button is separated from the slag by hammering and then weighed. The button is then placed into a pre-heated cupel and then into the furnace at 850°C. After cupellation, the dore

is extracted from the cupel, flattened and then placed in a 15 ml porcelain crucible to mix with a nitric acid – water parting solution. The recovered gold bead after parting is annealed into the furnace until the bead turns yellow. The gold beads are then left to cool and then weighed. The assay results are sent to the assigned Exploration geologist through email as CSV files for direct import into the database.

10.3.4.2 Intertek Laboratory

Intertek applies two sets of methods for assaying depending on Lepanto's purpose of analysis. For standard drill core analysis, a 50 g aliquot of the pulp sample is analyzed for gold by fire assay combined with gravimetric finish. Pulp samples are also analyzed for a suite of five elements by three acid digestion ($HCI/HNO_3/HCIO_4$) with AAS finish. The method codes used by Intertek for gold and multi-element analyses are FA50/GR and 3AH1/AA, respectively. The detection limits of the elements determined for standard drill core analysis are listed in the table below:

Table 10-5. Intertek detection limits for FA50/GR and 3AH1/AA analyses.

Method	FA50/GR	3AH1/AA	3AH1/AA	3AH1/AA	3AH1/AA	3AH1/AA
Element	Au	Ag	As	Cu	Pb	Zn
Units	ppm	ppm	ppm	ppm	ppm	ppm
Minimum Detection Limit	0.02	0.5	100	10	10	10
Maximum Detection Limit		1,000	100,000	100,000	200,000	200,000

For ore characterization analysis, the gold content is determined by fire assay with AAS finish from a 50 g aliquot of pulp sample. A suite of 60 elements are also determined from the pulp sample using four acid digestion ($HCI/HNO_3/HCIO_4/HF$) followed by ICP-OES and ICP-MS. The method codes used by Intertek for gold and multi-element analyses are FA50/AA and 4A/OM20, respectively. The detection limits of the elements determined for ore characterization analysis are listed in the table below:

Table 10-6. Intertek detection limits for FA50/AA and 4A/OM20 analyses.

Element	Minimum Detection Limit (ppm)		Maximum Detection Limit (ppm/pct)	Element	Minimum Detection Limit (ppm)		Maximum Detection Limit (ppm/pct)	Element	Minimum Detection Limit (ppm)		Maximum Detection Limit (ppm/pct)
Au	0.005										
Ag	0.05	-	500	Hf	0.05	-	2000	Sb	0.05	-	1%
Al	50	-	15%	Ho	0.01	-	2000	Sc	0.1	-	5000
As	0.5	-	1%	In	0.005	-	2000	Se	0.5	-	1%
Ba	0.1	-	5000	K	20	-	10%	Sm	0.01	-	5000
Be	0.05	-	2000	La	0.01	-	5000	Sn	0.1	-	2000
Bi	0.01	-	1%	Li	0.1	-	5000	Sr	0.05	-	1%
Ca	50	-	40%	Lu	0.005	-	2000	Ta	0.01	-	2000
Cd	0.02	-	2000	Mg	20	-	40%	Tb	0.005	-	2000
Ce	0.01	-	1%	Mn	1	-	2%	Te	0.05	-	2000
Co	0.1	-	1%	Mo	0.1	-	1%	Th	0.01	-	5000
Cr	1	-	2%	Na	20	-	10%	Ti	5	-	2%
Cs	0.05	-	2000	Nb	0.05	-	2000	Tl	0.02	-	2000
Cu	0.5	-	2%	Nd	0.01	-	5000	Tm	0.01	-	2000
Dy	0.01	-	2000	Ni	0.5	-	2%	U	0.01	-	1%
Er	0.01	-	2000	P	50	-	5%	V	Jan-00	-	5000
Eu	0.01	-	2000	Pb	0.5	-	1%	W	Jan-00	-	2000
Fe	100	-	50%	Pr	0.005	-	5000	Y	0.05	-	2000
Ga	0.05	-	2000	Rb	0.05	-	2000	Yb	0.01	-	2000
Gd	0.01	-	2000	Re	0.002	-	2000	Zn	1	-	2%
Ge	0.05	-	2000	S	50	-	10	Zr	0.1	-	2000

The assay results are sent to the assigned Exploration Geologist and Exploration Manager by email as CSV files for direct import into the database. Hard copy of the assay results are also sent to the Makati Office for filing. The analytical results of laboratory internal control standards are also reported with each batch of samples analyzed.

10.3.5 Quality Assurance/Quality Control

Quality control samples are inserted within the sample batch and submitted routinely in order to monitor sampling, laboratory sample preparation, analytical accuracy, and precision. In the same way the primary and check laboratories conduct their own tests of internal standards, blanks, and duplicate samples on a routine basis according to laboratory procedures to ensure integrity of assay results.

During the enargite mining operations prior to year 1997, Lepanto had not implemented QAQC protocols in either of its exploration or mine samples. Application of QAQC measures only began during the Victoria-Teresa gold mining operations, however, QAQC monitoring has not been continuous through the years and available records and reports related to QAQC checks are limited. During the resumption of copper-gold exploration in early 2015, the Exploration team tried to revive the implementation of QAQC insertion in its samples. Unfortunately, the procedures in the recording and monitoring of QC materials at that time was not yet well established, hence the actual QAQC monitoring only began in the later part of the year.

The following discussions on the performance of the Lepanto Assay and Intertek laboratories with respect to QC materials cover the period between late 2015 and July 2017.

10.3.5.1 QAQC Protocols on Sample Preparation

Sample preparation protocols are set up to ensure that the correct particle size and sample size reduction schemes are used in order to produce a representative sample. The Lepanto Assay Laboratory undertakes screen tests on crushed and pulverized products at a rate of 2 to 4 samples per batch.

10.3.5.2 QAQC Protocols on Sample Analysis

The Exploration Department monitors data precision, accuracy and contamination through the use of Certified Reference Materials (CRM), Blank, Field Duplicate, and procedures designed to ensure correctness of sample preparation and chemical analysis. An assigned geologic assistant is responsible for the insertion of the quality control samples. A total of 2,179 QC materials have been sent and analyzed with the samples from the Lepanto Copper-Gold Project at the Lepanto Assay and Intertek laboratories between late 2015 and mid-2017 (Table 10-7).

Table 10-7. Number of QC samples analyzed by the Lepanto Assay and Intertek laboratories.

Laboratory	CRM	Field Blank	Field Duplicate
Lepanto Assay	466	458	307
Intertek	333	299	316
Total	799	757	623

10.3.5.3 Certified Reference Materials

Certified reference materials (CRM), also called standards, are composed of pulp samples with element concentrations certified by international laboratories. These are submitted to check the accuracy of the laboratory analyses.

Between November 2015 and April 2016, Lepanto used three kinds of internal standards namely FSE-ST1, FSE-ST2 and FSE-ST3. These three standards were prepared by Ore Research & Exploration Pty Ltd (OREAS) from laboratory sample rejects (95% <2mm) of FSE core samples. The certified values of the internal standards are summarized in Table 10-8 below.

From May 2016 onwards, Lepanto has been using three kinds of commercial CRM's purchased from OREAS. The three CRM's called OREAS 600, OREAS 601 and OREAS 604 were prepared from a high sulfidation epithermal gold-silver-copper bearing ore from Evolution Mining's Mount Carlton Operation in Queensland, Australia. The certified values of the commercial standards are summarized in Table 10-8 below.

Table 10-8. Certified values Au and Cu values of the CRM's used by Lepanto.

Certifying Company	Reference Material Type	CRM Name	No. of Samples	Certified Values			
				Au (g/t)	Std Dev	Cu (pct)	Std Dev
Internal Standard certified by OREAS	FSE Porphyry Cu-Au	ST1	48	0.428	0.018	0.708	0.025
		ST2	52	0.933	0.034	0.659	0.02
		ST3	52	1.98	0.06	0.734	0.015
OREAS	High sulfidation epithermal Ag-Cu-Au	600	227	0.2	0.006	0.0482	0.00226
		601	218	0.78	0.031	0.101	0.004
		604	202	1.43	0.055	2.16	0.049

CRMs are submitted blind to both Lepanto and Intertek laboratories at a rate of one per 30 samples. Tolerance limits are set at two standard deviation (SD) from the true value of the reference material. CRMs that exceed ±2SD are deemed failed. The sample batch where the failed CRM belongs to are re-analyzed.

Figure 10-7 and Figure 10-8 show the performance of the Lepanto Assay Laboratory and Intertek, respectively, in analyzing the CRM's. Majority of the results of CRM submissions are within the prescribed 2SD rule, except for some samples that plotted beyond the red line. In such cases the sample batch was re-sent to the laboratory for re-analysis.

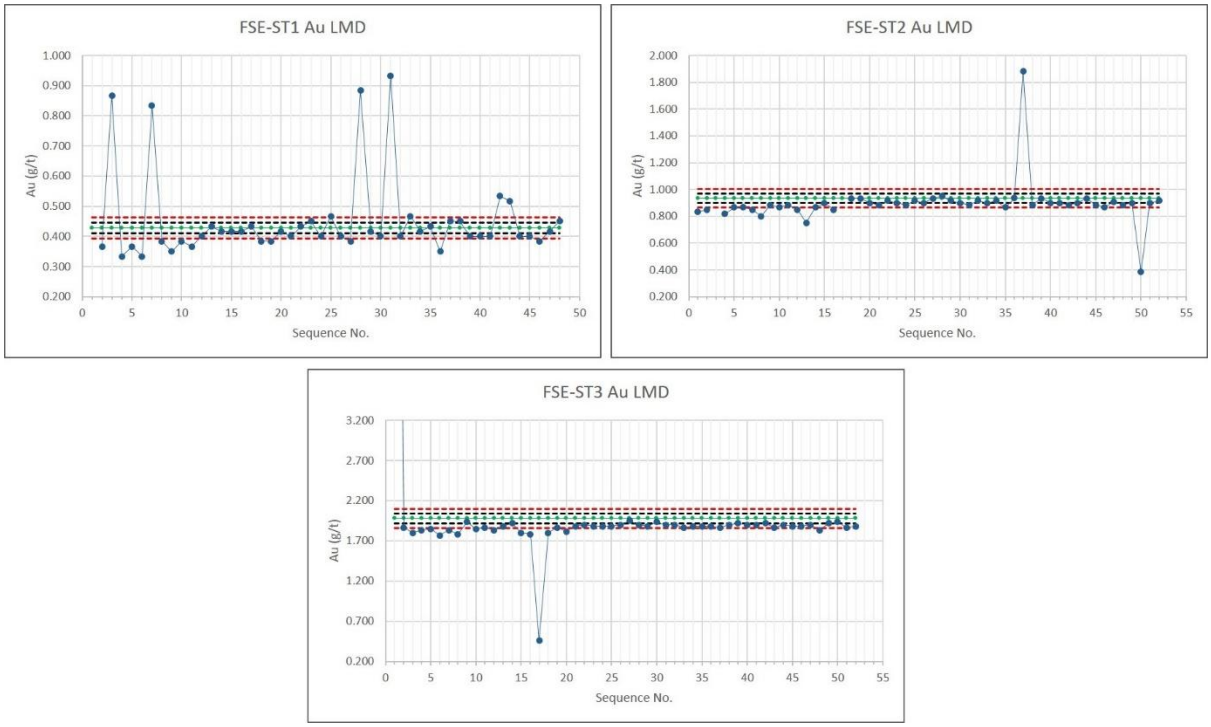


Figure 10-7. Performance of Lepanto Assay Laboratory in gold CRM analysis using the FSE-ST QC materials. Blue line represents the Au value analyzed, green line represents the true value of the CRM, black line represents 1SD and red line represents 2SD.

Figure 10-8. Performance of Intertek Laboratory in gold and copper CRM analysis using the OREAS 600, 601 and 604 QC materials. Blue line represents the Au and Cu values analyzed, green line represents the true value of the CRM, black line represents 1SD and red line represents 2SD.

10.3.5.4 Blanks

Lepanto inserts blank materials within a sample batch to monitor and measure contamination during sample preparation. Blanks are inserted at a rate of one in every 30 samples.

Prior to May 2016, Lepanto utilized blank samples sourced from the un-mineralized Bato Dacite Porphyry (BDPO) in Brgy. Bulalacao, Mankayan. From May 2016 onwards, Lepanto has been using un-mineralized tonalitic to dacitic materials from the Bagon Intrusive Complex (BGIC) in Brgy. Sapid, Mankayan as blank samples. Based on the 38-element suite analysis of Intertek, BGIC blank has mean values of 0.0025 ppm gold and 7.43 ppm copper.

Figure 9-19 and Figure 9-20 show the performance of the Lepanto Assay Laboratory and Intertek in analyzing field blanks. Majority of the field blanks analyzed plot below or on the threshold limit which is equal to the minimum detection limit of 0.03 ppm gold for Lepanto Assay Laboratory and 0.02 ppm for Intertek. Blanks samples that plot above the threshold limit indicate possible

contamination during sample preparation and are investigated to determine the source of error and if re-analysis is needed.

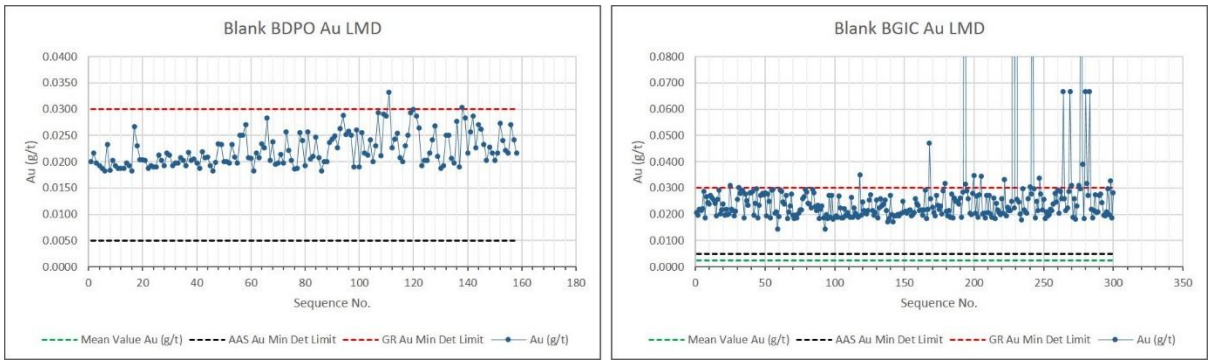


Figure 10-9. Gold assay results of BDPO and BGIC blanks analyzed by Lepanto Assay Laboratory. Blue line represents the Au values analyzed, green line represents the Au mean value of BGIC blank samples, black line represents Lepanto Assay's lowest detection limit for AAS method and red line represents Lepanto Assay's lowest detection limit for GR method.

