Lepanto Consolidated Mining Company

2018 ANNUAL REPORT

Company Profile

Lepanto Consolidated Mining Company is a Filipino producer of gold, copper, and silver. Lepanto has been a proud resident of Mankayan, Benguet, Philippines since 1936. At present, Lepanto operates the Victoria gold and the Enargite gold-copper deposits.

Lepanto is listed on the Philippine Stock Exchange under the symbols LC and LCB.

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About the Cover

Lepanto's processing plant operates 24/7. It was constructed in 1996 to produce gold dore from the Victoria. Following some modifications and rehabilitation, it is now producing both gold dore and gold/copper concentrates from the leaching and flotation streams, respectively. The plant is presently being upgraded to improve metal recoveries.

MESSAGE FROM THE CHAIRMAN AND THE PRESIDENT

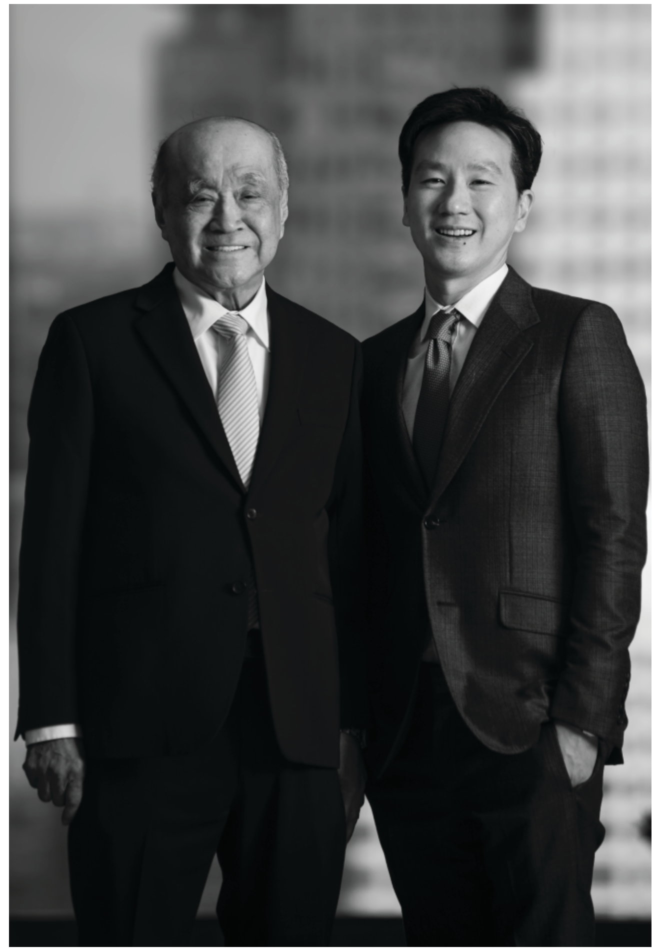
2018 marked the first full year of our production of gold/copper concentrates. We produced a total of 10,726 dry metric tons of concentrates. Our gold production has improved to 28,146 ozs, the highest in five years. Our mine deliveries have also increased, reaching 2,400 tonnes per day by year-end, the highest since we suspended Enargite operations in 1996.

We are gearing towards a 2,500 tpd operation, with ores coming mainly from the Enargite-associated Quartz-Pyrite-Gold deposits (QPG) as mining in the Victoria particularly below Level 900 has become difficult. At the same time, we are upgrading our processing plant to improve gold and copper recoveries given the complex nature of the QPG ores. Things are getting better but admittedly not yet at the desired pace.

As programmed, mine deliveries from the Victoria fell by 47% to 108,843 tonnes with an average grade of 3.11 g/t gold as our development work was focused on the QPG areas, namely the Northwest, Carmen and Florence. The QPG delivered 455,759 tonnes with average grades of 2.82 g/t gold and 0.87% copper. Our total gold production at 28,146 ozs. with 6,342 ozs. in dore form was 20.8% higher than last year; silver at 87,146 ozs. was 60% greater than last year. We produced 3,171,066 lbs. copper, compared with the 1,390,025 lbs. of copper produced only in the last quarter of 2017. Total revenue for the year amounted to ₱ 2.09 billion compared with ₱ 1.56 billion in 2017. Our operating net loss amounted to ₱728 million from ₱775 million the previous year.

The Court of Appeals has upheld the 2015 final award of the Arbitral Panel in connection with the renewal of our Mineral Production Sharing Agreement. The Republic's motion for reconsideration has been denied by the Court of Appeals.

The political environment seems to have tilted more towards responsible mining and additional taxation. We are hoping that the inevitable further increase in mining taxes will be reasonable and will trigger the lifting of the moratorium on the issuance of mineral agreements.



The Chairman with the President

"We will be devoting substantial amounts in the coming years to delineate these porphyry deposits. Indeed, Lepanto will be very well-placed in the coming decade as the global demand for copper increases. "

We believe that the best thing that can happen to our industry is the reversion of government from a policy of regulation to one of promotion. After all, the first function of the state in respect of mineral resources, as stated in Section 2 (Declaration of Policy) of the Mining Act is "to promote the rational exploration, development, utilization and conservation through the combined efforts of government and the private sector in order to enhance national growth in a way that effectively safeguards the environment and protects the rights of affected communities."

With such a policy change, we can make more concrete plans in respect of our undeveloped projects, principally the Far Southeast (FSE) and our Manila Mining properties. And as we have reported previously, there are also recently discovered significant porphyry gold-copper deposits within our Mankayan tenements.

Geologically, it has always been believed that our Enargite and Victoria mines originated only from the FSE orebody. But recent published studies undertaken by PhD researchers as well as professors from Akita University and Kyushu University of Japan, Western University of Canada and University of Tasmania-CODES of Australia have confirmed the existence of porphyry deposits underneath the Enargite and QPG deposits other than the FSE, including the Buaki and Bulalacao porphyry deposits, to name two. Such existence is evidenced not only by copper and gold assays from these porphyry deposits, but also by the geological and geochemical characteristics of the Enargite and QPG deposits indicating that these were mineralised from different porphyry sources.

We will be devoting substantial amounts in the coming years to delineate these porphyry deposits. Indeed, Lepanto will be very well- placed in the coming decade as the global demand for copper increases.

We end this message by once again expressing to you our shareholders our heart-felt gratitude for your patience and continued support. We also are grateful to the members of our Board of Directors, as we benefit much from their counsel and deep concern for our company's welfare. We especially thank our officers and employees for their perseverance. And to all our service providers, suppliers, banks, legal counsels, external auditors, our regulators and partners in government and the Mankayan community, thank you for your assistance, cooperation, and understanding.

FELIPE U. YAP
Chairman and Chief Executive Officer

BRYAN U. YAP
President and Chief Operating Officer

FINANCIAL AND OPERATING HIGHLIGHTS

			2018		2017	Percent (%) Increase (Decrease)
AVERAGE SELLING PRICES						
Gold	-per ounce	**US$**	**1,261.59**	US$	1,263.13	(0)
Silver	-per ounce		**15.65**		16.97	(8)
Copper	-per pound		**2.96**		3.04	(3)
OPERATIONS						
Copper Concentrate	-DMT		**10,726**		3,724	188
Gold production	-ounces		**28,147**		23,290	21
Silver production	-ounces		**87,365**		54,649	60
Copper production	-pounds		**3,171,060**		1,390,025	128
FINANCIAL RESULTS (in million pesos)						
Revenue						
Sale of metals		₱	**2,082**	₱	**1,558**	**34**
Sales by subsidiaries, etc.			**39**		**63**	(54)
Total revenue			**2,121**		1,621	31
Net Loss			**(775)**		(948)	(18)
Deficit			**(4,175)**		(3,398)	23
INVESTMENT IN ASSETS (in million pesos)						
Total assets		₱	**17,046**	₱	17,024	1
Property, plant and equipment, net			**7,495**		7,423	1
STOCKHOLDERS' DATA						
Stockholders' equity (in million pesos)		₱	**7,640**	₱	7,263	5
Number of stockholders			**27,779**		27,835	(0)
Citizenship - % of ownership						
Philippines			**86**		84	3
U.S.A. and others			**14**		16	(14)
PER- SHARE DATA (in pesos)						
Par value		₱	**0.10**	₱	0.10	-
Basic/Diluted Loss a			**(0.01165)**		(0.01712)	(31)
Book value b			**0.10417**		0.09900	5
NUMBER OF EMPLOYEES			**2,305**		2,031	13

a. Computed on the basis of the weighted average number of shares subscribed and issued during the year.
b. Computed on the basis of the total shares outstanding as of December 31.

REPORT ON OPERATIONS

FINANCIAL HIGHLIGHTS

Metal sales improved to ₱2.09 billion from the previous year's ₱1.56 billion. Gold production increased to 28,147 oz. from 23,290 oz. the previous year. Silver production increased to 87,365 oz. from 54,649 oz. Copper production increased to 3,171,060 lbs from 1,390,025 lbs. Average gold price dropped from US$1,263.13/oz. to US$1,261.13/oz. while silver price dropped from US$16.97/oz. to US$15.65/oz. Copper price dropped from US$3.04/lb to US$2.96/lb. Loss from operations amounted to ₱728.12 million compared with last year's loss of ₱775.71 million.

Total capital expenditures for the year reached ₱667.43 million, consisting of: mine development, ₱234.62 million; mine exploration and diamond drilling, ₱241.41 million; TSF 5A maintenance, ₱8.61 million; and machineries, equipment and other depreciable assets, ₱182.79 million.

MINE OPERATIONS

Mine deliveries from the Victoria totaled 108, 843 tonnes with average grade of 3.11 g/t; and from the QPG, 455, 759 tonnes with average grades of 2.82 g/t gold and 0.87% copper. Development advances reached 10,429 meters, interconnecting the different ore bodies to enhance accessibility, ventilation and mobility of equipment including the:

- Felicia Ramp connecting Teresa 900L to Teresa 1150L;
- 200Y/205Z Ramp connecting Carmen 900L to Carmen 1150L;
- rehab of 170W airway connecting Northwest to the Tubo exhaust via Florence 950L;
- 80P XCN rehab to connect 940 Shaft to Northwest
- 85-U Decline
- 55S Decline accessing additional veins at Northwest
- installation of two 90-kilowatt ventilation fans at Buaki

An underground communication and tracking system also known as 'leaky feeder' was installed.

Longhole mining was applied at Florence to boost efficiency with less manpower. On the reporting side, reserves reconciliation was re-established to track the depletion and performance of reserves.

The revival of the enhanced Productivity Bonus Scheme for stoping, development, and haulage also improved productivity in the mine.

Safety initiatives resulted in an industry-wide record for underground mining: 5.3 million man-hours with no lost-time accidents.

5.3million man-hours
ZERO LOST-TIME ACCIDENTS

EXPLORATION

A total of 116 diamond drill holes was completed in 2018 with an aggregate depth of 21.06 km. Of these, 19.44 km in 104 drill holes targeted the QPG vein breccia system and the adjacent Enargite deposit. The balance of 1.62 km targeted potential additional mineral resource in Victoria – North, particularly the western extension of Vein 205 at 1100-L.

Through exploration, QPG veins were delineated to occur in the periphery of, or overprinting, the historical Enargite ore body. Our definition drilling continued to pursue the ideal grid spacing of 12.5 meters x 12.5 meters to upgrade the confidence in our QPG-Enargite Mineral Resource block and produce a robust Ore Reserve model.

ORE RESERVES	CATEGORY	TONNES	g/t Au	% Cu	M 0zs. Au	M lb. Cu
VICTORIA @ US$ 50 NSR	Proved	370,000	6.26	0.10	0.074	0.82
	Probable	150,000	3.15	0.10	0.015	0.33
	Sub-total	**520,000**	**5.36**	**0.10**	**0.090**	**1.15**
TERESA @ US$ 50 NSR	Proved	100,000	3.29	0.10	0.011	0.22
	Probable	300,000	3.05	0.10	0.029	0.66
	Sub-total	**400,000**	**3.11**	**0.10**	**0.040**	**0.88**
Total Victoria/Teresa		**920,000**	**4.38**	**0.10**	**0.130**	**2.03**
QPG @ US$ 50 NSR	Proved	2,500,000	2.22	1.73	0.178	95.05
	Probable	3,490,000	2.54	1.71	0.285	131.67
	Sub-total	**5,990,000**	**2.40**	**1.72**	**0.463**	**226.72**
GRAND TOTAL		**6,910,000**	**2.67**	**1.50**	**0.593**	**228.75**

No exploration work was conducted at the giant Far Southeast porphyry Cu-Au deposit, which has a certified Inferred Mineral Resource declaration of 19.8 million ounces Au and 4.6 million tonnes Cu from 891.7 million tonnes of ore at 0.7 g/t Au & 0.5 % Cu.

The Mineral Resource and Ore Reserve estimates were certified by Mr. Joey Nelson R. Ayson and Engr. Ruben H. Quitoriano, respectively, both competent persons within the context of the Philippine Mineral Reporting Code.

MILL OPERATIONS

The rehabilitation of the old copper flotation circuit and the CIP mill, which we began in 2017, required major upgrade to address the complex nature of the QPG. To improve metal recoveries and enhance environmental features the following installations were added to the mill complex:

- A new auto lubrication system for the ball/rod mills
- An acid fume scrubber to regulate emission at the refinery
- A new falcon concentrators and a Gekko In-line leach reactor (!LR) to leach the gold from the gravity concentration circuit.

The target mill throughput of 2,400 tonnes per day was achieved in the last quarter. Total milled ore was 580,480 tonnes with average grades of 0.32% Cu, 2.03 g/t Au and 8.30 g/t Ag producing 6,342 oz of gold and 4,930 oz of silver in doré, and 10,726 dry metric tons of copper concentrate with 3,171,061 lbs of copper, 21,804 oz of gold and 82,434 oz of silver.

HUMAN RESOURCE

MANPOWER STATISTICS

IPs of Cordillera 77%	Others 23%
Male 95%	Female 5%
Underground 70%	Surface 30%
Rank & File 75%	Professional/ Technical Staff 25%

The year ended with a total workforce of 1,863, mostly indigenes and residents of the host community, Mankayan, Benguet and other neighboring communities.

LEARNING AND DEVELOPMENT

A total of 29,777 training man-hours

IN-HOUSE TRAININGS

- Basic Assay Operation
- Mining 101
- Basic Lubrication
- Variable Frequency and Adjustable Programmable Logic Controls
- Bearing and V-bel Technical
- Optibelt
- Cyanide Awareness and Lock Out
- Tag Out
- Mine Rescue and Recovery Operations
- Porphyry and Epithermal System Course
- Supervisory Development
- Data Privacy Act Orientation
- Labor Law and Employment Relations
- Workshop on Service Delivery Network (SDN)
- Tax Reform Acceleration and Inclusion (TRAIN) Law

CONFERENCES

- Towards Sustainable Mining
- Geo Conference
- Mining Philippines Conference
- Annual Mine Environment and Safety
- Chemistry Congress
- Electrical Engineer Convention
- Radiologic Technology National Congress

EMPLOYEE ENGAGEMENT

A total of 50 employees and teachers were given recognitions during the 82nd Anniversary Celebration. Mr. Efren Pablo from Legal and Security Department was named Model Employee 2018 during the 13th Gawad-Lepanto.