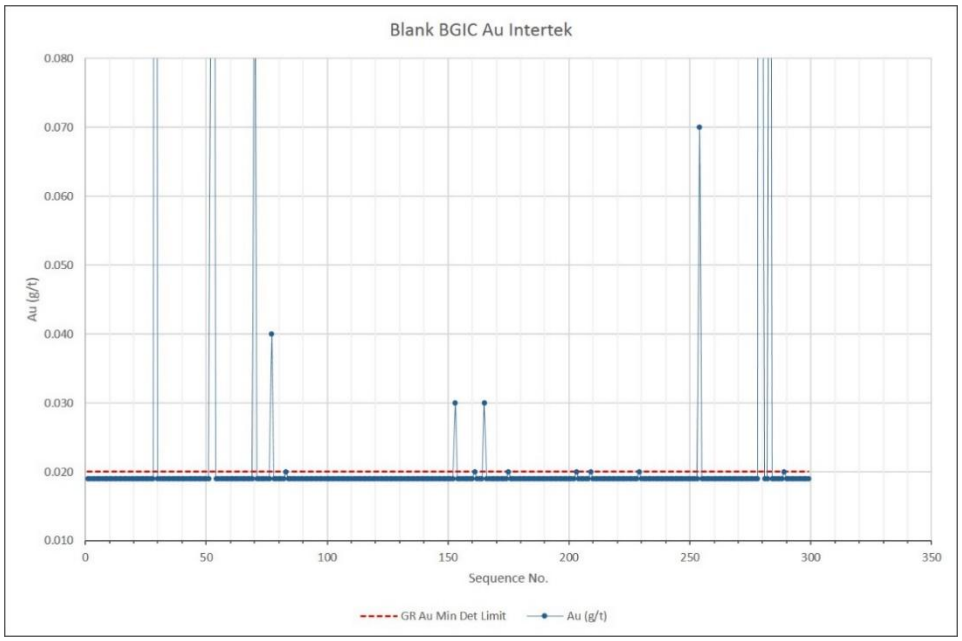


Figure 10-10. Gold assay results of BGIC blanks analyzed by Intertek. Blue line represents the Au values analyzed and red line represents Intertek's lowest detection limit for GR method.

10.3.5.5 Field Duplicates

Lepanto collects and sends the second half of the cores as field duplicate QC materials in order to measure the precision of laboratory preparation and analysis. Field duplicates are collected and inserted within a sample batch at a frequency of one per 30 samples. Assay results of the original sample are compared with the field duplicates using absolute relative percent difference (ARPD) plots. Ninety percent of the samples should reasonably report ≤30% ARPD for both gold and copper.

Figure 10-11 below show the gold and copper assays of field duplicates analyzed by the Lepanto Assay Laboratory. The analyses of duplicate pairs show fair correlation for gold at $R^2 = 0.8235$ and copper at $R^2 = 0.7438$ with respect to the red dash line ($R^2 = 1.0$). Deviation from the parity line can be attributed to natural variation in the mineralization in the core itself. This is also described by the ARPD plot below wherein only 60% of the sample pairs have differences in assays lower than 30%.

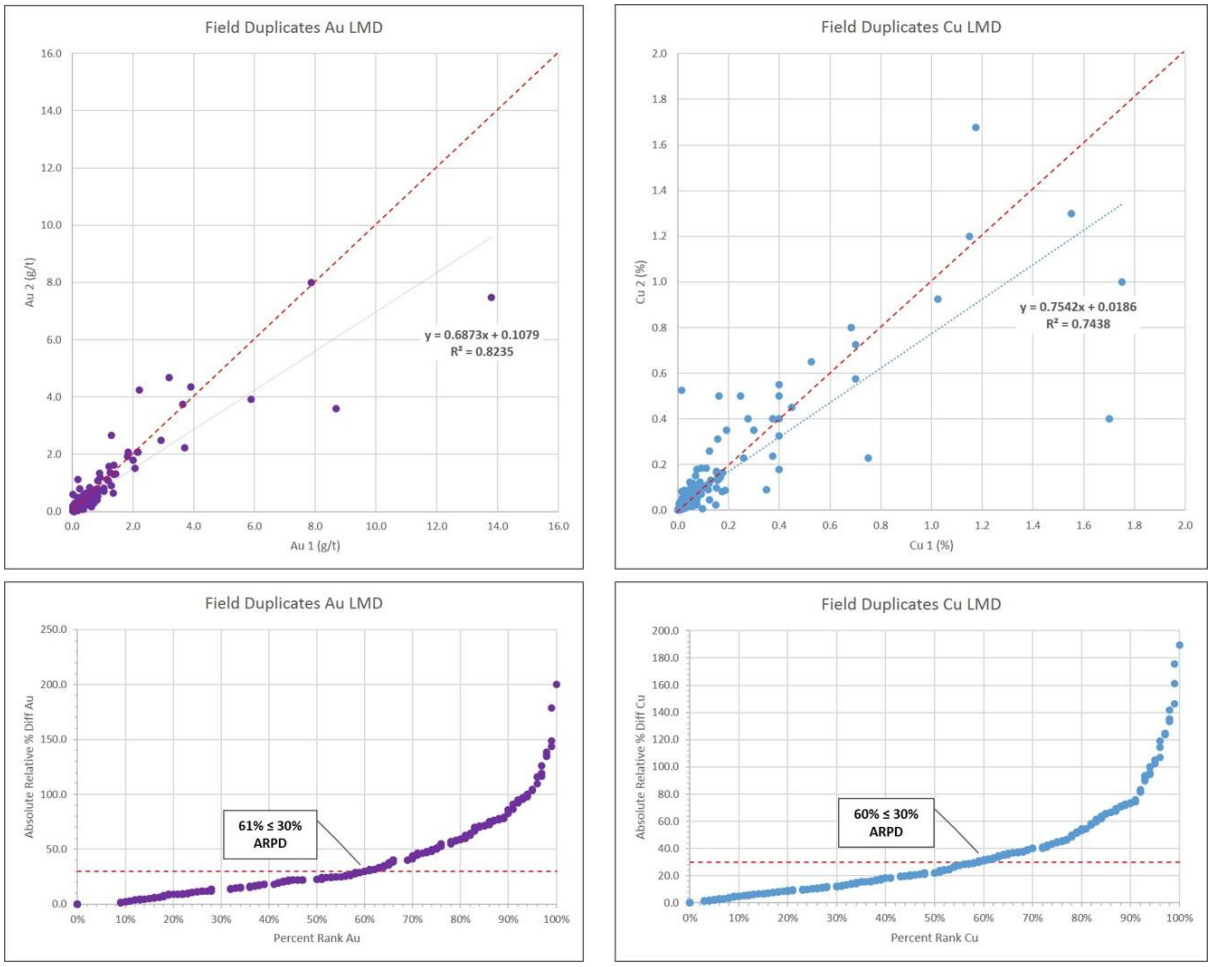


Figure 10-11. Plots showing results of analysis of field duplicates by Lepanto Assay Laboratory.

Figure 10-12 presents the performance of Intertek Laboratory in terms of field duplicate analysis. Precision of gold determination is almost the same as that of the Lepanto laboratory with $R^2 = 0.8083$. Precision of copper determination meanwhile is slightly better at $R^2 = 0.9232$. The percentage of sample pairs that has grade difference less than 30% also improved to more than 70% but still below the prescribed 90% limit.

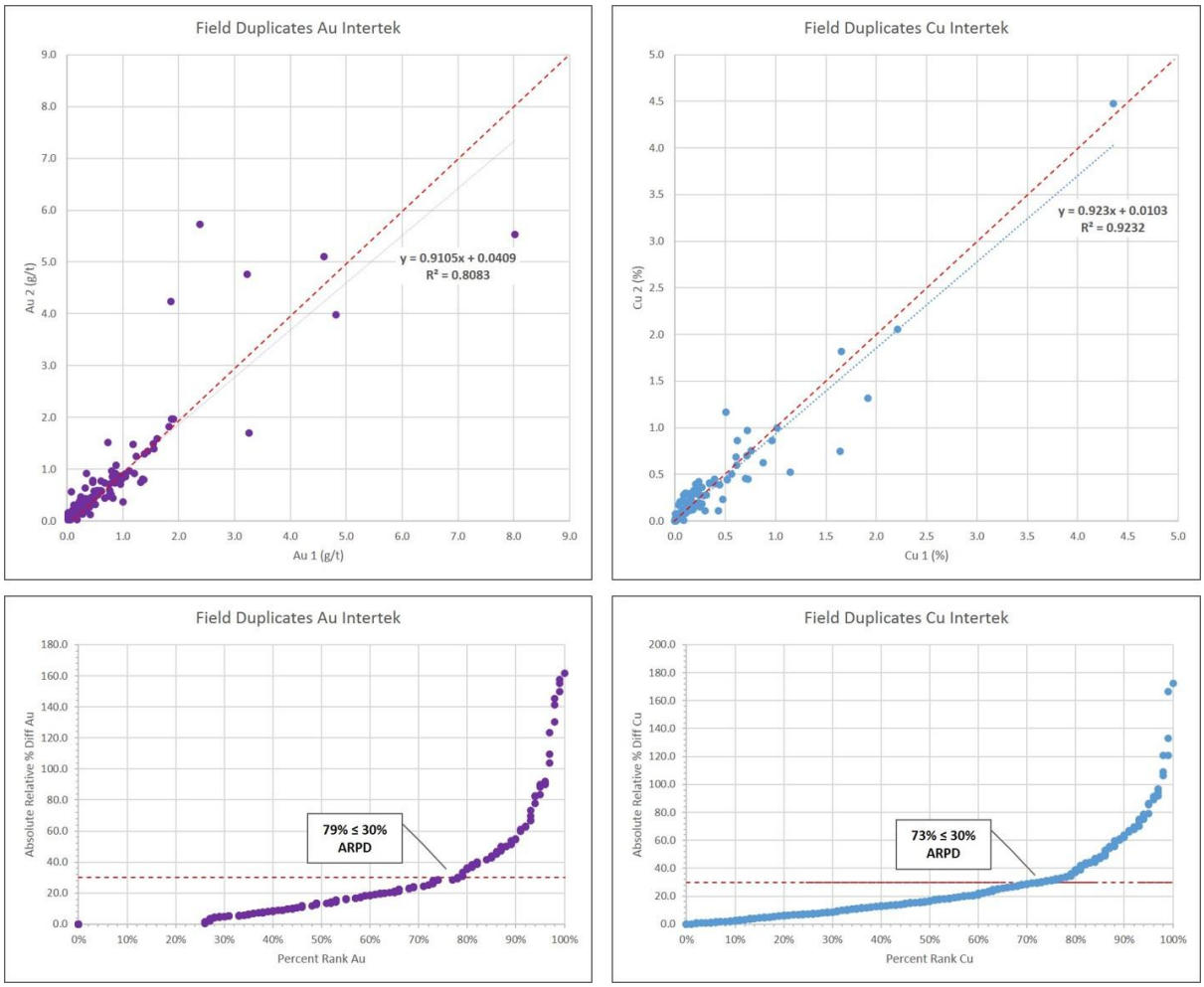


Figure 10-12. Plots showing results of analysis of field duplicates by Intertek Laboratory.

11.0 MINERAL RESOURCE ESTIMATION

The updated mineral resource estimates of Lepanto cover the Carmen, Florence, Elena, NW QPG and Easterlies ore bodies collectively called enargite-QPG. The latest resource estimates is the ninth of the estimation runs carried out by the Lepanto Exploration team since the company started its in-house resource estimates in June 2016. The latest resource update also referred to as Run 9A was completed in July 2017.

All resource estimation processes such as database validation, geological modeling, geostatistical analysis, block modeling and estimation were carried out using GEMS v6.5 software.

11.1 Database Used in the Resource Estimation

The updated mineral resource estimate is based on all drillhole data available on June 07, 2017 as well as all channel cut data available on May 31, 2017.

The Exploration Department maintains a database of all drillholes obtained from various sources namely: (1) the recently validated 2015 Database Project which mainly includes historic up to 2014 drillholes; (2) Geologist Roma Gonzales who compiles all Exploration drillhole data generated

from 2015 up to present; and (3) Resource Geologist Michelle Dela Cruz who compiles all Mine Geology drillhole data generated from 2015 up to present. A total of 2,378 drillholes collared at different areas within the Lepanto tenements are included in the current database (Appendix 1).

The database for historical channel cut samples was sourced from Michelle Dela Cruz of the Mine Geology Mineral Resource Section. Meanwhile, the channel cut samples collected from 2015 to present that have been collected by the Exploration samplers are being compiled by Roma Gonzales while those that have been collected by the Mine Geology samplers are being compiled Michelle Dela Cruz. A total of 121,865 channel cut samples collected from different areas in the mine are included in the current database (Appendix 2).

Validated drillhole and channel cut databases contain a tabulation of all information relevant to the undertanding of the exploration results. Both databases consist of three main tables which include Header, Survey and Assay. Additional four tables reflecting the geology of the drillhole are included in the drillhole database namely Lithology, Alteration, Mineralization and Structure. All of these tables are stored as a comma separated file prior to import into the GEMS software. Table 11-1 and Table 11-2 list the important data contained in each table for drillhole and channel cut, respectively.