Mr. Efren Pablo receiving the 2018 Model Employee Award

ENABLING COMMUNITIES THROUGH INFRASTRUCTURE PROJECTS

Farm to market roads and flood control

- Reopening / Clearing of Lepa-ak Road at Bedbed
- Construction of a 215 m concrete pavement with curb & gutter at Liwang, Caew, Bulalacao
- Construction of concrete pavement with curb & gutter at Proper Paco
- Construction of a 56 meters concrete pavement with curb & gutter and slope protection at Dong-as, Suyoc
- Construction of a 96.7 meters concrete pavement with curb & gutter and slope protection at Pacda, Suyoc
- Construction of concrete pavement with curb & gutter at Upper Taneg
- Construction of 70 meters Flood Control at Kayan, Pilipil, Cervantes, Ilocos Sur

Multi-purpose buildings and training centers

- Improvement of Livelihood Center for processing of sugar cane (Dapilan) at Aurora, Poblacion
- Renovation of Mankayan Municipal Mayor's & Administration office
- Renovation of Mankayan Municipal Sangguniang Bayan Session Hall
- Construction of Multipurpose building with Livelihood Center at Marivic, Sapid - Site preparation, excavation / steel / concrete works & grouted riprap for phase I
- Completion of the first floor of the Multi-purpose Hall Phase VI at Poblacion, Quirino, Ilocos Sur - plastering of external and internal walls, tiling, installation of ceiling, sliding windows and glass doors

Educational facilities improvement

- Construction of Gymnasium Phase VI at Colalo - Steel works, painting works and Installation of Roofing
- Construction of of 35 meters perimeter Fence of Bantay Primary School at Libang, Cervantes, Ilocos Sur
- Construction of 9 meters pathway shade at Cervantes National High School

Comfort rooms construction and improvement

- Improvement of existing comfort rooms with construction of Canal for Am-Am, Elementary School at Balili
- Renovation of Judge's office, DSWD & treasury comfort rooms at Mankayan municipal hall
- Construction of 2 comfort rooms and washing area for the Child Development Center at Kayan, Pilipil, Cervantes, Ilocos Sur

Water system improvement

- Improvement of Mantiyeng water system at Cabiten - Replacement of dilapidated pipes
- Improvement of Camanpaguey water system at Cabiten - Construction of intake tank, replacement of pipes and fittings, installation of skyline
- Improvement of of Las igan water system at Cabiten - Construction of intake tank & distribution tank, replacement of pipes and fittings, installation of skyline
- Improvement of Paalaban water system Phase II at Paco - Replacement of dilapidated GI pipes to SDR pipes
- Improvement of Palpaltogan water system Phase II at Paco - Fencing of water tank, rerouting & replacement of dilapidated pipes and construction of concrete marker
- Improvement of Pukitan water system Phase II at Paco - Replacement of dilapidated GI pipes, construction of diversion canal for the protection of spring

#LepantoCares

UPHOLDING QUALITY EDUCATION

Lepanto Educational Assistance Program (LEAP) 2018 graduates

- 423 Scholars enrolled in the Lepanto Educational Assistance Program (LEAP)
- 612 LEAP graduates since 2002
- 8 Mining Engineers and 4 Geologists produced since 2012 under the Dev't of Mining Technology and Geosciences (DMTG) full scholarship program

EMPOWERING COMMUNITIES THROUGH SUSTAINABLE LIVELIHOOD PROGRAMS

Lepanto is committed to empowering its surrounding communities through sustainable livelihood programs:

Hog raising project

provision of piglets and biologics to members of Barangay Tabio's Women's Federation

Farm inputs livelihood project

for Sinakyay-Ambabag Farmer's Organization in Barangay Guinaoang

Weaving Project

continuous support to Lepanto weavers through technical assistance, promotion, marketing and organizational and skills development.

PROMOTING HEALTH AND WELLNESS

4TH Biennial Medical-Surgical Dental Mission

1,070 BENEFICIARIES
from Mankayan, Benguet, Cervantes
and Quirino in Ilocos Sur

30 MAJOR
SURGICAL PROCEDURES PERFORMED:

- cholecystectomy
- thyroidectomy
- tubal surgery
- cheiloplasty

Winrey Genorilia after the cheiloplasty

355

surgeries performed
at Lepanto Hospital in 2018

EXTENDING ASSISTANCE IN TIMES OF CALAMITIES

For over 50 days in the last quarter of 2018, Lepanto's rescue team sifted through the massive landslide brought by heavy rains in Brgy. Bedbed in Mankayan to search for survivors and retrieve bodies.

Lepanto sent a team of mining engineers, safety experts and miners to clear Besang Pass in Cervantes, Ilocos Sur of rocks and soil.

HELPING PRESERVE INDIGENOUS CULTURE

The company helps in the preservation of the Cordilleran culture not just by keeping the weaving industry alive, but also through its continuous support of the community's cultural programs, including the provision of cultural appurtenances such as gongs and solibao to the barangays of Mankayan.

CineMina FEST 2018

Lepanto launched on July 13, 2018 CineMina, the first short film-making contest in the Philippine mining industry, with "Empowering Communities" as theme. CineMina engaged around 70 filmmakers, film professionals and students alike from Mankayan, La Trinidad, Baguio, La Union, Pangasinan and even Metro Manila. There were 21 entries depicting Lepanto's corporate social responsibility initiatives in such areas as education, livelihood, health, cultural preservation, emergency response and community-building. Winning entries were published on Lepanto's official Facebook page, generating tens of thousands of digital impressions.

Social Media

Lepanto expanded its digital footprint to convey the message that #LepantoCares through materials that showcase the company's best practices. Notable was the four-minute short film entitled "Three Stories" about the journey of three Lepanto employees that led them home to Lepanto. The video post became an instant hit, reaching around 80,000 people with over a thousand positive digital reactions and was shared by almost 500 Facebook users. Lepanto's Facebook page likes spiked to over a couple of thousands in a year.

INFORMATION. EDUCATION. COMMUNICATION.

Lepanto's IEC program had but one message: #LepantoCares.

Lepanto Mine Appreciation Tour

Visitors toured the mine camp: officials of local government units, students and teachers from various universities and colleges in Luzon, representatives from the Philippine Extractive Industries Transparency Initiative (PH-EITI) and Philippine Press Institute, and lifestyle magazine editors among many others.

COMMUNITY ENGAGEMENT

Lepanto intensified its presence in the barangays of Mankayan, Cervantes and Quirino by conducting massive IEC in the form of community dialogues, consultations and meetings informing them about the company's plans, updates on operations and other programs and policies, and hearing and addressing their concerns. The company doctors and hospital staff were also on board to provide free health consultations and medicines, especially to far-flung barangays.

Bisita-Eskwela

The company's Bisita-Eskwela program reached out to more remote barangays in Mankayan to give school supplies, books and teaching materials to more school kids. Company officers and staff trekked two mountains and crossed three hanging bridges for all of three hours to reach the remotest barangay- Sitio Las-igan in Barangay Cabiten.

Over 2,000 children in Mankayan benefitted from Lepanto's Bisita-Eskwela

SUBSIDIARIES

DIAMOND DRILLING CORPORATION OF THE PHILIPPINES

Gross revenue decreased by 43.6% to P164.26 million due to lower drilling output in projects for Lepanto. DDCP reported a net income of ₱25.17 million versus last year's net loss of ₱25.98 million on account of minimized costs.

LEPANTO INVESTMENT AND DEVELOPMENT CORPORATION (LIDC)

The company registered a net loss of ₱0.31 million compared with last year's net loss of ₱.24 million. LIDC owns 25.44% of the outstanding capital of DMTC.

SHIPSIDE, INCORPORATED (SSI)

Revenue increased from ₱32.85 million to ₱35.90 million due mainly to higher hauling revenue. SSI posted a net income of ₱4.58 million, up from last year's ₱2.93 million.

FAR SOUTHEAST GOLD RESOURCES, INC.

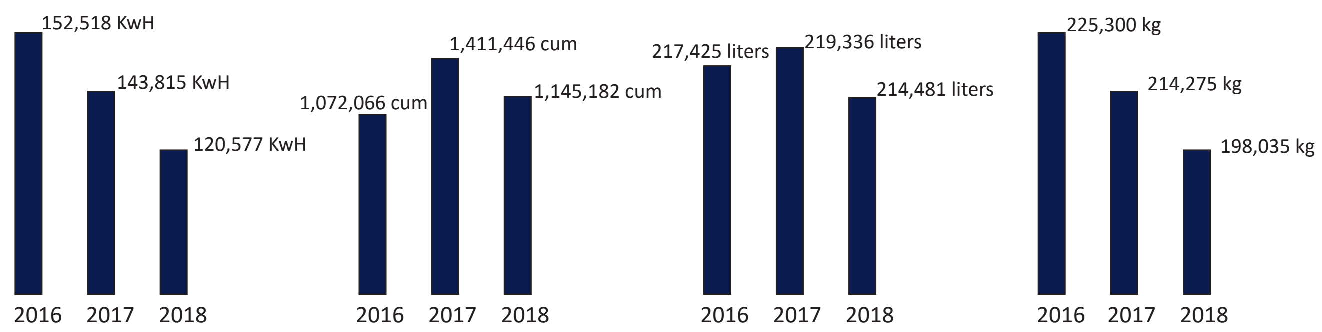
This year's net income amounted to ₱4.40 million on account of scrap sales compared with last year's loss of ₱45.22 million which arose from foreign exchange losses in connection with the revaluation of a foreign currency-denominated financial asset.

ENVIRONMENTAL MANAGEMENT SYSTEM

ISO 14001:2015 CERTIFICATION

Lepanto successfully passed the TUV Rheinland Philippines' (TUV) second follow up with upgrade audit with zero non-conformance and is now ISO 14001:2015 certified, superseding the ISO 14001: 2004 version certification obtained in 2016.

RESOURCES CONSERVATION



Electricity Consumption | Fresh Water Consumption | Lubricant Consumption | Sodium Metabisulfite

BIODIVERSITY CONSERVATION

63,512 hectares of land covered

114,171 propagated seedlings

45,480 planted seedlings

23,519 donated seedlings

SOLID WASTE MANAGEMENT

20%

Reduction in residual wastes sent to Engineered Sanitary Landfill

POLLUTION CONTROL

Lepanto decontaminated 24 PCB-laced transformer units onsite through the assistance of Seanogy Environmental Solutions Inc. The company is the first mining company in Southeast Asia to be PCB-free.

TAILINGS STORAGE FACILITY

The 3-km 18-inch diameter HDPE twin tailings pipeline from the CIP to the tail-end of TSF 5A is 91% complete, with the single line fully operational since October 31, 2018.

Environmental Compliance

- **Republic Act No. 7942**
  Philippine Mining Act of 1995
- **Executive Order No. 26**
  National Greening Program
- **Republic Act 9003**
  Ecological Solid Waste Mgmt. Program
- **Republic Act No. 6969 and DENR Administrative Order 2013-22**
  Toxic Substances and Hazardous and Nuclear Wastes Control of 1990 and its revised IRR; Revised Procedures and Standards for Management of Hazardous Wastes
- **DAO 2010-21**
  Consolidated DENR Administrative Order for IRR of RA No. 7942
- **Republic Act No. 8749**
  Philippine Clean Air Act of 1999
- **Republic Act No. 9275**
  Philippine Clean Water Act of 2004
- **Republic Act No. 9371**
  Indigenous Peoples' Rights Act
- **DENR DAO 2004-52**
  Tree Cutting Permit
- **DENR DAO 2015-07**
  Securing ISO 14001 Certification
- **PD 1586**
  Philippine Environmental Impact Statement System (PEISS) of 1978
- **DAO 99-32**
  Policy Guidelines and Standards for Mine Wastes and Tailings Management
- **DENR DMO 1999-32**
  Policy Guidelines and Standards for Mine Waste and Mill Tailings Management
- **DAO 2000-101**
  Amendments to the Rules and Regulations of the National Pollution Control Commission (1978) Incorporating Permit Regulations Governing Mine Wastes and Mill Tailings Storage Structures
- **DAO 2015-02**
  Harmonization of the Implementation of the Philippine Environmental Impact Statement System and the Philippine Mining Act of 1995 in Relation to Mining Projects

DIVIDEND RECORD AND STOCK PRICES

Stock Dividends

Record Date	Rate (%)	Amount
November 28, 1949	50.00	₱ 1,000,000.00
August 22, 1950	66.66	2,000,000.00
April 4, 1954	100.00	5,000,000.00
April 6, 1957	33.33	3,458,333.40
April 30, 1962	4.51	1,630,999.42
April 30, 1964	43.00	6,000,000.00
December 19, 1966	40.00	8,000,000.00
December 27, 1968	50.00	14,000,000.00
September 13, 1969	33.33	14,038,900.00
November 20, 1970	20.00	11,265,439.70
April 28, 1972	25.00	16,928,759.50
April 27, 1973	25.00	21,250,359.40
November 16, 1973	75.00	79,876,497.75
January 10, 1975	25.00	46,688,310.33
September 30, 1975	20.00	46,712,804.70
May 2, 1978	12.50	35,193,442.25
May 16, 1980	20.00	63,674,667.10
May 16, 1983	20.00	77,002,748.00
September 26, 1986	20.00	92,421,009.60
February 23, 1989	50.00	277,263,028.90
October 13, 2000	25.00	423,271,296.10
TOTAL		**₱ 1,246,676,596.15**

QUARTERLY HIGH AND LOW MARKET PRICES OF LEPANTO "A" AND "B" SHARES. 2017-2018

LEPANTO "A" (P/Share)

	1Q'17	2Q'17	3Q'17	4Q'17
High	0.18	0.17	0.18	0.15
Low	0.17	0.17	0.17	0.15

	1Q'18	2Q'18	3Q'18	4Q'18
High	0.15	0.13	0.12	0.11
Low	0.15	0.13	0.11	0.10

LEPANTO "B" (P/Share)

	1Q'17	2Q'17	3Q'17	4Q'17
High	0.19	0.18	0.19	0.15
Low	0.18	0.18	0.18	0.15

	1Q'18	2Q'18	3Q'18	4Q'18
High	0.15	0.13	0.12	0.12
Low	0.15	0.13	0.11	0.11

Cash Dividends

Dividend Nos.	Year Declared	Per Share	Amount
1	1939	0.005	₱ 52,500.00
2-5	1940	0.035	577,500.00
6-7	1941	0.02	350,000.00
8	1949	0.01	200,000.00
9-11	1950	0.04	1,800,000.00
12-15	1951	0.10	5,000,000.00
16-20	1952	0.10	5,000,000.00
21-23	1953	0.08	4,000,000.00
24-27	1954	0.06	5,000,000.00
28-32	1955	0.06	6,000,000.00
33-37	1956	0.06	6,000,000.00
38-39	1957	0.02	2,418,333.34
40-41	1958	0.03	4,150,000.02
42-43	1959	0.02	2,766,666.68
44-48	1960	0.05	6,928,666.67
49-51	1961	0.04	5,405,333.38
52-56	1962	0.05	6,939,566.71
57-61	1963	0.07	9,800,000.00
62-65	1964	0.05	9,400,000.00
66-69	1965	0.06	12,000,000.00
70-73	1966	0.10	20,000,000.00
74-77	1967	0.12	33,600,000.00
78-81	1968	0.12	33,600,000.00
82-85	1969	0.10	45,597,250.00
86-89	1970	0.10	56,284,298.80
90-93	1971	0.085	57,527,182.40
94-96	1972	0.045	38,149,138.92
97-100	1973	0.055	63,309,214.88
101-103	1974	0.0225	41,982,124.95
104	1978	0.005	15,844,913.85
105-106	1979	0.01	31,763,953.36
107-110	1980	0.02	70,019,939.43
111	1981	0.005	19,140,369.90
112	1986	0.0025	11,552,654.39
113-116	1987	0.02	110,905,279.45
117-118	1988	0.015	83,178,952.05
119-120	1989	0.005	41,158,324.98
121	1998	0.004	66,613,920.76
122	1999	0.004	66,918,503.47
TOTAL			**₱ 1,000,934,588.39**

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, 2018 and 2017**, 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 appointed by 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.

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

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

MA. LOURDES B. TUASON
Vice President - Treasurer
SSS#03-2082979-6

Signed this 18th day of March 2019.

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, 2018 and 2017, 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, 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2018, in accordance with Philippine Financial Reporting Standards (PFRSs).

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 P7.5 billion, which includes mine and mining properties of P5.9 billion as at December 31, 2018, comprising about 44% of the Group's consolidated total assets. The Group has been incurring net losses which is an impairment indicator requiring an assessment of the recoverable amount of property, plant and equipment. The impairment assessment requires significant judgment and involves estimation and assumptions about future production levels and costs, as well as external inputs such as commodity prices, discount rate, and foreign currency exchange rate. Hence, such assessment is a key audit matter in our audit.

The disclosures in relation to property, plant and equipment are included in Note 9 to the consolidated financial statements.

Audit Response

We involved our internal specialists in evaluating the reasonableness of the methodologies and the assumptions used in determining the value-in-use, such as future production levels and costs, as well as external inputs such as commodity prices, discount rate and foreign currency exchange rate. We compared the key assumptions used against external data such as analysts' reports and industry benchmarks. 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

As at December 31, 2018, the carrying value of the Group's mine exploration costs amounted to P6.7 billion, which pertain to the expenditures incurred by the Group for the Far Southeast Project. Under PFRS 6, *Exploration for and Evaluation of Mineral Resources,* these mine exploration costs shall be assessed for impairment when facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

The ability of the Group to recover its mine exploration costs would depend on the commercial viability of extracting the reserves. We considered this as a key audit matter because of the materiality of the amount involved, and the significant management judgment required in assessing whether there is any indication of impairment.