Table 11-1. List of data per drillhole table.

Table	Drillhole Data
Header	Hole-ID, Local X-Y-Z, Length, Level, Area, Date Start, Date End, Geologist, Source
Survey	Hole-ID, Distance, Azimuth, Dip, Survey Type, Temperature, Gravity, Magnetic Field, Magnetic Dip, Roll
Assay	Hole-ID, From, To, Au, Cu, CuEq, Pb, Zn, As, Sb, Ag, Recovery, Length, Chapa No., Laboratory, Au Method, Cu Method, Batch No., Date
Lithology	Hole-ID, From, To, Length, Formation, Lithology, LithCode
Alteration	Hole-ID, From, To, Length, Alteration, Assemblage, AltCode
Mineralization	Hole-ID, From, To, Length, Veining, Vein Style, Vol Pct of En, Py, Sp, Cp, Cv, Gn, Lz, Cc, Bn, Tn-Td
Structure	Hole-ID, From, To, Length, Structure, Structure Code

Table 11-2. List of data per channel sample table.

Table	Channel Cut Data
Header	Hole-ID, Local X-Y-Z, Length, Area, Mining Block, Panel Width, Date, Source
Survey	Hole-ID, Distance, Azimuth, Dip
Assay	Hole-ID, From, To, Length, Cu, Au, Ag, CuEq, Chapa No.

11.1.1 Drillhole Data

The drillholes used for the resource update only include those that intersected or within the

immediate periphery of the interpreted Carmen, Florence, Elena, NW QPG and Easterlies ore bodies. Out of the overall 2,378 drillholes in the database, 981 drillholes or 41% were used for the resource estimation. The drillholes are all diamond drills and were collared both from surface and underground.

The breakdown of the drillholes per area and drilling period is shown in Table 11-3 below. The drillholes that defined the Easterlies deposit fall under the NW QPG area in this table.

Table 11-3. Enargite-QPG drillhole database summary.

Area	Historical DH pre-2015		Exploration DH 2015 - present		Mine Geology DH 2015 - present		TOTAL	
	No. of DH	Length (m)	No. of DH	Length (m)	No. of DH	Length (m)	No. of DH	Length (m)
Carmen	59	13,605.22	51	11,083.30	7	673.30	117	25,361.82
Florence	111	20,225.59	73	16,646.30			184	36,871.89
Elena	64	21,014.96	14	4,406.20			78	25,421.16
NW QPG	517	69,414.84	78	15,139.20	7	860.00	602	85,414.04
Total	**751**	**124,260.61**	**216**	**47,275.00**	**14**	**1,533.30**	**981**	**173,068.91**

11.1.2 Channel Cut Data

All channel cut samples, either historic or recent, that were collected from Carmen, Florence, Elena, NW QPG and Easterlies ore bodies were used as guides in defining the morphology of the enargite-QPG mineralization. However, only those that were gathered from 2001 onwards were utilized during grade interpolation mainly because of the greater confidence in the collection and analysis of the more recent samples compared to the historic channel cuts. Out of the overall 121,865 channel samples in the database, 25,558 channel cuts or 21% were used for the resource estimation.

Summarized in the table below are the channel cut samples collected from 2001 up to present according to area.

Table 11-4. Enargite-QPG channel cut database summary.

Area	2001-2008		2015 - present		TOTAL	
	No. of DH	Length (m)	No. of DH	Length (m)	No. of DH	Length (m)
Carmen	10,881	18,181.24	702	516.60	11,583	18,697.84
Florence	5,720	9,100.35	597	405.20	6,317	9,505.55
Elena	3,614	5,818.30			3,614	5,818.30
NW QPG	993	1,317.61	3,051	2,283.50	4,044	3,601.11
Total	**21,208**	**34,417.50**	**4,350**	**3,205.30**	**25,558**	**37,622.80**

11.2 Database Validation and Integrity

Lepanto initiated in 2015 the so-called Database Project which aimed to validate the existing drillhole database and capture all other data especially those related to the enargite mining period

that were not yet included in the database. The new database generated from the project revealed some data that were far different from the previous database (e.g. collar location changed from few meters to hundreds of meters, different logging or assay intervals, etc.). Due to the significant discrepancies noted between the two databases, and as recommended by the consulting Resource Geologist of Lepanto, the Exploration team carried out a review of the original drill logs and assay reports to verify the correct data to be adopted.

Both historical and recent drillhole and channel cut data were validated through manual verification and automated procedures using combination of Excel, GEMS and Leapfrog. The discussion below describes the different errors encountered during validation and the procedures undertaken to correct them.

a. Collar location was changed

Initial validation check was done by comparing all the header tables in the databases above using Excel. Hole-ID's common among header tables were extracted and afterwards the differences between the recorded coordinates were calculated. Differences in easting, northing and elevation that were less than 0.5 meter were ignored and the data from the 2015 Database Project were selected for the final header table. Meanwhile, differences in coordinates that were greater than 0.5 meter were re-checked against the data recorded in the original log sheets. If log sheets were no longer available, the coordinates of drill hole were obtained from registered maps. If both log sheets and map were missing, the logbook containing the handwritten master list of all drill holes of LMD was referred to. The final coordinates adopted can be found in the Remarks column.

b. Duplicate collar and surveys

This error was commonly encountered in Leapfrog database validation. It was observed to occur when two or more drillholes have exactly the same collar coordinates and the same collar surveys (no other downhole survey) but different hole lengths (i.e. re-drilled hole). In Lepanto, re-drilled holes are named by adding a letter to the ID of the first hole (e.g. U-08-03, U-08-03A, U-08-03B, etc.)

In order to rectify this error, the easting and northing coordinates of the drill holes were adjusted by 0.1 meter increment from youngest to oldest *excluding* the last re-drilled hole. In the above example, U-08-03B is the last hole, hence, its collar coordinates are not changed. Meanwhile, the collar coordinates of U-08-03A are changed by 0.1 meter while the collar coordinates of U-08-03 are changed by 0.2 meter. Adjustment of coordinates were done in the Header table with additional notes in the Remarks column.

c. Wedge found (possible duplicate collar)

This error likewise appeared in Leapfrog validation. Similar to the above, this error happens when two or more drillholes have exactly the same collar coordinates and collar surveys but different downhole surveys (i.e. wedged/deflected hole). The same correction as described in the first case above was applied to resolve this error.

d. Out of sequence interval / Interval overlaps another interval

This error was encountered both in GEMS and in Leapfrog database validation. This was corrected

by re-checking the original (hard copy) of drill logs or assay reports.

e. Interval overlaps an interval in a wedge hole

This error appeared in Leapfrog database validation and occurred in holes described in item C above. This error was corrected once collar coordinates of the wedged holes were adjusted.

f. A wedge hole has conflicting data

This error appeared in Leapfrog database validation and occurred in holes described in item C above. This error was corrected once collar coordinates of the wedged holes were adjusted.

g. Re-drilled data has conflicting data

This error appeared in Leapfrog database validation and occurred in holes described in item B above. This error was corrected once collar coordinates of the wedged holes were adjusted.

h. No interval defined / No samples for collar

This error was encountered both in GEMS and in Leapfrog database validation. This is technically not an error but only a warning which tells that there are missing intervals in some of the drill holes which indicates that there are no samples collected in those distances. This warning was ignored.

11.3 Geological Interpretation

Geological interpretation of the Carmen, Florence, Elena, NW QPG and Easterlies ore bodies was carried out based mainly on the dominant mineralization style that is either quartz-pyrite-gold (QPG) or enargite. Mineralization style was determined by color, sulfide mineralogy and geochemistry described as follows:

Quartz-Pyrite-Gold	dominantly light-colored; characterized by white coarse crystalline quartz or gray crustiform fine quartz and colloform chalcedony; consists of pyrite + sphalerite + galena + minor tennatite/tetrahedrite ± chalcopyrite ± bornite; contains 100-5000 ppm As, ≥10 ppm Ni and Co, ≤200 ppm Zn, ≤1 ppm Cd
Enargite	dominantly dark-gray in color; characterized by pyrite + enargite + luzonite with brecciated white quartz as clasts (except in Florence); contains ≥5000 ppm As, ≥10 ppm Te, Se, Sn, ≥5 ppm Bi

11.3.1 Geological Modeling

Wireframing in GEMS was performed based on the geological interpretation made by the Project Geologists on both parallel vertical sections and plan maps. The enargite-QPG mineralization was delineated based on the raw assay data of drillholes and channel cut samples using a minimum grade of 1.0% CuEq, where CuEq = Cu% + (Au g/t x 1.63).

A total of 144 separate wireframes were constructed for the enargite-QPG mineralization (Appendix 3). These mineralized solids were grouped into separate domains of similar orientation as follows:

Table 11-5. List of domains per area.

Area	Domain	Strike (Az)	Dip	Dip Direction
Carmen	51	40	-65	SE
	52	290	-85	NE
Florence	61, 611	280	-80	SW
	62, 622	65	-75	SE
	63, 633	305	-75	SW
Elena	71, 711	60	-80	SE
	72, 722	290	-75	SW
NW QPG	81	280	-70	SW
Easterlies	91	295	-87	SW
	92	75	-87	SE

11.3.2 Model Dimensions

The mineralized domains comprising the enargite-QPG ore bodies cover a lateral area of approximately 1.9 km along the north by 1.2 km along the east and a vertical extent of 400 meters. Table 11-6. Extents of mineralization wireframes by deposit.Table 11-6 shows the dimensions of the mineralized domains by deposit while Figure 11-1 and Figure 11-2 illustrate the relative locations of the Enargite-QPG ore bodies in plan view and 3D space.

Table 11-6. Extents of mineralization wireframes by deposit.

Area	Strike Length (m)	Underground Levels	Vertical Extent (m)	Remarks
Carmen	230	1250L - 850L	400	
Florence	80 - 100	1250L - 750L	60 - 80	veins are typically short and assumes a SW to S directed plunge following the contact between LPMV and IDBX
Elena	180	980L - 810L	170	one vein extends up to 1130L
NW QPG	100 - 300	1100L - 700L	60 - 300	
Easterlies	200 - 500	680L - 630L	50	

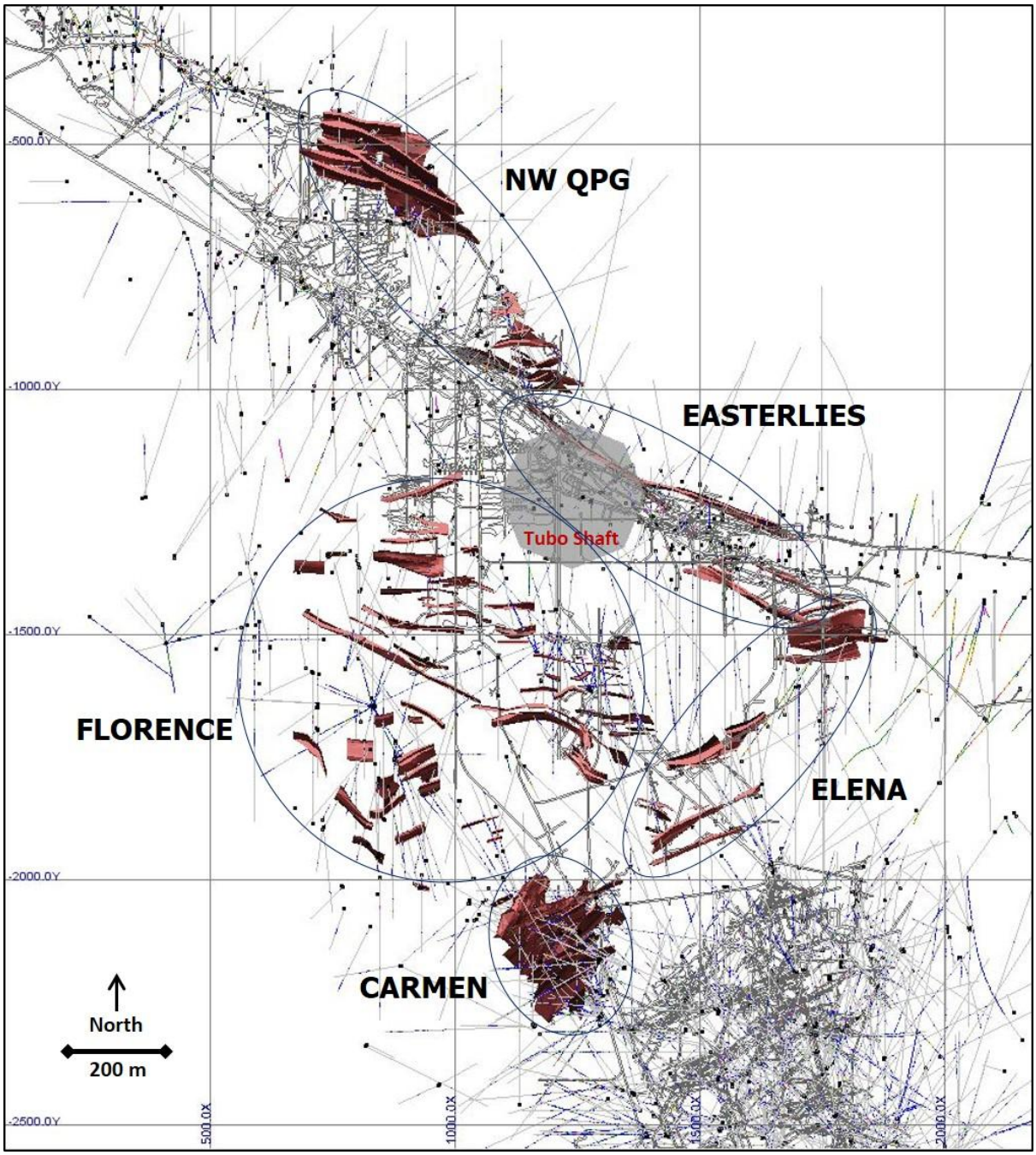


Figure 11-1. Plan view of the enargite-QPG ore bodies.