The Group's disclosures about mine exploration costs are included in Note 12 to the consolidated financial statements.

Audit Response

We obtained management's assessment on whether there is any indication that mine exploration costs may be impaired. We reviewed contracts and agreements, and the Group's budget for exploration and development costs. We inspected the licenses/permits of each exploration project to determine that the period for which the Group has the right to explore in the specific area has not expired, will not expire in the near future, and will be renewed accordingly, and compared these licenses and permits with the disclosures of regulatory agencies. We also inquired about the existing mining 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 Group's mine and mining properties amounting to P5.9 billion as at December 31, 2018, are amortized using the units of production method. Under the units of production method, cost is amortized based on the ratio of the volume of actual ore extracted during the year over the estimated volume of mineable ore reserves for the remaining life of the mine. This matter is significant to our audit because the estimation of the mineable ore reserves in Mankayan, Benguet for the entire life of the mine requires significant judgment and estimation from the management.

The disclosures in relation to mineable ore reserves are included in Note 9 to the consolidated financial statements.

Audit Response

We evaluated the competence, capabilities and objectivity of the Group's mining engineers who performed a technical assessment of its mineable ore reserves by considering their qualifications, experience and reporting responsibilities. We reviewed the mineable ore reserves report and obtained an understanding of the Group's process in estimating the ore reserves, including the assumptions used in the estimate. We performed roll-forward procedures on reserves estimates and checked the assumptions, and the changes made on the assumptions as compared to prior year, such as commodity prices and foreign exchange rates. In addition, we tested the reserves estimates applied to the relevant sections of the consolidated financial statements including depletion and decommissioning provisions.

Adoption of PFRS 15, Revenue from Contracts with Customers

Effective January 1, 2018, the Group adopted the new revenue recognition standard, PFRS 15, under the modified retrospective approach. The adoption of PFRS 15 resulted in significant changes in the Group's revenue recognition policies, process, and procedures. The adoption of PFRS 15 is significant to our audit because this involves the application of significant management judgment and estimation, particularly the revenue and subsequent measurement of trade receivables of its metal sales, in: determining whether the Group's metal sales contracts met the criteria for the recognition of revenue under PFRS 15; determining whether there are distinct promises in the metal sales contracts, other than sale of metals, that constitutes separate performance obligations; determining whether the transaction price includes variable consideration; and allocation of the transaction price among the performance obligations.

The disclosures related to the adoption of PFRS 15 are included in Notes 2 and 29 to the consolidated financial statements.

Audit Response

We obtained an understanding of the Group's process in implementing the new revenue recognition and financial instruments standards. We inquired and reviewed the PFRS 15 adoption of the management, including revenue streams identification and scoping, and contract analysis.

For the sale of metals, we obtained sample contracts and reviewed whether the accounting policies appropriately considered the five-step model and cost requirements of PFRS 15. In addition, we reviewed and checked whether all performance obligations within the metal sales contracts have been identified. We evaluated the management's assumptions on the estimated forward price by comparing the available market data with the assumptions used in its estimates and the related revenue recognized. We checked the allocation of the transaction price to the performance obligations. We verified the agreement between quantities per sales invoice and certificate of weight and assay. We checked whether the Group's timing of revenue recognition is based on when the performance occurs and control of the related metal is transferred to the customer.

For the fair valuation of trade receivables, we tested the fair value of the metals delivered and settled during the year and checked the classification of the fair value change in the consolidated financial statements. For the unsettled balance of trade receivable from sales of metals during the reporting period, we traced the forward prices used based on latest available market data and tied up the remaining settlement period with the provisions of the sampled contracts.

We reviewed the application of the accounting policy in relation to the adoption of the new standard. We also reviewed the disclosures made in the consolidated financial statements on the classification and measurement of trade receivables.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17 A and Annual Report for the year ended December 31, 2018, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17 A and Annual Report for the year ended December 31, 2018 are expected to be made available to us after the date of this auditor's report.

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

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with PFRSs, 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 Eleanore A. Layug.

SYCIP GORRES VELAYO & CO.

Eleanore A. Layug

Eleanore A. Layug
Partner
CPA Certificate No. 0100794
SEC Accreditation No. 1250-AR-2 (Group A),
February 28, 2019, valid until February 27, 2022
Tax Identification No. 163-069-453
BIR Accreditation No. 08-001998-97-2018,
February 2, 2018, valid until February 1, 2021
PTR No. 7332561, January 3, 2019, Makati City

March 18, 2019

LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Amounts in Thousands)

	December 31	
	2018	2017
ASSETS		
Current Assets		
Cash (Note 4)	₱ **123,597**	₱ 266,117
Receivables (Note 5)	**42,288**	88,973
Contract asset (Note 5)	**18,732**	–
Inventories (Note 6)	**585,871**	536,844
Advances to suppliers and contractors (Note 7)	**206,033**	154,816
Other current assets (Note 8)	**780,313**	711,488
Total Current Assets	**1,756,834**	1,758,238
Noncurrent Assets		
Property, plant and equipment - net (Note 9)	**7,495,316**	7,423,277
Mine exploration costs (Note 12)	**6,683,763**	6,620,301
Financial assets designated at fair value through other comprehensive income (FVOCI) (Note 10)	**211,951**	–
Available-for-sale (AFS) financial assets (Note 10)	–	197,931
Investments in and advances to associates (Note 11)	**565,214**	567,912
Deferred tax assets - net (Note 18)	**246,829**	378,020
Other noncurrent assets	**86,075**	78,304
Total Noncurrent Assets	**15,289,148**	15,265,745
TOTAL ASSETS	₱ **17,045,982**	₱ 17,023,983
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Note 13)	₱ **1,382,075**	₱ 1,263,112
Current portion of long-term borrowings (Note 14)	**242,541**	213,607
Income tax payable	**354**	271
Total Current Liabilities	**1,624,970**	1,476,990
Noncurrent Liabilities		
Advances from Far Southeast Services Limited (FSE; Note 30)	**6,020,552**	5,982,829
Long-term borrowings (Note 14)	**14,167**	130,481
Liability for mine rehabilitation cost (Note 15)	**101,383**	102,690
Retirement benefits liability (Note 16)	**1,104,764**	1,530,973
Deferred income tax liabilities - net (Note 18)	**217,880**	217,125
Deposit for future subscriptions	**69,200**	69,200
Stock subscriptions payable	**11,443**	11,443
Total Noncurrent Liabilities	**7,539,389**	8,044,741
Total Liabilities	**9,164,359**	9,521,731
Equity Attributable to the Equity Holders of the Parent Company		
Capital stock (Note 19)	**6,635,685**	5,833,386
Additional paid-in capital	**5,077,033**	5,077,033
Remeasurement gain (loss) on retirement benefits liability	**40,986**	(297,053)
Fair value reserve of financial assets designated at FVOCI (Note 10)	**61,288**	–
Fair value reserve of AFS financial assets (Note 10)	–	47,856
Deficit (Note 31)	**(4,175,261)**	(3,398,532)
	7,639,731	7,262,690
Non-controlling interest (NCI; Note 20)	**241,892**	239,562
Total Equity	**7,881,623**	7,502,252
TOTAL LIABILITIES AND EQUITY	₱ **17,045,982**	₱ 17,023,983

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		
	2018	2017	2016
REVENUES (Note 29)	₱ **2,120,642**	₱ 1,621,302	₱ 1,534,056
COST OF SALES (Note 22)	**(2,425,246)**	(2,110,790)	(1,876,404)
COST OF SERVICES (Note 23)	**(149,689)**	(66,980)	(113,848)
OPERATING EXPENSES (Note 24)	**(235,802)**	(240,249)	(234,233)
FINANCE COSTS (Note 27)	**(107,731)**	(103,874)	(101,634)
SHARE IN NET LOSSES OF ASSOCIATES (Note 11)	**(2,104)**	(5,307)	(6,752)
FOREIGN EXCHANGE GAINS (LOSSES) - net	**717**	(64,189)	3,062
OTHER INCOME - net (Note 28)	**12,502**	2,046	52,515
LOSS BEFORE INCOME TAX	**(786,711)**	(968,041)	(743,238)
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 18)			
Current	**5,293**	938	30,364
Deferred	**(17,034)**	(20,366)	(40,033)
	(11,741)	(19,428)	(9,669)
NET LOSS FOR THE YEAR	**(₱ 774,970)**	(₱ 948,613)	(₱ 733,569)
OTHER COMPREHENSIVE INCOME, NET OF TAX			
Item that will be reclassified to profit or loss in subsequent periods:			
Changes in fair values on AFS financial assets (Note 10)	₱	₱ 9,191	₱ 83,400
Items that will not be reclassified to profit or loss in subsequent periods:			
Changes in fair values of financial assets designated at FVOCI (Noted 10)	**13,432**	–	–
Remeasurement gain on retirement benefits liability - net of tax (Note 16)	**338,610**	121,300	104,270
OTHER COMPREHENSIVE INCOME, NET OF TAX	**352,042**	130,491	187,670
TOTAL COMPREHENSIVE LOSS	**(₱ 422,928)**	(₱ 818,122)	(₱ 545,899)
Net income (loss) attributable to:			
Equity holders of the Parent Company	**(₱ 776,729)**	(₱ 930,527)	(₱ 740,843)
NCI (Note 20)	**1,759**	(18,086)	7,274
	(₱ 774,970)	(₱ 948,613)	(₱ 733,569)
Total comprehensive income (loss) attributable to:			
Equity holders of the Parent Company	**(₱ 425,258)**	(₱ 800,086)	(₱ 553,173)
NCI (Note 20)	**2,330**	(18,036)	7,274
	(₱ 422,928)	(₱ 818,122)	(₱ 545,899)
BASIC/DILUTED LOSS PER SHARE (Note 21)	**(₱ 0.0123)**	(₱ 0.0171)	(₱ 0.0140)

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		
	2018	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before income tax	**(₱ 786,711)**	(₱ 968,041)	(₱ 743,238)
Adjustments for:			
Depletion, depreciation and amortization	**783,730**	773,758	750,892
Finance costs (Note 27)	**107,731**	103,874	101,634
Movement in retirement benefits liability	**(22,330)**	(50,816)	(25,845)
Share in net losses of associates (Note 11)	**2,104**	5,307	6,752
Gain on disposal of property, plant and equipment and other investments (Note 28)	**739**	(2,375)	(116,025)
Unrealized foreign exchange losses (gains) - net	**(720)**	64,188	51,809
Loss on deconsolidation of subsidiary (Note 30)	-	1,782	-
Interest income (Note 28)	**(274)**	(277)	(110)
Realized loss on disposal of AFS financial assets (Note 28)	-	-	63,868
Gain on reversal of deferred income tax liability	-	-	3,549
Operating income (loss) before working capital changes	**84,269**	(72,600)	93,286
Decrease (increase) in:			
Receivables and Contract assets	**34,252**	124,085	65,170
Inventories	**(49,027)**	(115,218)	19,683
Advances to suppliers and contractors	**(51,217)**	128,883	83,987
Other current assets	**(68,825)**	(70,652)	(26,752)
Increase (decrease) in trade and other payables	**119,098**	(223,737)	111,630
Net cash generated from (used in) operations	**68,550**	(229,239)	347,004
Interest received	**274**	277	110
Income taxes paid	**(5,375)**	(938)	(25,694)
Net cash flows from (used in) operating activities	**63,449**	(229,900)	321,420
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to:			
Property, plant and equipment (Notes 9 and 27)	**(596,278)**	(704,887)	(213,782)
Mine exploration costs	**(336,066)**	(579,570)	(526,501)
Investments in associates	-	(26)	308,292
Proceeds from disposal of property, plant and equipment	**6,976**	2,658	171,591
Extension of advances to an associate	**(13)**	(584)	(757)
Increase in subscription payable	-	-	(96,341)
Net cash outflow from deconsolidation of subsidiary (Note 30)	-	(1,639)	-
Decrease in other noncurrent assets	**(9,527)**	(3,318)	(6,851)
Net cash flows used in investing activities	**(934,908)**	(1,287,366)	(364,349)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from:			
Issuance of shares of stocks	**802,299**	1,439,482	-
Availment of additional loans	**-**	340,000	-
Payments of:			
Borrowings	**(90,633)**	(102,151)	-
Interest	**(18,947)**	(19,401)	(16,142)
Advances from FSE	**37,723**	49,608	89,878
Net cash flows from financing activities	**730,442**	1,707,538	73,736
NET INCREASE (DECREASE) IN CASH	**(141,017)**	190,272	30,807
CASH AT BEGINNING OF YEAR	**266,117**	86,234	66,387
EFFECT OF EXCHANGE RATE CHANGES ON CASH	**(1,503)**	(10,389)	(10,960)
CASH AT END OF YEAR (Note 4)	**₱ 123,597**	₱ 266,117	₱ 86,234

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, 2018, 2017 AND 2016
(Amounts in Thousands)

	Attributable to Equity Holders of the Parent Company									
	Capital Stock (Note 19)			Additional Paid-in Capital	Remeasurement Gain (Loss) on Retirement Benefits Liability (Note 16)	Financial Asset Designated at FVOCI (Note 10)			NCI (Note 20)	
	Issued	Subscribed	Sub-total				Deficit	Sub-total		Total
Balances at January 1, 2018	₱ 5,136,596	₱ 696,790	₱ 5,833,386	₱ 5,077,033	(₱ 297,053)	₱ 47,856	(₱3,398,532)	₱7,262,690	₱ 239,562	₱ 7,502,252
Issuance/subscription of shares (Note 19)	-	802,299	802,299	-	-	-	-	802,299	-	802,299
Net loss	-	-	-	-	-	-	(776,729)	(776,729)	1,759	(774,970)
Other comprehensive income, net of tax	-	-	-	-	338,039	13,432	-	351,471	571	352,042
Total comprehensive income (loss)	-	-	-	-	338,039	13,432	(776,729)	(425,258)	2,330	(422,928)
Balances at December 31, 2018	₱ 5,136,596	₱1,499,089	₱ 6,635,685	₱ 5,077,033	₱ 40,986	₱ 61,288	(₱4,175,261)	₱7,639,731	₱ 241,892	₱ 7,881,623
Balances at January 1, 2017	₱ 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
Effect of deconsolidating a subsidiary (Note 30)	-	-	-	-	(1,315)	-	1,315	-	-	-
Issuance/subscription of shares (Note 19)	-	698,680	698,680	740,802	-	-	-	1,439,482	-	1,439,482
Net loss	-	-	-	-		-	(930,527)	(930,527)	(18,086)	(948,613)
Other comprehensive income	-	-	-	-	121,250	9,191	-	130,441	50	130,491
Total comprehensive income (loss)	-	-	-	-	121,250	9,191	(930,527)	(800,086)	(18,036)	(818,122)
Balances at December 31, 2017	₱ 5,136,596	₱ 696,790	₱ 5,833,386	₱ 5,077,033	(₱ 297,053)	₱ 47,856	(₱3,398,532)	₱7,262,690	₱ 239,562	₱ 7,502,252
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

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

On January 14, 1997, the Parent 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 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. 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 Parent 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 Parent 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 Parent 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 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 was suspended at the end of 2001; the BOI registration was cancelled on July 11, 2006.

On January 5, 2004, the Parent 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 Parent 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 Parent 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 Parent 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. The copper-gold flotation operations were suspended in 2009 in view of the sharp decline in copper prices, of which the BOI was notified. In August 2017, the Parent Company notified the BOI that it will resume copper-gold flotation operations in the fourth quarter of 2017.

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

The Parent Company continues to operate the Victoria Project from which it produces gold dore. It commenced commercial operation of the Copper-Gold Project, producing copper-gold concentrate, in October 2017.

The Parent Company has two Mineral Production Sharing Agreements (MPSA), referred to as MPSA No. 001-090-CAR and MPSA No. 151-2000-CAR, both in Mankayan, Benguet.

MPSA No. 001-090-CAR was jointly executed by the Parent Company and a subsidiary, Far Southeast Gold Resources, Inc. (FSGRI) on March 3, 1990 with the Philippine Government, through the Department of Environment and Natural Resources. The MPSA has a term of 25 years, renewable for another term not exceeding 25 years under the same terms and conditions. The Parent Company and FSGRI filed an application for its renewal on June 4, 2014. The application for renewal of the mining rights are still in pending approval as at December 31, 2018 (Note 31).