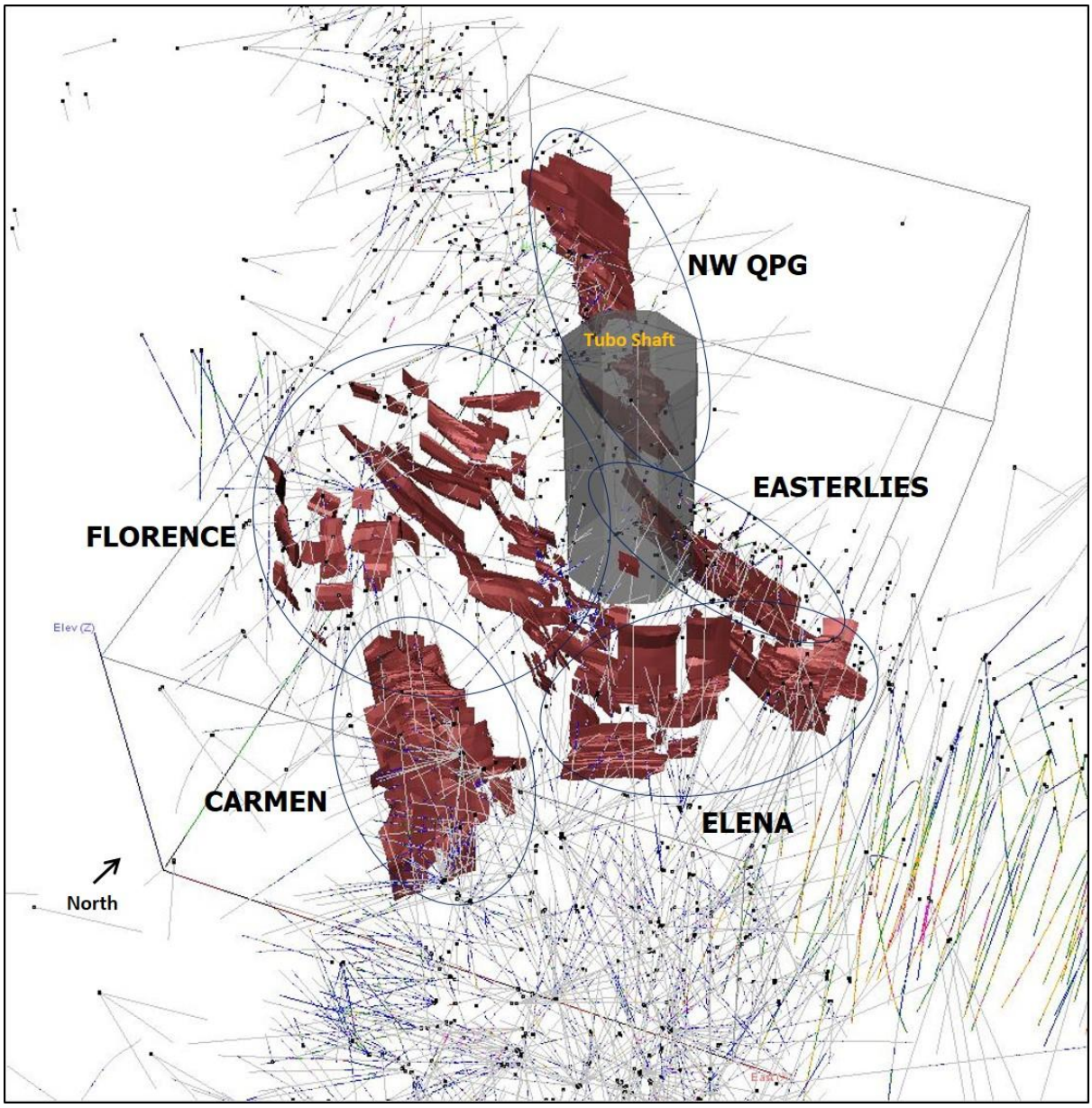


Figure 11-2. Three-dimensional view of the enargite-QPG ore bodies looking northwest.

11.4 Dry Bulk Density for Resource Estimation

The updated resource estimates applied a constant dry bulk density value of 2.7 t/m^3 for all enargite-QPG ores. This value was derived from historical density measurements of ores during the enargite mining operation until early 1997. The 2.7 t/m^3 density was also applied during the brief period when part of the Enargite deposit was briefly re-opened between 2007 and 2008.

In the second-half of 2016, Exploration Department initiated routine dry bulk density (DBD) measurements for recent enargite-QPG drill cores. The procedure is intermittently ongoing until sufficient measurements have been made to produce statistically representative DBD value. The latest summary as of 31 December 2016 shows an average of 2.72 from 849 enargite and/or QPG vein samples from drill cores. Consequently, the decision was to retain the historical 2.7 t/m^3 DBD value and thus be in the slightly conservative side.

As of end of year 2016, a total of 1,508 combined vein and wallrock samples were analyzed in the intermittently ongoing DBD testing. Based on the DBD database, moisture content of the raw core sample prior to drying is negligible. Nevertheless, samples are dried to ensure moisture content does not affect the bulk density determinations.

11.5 Geostatistical Analyses

11.5.1 Compositing

Compositing of raw assay data was undertaken in order to obtain an even representation of sample grades and to eliminate any bias into the data analysis due to variable sample length. The appropriate compositing lengths for the drillhole and channel cut samples were determined based on the dominant sample lengths.

A 1.0-m compositing length was applied for both drillholes and channel cut samples except for underground wall samples collected from 2015 to present which were composited at 0.5 m length.

The composites were only calculated for portions of drillholes and channel samples which fall within the wireframe. When the last sample in a hole or channel cut was less than 1.0 m, or 0.5 m in the case of a wall sample, the length of that sample was ignored.

11.5.2 Basic Statistics

Univariate statistical analysis of the composited drillhole data per domain was performed to characterize the variability of sample grades within the total population and to visualize the population distribution. Table 11-7, Table 11-8, Table 11-9 and Table 11-10 list the basic statistics for the gold and copper grades of all drillhole and channel sample composites. Domains that do not have entries indicate lack of composite samples inside the wireframes.

Table 11-7. Basic statistics of composited drillhole gold grades by area and domain.

Area	**CARMEN**		**FLORENCE**						**ELENA**				**NW QPG**	**EASTERLIES**	
Domain	**51**	**52**	**61**	**611**	**62**	**622**	**63**	**633**	**71**	**711**	**72**	**722**	**81**	**91**	**92**
No. of Samples	1125	5	552	10	113	0	238	0	56	0	0	0	1128	184	23
Minimum	0.00	0.75	0.00	0.30	0.07	0.00	0.00	0.00	0.05	0.00	0.00	0.00	0.00	0.00	0.30
Maximum	98.61	2.77	18.92	2.89	91.03	0.00	7.89	0.00	14.73	0.00	0.00	0.00	861.61	91.89	17.25
Mean	**1.67**	**1.80**	**1.62**	**0.97**	**5.00**	**0.00**	**1.34**	**0.00**	**2.26**	**0.00**	**0.00**	**0.00**	**4.73**	**3.38**	**4.38**
Median	0.82	1.43	1.03	0.90	1.03	0.00	0.96	0.00	1.26	0.00	0.00	0.00	1.38	1.30	1.27
Variance	22.92	0.64	5.15	0.51	244.93	0.00	1.64	0.00	9.13	0.00	0.00	0.00	1389.94	65.31	28.16
Standard Deviation	4.79	0.80	2.27	0.72	15.65	0.00	1.28	0.00	3.02	0.00	0.00	0.00	37.28	8.08	5.31
Coefficient of Variation	**2.87**	**0.44**	**1.41**	**0.74**	**3.13**	**0.00**	**0.95**	**0.00**	**1.34**	**0.00**	**0.00**	**0.00**	**7.88**	**2.39**	**1.21**
10.0 Percentile	0.26	0.75	0.27	0.31	0.31	0.00	0.34	0.00	0.21	0.00	0.00	0.00	0.58	0.40	0.45
20.0 Percentile	0.39	1.05	0.48	0.40	0.51	0.00	0.51	0.00	0.27	0.00	0.00	0.00	0.77	0.69	0.62
30.0 Percentile	0.53	1.35	0.62	0.49	0.69	0.00	0.69	0.00	0.39	0.00	0.00	0.00	0.96	0.86	0.62
40.0 Percentile	0.68	1.39	0.77	0.67	0.86	0.00	0.69	0.00	0.55	0.00	0.00	0.00	1.15	1.17	0.83
50.0 Percentile (median)	0.82	1.43	1.03	0.90	1.03	0.00	0.96	0.00	1.26	0.00	0.00	0.00	1.38	1.30	1.27
60.0 Percentile	1.03	2.07	1.29	1.00	1.21	0.00	1.03	0.00	1.37	0.00	0.00	0.00	1.71	1.71	2.54
70.0 Percentile	1.30	2.70	1.54	1.08	1.81	0.00	1.47	0.00	1.86	0.00	0.00	0.00	2.29	2.69	5.41
80.0 Percentile	1.71	2.74	2.06	1.17	2.54	0.00	1.77	0.00	3.09	0.00	0.00	0.00	3.28	3.79	8.40
90.0 Percentile	2.71	2.77	3.20	2.06	3.74	0.00	3.09	0.00	7.34	0.00	0.00	0.00	5.24	7.39	13.68
95.5 Percentile	4.75	2.77	5.00	2.89	46.01	0.00	4.11	0.00	8.23	0.00	0.00	0.00	9.48	12.50	15.47
96.0 Percentile	5.12	2.77	5.32	2.89	46.01	0.00	4.11	0.00	8.57	0.00	0.00	0.00	10.50	13.03	15.47
96.5 Percentile	5.56	2.77	5.58	2.89	66.53	0.00	4.14	0.00	8.57	0.00	0.00	0.00	11.64	14.50	15.47
97.0 Percentile	6.56	2.77	6.06	2.89	72.04	0.00	4.37	0.00	8.57	0.00	0.00	0.00	13.19	14.50	15.47
97.5 Percentile	7.92	2.77	6.25	2.89	72.04	0.00	4.67	0.00	11.65	0.00	0.00	0.00	15.47	15.70	15.47
98.0 Percentile	9.63	2.77	11.27	2.89	77.54	0.00	5.00	0.00	11.65	0.00	0.00	0.00	20.59	16.90	17.25
98.5 Percentile	15.19	2.77	11.76	2.89	77.54	0.00	5.44	0.00	11.65	0.00	0.00	0.00	26.75	18.70	17.25
99.0 Percentile	17.96	2.77	12.66	2.89	84.93	0.00	7.57	0.00	11.65	0.00	0.00	0.00	39.26	34.14	17.25
99.5 Percentile	26.15	2.77	16.70	2.89	84.93	0.00	7.89	0.00	14.73	0.00	0.00	0.00	55.64	70.31	17.25

Table 11-8. Basic statistics of composited drillhole copper grades by area and domain.

Area	**CARMEN**		**FLORENCE**						**ELENA**				**NW QPG**	**EASTERLIES**	
Domain	**51**	**52**	**61**	**611**	**62**	**622**	**63**	**633**	**71**	**711**	**72**	**722**	**81**	**91**	**92**
No. of Samples	1125	5	552	10	113	0	238	0	56	0	0	0	1128	184	23
Minimum	0.00	0.01	0.01	0.15	0.01	0.00	0.02	0.00	0.06	0.00	0.00	0.00	0.00	0.01	0.05
Maximum	7.440	0.060	19.550	6.880	5.790	0.000	6.530	0.000	4.820	0.000	0.000	0.000	10.320	6.330	4.850
Mean	**0.578**	**0.020**	**1.256**	**1.388**	**0.927**	**0.000**	**1.063**	**0.000**	**1.883**	**0.000**	**0.000**	**0.000**	**0.457**	**0.817**	**1.539**
Median	0.250	0.010	0.750	0.620	0.600	0.000	0.545	0.000	1.445	0.000	0.000	0.000	0.130	0.290	0.950
Variance	0.631	0.000	2.665	3.609	1.250	0.000	1.400	0.000	1.569	0.000	0.000	0.000	0.938	1.508	2.130
Standard Deviation	0.794	0.020	1.633	1.900	1.118	0.000	1.183	0.000	1.253	0.000	0.000	0.000	0.968	1.228	1.460
Coefficient of Variation	**1.374**	**1.000**	**1.300**	**1.369**	**1.206**	**0.000**	**1.113**	**0.000**	**0.665**	**0.000**	**0.000**	**0.000**	**2.120**	**1.503**	**0.949**
10.0 Percentile	0.04	0.01	0.07	0.26	0.10	0.00	0.15	0.00	0.67	0.00	0.00	0.00	0.02	0.04	0.20
20.0 Percentile	0.07	0.01	0.23	0.44	0.18	0.00	0.28	0.00	0.79	0.00	0.00	0.00	0.03	0.10	0.34
30.0 Percentile	0.12	0.01	0.35	0.51	0.29	0.00	0.35	0.00	1.05	0.00	0.00	0.00	0.05	0.12	0.43
40.0 Percentile	0.17	0.01	0.57	0.53	0.47	0.00	0.40	0.00	1.33	0.00	0.00	0.00	0.08	0.17	0.47
50.0 Percentile (median)	0.25	0.01	0.75	0.62	0.60	0.00	0.55	0.00	1.45	0.00	0.00	0.00	0.13	0.29	0.95
60.0 Percentile	0.42	0.01	0.95	0.80	0.82	0.00	0.80	0.00	1.81	0.00	0.00	0.00	0.20	0.45	1.64
70.0 Percentile	0.62	0.01	1.38	1.12	0.95	0.00	1.22	0.00	2.30	0.00	0.00	0.00	0.35	0.73	1.84
80.0 Percentile	0.93	0.04	1.98	1.67	1.19	0.00	1.66	0.00	3.38	0.00	0.00	0.00	0.57	1.26	2.99
90.0 Percentile	1.52	0.06	2.99	4.44	2.04	0.00	2.75	0.00	3.76	0.00	0.00	0.00	1.05	2.82	4.25
95.5 Percentile	2.08	0.06	4.34	6.88	4.17	0.00	3.54	0.00	4.30	0.00	0.00	0.00	2.13	3.83	4.55
96.0 Percentile	2.17	0.06	4.40	6.88	4.17	0.00	3.55	0.00	4.80	0.00	0.00	0.00	2.42	3.90	4.55
96.5 Percentile	2.35	0.06	5.01	6.88	4.44	0.00	3.91	0.00	4.80	0.00	0.00	0.00	2.61	3.92	4.55
97.0 Percentile	2.55	0.06	5.44	6.88	4.73	0.00	4.27	0.00	4.80	0.00	0.00	0.00	2.73	3.92	4.55
97.5 Percentile	2.83	0.06	6.03	6.88	4.73	0.00	4.48	0.00	4.81	0.00	0.00	0.00	3.00	3.94	4.55
98.0 Percentile	3.29	0.06	6.44	6.88	5.29	0.00	4.68	0.00	4.81	0.00	0.00	0.00	3.46	4.66	4.85
98.5 Percentile	3.54	0.06	7.01	6.88	5.29	0.00	4.74	0.00	4.81	0.00	0.00	0.00	4.24	5.38	4.85
99.0 Percentile	3.74	0.06	7.50	6.88	5.78	0.00	6.30	0.00	4.81	0.00	0.00	0.00	4.83	5.75	4.85
99.5 Percentile	4.50	0.06	8.05	6.88	5.78	0.00	6.42	0.00	4.82	0.00	0.00	0.00	6.70	6.23	4.85

Table 11-9. Basic statistics of composited channel gold grades by area and domain.