The Parent 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 of the Parent Company and was incorporated and registered with the Philippine 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 the Philippine SEC on November 13, 1958, is a wholly owned subsidiary of 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.

In 1985 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 Philippine SEC approved the extension of SI's corporate term for another 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 Philippine 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. (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 (GFS), a company incorporated in Switzerland.

The Parent Company will continue to provide financial and administrative support to FSGRI. As at December 31, 2018, FSGRI 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 Philippine SEC on September 7, 1972, 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, the Philippine SEC approved the Company's application for change in name from Diamant Boart Philippines, Inc. to Diamant Manufacturing and Trading Corporation.

On August 11, 2017, the Philippine SEC approved the Company's application on January 11, 2017 for the decrease in par value of its shares from ₱100 to ₱30 decreasing the authorized capital shares from ₱36.0 million to ₱10.8 million. Further, the Philippine SEC approved the increase in number of authorized capital shares from ₱10.8 million divided into 360,000 shares to ₱120 million divided into 4,000,000 shares or an increase of 3,640,000 shares. DMTC entered into subscription agreement with Caliper Corporation on March 20, 2017 to subscribe to 910,000 common shares of capital stock at the par value of ₱30. Total price of the subscription amounts to ₱27.3 million, wherein 25% has been fully paid on March 20, 2017. Remaining subscription of 75% to be paid upon notice or demand from the Board of Directors.

As of August 11, 2017, DMTC is effectively 74.56% owned by Caliper and 25.44% by LIDC, a wholly-owned subsidiary of the Parent Company.

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, 2018 and 2017 and for each of the three years in the period ended December 31, 2018 were authorized for issue by the Board of Directors (BOD) on March 18, 2019.

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

Basis of Preparation

The consolidated financial statements of the Group have been prepared on a historical cost basis, except for AFS financial assets and financial assets designated at FVOCI that have been measured at fair value in the consolidated statements of financial position. The Group's consolidated financial statements are presented to illustrate transition of financial instruments under PAS 39 to PFRS 9. Disclosures have not been illustrated for standards that are either not relevant to the Group's consolidated financial instruments and are not applicable to the Group's circumstances. 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.

Statement of Compliance

The consolidated financial statements of the Group have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Group as at December 31, 2018 and 2017. The financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company using consistent accounting policies.

Control exists 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 its returns.

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

- The contractual arrangement(s) 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 Non-controlling Interest (NCI).

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Parent Company 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 resulting 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 an 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:

		2018	2017
	Nature of	**% of Ownership**	% of Ownership
Subsidiaries	Business	**Direct**	Direct
DDCP	Service	**100**	100
SI	Service	**100**	100
LIDC	Investment	**100**	100
FSGRI*	Mining	**60**	60

**Pre-operating subsidiary*

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, 2018. 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 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. Entities are required to apply the amendments to: (1) share-based payment transactions that are unvested or vested but unexercised as of January 1, 2018, (2) share-based payment transactions granted on or after January 1, 2018 and to (3) modifications of share-based payments that occurred on or after January 1, 2018. Retrospective application is permitted if elected for all three amendments and if it is possible to do so without hindsight.

  The Group's accounting policy for cash-settled share-based payments is consistent with the approach clarified in the amendments. In addition, the Group has no share-based payment transaction with net settlement features for withholding tax obligations and had not made any modifications to the terms and conditions of its share-based payment transaction. Therefore, these amendments do not have any impact on the consolidated financial statements.

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

The Group chose not to restate comparative figures as permitted by the transitional provisions of PFRS 9, thereby resulting in the following impact:

i. Comparative information for prior periods will not be restated. The classification and measurement requirements previously applied in accordance with PAS 39 and disclosures required in PFRS 7 will be retained for the comparative periods. Accordingly, the information presented for 2017 does not reflect the requirements of PFRS 9.

ii. The Group will disclose the accounting policies for both the current period and the comparative periods, one applying PFRS 9 beginning January 1, 2018 and one applying PAS 39 as of December 31, 2017.

iii. The difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application will be recognized in the opening 'Retained earnings' or other component of equity, as appropriate.

iv. As comparative information is not restated, the Group is not required to provide a third statement of financial information at the beginning of the earliest comparative period in accordance with PAS 1, *Presentation of Financial Statements.*

v. As of January 1, 2018, the Group has reviewed and assessed all of its existing financial assets. The accounting policies adopted by the Company in its evaluation of the classification and measurement categories under PFRS 9 are discussed in a separate section of this note.

a. Classification and Measurement

Under PFRS 9, there is a change in the classification and measurement requirements relating to financial assets. Previously, there were four categories of financial assets: loans and receivables, fair value through profit or loss, held to maturity and AFS. Under PFRS 9, financial assets are either classified as amortized cost, fair value through profit or loss (FVPL) or FVOCI.

For debt instruments, the classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' (SPPI) on the principal amount outstanding. A financial asset can only be measured at amortized cost if both of the following are satisfied:

- Business model: the objective of the business model is to hold the financial asset for the collection of the contractual cash flows
- Contractual cash flows: the contractual cash flows under the instrument relate solely to payments of principal and interest

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

Financial Assets

The Group continued measuring at fair value all financial assets previously held at fair value under PAS 39. The following are the changes in the classification of the Group's financial assets:

Mine Rehabilitation Funds under Other Noncurrent Assets

These were assessed as being held to collect contractual cash flows and give rise to cash flows representing SPPI. These are now classified and measured as debt instruments at amortized cost.

Trade Receivables (subject to provisional pricing) and Embedded Derivatives

Prior to the adoption of PFRS 9, the exposure of provisionally priced sales to commodity price movements over the quotational period (QP), previously led to embedded derivatives being separated from the host trade receivable and accounted for separately. Under PFRS 9, embedded derivatives are no longer separated from financial assets. Instead, the exposure of the trade receivable to future commodity price movements will cause the trade receivable to fail the SPPI test. Therefore, the entire receivable is now required to be measured at FVPL, with subsequent changes in fair value recognized in the consolidated statement of comprehensive income until final settlement. The Group previously did not present such fair value changes separately due to its immateriality, but will now present them as 'mark-to-market gains/losses on provisionally priced trade receivables'. There was an immaterial impact on the consolidated statement of comprehensive income arising from this change. The key impact was on presentation and disclosure, including the PFRS 13, *Fair Value Measurement*, disclosures.

Quoted and Unquoted Equity Shares Previously Classified as AFS Financial Assets

The Group elected to classify irrevocably its quoted and unquoted equity shares under financial assets designated at FVOCI as it intends to hold these investments for the foreseeable future. There were no impairment losses recognized in profit or loss for these investments in prior periods.

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

	PFRS 9 measurement category			
	Amount	FVPL	Amortized cost	FVOCI
PAS 39 measurement category				
Loans and receivables				
Trade receivables (subject to provisional pricing)	17,990	17,990	₱ -	₱ -
Nontrade receivables	63,679	-	63,679	-
Advances to officers and employees	5,899	-	5,899	-
AFS financial asset				
Quoted and unquoted equity instruments	197,931	-	-	197,931
	₱ 285,499	₱ 17,990	₱ 69,578	₱ 197,931

b. *Impairment*
The adoption of PFRS 9 has changed the Group's accounting for impairment losses for financial assets by replacing PAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. PFRS 9 requires the Group to recognize an allowance for ECLs for all debt instruments not held at FVPL and contract assets in the scope of PFRS 15.

As all of the Group's trade receivables (not subject to provisional pricing) and other current receivables which the Group measures at amortized cost are short term (i.e., less than 12 months) and the Group's credit rating and risk management policies in place, the change to a forward-looking ECL approach did not have a material impact on the amounts recognized in the consolidated financial statements.

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

The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the new insurance contracts standard. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018. An entity may elect the overlay approach when it first applies PFRS 9 and apply that approach retrospectively to financial assets designated on transition to PFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying PFRS 9.

The amendments are not applicable to the Group since it does not have activities that are predominantly connected with insurance or issue insurance contracts.

- PFRS 15, *Revenue from Contracts with Customers*

PFRS 15 supersedes PAS 18,Revenue, and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. PFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be 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.

PFRS 15 requires entities to exercise judgment, taking into consideration of all the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Group adopted PFRS 15 using the modified retrospective method of adoption with the date of initial application of January 1, 2018. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group elected to apply the standard to open contracts as at January 1, 2018.

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

The effect of adopting PFRS 15 as at January 1, 2018 is set out below.

The Group's revenue from contracts with customers comprises two main streams being the sale of bullion and concentrate. The Group undertook a comprehensive analysis of the impact of the new revenue standard based on a review of the contractual terms of its principal revenue streams with the primary focus being to understand whether the timing and amount of revenue recognized could differ under PFRS 15. For the Group's sale of concentrate, the nature and timing of satisfaction of the performance obligations, and, hence, the timing of revenue recognized under PFRS 15, is the same as that under PAS 18. However, amount of revenue recognized will change as it will be measured at the amount to which the Group expects to be entitled at the end of the QP under PFRS 15.

For sale of bullion, nature of performance obligation and amount of revenue recognized is the same under PFRS 15 and PAS 18, however, timing of satisfaction of performance obligation is different between PFRS 15 and PAS 18. Under PFRS 15, performance obligation is satisfied when the bullion has been shipped whereas revenue from sale of bullion under PAS 18 is recognized upon production. There were some reclassifications and some impact on presentation – refer below for further discussion. See Note 3 of the consolidated financial statement for the Group's PFRS 15 revenue recognition accounting policies.

Impact on consolidated statement of comprehensive income
Bullion and concentrate sales
There were no changes identified with respect to the timing of revenue recognition in relation to concentrates, as control transfers to customers upon issuance of holding certificate, which isconsistent with the point in time when risks and rewards passed under PAS 18. There were changes to the timing of revenue recognition in relation to bullion. Previously, revenue on bullion is being recognized upon production. However, under PFRS 15, control transfers to customer upon the actual shipment of bullion, hence revenue is recognized upon this instance. There were some reclassification changes arising from copper concentrate sales that have provisional pricing terms.

Provisionally priced commodity sales
The Group's sale of concentrate to customers contain terms which allow for price adjustments based on the market price at the end of a QP stipulated in the contract – these are referred to as provisionally priced sales. Under previous accounting standards (PAS 18 and PAS 39), provisionally priced sales were considered to contain an embedded derivative, which was required to be separated from the host contract for accounting purposes from the date of shipment. Revenue was initially recognized for these arrangements at the date of holding certificate (which was when the risks and rewards passed) and was based on the most recently determined estimate of metal in concentrate (based on initial assay results) and the average price for five days prior to holding certificate date. Subsequent changes in the fair value of the embedded derivative were recognized in the consolidated statement of comprehensive income each period until the end of the QP, and were presented as part of revenue.

Under PFRS 15, the timing of recognition for this revenue will remain unchanged in that revenue will be recognized when control passes to the customer (which will continue to be the date of shipment) but initial measurement will change as it will be measured at the amount to which the Group expects to be entitled. This will be the estimate of the price expected to be received at the end of the QP, i.e. the forward price. Subsequent changes in the fair value of the embedded derivative will be recognized in the consolidated statement of comprehensive income each period until the end of the QP, and will be presented as part of 'mark-to-market gains (losses) on provisionally priced trade receivables'. It will be the impact of the requirements of PFRS 9 that will lead to a change to the Group's accounting (refer to the PFRS 9 discussion above in this Note). The Group will now present such movements after the date of sale in the consolidated statement of comprehensive income as 'mark-to-market gains/losses on provisionally priced trade receivables'.

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

  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 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. Retrospective application is required.

  The adoption of these amendments did not have any significant impact to the Group's consolidated financial statements.

- 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. Retrospective application of the amendments is not required and is only permitted if this is possible without the use of hindsight.

  The adoption of these amendments did not have any significant impact to the consolidated financial statements.

- Philippine Interpretation based on 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 the date of the transaction for each payment or receipt of advance consideration. Retrospective application of this interpretation is not required.

The Group opted to apply the interpretation prospectively and does not expect significant impact on its consolidated financial statements upon adoption of the interpretation.

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 consolidated financial statements. The Group intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2019

- PFRS 16, *Leases*
  PFRS 16 was issued in January 2016 and it replaces PAS 17, *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease,* SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease.* PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases.* The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

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

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

  PFRS 16, which is effective for annual periods beginning on or after January 1, 2019, requires lessees and lessors to make more extensive disclosures than under PAS 17.

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

- Philippine Interpretation IFRIC 23, *Uncertainty over Income Tax Treatment*
  The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12 and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

  The interpretation specifically addresses the following:

  - Whether an entity considers uncertain tax treatments separately
  - The assumptions an entity makes about the examination of tax treatments by taxation authorities
  - How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
  - How an entity considers changes in facts and circumstances

  An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after January 1, 2019, but certain transition reliefs are available. The Group will apply the interpretation from its effective date.

  The Group is currently assessing the impact of adopting the interpretation

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*
  Under PFRS 9, a debt instrument can be measured at amortized cost or at FVOCI, provided that the contractual cash flows are the SPPI criterion and the instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

  The amendments should be applied retrospectively and are effective from January 1, 2019, with earlier application permitted. These amendments have no impact on the consolidated financial statements of the Group.

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

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

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

  The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss.

  An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in OCI.

  The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after January 1, 2019, with early application permitted. These amendments have no impact on the consolidated financial statements of the Group.

- Amendments to PAS 28, *Long-Term Interests in Associates and Joint Ventures*
  The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in PFRS 9 applies to such long-term interests.

  The amendments also clarified that, in applying PFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying PAS 28, *Investments in Associates and Joint Ventures.*

  The amendments should be applied retrospectively and are effective from January 1, 2019, with early application permitted. Since the Group does not have such long-term interests in its associate and joint venture, the amendments will not have an impact on its consolidated financial statements.

Annual Improvements to PFRSs 2015 - 2017 Cycle

The Annual Improvements to PFRSs (2015-2017 cycle) are effective for annual periods beginning on or after January 1, 2019 and are not expected to have a material impact on the consolidated financial statements. They include:

- PFRS 3, *Business Combinations*
  The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

  An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted. These amendments will apply on future business combinations of the Group.

- Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*

  The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, OCI or equity according to where the entity originally recognized those past transactions or events.

  An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application is permitted. These amendments are not relevant to the Group because dividends declared by the Parent Company do not give rise to tax obligations under the current tax laws.

- Amendments to PAS 23, Borrowing Costs, Borrowing Costs Eligible for Capitalization

  The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted.

Since the Group's current practice is in line with these amendments, the Group does not expect any effect on its consolidated financial statements upon adoption.

Effective beginning on or after January 1, 2020

- Amendments to PFRS 3, *Definition of a Business*

  The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

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

  These amendments will apply on future business combinations of the Group.

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

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

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

Effective beginning on or after January 1, 2021

- PFRS 17, *Insurance Contracts*

  PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts.* This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

  The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

  - A specific adaptation for contracts with direct participation features (the variable fee approach)
  - A simplified approach (the premium allocation approach) mainly for short-duration contracts

  PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted.

  This standard is not applicable to the Group.

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.

Current versus Noncurrent Classification
The Group presents assets and liabilities in the consolidated statement of financial position based on current or noncurrent classification. An asset as current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purposes of trading
- Expected to be realized within 12 months after the reporting period or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period

All other assets are classified as noncurrent.

A liability is current when:
- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within 12 months after the reporting period or
- There is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period

The Group classifies all other liabilities as noncurrent.

Deferred tax assets and liabilities are classified as noncurrent assets and liabilities.

Cash
Cash includes cash on hand and with banks. Cash with banks is stated at face value and earns interest at respective bank deposit rates.

Financial Instruments – Initial Recognition and Subsequent Measurement (prior to adoption of PFRS 9)
Financial instruments are recognized 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 marketplace are recognized on the trade date.

Initial Recognition and Classification of Financial Instruments
Financial instruments are recognized initially at fair value. The initial measurement of financial instruments, except for those designated at FVPL, includes transaction cost.

On initial recognition, the Group classifies its financial assets in the following categories: financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments, and AFS financial assets. The classification depends on the purpose for which the investments are acquired and whether they are quoted in an active market.

Financial liabilities, on the other hand, are classified into the following categories: financial liabilities at FVPL and other financial liabilities, as appropriate. Management determines the classification of its financial assets and financial liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

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

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

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 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 “Fair value reserve of 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 “Fair value reserve of 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, 2017

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 consolidated statement of comprehensive income 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 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.