Area	**CARMEN**		**FLORENCE**						**ELENA**				**NW QPG**	**EASTERLIES**	
Domain	**51**	**52**	**61**	**611**	**62**	**622**	**63**	**633**	**71**	**711**	**72**	**722**	**81**	**91**	**92**
No. of Samples	11234	0	968	508	294	4	266	747	2748	729	88	90	542	0	0
Minimum	0.00	0.00	0.11	0.00	0.00	3.77	0.00	0.17	0.00	0.00	0.13	0.07	0.07	0.00	0.00
Maximum	330.65	0.00	32.70	9.09	32.40	8.23	12.00	28.67	423.60	116.57	18.82	14.63	204.10	0.00	0.00
Mean	**3.59**	**0.00**	**1.55**	**1.67**	**2.10**	**6.00**	**2.16**	**1.97**	**2.88**	**1.42**	**1.29**	**1.49**	**6.12**	**0.00**	**0.00**
Median	1.81	0.00	0.97	1.27	0.86	6.00	1.03	1.33	1.03	0.69	0.69	1.07	2.71	0.00	0.00
Variance	61.73	0.00	5.99	1.57	19.23	4.97	8.39	4.59	150.90	38.49	6.88	4.56	178.26	0.00	0.00
Standard Deviation	7.86	0.00	2.45	1.25	4.39	2.23	2.90	2.14	12.28	6.20	2.62	2.13	13.35	0.00	0.00
Coefficient of Variation	**2.19**	**0.00**	**1.58**	**0.75**	**2.09**	**0.37**	**1.34**	**1.09**	**4.26**	**4.36**	**2.03**	**1.43**	**2.18**	**0.00**	**0.00**
10.0 Percentile	0.69	0.00	0.37	0.57	0.34	0.00	0.00	0.57	0.34	0.29	0.30	0.36	0.90	0.00	0.00
20.0 Percentile	1.02	0.00	0.52	0.80	0.34	3.77	0.00	0.73	0.55	0.34	0.39	0.48	1.28	0.00	0.00
30.0 Percentile	1.23	0.00	0.68	0.96	0.51	3.77	0.26	0.93	0.69	0.34	0.46	0.66	1.62	0.00	0.00
40.0 Percentile	1.47	0.00	0.80	1.17	0.69	6.00	0.69	1.13	0.86	0.51	0.50	0.77	2.21	0.00	0.00
50.0 Percentile (median)	1.81	0.00	0.97	1.27	0.86	6.00	1.03	1.33	1.03	0.69	0.69	1.07	2.71	0.00	0.00
60.0 Percentile	2.27	0.00	1.12	1.54	1.06	6.00	1.37	1.70	1.37	0.69	0.87	1.23	3.63	0.00	0.00
70.0 Percentile	2.91	0.00	1.43	1.89	1.49	8.23	2.40	2.02	2.03	0.96	1.13	1.57	5.03	0.00	0.00
80.0 Percentile	4.20	0.00	1.80	2.23	2.06	8.23	4.11	2.77	3.09	1.20	1.44	1.89	7.98	0.00	0.00
90.0 Percentile	7.20	0.00	2.85	3.17	3.95	8.23	5.20	3.63	6.17	1.97	1.84	2.39	12.30	0.00	0.00
95.5 Percentile	12.00	0.00	4.59	4.24	10.52	8.23	9.60	5.60	11.09	3.52	2.27	3.35	20.99	0.00	0.00
96.0 Percentile	12.70	0.00	5.10	4.42	10.86	8.23	9.80	6.44	12.17	3.70	2.27	3.35	21.51	0.00	0.00
96.5 Percentile	14.05	0.00	5.67	4.55	11.83	8.23	10.80	6.67	13.20	4.25	5.14	3.43	25.12	0.00	0.00
97.0 Percentile	15.20	0.00	6.60	4.95	12.39	8.23	11.00	7.50	14.92	5.41	5.14	3.43	30.45	0.00	0.00
97.5 Percentile	17.41	0.00	7.34	5.04	13.19	8.23	11.20	7.78	15.90	7.10	11.89	9.03	31.16	0.00	0.00
98.0 Percentile	19.80	0.00	8.88	5.31	13.45	8.23	11.49	8.43	18.22	7.50	11.89	9.03	34.89	0.00	0.00
98.5 Percentile	23.20	0.00	9.49	6.12	27.43	8.23	11.55	9.51	20.32	9.65	17.30	14.63	37.39	0.00	0.00
99.0 Percentile	29.60	0.00	10.95	7.03	30.69	8.23	11.60	11.68	24.00	14.20	17.30	14.63	53.81	0.00	0.00
99.5 Percentile	44.00	0.00	15.91	7.72	32.32	8.23	12.00	13.11	31.71	17.03	18.82	14.63	80.91	0.00	0.00

Table 11-10. Basic statistics of composited channel copper grades by area and domain.

Area	**CARMEN**		**FLORENCE**						**ELENA**				**NW QPG**	**EASTERLIES**	
Domain	**51**	**52**	**61**	**611**	**62**	**622**	**63**	**633**	**71**	**711**	**72**	**722**	**81**	**91**	**92**
No. of Samples	11234	0	968	508	294	4	266	747	2748	729	88	90	542	0	0
Minimum	0.00	0.00	0.00	0.03	0.04	1.90	0.04	0.03	0.01	0.02	0.07	0.01	0.00	0.00	0.00
Maximum	47.000	0.000	15.350	14.650	7.000	2.000	4.500	17.550	22.800	14.000	10.700	15.700	15.900	0.000	0.000
Mean	**2.215**	**0.000**	**1.807**	**2.407**	**1.065**	**1.950**	**1.118**	**2.806**	**2.313**	**2.375**	**2.389**	**3.435**	**0.490**	**0.000**	**0.000**
Median	1.600	0.000	1.060	1.920	0.720	1.950	0.785	1.700	1.735	1.960	1.715	1.610	0.120	0.000	0.000
Variance	6.468	0.000	4.066	4.540	1.154	0.003	0.968	8.899	5.223	3.222	5.249	14.619	1.250	0.000	0.000
Standard Deviation	2.543	0.000	2.016	2.131	1.074	0.050	0.984	2.983	2.285	1.795	2.291	3.823	1.118	0.000	0.000
Coefficient of Variation	**1.148**	**0.000**	**1.116**	**0.885**	**1.008**	**0.026**	**0.880**	**1.063**	**0.988**	**0.756**	**0.959**	**1.113**	**2.283**	**0.000**	**0.000**
10.0 Percentile	0.28	0.00	0.16	0.35	0.11	0.00	0.16	0.24	0.29	0.45	0.28	0.14	0.00	0.00	0.00
20.0 Percentile	0.55	0.00	0.30	0.73	0.18	1.90	0.27	0.57	0.59	0.90	0.61	0.42	0.00	0.00	0.00
30.0 Percentile	0.90	0.00	0.52	0.96	0.26	1.90	0.40	0.86	1.00	1.30	0.89	0.96	0.04	0.00	0.00
40.0 Percentile	1.30	0.00	0.79	1.37	0.41	1.95	0.59	1.06	1.40	1.60	1.24	1.37	0.07	0.00	0.00
50.0 Percentile (median)	1.60	0.00	1.06	1.92	0.72	1.95	0.79	1.70	1.74	1.96	1.72	1.61	0.12	0.00	0.00
60.0 Percentile	1.90	0.00	1.61	2.43	1.06	1.95	1.20	2.60	2.20	2.40	2.19	2.93	0.19	0.00	0.00
70.0 Percentile	2.40	0.00	2.23	3.08	1.50	2.00	1.40	3.44	2.70	3.00	3.03	4.38	0.33	0.00	0.00
80.0 Percentile	3.20	0.00	3.00	3.75	1.90	2.00	1.90	4.74	3.40	3.50	3.90	6.06	0.65	0.00	0.00
90.0 Percentile	4.70	0.00	4.27	4.78	2.40	2.00	2.75	6.57	4.82	4.80	5.12	9.15	1.25	0.00	0.00
95.5 Percentile	6.80	0.00	6.10	6.58	3.22	2.00	3.00	9.45	6.80	6.00	8.15	12.60	2.72	0.00	0.00
96.0 Percentile	7.16	0.00	6.35	6.60	3.39	2.00	3.10	9.78	6.95	6.20	8.15	12.60	2.80	0.00	0.00
96.5 Percentile	7.85	0.00	6.50	6.80	3.51	2.00	3.30	10.48	7.30	6.30	8.90	12.95	2.90	0.00	0.00
97.0 Percentile	8.20	0.00	6.70	7.45	3.70	2.00	3.45	11.10	8.15	6.50	8.90	12.95	3.22	0.00	0.00
97.5 Percentile	8.80	0.00	7.03	8.03	3.80	2.00	3.50	11.40	8.62	6.78	9.75	14.50	3.35	0.00	0.00
98.0 Percentile	9.75	0.00	7.53	8.20	4.15	2.00	3.70	12.30	9.15	6.90	9.75	14.50	3.57	0.00	0.00
98.5 Percentile	11.00	0.00	8.15	8.23	4.80	2.00	4.00	13.00	9.90	7.58	10.60	15.70	3.88	0.00	0.00
99.0 Percentile	12.00	0.00	10.00	11.70	4.80	2.00	4.30	13.45	11.50	8.60	10.60	15.70	4.53	0.00	0.00
99.5 Percentile	17.20	0.00	11.18	12.35	5.90	2.00	4.50	14.80	14.56	9.80	10.70	15.70	6.31	0.00	0.00

11.5.3 Top-cut

Top-cuts grades were applied to both drillhole and channel samples in order to reduce the effect of extreme high grade samples during grade interpolation. Statistical parameters such as coefficient of variation (CoV), mean plots, metal loss and percentage of capped data were used as guides to determine the appropriate top-cut grade. Following the general rule of thumb in compositing, composited assay data with CoV greater than 1.2 were capped, the amount of metal loss after application of top-cut (mean capped grades divided by the mean composite grades) should be less than 10% and the percentage of capped data relative to the total assay population should be less than 5%.

Drillhole samples that have high gold and copper grades were capped at the 99th and 98.5th percentile, respectively. Meanwhile, channel samples with high gold grades were capped at the 98th percentile. The copper grades of channel samples have CoV's that are less than 1.2 and thus were not capped.

Table 11-11 below shows the top-cut grades applied for the extreme high grade samples from drillholes and channel cuts.

Table 11-11. Top-cut grades of gold outliers.

Deposit	Domain	DRILLHOLE				CHANNEL CUT			
		Au (g/t)		Cu (%)		Au (g/t)		Cu (%)	
		Max	Cap	Max	Cap	Max	Cap	Max	Cap
Carmen	51	98.61	18	7.44	5	330.65	23	47	*None*
	52	2.77	*None*	0.06	*None*				
Florence	61	18.93	12	19.55	8	32.7	8	15.35	*None*
	611	2.89	*None*	6.88	6	9.09	*None*	14.65	*None*
	62	91.03	15	5.79	*None*	32.4	20	7	*None*
	622					8.23	*None*	2	*None*
	63	7.89	*None*	6.53	*None*	12	10	4.5	*None*
	633					28.67	*None*	17.55	*None*
Elena	71	14.73	10	4.83	*None*	423.6	23	22.8	*None*
	711					116.57	17	14	*None*
	72					18.83	13	10.7	*None*
	722					14.63	6	15.7	*None*
NW QPG	81	861.61	20	10.32	4	204.1	31	15.9	3
Easterlies	91	91.89	23	6.33	4	22.53	*None*	0.2	*None*
	92	17.25	*None*	4.85	*None*				

11.6 Variography

A separate semi-variogram analysis for capped gold and copper samples per mineralized domain was carried out to understand the grade continuity between samples according to their separation distance and orientation. Two types of variogram were calculated and modeled. The first type was linear variogram which determined the value of nugget effect and the second type was directional variogram which determined the orientation and maximum distance of grade continuity in three dimensions.

11.6.1 Linear Semi-variogram

Linear or downhole semi-variogram analysis was conducted to determine the value of nugget effect for later directional variogram modeling. The nugget effect describes the difference between sample grades when their separation distance is zero or almost negligible. The nugget effect derived from linear variography is summarized in Table 11-12, Table 11-13, Table 11-14 and Table 11-15.