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 assets'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 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 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 consolidated statement of comprehensive income. Impairment losses on equity investments are not reversed through statement of comprehensive income; 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.

Derecognition of Financial Assets and Financial Liabilities

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 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.

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

Financial instruments are recognized when the Group becomes a party to the contractual provisions of the instrument.

Initial recognition and measurement

Financial assets are classified, at initial recognition, and subsequently measured at amortized cost, FVOCI and FVPL.

The classification of financial assets at initial recognition depends on the financial asset’s contractual cash flow characteristics and the Group’s business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under PFRS 15.

In order for a financial asset to be classified and measured at amortized cost or FVOCI, it needs to give rise to cash flows that are SPPI on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

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

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

Subsequent measurement
For purposes of subsequent measurement, financial assets are classified in four categories:
- Financial assets at amortized cost (debt instruments)
- FVOCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at FVOCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at FVPL

Financial assets at amortized cost
The Group measures financial assets at amortized cost if both of the following conditions are met:
- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the (EIR) method and are subject to impairment. Gains and losses are recognized in the consolidated statement of comprehensive income when the asset is derecognized, modified or impaired.

The Group's financial assets at amortized cost include trade receivables (not subject to provisional pricing), nontrade receivables and advances to officers and employees.

Financial assets at FVPL
Financial assets at FVPL include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not SPPI are classified and measured at FVPL, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at FVOCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at FVPL are carried in the consolidated statement of financial position at fair value with net changes in fair value recognized in profit or loss in the consolidated statement of comprehensive income.

A derivative embedded in a hybrid contract with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a 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 the FVPL loss category.

As PFRS 9 now has the SPPI test for financial assets, the requirements relating to the separation of embedded derivatives is no longer needed for financial assets. An embedded derivative will often make a financial asset fail the solely for payments of principal and interest test thereby requiring the instrument to be measured at FVPL in its entirety. This is applicable to the Group's trade receivables subject to provisional pricing. These receivables relate to sales contracts where the selling price is determined after delivery to the customer, based on the market price at the relevant QP stipulated in the contract. This exposure to the commodity price causes such trade receivables to fail the SPPI test. As a result, these receivables are measured at FVPL or loss from the date of recognition of the corresponding sale, with subsequent movements being recognized in mark-to-market gains (losses) in the consolidated statement of comprehensive income.

Financial assets at FVOCI
Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at FVOCI when they meet the definition of equity under PAS 32, *Financial Instruments: Presentation,* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as other income in the consolidated statement of comprehensive income when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at FVOCI are not subject to impairment assessment.

The Group elected to classify irrevocably its non-listed equity investments under this category

Derecognition
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the consolidated statement of financial position) when:

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a passthrough arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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.

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

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

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

For cash, the Group applies the low credit risk simplification. At every reporting date, the Group evaluates whether the debt instrument is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the internal credit rating of the debt instrument. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

For trade receivables (not subject to provisional pricing) and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows and usually occurs when past due for more than one year and not subject to enforcement activity.

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

Financial Liabilities
Initial recognition and measurement
Financial liabilities are classified, at initial recognition, as financial liabilities at FVPL, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

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

The Group's financial liabilities include payables and loans and borrowings.

Subsequent measurement
Payables and loans and borrowings
After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in the profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the consolidated statements comprehensive income.

This category generally applies to trade and other payables and borrowings and other interest-bearing liabilities.

Derecognition
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. 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 the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the consolidated statement of comprehensive income.

Reclassifications of financial instruments
The Group reclassifies its financial assets when, and only when, there is a change in the business model for managing the financial assets. Reclassifications shall be applied prospectively by the Group and any previously recognized gains, losses or interest shall not be restated. The Group does not reclassify its financial liabilities.

The Group does not reclassify its financial assets when:
- A financial asset that was previously a designated and effective hedging instrument in a cash flow hedge or net investment hedge no longer qualifies as such;
- A financial asset becomes a designated and effective hedging instrument in a cash flow hedge or net investment hedge; and
- There is a change in measurement on credit exposures measured at fair value through profit or loss.

Financial liabilities
A financial liability is derecognized when the obligation under the liability has expired, or is discharged or has cancelled. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement 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. The Group assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Group and all of the counterparties.

Fair Value Measurement
Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed, are summarized in the following notes:

- Significant estimates and assumptions — Note 3
- Financial assets at FVOCI — Note 10
- Financial instruments — Note 32

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

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

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

All assets and liabilities for which fair value is measured or disclosed in the financial 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 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

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.

<u>Business Segment</u>
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 34.

<u>Inventories</u>
Mine products inventory, which consist of copper concentrates containing copper, gold and silver, are stated lower of cost or net realizable value (NRV). Parts and supplies are valued at the lower of cost and NRV.

NRV for mine products inventory is the selling price in the ordinary course of business, less the estimated costs of completion and estimated costs necessary to make the sale. In the case of parts and supplies, NRV is the value of the inventories when sold at their condition at the consolidated statements of financial position date. In determining the NRV, the Group considers any adjustments necessary for obsolescence. Provision for obsolescence is determined by reference to specific items of stock.

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

<u>Advances to Suppliers and Contractors</u>
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.

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

Input VAT
Expenses and assets are recognized, net of the amount of VAT, except:

- When the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable
- When receivables and payables are stated with the amount of VAT included.

The net amount of VAT recoverable from, or payable, to the taxation authority is included as part of receivables or payables in the consolidated statement of financial position.

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 goods exceeding P1,000,000 is subject to amortization and any excess may be utilized against output VAT, if any, beyond 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 "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	
	2018	2017
MMC	**19.60%**	19.60%
DMTC	**25.44%**	25.44%

The financial statements of the associates are prepared for the same financial reporting period of the Group. 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.

Property, Plant and Equipment

Property, plant and equipment, except land, are carried at cost less accumulated depletion, depreciation, amortization, 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 mining 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 property plant and equipment. 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, amortization, and depreciation, and accumulated impairment in value are removed from the accounts. Gains and losses on disposals are determined by comparing the disposal 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 to 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 assets 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.

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 5 years.

Impairment of Nonfinancial Assets

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 cash-generating unit (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 six 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 costs of disposal 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 consolidated statement of comprehensive 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 and Advances to 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 statement of comprehensive income. Recoverable amount is determined as the higher between fair value less cost of disposal 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.

<u>Provisions</u>
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 consolidated 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 Philippine Accounting Standards (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 consolidated statement of comprehensive income.

If the change in estimate results in an increase in the liability for mine rehabilitation cost 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 consolidated statement of comprehensive income as part of finance costs.

For closed sites, changes to estimated costs are recognized immediately in the consolidated statement of 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.

<u>Stock Subscriptions Payable</u>
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.

<u>Revenue Recognition</u>
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
Sale of bullion (i.e., Gold, Silver)
Income from the sale of 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.

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 QP less applicable smelting and treatment charges.

Sale of copper concentrate
Income from the sale of copper concentrate is recognized upon shipment. Net revenue is measured based on shipment value price based on quoted metal prices in the London Market Exchange, weight and assay content, less smelting and treatment charges. Contract terms for the Group’s sale of copper concentrate allow for a price adjustment based on final assay results of the metal in concentrate by the customer to determine the content.

Provisional shipment up to 100% of total value for copper concentrate based on provisional prices is collected upon shipment, while the final shipment value is collected upon the determination of the final weight and assay for metal content and prices during the applicable QP less applicable smelting and treatment charges.

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 and six months.

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

Trade receivables
A receivable represents the Group’s right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

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 income and expenses which are not directly related to the Group's regular results of operations. These include interest income, rental income, gain (loss) on disposal of assets, gain or loss from deconsolidated subsidiaries, 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 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 noncurrent liabilities.

Deficit
Deficit represents accumulated losses of the Group. A "deficit" is not an asset but a deduction from equity.

Other Comprehensive Income
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 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, 2018 and 2017.

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 statement 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 urtailment 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 gain (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 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 Transactions

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 consolidated 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 taxation 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 Tax

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

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

Deferred tax assets are recognized for all deductible temporary differences, 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 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 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 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 tax asset to be utilized. Unrecognized deferred 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 tax asset to be recovered.

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

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current tax liabilities and the deferred 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 consolidated financial statements in the period in which the dividends are approved or declared by the Parent Company'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 consolidated 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 to the consolidated financial statements.

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.

<u>Judgments</u>
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.

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 ₱6,683,763 and ₱6,620,301 as at December 31, 2018 and 2017, respectively (see Note 12).

Assessing 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 ₱6,683,763 and ₱6,620,301 as at December 31, 2018 and 2017, respectively (see Note 12).

As at December 31, 2018 and 2017, mine exploration costs transferred to mine and mining properties amounted to ₱272,604 and ₱261,530, respectively. (see Note 12).

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, its interchange of managerial personnel with the associate, and material transactions between the Group and its investee, among others.

As at December 31, 2018 and 2017, the Group assessed that it has significant influence over DMTC and MMC and has accounted for the investment as an associate (see Note 11).

Assessing Recoverability of Deferred Tax Assets
The Group reviews the carrying amounts of deferred 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 ₱246,829 and ₱378,020 as at December 31, 2018 and 2017, respectively (see Note 18). No deferred income tax assets were recognized for temporary differences amounting to ₱2,043,588 and ₱1,757,951 as at December 31, 2018 and 2017, 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).

Assessing the business models of financial assets
The Group manages its financial assets based on a business model that maintains adequate level of financial assets to match expected cash outflows.

The Group's business model can be to hold financial assets to collect contractual cash flows even when sales of certain financial assets occur.

Determining stage of impairment
At each reporting date, the Group assesses whether there has been a significant increase in credit risk for financial assets since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The Group considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and forward-looking analysis. Quantitative criteria may include downgrade in investment grade, defaulted assets, counterparties with objective evidence of impairment. A significant increase in credit risk is also presumed if a debtor is more than 90 days past due in making a contractual payment. Qualitative criteria may include significant adverse changes in business, financial or economic conditions in which the counterparty operates, actual or expected restructuring.

Exposures that have not deteriorated significantly since origination, or where the deterioration remains within the Group's investment grade criteria are considered to have a low credit risk. The provision for credit losses for these financial assets is based on a 12-month ECL.

An exposure will migrate through the ECL stages as asset quality deteriorates. If, in a subsequent period, asset quality improves and also reverses any previously assessed significant increase in credit risk since origination, then the loss allowance measurement reverts from lifetime ECL to 12-months ECL.

The Group has determined that its credit risk on its financial instruments has not significantly increased since origination as of December 31, 2018.

Significant increase in credit risk
In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, information obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organizations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor; or
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if

i) the financial instrument has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a financial asset to have low credit risk when it has an internal or external credit rating of "investment grade" as per globally understood definition.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

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.

Revenue Recognition
The Parent Company recognizes revenue from sale of bullion and concentrate at the time these are produced and shipped to buyer smelters, respectively. Revenue is measured based on shipment value based on quoted metal prices in the London Bullion Market and London Market Exchange or Shanghai Gold Exchange, and weight and assay for metal content net of smelting and treatment charges. Provisional shipment values up to 98% bullion and up to 100% concentrate 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 QP less deduction for smelting and treatment charges. Total recognized revenue relating to sale of metals amounted to ₱2,081,563, ₱1,558,191 and ₱1,431,928, net of smelting and treatment charges of ₱152,756, ₱68,474 and ₱3,882, in 2018, 2017 and 2016, respectively (see Note 29).

Estimates and Assumptions
The 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 consolidated financial statements. Actual results could differ from such estimates.

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 ₱7,495,316 and ₱7,423,277 as at December 31, 2018 and 2017, 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 ₱1,074,068 and ₱950,507 as at December 31, 2018 and 2017, respectively.

Estimating Ore Reserves
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, 2018 and 2017, mine and mining properties presented under property, plant and equipment amounted to ₱5,946,027 and ₱5,972,055, respectively (see Note 9).

Estimating Allowances for Impairment Losses on Receivables (prior to adoption of PFRS 9)
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 allowance for impairment losses, amounted to ₱88,973 as at December 31, 2017 (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 for inventory 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 ₱585,871 and ₱536,844 as at December 31, 2018 and 2017, respectively (see Note 6).

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 ₱565,214 and ₱567,912 as at December 31, 2018 and 2017, 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 ₱197,931 as at December 31, 2017, respectively (see Note 10).

<u>Estimates (upon adoption of PFRS 9)</u>
Provision for ECL for Cash, Trade Receivables (not subject to provisional pricing), Non-trade Receivables and Contract Asset
The Group uses a provision matrix to calculate ECLs for trade receivables not subject to provisional pricing. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (e.g., by geography, product type, customer type and/or rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions are expected to deteriorate over the next year, which can lead to an increased number of defaults, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

The Group measures its ECL on cash, non-trade receivables and contract asset in a way that reflects an unbiased and probability-weighted amount determined by evaluating a range of possible outcomes and the time value of money. In measuring ECL, the Group consider whether there is a significant increase in credit risk. The Group uses an ECL model that considers the Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD). In estimating the ECL, the Group uses all available information in measuring ECL, such as available credit rating of the instruments and the debtor, default assessment on the debtor, and history of experience with the debtor. A forward-looking information, such as interest rate, inflation rate and changes in the gross domestic product, is incorporated and its relationship with the credit loss is analyzed at each reporting date.

The correlation of forecast economic conditions and ECL is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's forecast of economic conditions may also not be representative of the debtor's actual default in the future.

For cash, the Group assessed that these financial instruments have low credit risk. As such, expected loss is measured on a 12-month ECL.

Inputs, assumptions and estimation techniques
The ECL is measured on either a 12-month or lifetime basis depending on whether there is a significant increase in credit risk or whether an asset is considered to be credit-impaired. The ECL model considers the PD, LGD, and EAD, defined as follows:

- *Probability of default*
  The PD represents the likelihood of a customer defaulting on its financial obligation, either over the next 12 months, or over the remaining life of the obligation. PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

  The 12-months and lifetime PD represent the expected point-in-time probability of a default over the next 12 months and remaining lifetime of the financial instrument, respectively, based on conditions existing at the balance sheet date and future economic conditions that affect credit risk.

- *Loss given default*
  Loss Given Default represents the Group's expectation of the extent of loss on a defaulted exposure, taking into account the mitigating effect of collateral, its expected value when realized and the time value of money. LGD varies by type of counterparty, type of seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

- *Exposure at default*
  EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months or over the remaining lifetime. For example, for a revolving commitment, the Group includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.

The ECL is determined by projecting the PD, LGD, and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original EIR or an approximation thereof.

The lifetime PD is developed by applying a maturity profile to the current 12-month PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

The 12-month and lifetime EADs are determined based on the contractual repayments owed by the customer. Early repayment/refinance assumptions, when allowed, are also incorporated into the calculation.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

Incorporation of forward-looking information
The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Group has identified and documented key drivers of credit risk and credit losses of each financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables identified and credit risk and credit losses. Predicted relationship between the key indicators and default and loss rates on financial assets have been developed based on analyzing historical data.

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, 2018 and 2017, the retirement benefits liability of the Group amounted to ₱1,104,764 and ₱1,530,973, respectively. Net retirement costs amounted to ₱142,665, ₱135,791 and ₱136,857 in 2018, 2017 and 2016, 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, 2018 and 2017, liability for mine rehabilitation cost amounted to ₱101,383 and ₱102,690, 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 statement of comprehensive income.

The carrying values and corresponding fair values of financial assets and financial liabilities as well as the manner in which fair values were determined are discussed (see Note 32).

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 31).

4. Cash

	2018	2017
Cash on hand	₱ **2,781**	₱ 3,169
Cash with banks	**120,816**	262,948
	₱ **123,597**	₱ 266,117

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

Interest income earned from cash with banks amounted to ₱274, ₱277 and ₱110 in 2018, 2017 and 2016, respectively.

The Group has United States dollar (US$)-denominated cash with banks amounting to US$1,914 and US$1,975 as at December 31, 2018 and 2017, respectively (see Note 32).

5. Receivables

	2018	2017
Trade	₱ **51,519**	₱ 33,612
Nontrade	**3,931**	64,196
Officers and employees	**1,647**	5,899
	57,097	103,707
Less allowance for impairment losses	**14,809**	14,734
	₱ **42,288**	₱ 88,973

Trade receivables include the Parent Company's receivables arising from its shipments of gold, silver, and concentrate to refinery and smelter customer under the Refining Agreements (RA; see Note 31) and receivables from third party customers for drilling, hauling and rental services.