11.6.2 Directional Semi-variogram

Directional semi-variogram analysis was performed to understand the anisotropy of the data or the variability of samples with respect to distance and direction. Variogram maps of 7.5 degree angular increment were created to aid in determining the orientation of samples that has the lowest variability for the longest range (orientation of maximum continuity of mineralization). Two variogram maps were generated namely primary variogram map which determined the orientation of the major axis or strike of mineralization, and secondary variogram map which determined the orientation of the semi-major and minor axes. The major, semi-major, and minor axes correspond to the axes of the search ellipsoid used in estimation. The results of the semi-variogram analysis are also summarized in Table 11-12, Table 11-13, Table 11-14 and Table 11-15.

Table 11-12. Variogram parameters for drillhole gold grades.

Area	Domain	Principal Azimuth	Principal Dip	Intermediate Azimuth	Nugget Effect (C0)	Major Axis	Semi-major Axis	Minor Axis	Total Sill
Carmen	51	223.2	6.8	324.8	0.2	25	15	5	5.1
	52	290.0	0.5	0.0	0.1	20	10	5	1.1
Florence	61,611	278.7	-7.4	163.1	0.1	45	23	12	4.3
	62,622	241.0	-14.5	108.0	0.2	23	12	5	15.4
	63,633	303.8	-4.3	183.9	0.1	45	27	25	1.8
Elena	71,711	240.2	1.0	333.8	0.3	20	10	5	1.4
	72,722	No data points							
NW QPG	81	274.8	-14.1	142.5	0.5	25	10	5	39.7
Easterlies	91	294.2	-15.0	141.2	0.0	50	40	30	13.7
	92	75.0	0.5	0.0	0.0	20	10	5	1.0

Table 11-13. Variogram parameters for drillhole copper grades.

Area	Domain	Principal Azimuth	Principal Dip	Intermediate Azimuth	Nugget Effect (C0)	Major Axis	Semi-major Axis	Minor Axis	Total Sill
Carmen	51	223.0	6.3	323.8	0.1	30	20	5	0.9
	52	290.0	0.5	0.0	0.0	20	10	5	1.0
Florence	61,611	280.9	4.9	42.3	0.0	55	48	43	2.1
	62,622	249.0	14.5	10.1	0.0	25	20	6	0.4
	63,633	303.7	-4.8	196.3	0.1	52	33	13	1.6
Elena	71,711	240.2	1.0	333.8	0.1	20	10	5	0.7
	72,722	No data points							
NW QPG	81	274.8	-14.1	142.5	0.0	15	7	3	1.8
Easterlies	91	295.4	8.0	111.8	0.0	50	30	25	1.1
	92	75.0	0.5	0.0	0.0	20	10	5	1.0

Table 11-14. Variogram parameters for channel cut gold grades.

Area	Domain	Principal Azimuth	Principal Dip	Intermediate Azimuth	Nugget Effect (C0)	Major Axis	Semi-major Axis	Minor Axis	Total Sill
Carmen	51	220.4	0.9	312.6	0.1	10	7	3	8.1
	52	No data points							
Florence	61,611	278.7	-7.4	179.2	0.0	20	12	8	2.3
	62,622	242.9	-7.7	126.3	0.0	7	4	3	11.0
	63,633	303.0	-7.2	169.3	0.1	24	8	6	7.3
Elena	71,711	240.2	1.0	333.8	0.1	20	10	5	4.4
	72,722	290.3	1.0	23.9	0.1	20	12	5	2.5
NW QPG	81	279.8	-0.5	188.7	0.3	10	5	3	10.9
Easterlies	91	294.2	-15.0	141.2	0.0	15	10	5	1.0
	92	No data points							

Table 11-15. Variogram parameters for channel cut copper grades.

Area	Domain	Principal Azimuth	Principal Dip	Intermediate Azimuth	Nugget Effect (C0)	Major Axis	Semi-major Axis	Minor Axis	Total Sill
Carmen	51	220.4	0.9	312.7	0.1	10	7	5	1.8
	52	No data points							
Florence	61,611	278.7	-7.4	179.2	0.0	16	8	6	2.3
	62,622	242.9	-7.7	126.3	0.0	14	9	4	0.9
	63,633	303.7	-4.8	181.1	0.0	14	11	8	0.9
Elena	71,711	240.2	1.0	337.6	0.0	15	10	5	0.9
	72,722	290.3	1.0	23.9	0.0	10	5	3	3.2
NW QPG	81	279.8	-0.5	188.1	0.0	10	5	3	2.9
Easterlies	91	294.2	-15.0	141.2	0.0	15	10	5	1.0
	92	No data points							

11.7 Estimation Parameters and Method

11.7.1 Estimation Technique for Grade Interpolation

The early in-house resource estimates of the enargite-QPG ore bodies used the inverse distance squared (IDS) method for gold and copper interpolation. This technique of grade interpolation was applied following the method used by Lepanto's consulting Resource Geologist in his initial resource estimates and for the purpose of consistency when comparing the resource updates against the earlier estimates (Orssich, 2014).

While IDS method is still an acceptable technique in resource estimation, majority of the resource geologists nowadays prefer to use the ordinary kriging (OK) method in grade interpolation. This technique is considered more superior compared to other methods because it considers the nugget effect and its algorithm uses 3D variograms to automatically eliminate the bias caused by data clustering.

In March 2017, the Exploration team conducted a re-estimation of the enargite-QPG mineral resource using the OK method and compared its results against the earlier estimates by IDS. Comparison of the two estimates show that OK resulted to slightly higher tonnage but the global gold and copper resource grades derived from the two methods do not vary significantly (Abrenica, 2017).

The updated resource estimates of the enargite-QPG deposits that are presented in this report applied the ordinary kriging method for gold and copper interpolation.

11.7.2 Search Parameters

11.7.2.1 Search Ellipse Distance

Four interpolation search passes were used to assign values for gold and copper to blocks within the wireframes. Pass 1 used a one variogram range search radius for drillhole samples. Pass 2 used a one variogram range search radius for channel cut samples. Passes 3 and 4 used 50.0 m and 75.0 m search radii along strike, respectively, while maintaining anisotropic ratios using drillhole samples. In GEMS, only blocks that have not been assigned values in previous runs are assigned values in subsequent runs. This means that Pass 1 has priority over Pass 2 which has priority over Pass 3, and so on. The dimensions of the search ellipses are summarized in Table 11-16 and Table 11-17.

Table 11-16. Search distance parameters for gold (in meters).

Area	Domain	Drillhole			Channel Cut			Drillhole			Drillhole		
		1st Pass			2nd Pass			3rd Pass			4th Pass		
		Major Range	Semi-Major Range	Minor Range	Major Range	Semi-Major Range	Minor Range	Major Range	Semi-Major Range	Minor Range	Major Range	Semi-Major Range	Minor Range
Carmen	51	25	15	5	10	7	3	50	30	10	75	45	15
	52	20	10	5	-	-	-	50	25	10	75	38	19
Florence	61	45	23	12	20	12	8	50	25	15	75	38	20
	62	23	12	5	7	4	3	50	25	10	75	39	16
	63	45	27	25	24	8	6	50	30	28	75	45	42
Elena	71	20	10	5	20	10	5	50	25	10	75	38	19
	72	-	-	-	20	12	5	-	-	-	-	-	-
NW QPG	81	25	10	5	10	5	3	50	20	10	75	30	15
Easterlies	91	50	40	30	15	10	5	50	40	30	75	60	45
	92	20	10	5	-	-	-	50	25	10	75	38	19

Table 11-17. Search distance parameters for copper (in meters).

Area	Domain	Drillhole			Channel Cut			Drillhole			Drillhole		
		1st Pass			2nd Pass			3rd Pass			4th Pass		
		Major Range	Semi-Maj Range	Minor Range	Major Range	Semi-Maj Range	Minor Range	Major Range	Semi-Maj Range	Minor Range	Major Range	Semi-Maj Range	Minor Range
Carmen	51	30	20	5	10	7	5	50	30	10	75	50	13
	52	20	10	5	-	-	-	50	25	10	75	38	19
Florence	61	55	48	43	16	8	6	55	48	43	75	65	59
	62	25	20	6	14	9	4	50	40	15	75	60	18
	63	52	33	13	14	11	8	52	33	13	75	48	19
Elena	71	20	10	5	15	10	5	50	25	10	75	38	19
	72	-	-	-	10	5	3	-	-	-	-	-	-
NW QPG	81	15	7	3	10	5	3	50	25	10	75	35	15
Easterlies	91	50	30	25	15	10	5	50	30	25	75	45	38
	92	20	10	5	-	-	-	50	25	10	75	38	19

11.7.2.2 Number of Samples

Passes 1, 2, 3 and 4 used a minimum number of samples of 4, 3, 2 and 2 respectively; and a maximum number of samples of 12, 12, 10 and 10, respectively, for both gold and copper.

11.7.3 Volume and Tonnage Calculation

GEMS software uses its built-in function called Volumetrics to estimate volumes of materials. Volumetrics employs a numerical integration technique known as needling that involves piercing the data objects with thousands of needles. Each needle has a weighting based on spacing and orientation and are always generated perpendicular to a specific plane. The more needles used, the better the accuracy.

Volume calculation was performed by constraining the needles *within* the geology solid/wireframes. In this method, GEMS only sums up the volumes from the penetration point to the exit point with the geology solid. Therefore if a block happened to occupy only a portion of the solid, the portion of the block that is inside the solid will be included in the volume estimation while the remaining outside portion will be disregarded. An integration level of 10, equivalent to 100 needles per block, was applied in volume estimation.

The tonnages reported in the updated enargite-QPG mineral estimates were estimated on a dry basis and are expressed as dry metric tonnes.

11.8 Block Modeling

11.8.1 Block Model Dimensions

The updated enargite-QPG block model is non-rotated and consists of regular shaped blocks measuring 4x4x4 m (X-Y-Z). The choice of block size was based primarily on the recommendation of the Mine Engineering Team for their mine planning studies.

The tables below summarize the characteristics of the enargite-QPG block model. The block model origin was defined based on the minimum easting and northing coordinates and the maximum elevation.

Table 11-18. Dimensions for the enargite-QPG block model.

	Coordinates			No. of Blocks			Block Size			Block Rotation
	Easting (X)	Northing (Y)	Elevation (Z)	Column (X)	Row (Y)	Level (Z)	Column (X)	Row (Y)	Level (Z)	
Minimum	500	-2405	560	380	520	200	4	4	4	0
Maximum	2020	-325	1360							

11.8.2 Block Model Attributes and Coding

The primary block model attributes created in the enargite-QPG block model for coding and estimation are summarized in Table 11-19.

Table 11-19. Block attributes for the enargite-QPG block model.

Block Attribute	Data Type	Description	Blocks Updated From
domain	Integer	mineralized domain/ rock code	Geology Solids
density_2.7	Single	bulk density (constant 2.7)	Geology Solids
au	Single	gold grade ordinary kriging estimate	Kriging Interpolation
cu	Single	copper grade ordinary kriging estimate	Kriging Interpolation
cueq_1.63	Single	cueq = cu + (au x 1.63)	Block Manipulation
class_75m	Integer	resource category; 2=indicated; 3=inferred; 4=potential/geologic	Block Manipulation
vol%unclip	Single	percent block volume inside unmined vein wireframe	Geology Solids
vol%clip	Single	percent block volume inside mined vein wireframe	Geology Solids
dist_to_dh_p1	Single	distance of block to nearest drillhole composite for Pass 1	Kriging Interpolation
dist_to_ch_p2	Single	distance of block to nearest channel sample composite for Pass 2	Kriging Interpolation
dist_to_dh_p3	Single	distance of block to nearest drillhole composite for Pass 3	Kriging Interpolation
dist_to_dh_p4	Single	distance of block to nearest drillhole composite for Pass 4	Kriging Interpolation
pass	Integer	interpolation pass	Kriging Interpolation
z_bv	Single	block variance	Kriging Interpolation
z_gtcp	Single	grade of true closest point	Kriging Interpolation
z_kv	Single	kriging variance	Kriging Interpolation
z_mds	Single	mean distance for samples used	Kriging Interpolation
z_nh	Single	number of holes used	Kriging Interpolation
z_npe	Single	number of points used for the estimate	Kriging Interpolation
z_nps	Single	number of points inside the search	Kriging Interpolation
z_sr	Single	slope of regression	Kriging Interpolation

11.9 Resource Classification

The enargite-QPG mineral resource is currently classified as under indicated and inferred levels of confidence only due to the use of historical data and relatively wide spaced drilling pattern.

The criteria used by Lepanto to classify the resource blocks were based mainly on the distances obtained from the variogram analyses. The indicated resource are defined by blocks that are within one variogram strike distance of two data points, either drill hole or channel cut, while the inferred resource are defined by blocks that are within 75.0 meters of two data points, either drill hole or channel cut. All blocks beyond the inferred resource are classified as potential or geologic resource.

Figure 11-3 presents the enargite-QPG block model according to resource classification. The potential or geologic resource, colored in gray, represents areas that require future exploration drilling and potential additional resource tonnage.