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 noninterest-bearing and are generally collectible on demand.

Most of the receivables of the Group in 2017 consist of individually significant accounts and were therefore subject to the specific impairment approach. The Group recognized allowance for impairment losses amounting to ₱14,734 as at December 31, 2017, 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 in 2017.

Provision for expected credit losses on receivables amounting to ₱86, nil and ₱5,359 were recognized by the Group in 2018, 2017 and 2016, respectively (see Note 24).

Movements of allowance for credit losses are as follows:

	2018	2017
Balance at beginning of year		
Trade	₱ **14,216**	₱ 15,622
Nontrade	**518**	517
Provision (Note 24)	**86**	–
Reversals	**(11)**	–
Effect of deconsolidation of a subsidiary (Note 30)	–	(1,405)
Balance at end of year	₱ **14,809**	₱ 14,734

The Group has US$-denominated trade receivables amounting to US$480 and US$242 as at December 31, 2018 and 2017, respectively (see Note 32).

Contract asset
Contract asset pertains to unbilled charges to MMC for drilling services rendered during 2018. There were no contract asset recognized as at January 1, 2018.

6. Inventories

	2018	2017
Parts and supplies at NRV	₱ **514,466**	₱ 465,389
Mine products at NRV	**71,405**	71,455
	₱ **585,871**	₱ 536,844

Parts and supplies on hand include materials and supplies stored in Metro Manila, Bulacan, Mankayan and Leyte. Cost of parts and supplies on hand amounted to ₱627,342 and ₱578,315 as at December 31, 2018 and 2017, respectively.

Mine products inventory include copper concentrates stored in a concentrate bodega owned by SSI located compound in Poro, San Fernando City, La Union. Cost of mine products amounted to ₱81,561 and ₱74,265 as at December 31, 2018 and 2017, respectively.

Movements in allowance for inventory obsolescence on parts and supplies on hand as at December 31, 2018 and 2017 are as follows:

	2018	2017
Balance at beginning of year	₱ **41,471**	₱ 47,331
Provision (Note 22)	–	4
Reversals	–	(1,630)
Effect of deconsolidation of a subsidiary (Note 30)	–	(4,234)
Balance at end of year	₱ **41,471**	₱ 41,471

Parts and supplies inventories charged to profit and loss under "Consumables and supplies" account amounted to ₱560,708, ₱370,608 and ₱325,662 in 2018, 2017 and 2016, respectively (see Notes 22, 23 and 24).

7. Advances to Suppliers and Contractors

As at December 31, 2018 and 2017, the Group has advances to suppliers and contractors amounting to ₱206,033 and ₱154,816, respectively. These advances will be offset against future billings. 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.

8. Other Current Assets

	2018	2017
Input Vat	₱ **743,137**	₱ 674,547
Prepaid expenses	**25,973**	24,374
Deferred costs	**10,282**	10,914
Rental deposits	**921**	1,653
	₱ **780,313**	₱ 711,488

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 represents 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 is amortized based on meters drilled.

Rental deposits are refundable at the end of the lease term.

9. Property, Plant and Equipment

	2018					
	Mine and mining properties	**Buildings and improve ments**	**Plant, machinery, equipment, and office furniture and fixtures**	**Land**	**Construction in-progress**	**Total**
Cost:						
Balances at beginning of year	**₱11,300,951**	**₱ 482,029**	**₱ 3,191,005**	**₱ 713,469**	**₱ 219,225**	**₱15,906,679**
Additions	**234,549**	**69,501**	**123,180**	**-**	**170,563**	**597,793**
Transfers	**35,548**	**-**	**127,271**	**-**	**(162,819)**	**-**
Capitalized cost of mine and mining properties	**272,604**	**-**	**-**	**-**	**-**	**272,604**
Adjustment to capitalized cost of mine rehabilitation and decommissioning (Note 15)	**(7,161)**	**-**	**-**	**-**	**-**	**(7,161)**
Retirements disposals	**-**	**-**	**(95,538)**	**-**	**-**	**(95,538)**
Balances at end of year	**11,836,491**	**551,530**	**3,345,918**	**713,469**	**226,969**	**16,674,377**
Accumulated depletion, depreciation and amortization:						
Balances at beginning of year	**5,328,896**	**370,283**	**2,760,291**	**-**	**-**	**8,459,470**
Depletion, depreciation and amortization	**561,568**	**27,585**	**192,821**	**-**	**-**	**781,974**
Retirements and disposals	**-**	**-**	**(86,315)**	**-**	**-**	**(86,315)**
Balances at end of year	**5,890,464**	**397,868**	**2,866,797**	**-**	**-**	**9,155,129**
Allowance for impairment:						
Balances at beginning and end of year	**-**	**19,241**	**4,691**	**-**	**-**	**23,932**
Net book values	**₱ 5,946,027**	**₱ 134,421**	**₱ 474,430**	**₱ 713,469**	**₱ 226,969**	**₱ 7,495,316**

	2017					
	Mine and mining properties	Buildings and improve ments	Plant, machinery, equipment, and office furniture and fixtures	Land	Construction in-progress	Total
Cost:						
Balances at beginning of year	₱ 10,672,686	₱ 572,871	₱ 3,249,876	₱ 713,469	₱ 39,478	₱15,248,380
Additions	308,849	25,174	64,150	-	306,714	704,887
Transfers	22,941	-	104,026	-	(126,967)	-
Capitalized cost of mine and mining properties	261,530	-	-	-	-	261,530
Adjustment to capitalized cost of mine rehabilitation and decommissioning (Note 15)	34,945	-	-	-	-	34,945
Retirements/disposals	-	(112,793)	(215,809)	-	-	(328,602)
Effect of Deconsolidating a subsidiary (Note 30)		(3,223)	(11,238)			(14,461)
Balances at end of year	11,300,951	482,029	3,191,005	713,469	219,225	15,906,679
Accumulated depletion, depreciation and amortization:						
Balances at beginning of year	4,773,667	456,701	2,798,261	-	-	8,028,629
Depletion, depreciation and amortization	555,229	28,468	188,342	-	-	772,039
Retirement and disposals	-	(112,793)	(215,526)	-		(328,319)
Reclassification/Transfer		747	(747)			
Effect of Deconsolidating a subsidiary (Note 30)	-	(2,840)	(10,039)	-	-	(12,879)
Balances at end of year	5,328,896	370,283	2,760,291	-	-	8,459,470
Allowance for impairment:						
Balances at beginning and end of year	-	19,241	4,691	-	-	23,932
Net book values	₱ 5,972,055	₱ 92,505	₱ 426,023	₱ 713,426	₱ 219,225	₱ 7,423,277

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 31).

Mine and mining properties include provision for mine rehabilitation and decommissioning amounting to ₱60,836 and ₱65,543 as at December 31, 2018 and 2017, respectively. The rates used by the Parent Company in computing depletion are ₱2,464, ₱2,193 and ₱1,967 per ton in 2018, 2017 and 2016, respectively, as a result of the costs capitalized under “Mine and mining properties” for the development of the Victoria and Quartz Pyrite Gold (QPG) Project.

Certain drilling equipment under “Plant, machinery and equipment and office furniture and fixtures” were used as collateral for the Group’s short-term and long-term loans with a local bank (see Note 14).

Construction in-progress pertains to various mining operations requirements that undergo in-house constructions and fabrications in Mankayan. As at December 31, 2018 and 2017, the Group transferred construction in-progress amounting to ₱162,819 and ₱126,967, respectively, to mine and mining properties, and plant, machinery, equipment, office furniture and fixtures.

10. Financial assets designated at FVOCI and AFS Financial Assets

As at December 31, 2018, the financial assets designated at FVOCI consists of investments in:

Quoted equity shares	**₱ 81,666**
Unquoted equity shares	**130,285**
	₱ 211,951

As at December 31, 2017, AFS financial assets of the Group consists of the investments in:

Quoted equity shares	**₱ 67,247**
Unquoted equity shares	**130,684**
	₱ 197,931

The following table shows the movement fair value reserves for financial assets designated at FVOCI and AFS financial assets shown as a separate component of equity.

	2018	2017
Balance at beginning of year	**₱ 47,856**	₱ 38,665
Unrealized gains on AFS financial assets during the year	**-**	9,191
Changes in fair values of financial assets designated at FVOCI	**13,432**	-
Balance at end of year	**₱ 61,288**	₱ 47,856

Investments in quoted equity shares pertain to investment in common shares of various local public companies and golf club shares.

Investments assets in unquoted equity shares pertain to investments in private local companies and therefore have no fixed maturity date or coupon rate.

Dividend income earned by the Group amounted to nil in 2018, 2017 and 2016.

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. (POPI) 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, 2018, the Group has no intention to dispose its unquoted equity shares. The aggregate cost of these investments amounted to ₱130,285 and ₱130,684 as at December 31, 2018 and 2017, respectively.

11. Investments in and Advances to Associates

2018		**DMTC**		**MMC**		**Total**
Acquisition cost:						
Balances at beginning and end of year	**₱**	**11,800**	**₱**	**518,426**	**₱**	**530,226**
Accumulated equity:						
Share in net earnings (loss):						
Balances at beginning of year		**-**		**34,863**		**34,863**
Equity loss		**93**		**(2,197)**		**(2,104)**
Actuarial gain on retirement obligation		**(12)**		**224**		**224**
Unrealized loss on financial assets designated at FVOCI		**-**		**(595)**		**(595)**
Balances at the end of year		**81**		**32,295**		**32,376**
Investments in associates		**11,881**		**550,721**		**562,602**
Advances to associate (Note 17)		**-**		**2,612**		**2,612**
	₱	**11,881**	**₱**	**553,333**	**₱**	**565,214**

2017		DMTC		MMC		Total
Acquisition cost:						
Balance at beginning and end of year	₱	11,800	₱	518,426	₱	530,226
Accumulated equity:						
Share in net earnings (loss):						40,539
Balance at beginning of year		-		40,539		40,539
Equity loss		(171)		(5,136)		(5,307)
Actuarial gain on retirement obligation		171		146		317
Unrealized loss on AFS financial assets		-		(687)		(687)
Balance at the end of year		-		34,862		34,862
Investments in associate		11,800		553,288		565,088
Advances to associate (Note 17)		-		2,824		2,824
	₱	11,800	₱	556,112	₱	567,912

Investment in MMC

The Group effectively has 19.60% ownership in MMC in 2018 and 2017. Thus, the Group assessed that it still has significant influence over MMC due to the following:

(a) The Group has four out of nine board seats and three out of nine representations; and
(b) The Group has at least 10 executive officers and three managerial personnel serving as part of MMC's corporate management.

As at December 31, 2018, the fair value per share of MMC shares A and B amounted to ₱0.007 and ₱0.0065, respectively. As at December 31, 2017, the fair value per share of MMC shares A and B amounted to ₱0.009 and P0.010. Fair market value of the investment in MMC amounted to ₱351,858 and ₱92,667 as at December 31, 2018 and 2017, respectively.

Investment in DMTC

On January 11, 2017, the DMTC BOD approved the decrease of par value from ₱100 per share to ₱30 per share of its 360,000 authorized capital stock. On the same date, DMTC increased its authorized capital stock from 360,000 to 4,000,000 shares.

On August 11, 2017, the Philippine SEC approved the decrease in par value and increase in authorized capital stock of DMTC.

During 2017, DMTC entered into a subscription agreement with Caliper Corporation; whereby the latter will acquire 910,000 shares of the former. The ownership percentage of the Group decreased from 100% to 25% due to dilution of ownership interest. The Group assessed that it still has significant influence over DMTC due to the following:

(a) The Group has ownership interest of 25% over its outstanding capital shares; and
(b) The Group, through DDCP, has at least ₱16.5 million or 16.65% contribution in the revenue of the Company.

The Group measures the investments under the equity method and prepares financial statements for the same financial reporting period as the Group.

The following table illustrates summarized financial information of the Group's investments in associates:

2018	**DMTC**	**MMC**	**Total**
Assets:			
Current Assets	**₱ 31,459**	**₱ 93,839**	**₱ 125,298**
Noncurrent Assets	**3,608**	**3,057,356**	**3,060,964**
Total Assets	**35,067**	**3,151,195**	**3,186,262**
Liabilities:			
Current Liabilities	**8,947**	**140,646**	**149,593**
Noncurrent Liabilities	**6,078**	**69,907**	**75,985**
Total Liabilities	**15,025**	**210,553**	**225,578**
Net Assets	**₱ 20,042**	**₱ 2,940,642**	**₱ 2,960,684**
Net Income (Loss)	**₱ 365**	**(₱ 11,207)**	**(₱ 10,842)**

2017	DMTC	MMC	Total
Assets:			
Current Assets	₱ 34,754	₱ 161,650	₱ 196,404
Noncurrent Assets	3,791	2,998,871	3,002,662
Total Assets	38,545	3,160,521	3,199,066
Liabilities:			
Current Liabilities	11,898	137,186	149,084
Noncurrent Liabilities	6,237	69,872	76,109
Total Liabilities	18,135	207,058	225,193
Net Assets	₱ 20,410	₱ 2,953,463	₱ 2,973,873
Net Loss	(₱ 671)	(₱ 26,203)	(₱ 26,874)

**DMTC net loss for the 4-month period ending December 31, 2017.*

12. Mine Exploration Costs

	2018	2017
Balance at beginning of year	**₱ 6,620,301**	₱ 6,302,261
Additions	**336,066**	579,570
	6,956,367	6,881,831
Transferred to mine and mining properties	**(272,604)**	(261,530)
Balance at end of year	**₱ 6,683,763**	₱ 6,620,301

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 31).

Depreciation expense capitalized as part of mine exploration costs in 2018 and 2017 amounted to ₱17,315 and ₱20,464, respectively.

No allowance for impairment losses on mine exploration costs was recognized in 2018 and 2017.

13. Trade and Other Payables

	2018	2017
Trade	**₱ 783,148**	₱ 674,606
Accrued expenses and other liabilities	**367,819**	273,277
Employee related expenses	**44,088**	38,174
Unclaimed dividends	**26,693**	26,695
Payable to regulatory authorities	**26,490**	21,154
Trust receipts	**24,544**	20,237
Accrued production tax	**23,119**	9,147
Accrued utilities	**27,288**	1,017
Provision for interest expenses	**2,802**	-
Due to related parties (Note 17)	**56,084**	198,805
	₱ 1,382,075	₱ 1,263,112

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.
- 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.
- 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.
- 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.
- 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.
- 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 ₱8,646, P5,195 and ₱22,528 in 2018, 2017 and 2016, respectively (see Note 27).

The Group has US$-denominated trade and other payables amounting to US$339 and US$1,849 as at December 31, 2018 and 2017, respectively. The Group has Australian dollar (AU$)-denominated trade and other payables amounting to nil and AU$1 as at December 31, 2018 and 2017, respectively (see Note 32).

14. Short-term and Long-term Debt and other Interest-bearing Liabilities

	2018	2017
Gold Delivery Agreement (US$1,000 in 2018 and 2017)	**₱ 52,580**	₱ 49,930
Obtained from Local Banks:		
Peso-denominated loans	**195,677**	268,370
US$-denominated loans	**8,451**	25,788
Total borrowings	**256,708**	344,088
Less current portion/short term-borrowings	**242,541**	213,607
	₱ 14,167	₱ 130,481

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 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 Gold Delivery Agreement (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. The due date has been extended again to 2019. As at December 31, 2017 and 2016, the remaining obligation owing to Statham under the GDA amounting to US$1,000 is payable on December 31, 2019.

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. Trial of the case was completed by the RTC in 2017. In a decision dated February 5, 2018, the RTC ruled in favor of the Parent Company, declaring the forward gold contracts null and void. Defendant Rothschild has filed an appeal with the Court of Appeals.

<u>Bank Loans</u>
Borrowings from a local bank are all clean loans with interest rates ranging from 5.50% to 7.00% in 2018 and 5.00% to 7.00% in 2017.

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. During 2017, the Parent Company settled the full amount of the outstanding loan balance. Total interest on the above mentioned loan for the year 2017 amounted to ₱424 (see Note 27).