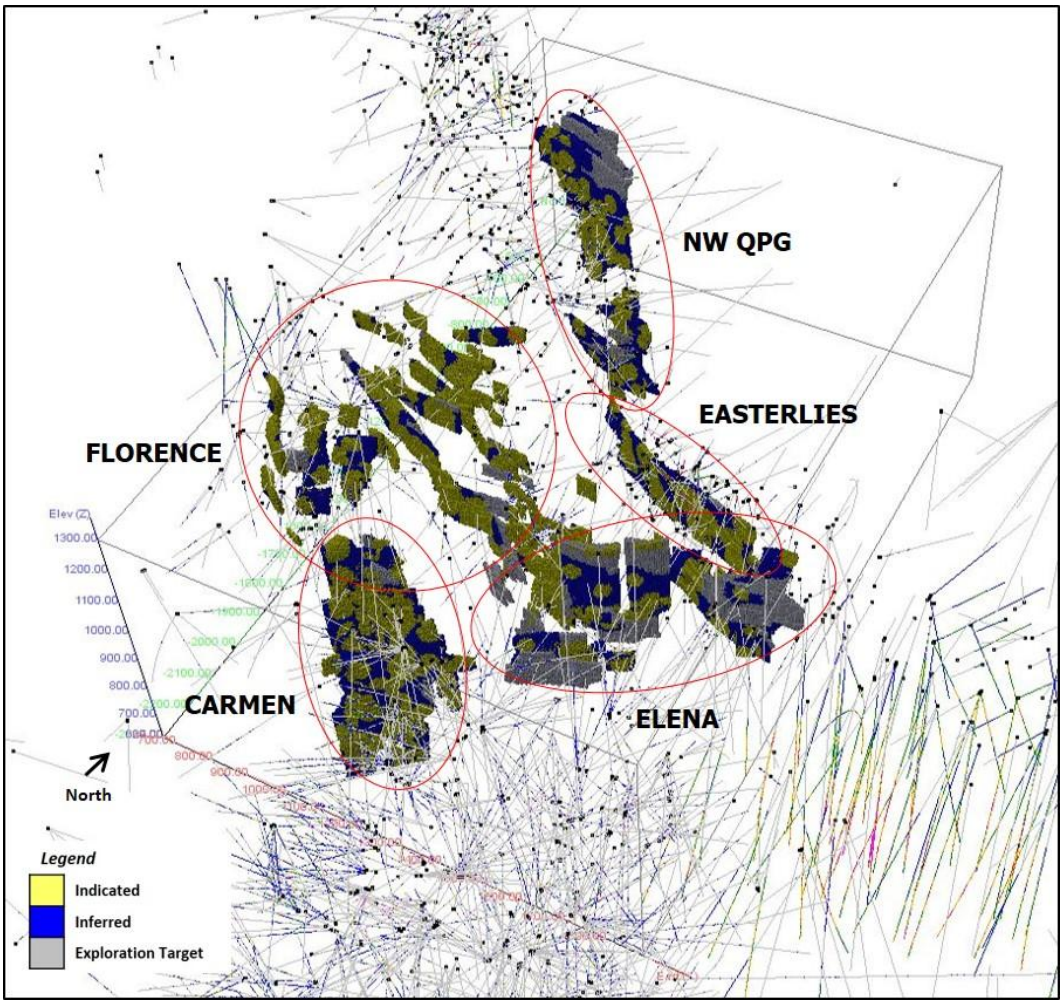


Figure 11-3. Resource classification block model for the enargite-QPG ore bodies looking northwest. Exploration Target is not part of the mineral resource.

11.10 Mineral Resource Estimates

11.10.1 Cut-off Grade

The cut-off grade used for the updated resource estimates is 1.0% CuEq, where CuEq = Cu% + (Au g/t x 1.63).

11.10.2 Mining Factors or Assumptions

No mining factors have been applied to the in situ grade of this mineral resource.

11.10.3 Metallurgical Factors or Assumptions

No metallurgical factors have been applied to the in situ grade of this mineral resource.

11.10.4 Mineral Resource Tabulation

The mineral resource estimates for the enargite-QPG ore bodies are tabulated in the tables below.

Table 11-20 presents the global enargite-QPG resource based on 1.0% CuEq cut-off while shows the resource estimates of individual deposit according to resource classification using the same 1.0% CuEq cut-off.

Gold content is reported in troy ounces (oz) where 1 oz = 31.10347 g while copper content is reported in avoirdupois pounds (lb) where 1 lb = 453.59237 g.

Table 11-20. Mineral resource estimates for the enargite-QPG ore bodies based on 1.0% CuEq cut-off grade.

Classification	Tonnage (kT)	Au (g/t)	Cu (%)	koz Au	klb Cu
Measured	-	-	-	-	-
Indicated	6,861	1.956	0.910	431	137,647
TOTAL	**6,861**	**1.956**	**0.910**	**431**	**137,647**
Inferred	885	2.113	0.789	60	15,378

Table 11-21. Mineral resource of individual enargite-QPG deposits according to resource classification using a cut-off of 1.0% CuEq.

Area	Classification	Tonnage (kT)	Au (g/t)	Cu (%)	koz Au	klb Cu
Carmen	Indicated	2,184	1.770	0.625	124	30,098
Florence	Indicated	2,118	1.672	1.371	114	64,000
Elena	Indicated	440	2.045	1.875	29	18,188
NW QPG	Indicated	1,646	2.508	0.463	133	16,797
Easterlies	Indicated	474	2.085	0.820	32	8,564
TOTAL		**6,861**	**1.956**	**0.910**	**431**	**137,647**

Area	Classification	Tonnage (kT)	Au (g/t)	Cu (%)	koz Au	klb Cu
Carmen	Inferred	301	1.652	0.458	16	3,034
Florence	Inferred	82	1.959	1.135	5	2,062
Elena	Inferred	154	1.871	1.557	9	5,272
NW QPG	Inferred	281	2.734	0.610	25	3,775
Easterlies	Inferred	67	2.318	0.831	5	1,234
TOTAL		**885**	**2.113**	**0.789**	**60**	**15,378**

11.10.5 Exploration Target

Based on ongoing drilling as well as historic drillhole and underground stope data from abandoned mined areas, an exploration target estimated at 7.29 million tonnes with a potential grade of 2.02 g/t Au and 1.69% Cu has been identified. Increased drilling program is recommended in this areas in order upgrade the resources into inferred and indicated categories. The details of this target are listed in Table 11-22.

Table 11-22. Copper-gold exploration targets.

Area	Tonnage (kT)	Au (g/t)	Cu (%)	Remarks
Carmen	400	1.549	0.471	Consists of blocks from Run 9A that were interpolated using less than 2 points within the 75 m search radius. Cut-off grade applied is 1.0% CuEq.
Florence	424	2.022	1.470	
Elena	290	1.878	1.717	
NW QPG	719	2.504	0.680	
Easterlies	133	1.711	0.562	
NW Enargite	1,088	1.062	2.524	Derived from LeCCa Project; tonnages were calculated from actual vein width and total lateral ore exporsures on silled-out areas; grades were estimated manually using prismoidal averaging; declared on Jan 01, 2017 and certified by a Competent Person in Mar 2017. Cut-off grade applied is 1.0% Cu.
Yolanda	1,407	2.542	1.088	
Claudia	115	2.529	1.998	
Footwall Branch Veins	2,478	2.005	2.156	Tonnages and grades were manually estimated based on last stope cut dimensions and samples' grades.
940 Shaft	236	2.821	2.680	
Total	**7,288**	**2.017**	**1.694**	

11.11 Estimation Validation

The enargite-QPG block model was validated using two methods to check the accuracy of the estimation process. The validation methods employed include (1) visual comparison of the block grades against the composite grades; and (2) generation of grade tonnage curves.

11.11.1 Visual Validation

The estimated grades generated by the ordinary kriging estimation were validated by visually comparing the block grades with the composited and capped drillhole and channel sample grades on a series of 20 m spaced north-looking vertical sections through the enargite-QPG block model. From visual inspection, the block model grades and drillhole and channel sample grades show reasonable correlation.

Figure 11-4 and Figure 11-5 display an example of vertical section from the gold and copper block model comparing the block grades and the sample composite capped grades. The section envelope

is ± 6 meters.

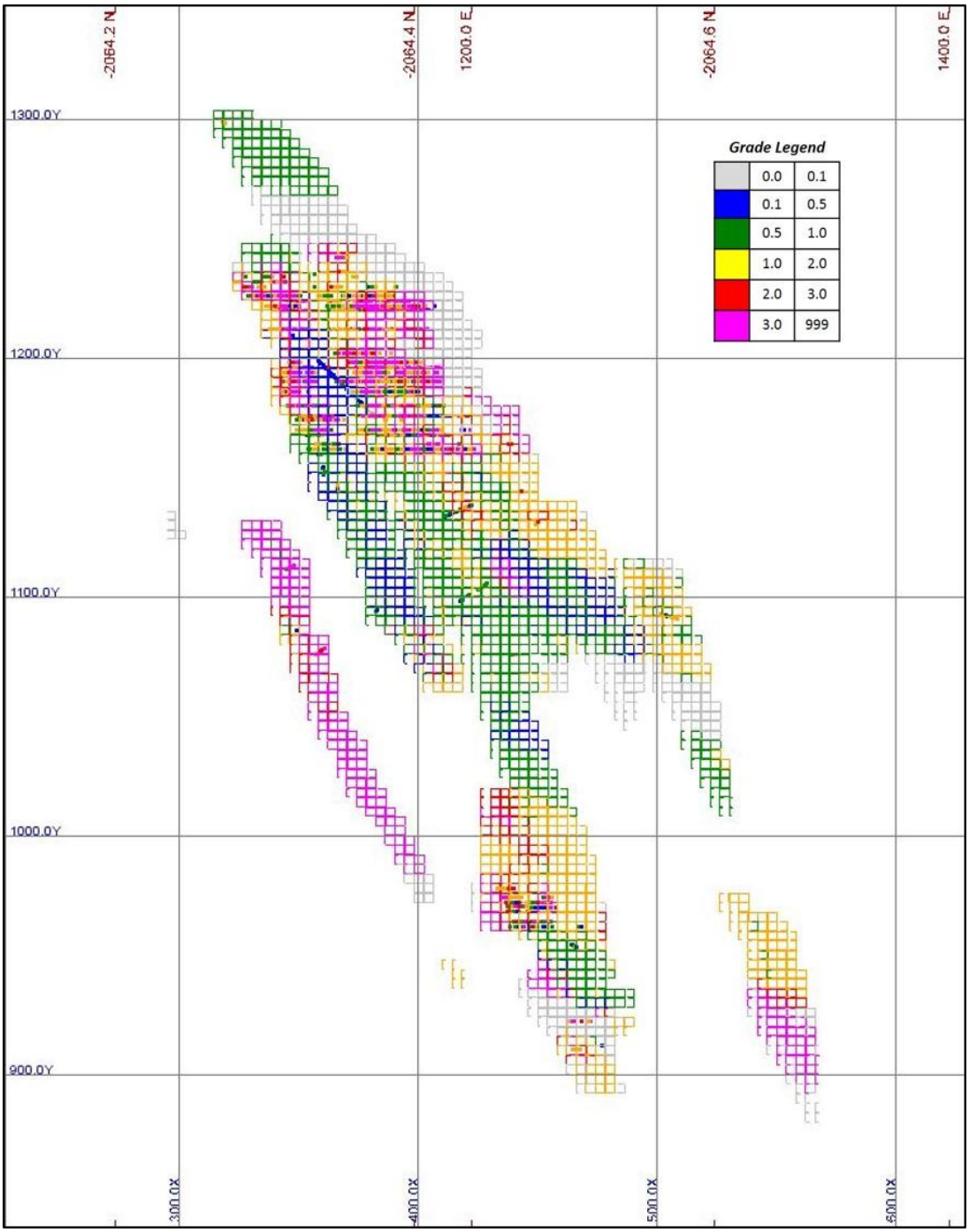


Figure 11-4. Vertical section through the enargite-QPG block model comparing the block gold grade estimates with samples' gold assay data. North direction is perpendicular to the page.

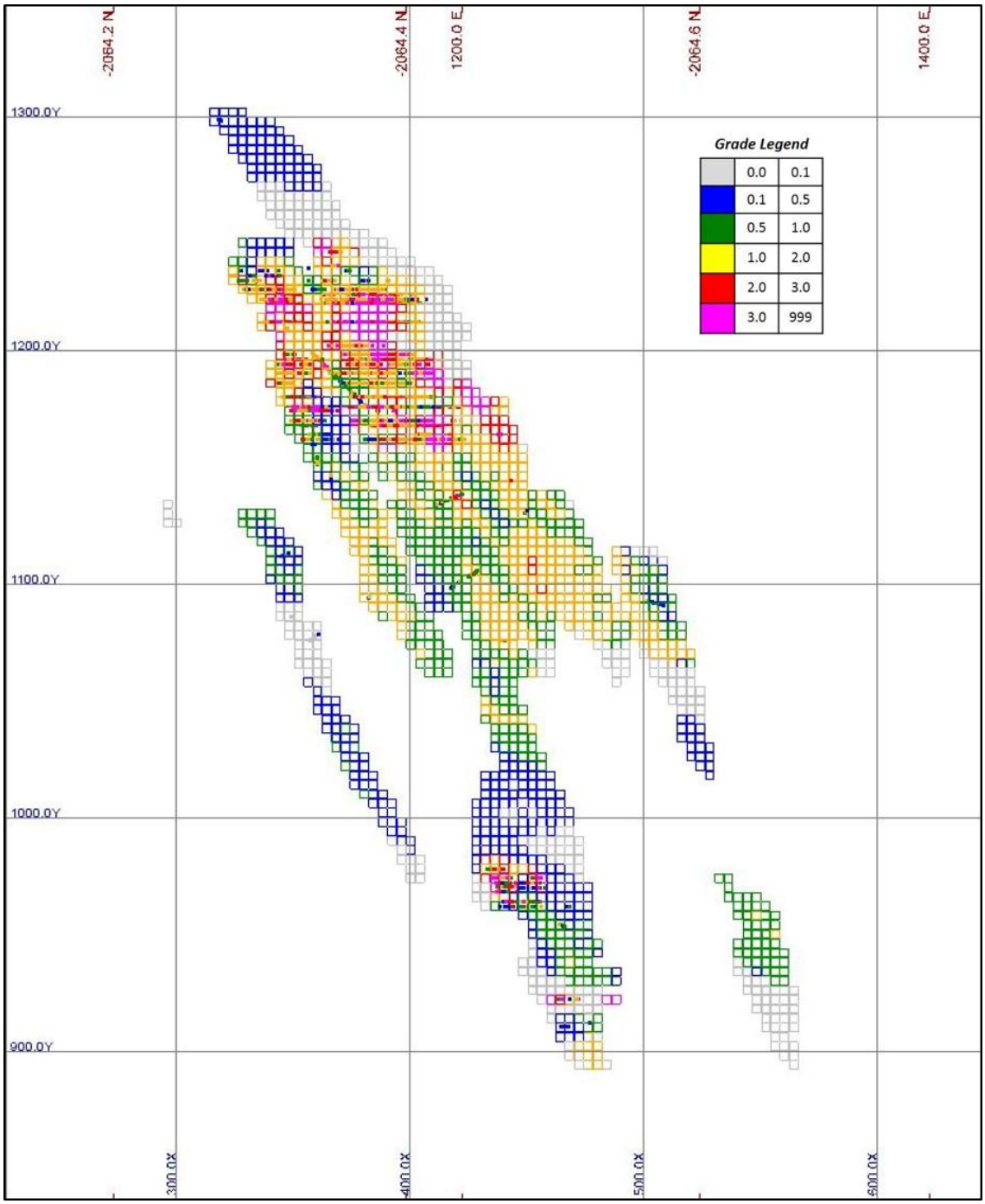


Figure 11-5. Vertical section through the enargite-QPG block model comparing the block copper grade estimates with samples' copper assay data. North direction is perpendicular to the page.