In March 1, 2017, DDCP entered into a loan agreement with United Coconut Planters Bank for additional working capital. The proceeds of the loans amounted to ₱20,000. The loan carries interest per annum of 6.5%. This loan is payable in eight (8) equal quarterly installments of ₱2,500. The loan is secured by a chattel mortgage of drilling equipment. The carrying value of the loan amounted to ₱2,500 and ₱10,000 as at December 31, 2018 and 2017, respectively. The interest expense recognized related to this loan amounted to ₱536 and ₱862 in 2018 and 2017, respectively.

In March 30, 2017, the Parent Company entered into an Omnibus Loan agreement amounting to ₱150,000 with United Coconut Planters Bank (UCPB). Maturity date of the said loan is on July 28, 2017. The loan carries interest per annum of 6.50%. The loan is payable in full on maturity date, and is secured by chattel mortgage of drilling equipment which covers 200% of the loan. The loan was rolled over at maturity date after the Parent Company paid ₱12,400 of principal amount, therefore carrying an outstanding balance of ₱137,600. Same terms and conditions apply for the rolled over loan. The new maturity date of the loan is November 24, 2017 but was rolled over again during 2017. The carrying value of the loan amounted to ₱106,885 and ₱25,290 as at December 31, 2018 and 2017, respectively. Total interest incurred related to the said loan in 2018 and 2017 amounted to ₱7,785 and ₱6,870, respectively (see Note 27).

In July 31, 2017, the Parent Company entered into an agreement with Philippine Bank of Communications (PBCOM) to restructure its outstanding trust receipts into long-term bank loans. The outstanding balance of Peso and USD trust receipts on the date of restructuring amounted to ₱3,080 and ₱25,788, respectively, as ate December 31, 2017. The Peso and USD loans bear interest at 7.00% and 5.50%, respectively, and are due on April 18, 2019. The carrying values of the Peso and USD loan amounted to ₱1,292 and P8,457, respectively and ₱3,080 and ₱25,788, as at December 31, 2018 and 2017, respectively. Total interest incurred amounted to ₱196 and ₱990 for Peso and USD loans for 2018, respectively, and ₱109 and ₱714 for 2017, respectively (see Note 27).

15. 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:

		2018		
Subsidiaries	**Amount/ Volume**	**Outstanding Balance**	**Terms**	**Conditions**
Receivables				
DDCP	₱ 258,900	₱ 108,630	On demand; non-interest-bearing and collectible in cash	Unsecured, no impairment, not guaranteed
LIDC	389	89,496	On demand; non-interest-bearing and collectible in cash	Unsecured, no impairment, not guaranteed
DMTC	-	2	On demand; non-interest-bearing and collectible in cash	Unsecured, no impairment, not guaranteed
SI	29,872	-	On demand; non-interest-bearing and collectible in cash	Unsecured, no impairment, not guaranteed
Advances				
FSGRI	-	94,140	On demand; non-interest bearing and collectible in cash	Unsecured, no impairment, not guaranteed
Payables				
DDCP	(144,586)	-	On demand; non-interest bearing and collectible in cash	Unsecured, not guaranteed
SI	(38,025)	(151,204)	On demand; non-interest bearing and collectible in cash	Unsecured, not guaranteed
FSGRI	3,502	(4,093)		
Rental				
SI	1,818	-	Non-interest-bearing and normally settled on 30-day term	Unsecured, not guaranteed
Services				
DDCP	147,537	-	Non-interest-bearing and normally settled on 30-day term	Unsecured, not guaranteed
SI	29,923	-	Non-interest-bearing and normally settled on 30-day term	Unsecured, not guaranteed
(Forward) ***Revenue***				
DMTC*	350	-	Non-interest-bearing and normally settled on 30-day term	Unsecured, not guaranteed
Other Expense				
SI	2,012	-	Non-interest-bearing and normally settled on 30-day term	Unsecured, not guaranteed

Subsidiaries	Amount/ Volume	Outstanding Balance	Terms	Conditions
		2017		
Receivables				
DDCP	₱ 272,157	₱ -	On demand; non-interest-bearing and collectible in cash	Unsecured, no impairment, not guaranteed
LIDC	202	89,107	On demand; non-interest-bearing and collectible in cash	Unsecured, no impairment, not guaranteed
FSGRI	5,852	(917)	On demand; non-interest-bearing and collectible in cash	Unsecured, no impairment, not guaranteed
SI	29,772	4,687	On demand; non-interest-bearing and collectible in cash	Unsecured, no impairment, not guaranteed
Advances				
FSGRI	-	94,140	On demand; non-interest-bearing and collectible in cash	Unsecured, no impairment, not guaranteed
Payables				
DDCP	(255,681)	(1,683)	On demand; non-interest bearing and collectible in cash	Unsecured, no impairment, not guaranteed
SI	(21,590)	(143,051)	On demand; non-interest bearing and collectible in cash	Unsecured, no impairment, not guaranteed
Rental				
SI	1,343	-	Non-interest-bearing and normally settled on 30-day term	Unsecured, no impairment, not guaranteed
DMTC*	208	-	Non-interest-bearing and normally settled on 30-day term	Unsecured, no impairment, not guaranteed
Services				
DDCP	260,861	-	Non-interest-bearing and normally settled on 30-day term	Unsecured, not guaranteed
SI	13,019	-	Non-interest-bearing and normally settled on 30-day term	Unsecured, not guaranteed
Sales				
DMTC	12,389	-	Non-interest-bearing and normally settled on 30-day term	Unsecured, no impairment, not guaranteed
Other Expense				
SI	1,308	-	Non-interest-bearing and normally settled on 30-day term	Unsecured, not guaranteed

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, 2018 and 2017 are as follows:

	2018			
	Amount/ Volume	**Outstanding Balance**	**Terms**	**Conditions**
Associate:				
***Receivable*:**				
MMC (Note 11)	**₱ 62,748**	**₱ 2,612**	**Non-interest-bearing and normally settled on 30-day term**	**Unsecured, no impairment, no guarantee**
***Payables*:**				
Stockholders:				
Various (Note 13)	-	**56,084**	**Non-interest-bearing and normally settled in cash on 30-day term**	**Unsecured, no guarantee**

	2017			
	Amount/ Volume	Outstanding Balance	Terms	Conditions
Associate:				
Receivable:				
MMC (Note 12)	₱ 625	₱ 2,824	Non-interest-bearing and normally settled in cash on 30-day term	Unsecured, no impairment, no guarantee
Payables:				
Stockholders:				
Various (Note 13)	-	56,084	Non-interest bearing and normally settled in cash on 30-day term	Unsecured, no guarantee
Rental				
DMTC*	60	-	Non-interest bearing and normally settled on 30-day term	Unsecured, no guarantee
Sales				
DMTC*	2,745	-	Non-interest bearing and normally settled on 30-day term	Unsecured, no guarantee

**For the four-month period from September 1, 2017 to December 31, 2017*

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 ₱295,349 and ₱228,200 as at December 31, 2018 and 2017, respectively (see Note 16).

   The retirement fund consists of cash and cash equivalents, investments in quoted and unquoted equity securities which accounts for 0.93% and 99.00% 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 ₱81,213 and ₱102,837 in 2018 and 2017, respectively (see Note 16).

c. Compensation of key management personnel are as follows:

	2018	2017	2016
Short-term benefits	**₱51,100**	₱51,000	₱49,100
Post-employment benefits	**13,200**	10,100	10,100
	₱64,300	₱61,100	₱59,200

16. Liability for Mine Rehabilitation Cost

	2018	2017
Balance at beginning of year	**₱ 102,690**	₱ 64,748
Effect of change in estimate (Note 9)	**(7,161)**	34,945
	95,529	99,693
Accretion of interest (Note 27)	**5,854**	2,997
Balance at end of year	**₱ 101,383**	₱ 102,690

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 ₱101,383 and ₱102,690 as at December 31, 2018 and 2017, 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 7.04% and 5.70% in 2018 and 2017, respectively.

17. Retirement Plans

The Parent Company has 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:

	2018			2017			2016		
	Funded	**Unfunded**	**Total**	Funded	Unfunded	Total	Funded	Unfunded	Total
Current service cost (Note 25)	**₱ 57,420**	**₱1,522**	**₱ 58,942**	₱ 52,859	₱3,640	₱ 56,499	₱ 57,327	₱ 3,989	₱ 61,316
Interest cost - net (Note 27)	**81,994**	**1,730**	**83,724**	75,568	3,724	79,292	72,304	3,237	75,541
	₱139,414	**₱3,251**	**₱142,666**	₱128,427	₱7,364	₱135,791	₱ 129,631	₱ 7,226	₱ 136,857

The Group has current service costs capitalized to mine exploration costs amounted to ₱915, ₱803 and ₱906 in 2018, 2017 and 2016, respectively. Further, interest costs capitalized to mine exploration costs in 2018, 2017 and 2016 amounted to ₱284, ₱262 and ₱202, respectively.

The amounts of remeasurement gain recognized in the consolidated statements of comprehensive income follow:

	2018	2017	2016
Remeasurement gain on retirement	**₱ 483,729**	₱ 173,286	₱ 148,956
Less deferred tax	**(145,119)**	(51,986)	(44,696)
Remeasurement gain on retirement liability, net of tax	**₱ 338,610**	₱ 121,300	₱ 104,270

The amounts of defined benefit retirement obligation recognized in the consolidated statements of financial position follow:

2018	**Funded** Defined Benefit Liability	Fair Value of Plan Assets	Net Defined Benefit Liability	**Unfunded** Defined Benefit Liability	**Total**
Balances at beginning of year	**₱ 1,692,532**	**₱ 228,200**	**₱ 1,464,332**	**₱ 66,641**	**₱ 1,530,973**
Interest cost/income	**94,613**	**12,619**	**81,994**	**1,730**	**83,724**
Current service cost	**57,420**	**-**	**57,420**	**1,522**	**58,942**
Benefits paid	**(86,262)**	**(86,262)**	**-**	**(3,933)**	**(3,933)**
Actuarial gain/loss:					
Change in demographic assumptions	**(203,062)**	**59,579**	**(262,641)**	**(8,745)**	**(271,386)**
Change in financial assumptions	**(123,683)**	**-**	**(123,683)**	**306**	**(123,377)**
Experience adjustment	**(90,743)**	**-**	**(90,743)**	**1,777**	**(88,966)**
Contributions	**-**	**81,213**	**(81,213)**	**-**	**(81,213)**
Balances at end of year	**₱ 1,340,815**	**₱ 295,349**	**₱ 1,045,466**	**₱ 59,298**	**₱ 1,104,764**

2017	Funded Defined Benefit Liability	Fair Value of Plan Assets	Net Defined Benefit Liability	Unfunded Defined Benefit Liability	Total
Balances at beginning of year	₱ 1,831,679	₱ 227,057	₱ 1,604,622	₱ 78,052	₱ 1,682,674
Interest cost/income	86,304	10,736	75,568	3,724	79,292
Current service cost	52,859	-	52,859	3,640	56,499
Benefits paid	(98,160)	(98,160)	-	(4,831)	(4,831)
Actuarial gain/loss:					
Change in financial assumptions	(171,933)	-	(171,933)	-	(171,933)
Change in demographic assumptions	(144,522)	(14,183)	(130,339)	(4,263)	(134,602)
Experience adjustment	143,382	-	143,382	(9,681)	133,701
Contributions	-	102,837	(102,837)	-	(102,837)
Effect of deconsolidated subsidiary (Note 30)	(7,077)	(87)	(6,990)	-	(6,990)
Balances at end of year	₱ 1,692,532	₱ 228,200	₱ 1,464,332	₱ 66,641	₱ 1,530,973

The Group deconsolidated the beginning balance of DMTC retirement obligation and movement during 2017 of ₱6,990 (see Note 30). 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:

	2018	2017	2016
Cash and cash equivalents	**0.93%**	1.00%	1.14%
Equity investments:			
Quoted	**99.00%**	98.93%	98.79%
Unquoted	**0.07%**	0.07%	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 2018, 2017 and 2016 follow:

	2018	2017	2016
Discount rate	**7.05%**	4.23%	4.23%
Expected rate of return on plan assets	**4.23%**	4.23%	4.23%
Salary increase rate	**2.00%**	3.00%	3.00%
Turnover rate	**Across the board 8% rate**	Across the board 5% rate	Across the board 5% rate
Mortality rate	**1994 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)	2018	2017
Discount rates	+0.25%	(₱1,416,678)	(₱1,816,094)
	-0.25%	1,484,680	1,919,398
Salary increase rate	+1.00%	1,695,612	2,081,543
	-1.00%	(1,493,695)	(361,007)

The average future working years of service covered by the Group's retirement benefit plan ranges from eight (8) to twelve (12) years in 2018 and five (5) to eighteen (18) years in 2017.

Shown below is the maturity analysis of the undiscounted benefit payments as at December 31, 2018

Less than one (1) year	₱ 1,268,370
More than one (1) year to five (5) years	8,918,480
More than five (5) years to ten (10) years	27,113,154
More than ten (10) years to fifteen (15) years	45,646,947
More than fifteen (15) years to twenty (20) years	48,364,819
More than twenty (20) years	231,432,635
	₱362,744,405

The actuarial valuation report was certified by the Actuarial Society of the Philippines on February 28, 2018 as presenting fairly the fair value of plan assets and defined benefit liability as of December 31, 2018.

18. Income Taxes

Current provision for income tax in 2018 pertains to FSGRI's Minimum Corporate Income Tax (MCIT) and DDCP's, DMTC's and SI's Regular Corporate Income Tax (RCIT) amounting to ₱106 and ₱5,187, respectively. Current provision for income tax in 2017 pertains to FSGRI's Minimum Corporate Income Tax (MCIT) and DDCP's, DMTC's and SI's Regular Corporate Income Tax (RCIT) amounting to ₱15 and ₱938, respectively. 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).

The components of the Group's deferred tax assets and liabilities at December 31, 2018 and 2017 follow:

	Deferred Tax Assets - net		**Deferred Tax Liabilities** - net	
	2018	2017	**2018**	2017
Accrual of:				
Retirement benefits liability	**₱ 297,646**	₱ 290,842	**₱ -**	₱ -
Liability for mine rehabilitation cost	**30,415**	19,424	**-**	-
Provisions for:				
Inventory obsolescence	**11,399**	11,398	**312**	312
Impairment losses on property, plant and equipment	**7,180**	7,180	**-**	-
Impairment losses on receivables	**4,307**	4,307	**93**	71
Unrealized foreign exchange losses	**2,848**	4,091	**-**	-
NOLCO	**11,882**	11,882	**-**	-
Recognized directly in other comprehensive income:				
Retirement benefits liability	**-**	118,737	**8,359**	8,860
Deferred income tax assets	**365,677**	467,861	**8,764**	9,243
Revaluation increment on land	**(74,550)**	(74,550)	**(107,600)**	(107,600)
Cost of mine rehabilitation and decommissioning	**(18,251)**	(13,428)	**-**	-
Unrealized foreign exchange gains	**(1,664)**	(1,863)	**(119,044)**	(118,768)
Recognized directly in other comprehensive income:				
Retirement benefits liablity				
Deferred tax liablities	**(24,383)**	-	**-**	-
Net deferred tax assets (liabilities)	**(118,848)**	(89,841)	**(226,644)**	(226,368)
	₱246,829	₱378,020	**(₱217,880)**	(₱217,125)

The Group did not recognize deferred income tax assets on certain NOLCO and excess MCIT over RCIT because management believes that it is more likely than not that the carry forward benefits will not be realized in the near future.

	2018	2017
NOLCO	**₱2,037,391**	₱1,751,121
Excess MCIT over RCIT	**85**	79
Provisions	**6112**	6,751

As at December 31, 2018 and 2017, the Group has NOLCO that can be claimed as deduction from future taxable income and income tax payable and excess MCIT over RCIT that can be claimed as tax credit, respectively, as follows:

Year Incurred	Year of Expiration	NOLCO	Excess MCIT over RCIT
2016	2019	₱ 417,047	₱ 11
2017	2020	761,419	15
2018	2021	898,532	13
		₱2,076,998	₱ 39

Movements of NOLCO and excess MCIT over RCIT for the years ended December 31 follow:

NOLCO	2018	2017
Balances at beginning of year	**₱ 1,751,121**	₱ 1,348,420
Additions	**898,532**	761,419
Expirations	**(572,655)**	(358,718)
Balances at end of year	**₱ 2,076,998**	₱1,751,121

Excess MCIT over RCIT	2018	2017
Balances at beginning of year	**₱ 79**	₱ 64
Additions	**13**	15
Expirations	**53**	-
Balances at end of year	**₱ 39**	₱ 79

The reconciliation of the Group's provision for income tax for the three years ended December 31, 2018 computed at the statutory tax rates to actual provision (benefit) shown in the consolidated statements of comprehensive income follow:

	2018	2017	2016
Tax at statutory income tax rates	**(₱ 236,013)**	(₱ 290,412)	(₱ 222,971)
Additions to (reductions in) income taxes resulting from tax effects of:			
Change in unrecognized deferred tax assets	**210,104**	209,805	128,860
NOLCO Application	**4,078**	-	-
Share in operating results of associates	**631**	1,711	2,026
Nondeductible expenses	**17,961**	59,627	100,298
Interest income subjected to final tax	**(82)**	(82)	(14,565)
Others	**(8,420)**	(77)	(3,317)
Tax at effective income tax rates	**(₱ 11,741)**	(₱ 19,428)	(₱ 9,669)

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.