11.11.2 Grade-Tonnage Curves

Grade-tonnage curves for the enargite-QPG resource were generated to check mainly if the reported resource tonnage and grades are reflected in the graphs (Figure 11-6).

In addition to validation purposes, grade-tonnage curves can likewise serve as tools to easily visualize the sensitivity of available tonnage and grades at various cut-off grades.

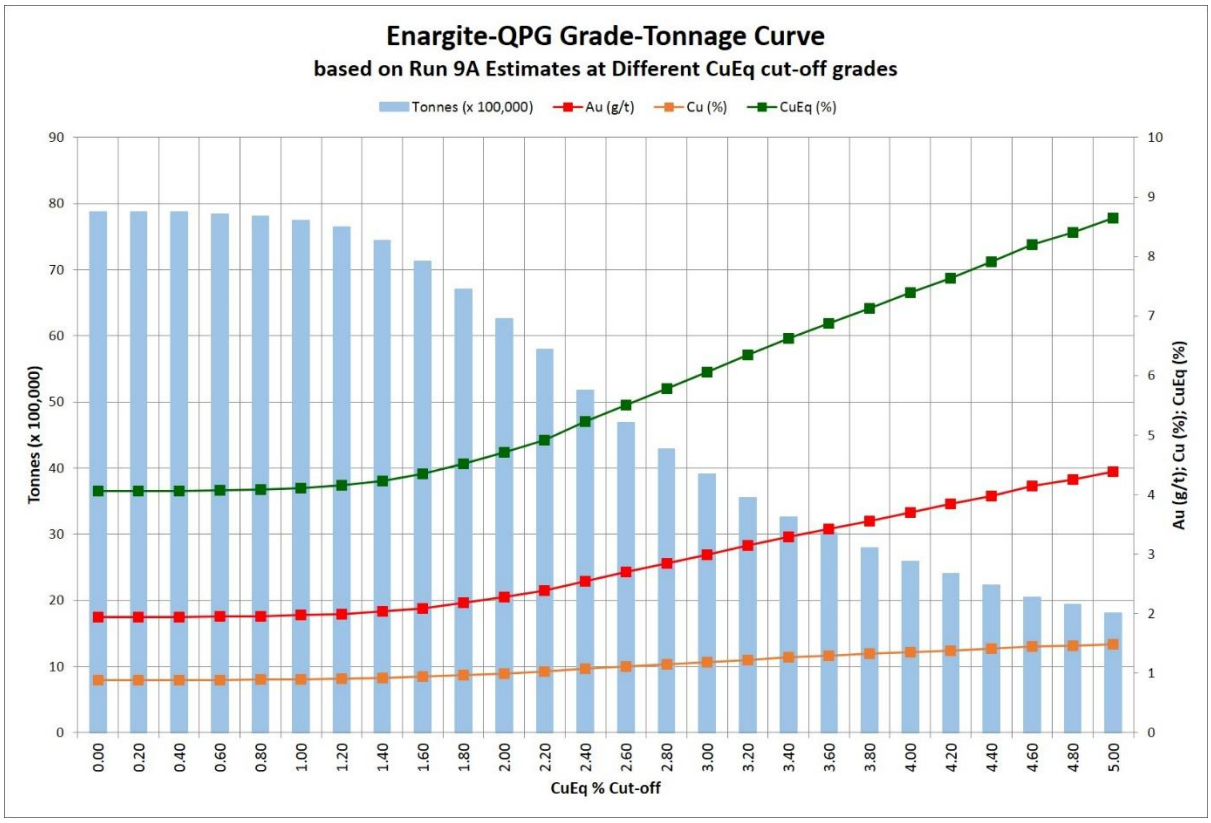


Figure 11-6. Grade-tonnage curves for the enargite-QPG resource at different % CuEq cut-offs.

12.0 INTERPRETATION AND CONCLUSIONS

Since Lepanto resumed its exploration and evaluation of its copper-gold resources in 2015 through combined underground drilling, sill-out drive opening and review of historical data from the enargite mining period, the Company has successfully delineated a total indicated resource of 6.86 million tonnes averaging 1.96 g/t Au and 0.91% Cu and an inferred resource of 0.89 million tonnes grading 2.11 g/t Au and 0.79% Cu.

Based on the assessment and evaluation of all the data and information reported herein, the recent resource estimates completed by Lepanto is a result of diligent and systematic geological work, systematic drilling programs, and maintenance of a functional geological database. The technical report prepared by the Lepanto Exploration team for review of the Competent Person shows adherence to the rules and regulations set by the PMRC in reporting exploration results and mineral resources.

13.0 RECOMMENDATIONS

The following comments and recommendations have been made regarding the existing resource in Lepanto's Copper-Gold Project and the potential for new discoveries:

- While the current mineral resource reported is categorized as indicated and inferred classifications only, 89% of the tonnage is under indicated. Since the bulk of the resource can be utilized for ore reserve estimations as per PMRC guidelines, it is recommended that mine planning studies be undertaken to determine optimal total mine program, including mine development and mine schedule options.
- A drill infill program is required to improve the confidence of the resource.
- Maintain procedures for determining bulk density from core samples to build a more representative density data set covering differences in rock type, alteration and vein mineralization.
- Due to the nature of occurrence of gold and copper in the enargite-QPG ore bodies, geometallurgy must be carefully studied to ascertain optimal processing options.
- Further exploration through drilling of the porphyry mineralization recognized in the current high sulfidation copper-gold drill cores is strongly recommended to confirm its lateral and vertical extents and be able to estimate its additional potential resource and reserves.

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15.0 APPENDICES

Appendix 1. Lepanto drillhole database statistics.

Historical to 2014		
Area	**No. of DH**	**Length (m)**
Buaki	41	6,823.77
Carmen	59	13,605.22
Cristine	56	15,096.35
Elena	64	21,014.96
Enargite	38	9,022.11
Fatima	122	57,936.63
Felicia	83	25,761.35
FlorNorth	52	8,790.11
FlorWest	18	4,611.71
Northwest	130	18,345.45
NWQPG	517	69,414.84
Teresa	190	45,328.18
Victoria	494	119,523.72
Undefined	177	85,368.03
Grand Total	**2,041**	**500,642.43**

Exploration 2015 to present		
Area	**No. of DH**	**Length (m)**
Buaki	8	1,675.10
Carmen	51	11,083.30
Elena	14	4,406.20
Florence	65	14,971.20
NW QPG	78	15,139.20
Grand Total	**216**	**47,275.00**

Mine Geology 2015 to present		
Area	**No. of DH**	**Length (m)**
CARMEN	7	673.30
HCG	8	1,558.20
Honeycomb	1	163.60
NW QPG	4	423.90
QPG	3	436.10
Teresa	43	3,810.00
VICTORIA	42	4,285.70
Victoria Deeps	13	1,149.15
Grand Total	**121**	**12,499.95**

Appendix 2. Lepanto channel cut database statistics.

Historical to 2000		
Area	**No. of CH Samples**	**Length (m)**
Carmen	2,865	3,286.30
Cristine	77	65.14
Easterlies	3,636	6,715.86
Elena	1,475	2,425.92
Felicia	7	7.30
Florence	5,781	9,178.13
Northwest	2,067	3,882.63
NW QPG	52,920	88,633.03
Teresa	4,270	4,341.99
Victoria	8,504	7,943.82
Grand Total	**81,602**	**126,480.12**

2001 to 2008		
Area	**No. of CH Samples**	**Length (m)**
Buaki	927	1,618.89
Carmen	10,881	18,181.24
Cristine	22	26.00
Elena	3,614	5,818.30
Enargite	122	154.70
FlorNorth	4,619	7,226.66
FlorWest	174	254.80
Northwest	14,524	27,236.65
NWQPG	993	1,317.61
Victoria	37	41.94
Grand Total	**35,913**	**61,876.79**

2015 to present		
Area	**No. of CH Samples**	**Length (m)**
Carmen	702	516.60
FlorNorth	597	405.20
NWQPG	3,051	2,283.50
Grand Total	**4,350**	**3,205.30**

Appendix 3. List of wireframes per area.

Area	Vein Tag	Domain
Carmen	501	51
Carmen	502	51
Carmen	503	51
Carmen	504	51
Carmen	505	51
Carmen	506	51
Carmen	507	51
Carmen	509	52
Carmen	510	51
Carmen	5011	51
Carmen	5012	51
Carmen	5013	51
Carmen	5014	51
Carmen	5021	51
Carmen	5023	51
Carmen	5024	51
Carmen	5031	51
Carmen	5033	51
Carmen	5034	51
Carmen	5041	51
Carmen	5042	51
Carmen	5051	51
Carmen	5052	51
Carmen	5053	51
Carmen	5054	51
Carmen	5061	51
Carmen	5071	51
Carmen	5091	51
Florence	601	61
Florence	602	61
Florence	603	61
Florence	604	61
Florence	606	61
Florence	608	61
Florence	610	61
Florence	611	61
Florence	614	633
Florence	615	611
Florence	616	61
Florence	617	633
Florence	618	633
Florence	619	633
Florence	620	61
Florence	621	61
Florence	622	62
Florence	623	63
Florence	624	61
Florence	625	61

Area	Vein Tag	Domain
Florence	629	61
Florence	631	62
Florence	632	62
Florence	633	62
Florence	635	62
Florence	636	62
Florence	638	63
Florence	639	63
Florence	640	62
Florence	641	63
Florence	6010	611
Florence	6012	61
Florence	6013	61
Florence	6014	61
Florence	6016	61
Florence	6018	61
Florence	6030	61
Florence	6031	61
Florence	6032	63
Florence	6033	611
Florence	6034	63
Florence	6035	611
Florence	6036	611
Florence	6037	611
Florence	6038	611
Florence	6041	61
Florence	6042	61
Florence	6043	61
Florence	6044	61
Florence	6051	611
Florence	6081	61
Florence	6150	61
Florence	6201	61
Florence	6202	61
Florence	6211	61
Florence	6212	61
Florence	6310	62
Florence	6311	62
Florence	6322	622
Florence	6391	63
Florence	60121	61
Florence	60140	61
Florence	60141	61
Florence	60181	61
Florence	63131	61
Elena	701	71
Elena	702	71
Elena	703	71

Area	Vein Tag	Domain
Elena	704	711
Elena	7011	71
Elena	7012	71
Elena	7021	71
Elena	7022	711
Elena	7031	722
Elena	7032	72
Elena	7033	72
Elena	7034	722
Elena	7035	711
Elena	7036	71
NW QPG	801	81
NW QPG	802	81
NW QPG	806	81
NW QPG	807	81
NW QPG	808	81
NW QPG	8021	81
NW QPG	8023	81
NW QPG	8061	81
NW QPG	8062	81
NW QPG	8063	81
NW QPG	8064	81
NW QPG	8065	81
NW QPG	8071	81
NW QPG	8072	81
NW QPG	8074	81
NW QPG	80160	81
NW QPG	80161	81
NW QPG	80162	81
NW QPG	80163	81
NW QPG	80164	81
NW QPG	80221	81
NW QPG	80222	81
Easterlies	901	91
Easterlies	902	91
Easterlies	903	91
Easterlies	904	91
Easterlies	905	91
Easterlies	906	91
Easterlies	907	91
Easterlies	908	91
Easterlies	909	91
Easterlies	910	91
Easterlies	9021	92
Easterlies	9081	92
Easterlies	9082	92
Easterlies	9083	92
Easterlies	9084	92

Republic of the Philippines
Department of Environment and Natural Resources
MINES AND GEOSCIENCES BUREAU
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CERTIFICATION

To Whom It May Concern:

This is to certify that as per records on file with this Office, the following Mineral Production Sharing Agreements (MPSAs) of Lepanto Consolidated Mining Company (LCMC) are valid and subsisting as of this date and are free from liens and encumbrances, namely:

TENEMENT ID	STATUS
MPSA No. 001-90-CAR	Under development and commercial operation; Filed for renewal on June 4, 2014
MPSA No. 151-2000-CAR	Under third term of exploration

This Certification is issued on July 14, 2017 upon the request of Atty. Pablo T. Ayson, Jr., Vice President of LCMC who has paid the required charges hereof in the amount of Fifty Pesos (Php50.00) under O.R. No. 1693820 dated July 14, 2017.

FAY W. APIL
OIC, Regional Director

Department of Environment and Natural Resources
Mines and Geosciences Bureau
Cordillera Administrative Region
071417-CAR-19801
Certification
4:29 PM 07/14/2017

"MINING SHALL BE PRO-PEOPLE AND PRO-ENVIRONMENT
IN SUSTAINING WEALTH CREATION AND IMPROVED QUALITY OF LIFE."