	2018		2017	
	No. of shares	**Amount**	No. of shares	Amount
Issued				
Class “A”	**39,821,417,656**	**₱3,982,142**	33,419,660,816	₱3,341,966
Class "B"	**26,552,508,993**	**2,655,251**	22,062,395,759	2,206,240
	66,373,926,649	**6,637,393**	55,482,056,575	5,548,206
Subscribed				
Class “A”	**1,451,540**	**145**	6,403,208,380	640,321
Class “B”	**379,908**	**38**	4,490,493,142	449,049
	1,831,448	**183**	10,893,701,522	1,089,370
Total shares issued and subscribed	**66,375,758,097**	**6,637,576**	66,375,758,097	6,637,576
Less subscription receivable		**1,891**		804,190
		₱6,635,685		₱5,833,386

As at December 31, 2018 and 2017, subscriptions receivable amounted to ₱1,891 and ₱804,190, respectively, and 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 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 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 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, 2018 and 2017.

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.

On July 17, 2017, the BOD approved an offer to shareholders, on record as at November 6, 2017, the right to subscribe to one (1) share of common stock for every 4.685 shares held on such record date at the price of P0.15 per share from the Parent Company's unissued capital stock. Proceeds from the offering were/will be utilized for the further exploration and development of the Copper-Gold project and settlement of debts and pension obligations. As at December 31, 2017 the Parent Company's proceeds from the said offering amounted to P118,425.

The Parent Company had 27,835, 27,835, and 27,959 stockholders as at December 31, 2018, 2017 and 2016, 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	2018	2017
FSGRI	Philippines	**40%**	40%

Equity attributable to material NCI:

	2018	2017
FSGRI	**₱ 241,892**	₱ 239,562

Net loss and OCI attributable to material NCI:

	2018	2017
FSGRI	**₱ 2,330**	₱ 18,036

The summarized financial information of this subsidiary is provided below. This information is based on amounts before intercompany eliminations.

	2018	2017
Operating expenses	**(₱ 531)**	(₱ 805)
Other income	**15**	53,281
Finance income	**5,296**	811
Income before income tax	**4,780**	53,287
Benefit from income tax	**(381)**	(8,060)
Net income	**4,399**	45,227
Other comprehensive income	**1,426**	126
Total comprehensive income	**₱ 5,825**	₱ 45,353
Attributable to NCI	**₱ 2,330**	₱ 18,036

Summarized statements of financial position as at December 31:

	2018	2017
Current assets	**₱ 354,831**	₱ 365,758
Noncurrent assets	**6,743,418**	6,697,299
Current liabilities	**(171,996)**	(180,400)
Noncurrent liabilities	**(6,145,279)**	(6,107,508)
Total equity	**₱ 780,974**	₱ 775,149

Attributable to:	2018	2017
Equity holders of the Parent Company	**₱ 539,082**	₱ 535,587
NCI	**241,892**	239,562

Summarized cash flow information for the years ended December 31:

	2018	2017
Operating	**₱ 235,053**	₱ 72,574
Investing	**(299,108)**	(176,298)
Financing	**48,569**	89,384
Effect of exchange rate changes on cash	**756**	10,960
Net decrease in cash	**(₱ 14,730)**	(₱ 3,380)

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, 2018 and 2017. There were no outstanding stock options as of December 31, 2018 and 2017.

	2018	2017	2016
Net loss attributable to equity holders of the Parent Company	**(₱ 782,221)**	(₱ 930,527)	(₱ 740,843)
Weighted average number of common shares for basic loss per share	**63,650,959,130**	54,344,290,383	51,355,248,170
Adjusted weighted average number of common shares for diluted loss per share	**63,650,959,130**	54,344,290,383	51,355,248,170
Basic/Diluted loss per share	**(₱ 0.0123)**	(₱ 0.0171)	(₱ 0.0140)

22. Cost of Sales

	2018	2017	2016
Depletion, depreciation and amortization (Note 9)	**₱ 761,026**	₱ 684,647	₱ 678,998
Consumables and supplies (Note 6)	**522,799**	360,934	287,305
Personnel costs (Note 25)	**408,927**	340,923	374,754
Repairs and maintenance	**278,609**	241,512	138,450
Utilities	**256,311**	215,073	224,038
Production tax	**84,512**	32,384	28,639
Freight and handling charges	**40,171**	42,430	31,893
Contractual services	**30,462**	145,465	50,300
Taxes, duties and licenses	**14,124**	17,245	12,716
Professional fees	**13,953**	9,899	12,645
Insurance expense	**10,961**	10,646	15,490
Transportation and travel	**-**	45	135
Provision for inventory obsolescence (Note 6)	**-**	4	2,554
Others	**3,391**	9,583	18,487
Total	**₱ 2,425,246**	₱ 2,110,790	₱ 1,876,404

23. Cost of Services

	2018	2017	2016
Depreciation and amortization	**₱ 59,769**	₱ 12,007	₱ 14,096
Personnel costs (Note 25)	**32,778**	9,058	24,591
Consumables and supplies (Note 6)	**29,679**	1,914	31,449
Repairs and maintenance	**8,767**	466	444
Utilities	**8,279**	7,930	7,764
Taxes, duties and license fees	**3,740**	2,903	3,211
Professional fees	**1,260**	23,398	25,736
Transportation and travel	**706**	1,895	875
Contractor’s fee	**-**	6,231	-
Others	**4,711**	1,178	5,682
	₱ 149,689	₱ 66,980	₱ 113,848

24. Operating Expenses

		2018		2017		2016
Personnel costs (Note 25)	₱	**95,398**	₱	94,949	₱	100,235
Outside services		**48,609**		35,821		12,659
Taxes, duties and license fees		**21,636**		11,258		12,946
Professional fees		**12,078**		12,053		12,285
Depreciation and amortization		**9,815**		18,318		21,065
Consumables and supplies (Note 6)		**8,230**		7,760		6,908
Transportation and travel		**7,594**		8,627		10,349
Consultancy and directors' fees		**6,331**		3,226		2,994
Security and janitorial fees		**5,365**		4,562		4,227
Utilities		**4,568**		5,217		4,759
Insurance expense		**3,255**		6,362		7,637
Rentals		**2,684**		5,787		7,830
Stockholders' meeting and expenses		**2,262**		4,755		2,177
Bank charges		**2,198**		1,121		1,231
Representation and entertainment		**1,529**		6,595		6,710
Repairs and maintenance		**1,307**		4,002		3,175
Contribution and donation		**55**		531		48
Provision for impairment losses on receivables (Note 5)		**86**		-		5,359
Others		**2,802**		9,305		11,639
	₱	**235,802**	₱	240,249	₱	234,233

25. Personnel Costs

		2018		2017		2016
Cost of sales (Note 22)	₱	**408,927**	₱	340,923	₱	374,754
Cost of services (Note 23)		**32,778**		9,058		24,591
Operating expenses (Note 24)		**95,398**		94,949		100,235
	₱	**537,103**	₱	444,930	₱	499,580

Details of personnel costs follow:

		2018		2017		2016
Salaries and wages	₱	**360,200**	₱	269,262	₱	402,908
Retirement benefits (Note 16)		**58,942**		55,696		60,410
Others		**117,961**		119,972		36,262
	₱	**537,103**	₱	444,930	₱	499,580

26. Supplemental Disclosure to Statements of Cash Flows

Noncash investing activities pertain to additions to FVOCI, AFS financial assets and property plant and equipment.

Investing Activities

	2018	2017
Increase (decrease) in:		
Mine exploration costs	**₱(272,604)**	(₱ 261,530)
FVOCI	**13,432**	-
Liability for mine rehabilitation costs	**(7,161)**	-
AFS financial assets	**-**	9,191
Investments in and advances to associates	**-**	6,123
Property, plant and equipment	**-**	750,186

Movements on the reconciliation of liabilities arising from financing activities excluding obligations under finance lease and hire purchase contracts are as follows:

	Beginning Balance	Cash Flows	Foreign exchange movement	Others	Ending Balance
Current interest-bearing loans and borrowings	₱ 213,607	₱ (90,632)	₱ 3,252	₱ 116,314	₱ 242,541
Non-current interest-bearing loans and borrowings	130,481	-	-	(116,314)	14,167
Total liabilities from financing activities	₱ 344,088	₱ 90,632	₱ 3,252	₱ -	₱ 256,708

27. Finance Costs

	2018	2017	2016
Interest cost on retirement liability – net (Note 16)	₱ **83,724**	₱ 79,031	₱ 75,339
Interest expense:			
Short-term and Long-term borrowings (Note 14)	**9,507**	16,651	886
Trust receipts and export advances (Note 13)	**8,646**	5,195	22,528
Accretion of interest on mine rehabilitation costs (Note 15)	**5,854**	2,997	2,881
	₱ **107,731**	₱ 103,874	₱ 101,634

28. Other Income

	2018	2017	2016
Discount	₱ **9,629**	₱ -	₱ -
Sale of scrap	**1,768**	91	-
Gain (loss) on disposal of property, plant and equipment - net	**(739)**	2,375	116,025
Interest income	**274**	277	110
Loss on deconsolidation of a subsidiary (Note 30)	**-**	(1,782)	-
Rental income	**-**	674	-
Gain from insurance claim	**-**	(418)	-
Realized loss on disposal of AFS financial assets (Note 10)	**-**	-	(63,868)
Gain on reversal of deferred tax liability	**-**	-	4,399
Miscellaneous income (expense)	**1,570**	829	(4,151)
	₱ **12,502**	₱ 1,372	₱ 52,515

29. Revenues

	2018	2017	2016
Revenue from contracts with customers:			
Sale of bullion	₱ **429,463**	₱ 1,445,251	₱ 1,431,928
Sale of concentrate	**1,652,100**	112,940	-
Sevices	**46,767**	58,707	97,824
	2,128,330	1,616,898	1,529,752
Other revenues:			
Rent income	**7,704**	4,404	4,304
Mark-to-market losses	**(15,392)**	-	-
	₱ **2,120,642**	₱ 1,621,302	₱ 1,534,056

Sale of Bullion
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.

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. During 2017, the refining agreement was renewed under the same terms of the previous year contract.

Sale of Concentrate
On September 21, 2017, the Parent Company entered into a copper-gold concentrate contract with Louis Dreyfus Company Metals Suisse of the former's copper-gold concentrate production. Each shipment of materials under the agreement consist of no less than 20 containers with a minimum of container loading quality of twenty-three (23) wet metric tons. The contract will terminate upon performance of all obligations stated in the agreement.

Moreover, on December 13, 2017, the Parent Company entered into a copper-gold concentrate contract with Cliveden Trading AG (Cliveden). The Material shall be shipped in big bags on wooden pallets and stuffed in containers, in lots of five hundred (500) dry metric tons plus/minus ten percent (+/- 10%), in Parent Company's option. The Parent Company has the option to increase the committed quantity by up to another five hundred (500) dry metric tons plus/minus ten percent (+/- 10%) under the same terms and conditions. After successful completion of the lot, Cliveden and the Parent Company will agree to enter into a discussion for possible deliveries from the Parent Company's 2018 production.

At settlement, the prices for all sales are as follows, following the month after shipment:

- Gold - the London Bullion Market Association AM and PM monthly average fixing in US$
- Silver - the London Bullion Market Association monthly average fixing in US$
- Copper - the London Metal Exchange monthly average settlement prices in US$

As at December 31, 2017, the Group's embedded derivatives on provisionally priced sales is immaterial.

Smelting and refining charges in 2018, 2017, and 2016 related to sale of bullion and concentrates amounted to ₱72,561, ₱65,024 and ₱3,882, respectively.

30. Deconsolidation of a Subsidiary

Starting October 2017, the Group has no power to govern the financial and operating policies of DMTC due to the loss of power to direct the relevant activities of the latter. Accordingly, the Group derecognized the related assets and liabilities of DMTC

(a) Consideration received The Group did not receive any consideration in the deconsolidation of DMTC.

(b) Analysis of assets and liabilities of DMTC over which the Group lost control

		August 31, 2017
Current Assets:		
Cash	₱	1,639
Receivables – net		27,646
Inventories – net		8,382
Advances to suppliers		454
Prepayments and other current assets		657
Noncurrent Assets:		
Property, plant and equipment – net		1,582
Deferred tax asset – net		2,097
Other assets		468
Total Assets		42,925
Liabilities:		
Trade and other payables		(22,261)
Retirement benefits liability		(7,082)
Total Liabilities		(29,343)
Net Assets	₱	13,582

(c) Loss on deconsolidation of a subsidiary

		Eight months ended August 31, 2017
Fair value of retained interest	₱	11,800
Carrying amount of net assets deconsolidated		(13,582)
Loss on deconsolidation of a subsidiary	(₱	1,782)

Loss on deconsolidation of a subsidiary was included in the "Other Income" for the year ended December 31, 2017 (see Note 28).

(d) The Group transferred the remeasurement loss on retirement benefits liability of DMTC amounting to ₱1,315 into retained earnings at the date control ceases.

(e) Net cash outflow arising from deconsolidation of subsidiary

		Eight months ended August 31, 2017
The balance of cash and cash equivalents deconsolidated	₱	1,639

31. 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, 2018 and 2017, the advances amounted to P6,020,552 and P5,982,829, 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. In a decision dated April 30, 2018, the Court of Appeals upheld the Final Award of the Arbitral Tribunal. The Republic of the Philippines filed a Motion for Reconsideration which was denied by the Court of Appeals in a Resolution dated January 14, 2019.

(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, 2018 and 2017, the rehabilitation fund of ₱5,000, which does not meet the features provided under Philippine Interpretation IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds, 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, labor 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, 2018 and 2017, and results of operations for the years ended December 31, 2018, 2017 and 2016.

(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 2020. Rent expense recognized relating to the said agreements aggregated to ₱2,030, ₱3,463 and ₱3,437 in 2018, 2017 and 2016, respectively.

The minimum annual lease payments subsequent to reporting dates follow:

	2018	2017
Less than one (1) year	**₱ 1,838**	₱ 2,030
More than one (1) year but less than five (5) years	**4,642**	6,480
Total	**₱ 6,480**	₱ 8,510

The Parent Company leases out some of its properties which include land, a warehouse, guesthouses and other facilities to various entities. Rental income for 2018, 2017 and 2016 amounted to ₱7,704, ₱4,404 and ₱4,304, 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, 2018 and 2017, the Parent Company has no unused credit lines with various banks. These facilities can be availed of through short-term and long-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 adjustments

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, 2018 and 2017, 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.

2. The consolidated financial statements reflected the proper accounting for the Group's revaluation increment in land.

(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 Parent 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) The Parent 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. In a decision dated February 5, 2018, the Regional Trial Court ("RTC") of Makati City ruled in favor of Lepanto, declaring the subject contracts null and void. Defendant Rothschild has filed an appeal with the Court of Appeals.

(n) The Parent Company received on February 14, 2017 an Order of Suspension from the then DENR Secretary alleging the Parent Company had violated "certain provisions" of the EIS Law, the Philippine Mining Act, DAO No. 2010-21, and DAO No. 2000-98. On the same date, the Parent Company filed a Notice of Appeal with the Office of the President (OP) pursuant to Administrative Order No. 22, Series of 2011, which filing effectively stayed the execution of the Order. The Parent Company filed its Memorandum on Appeal with the OP a month later. In a decision dated October 12, 2017, the OP provisionally lifted the Suspension Order subject to the following conditions: (i) The Parent Company is given six months from receipt of the decision to implement appropriate mitigating measures and ordered to pay fines to the Mines and Geosciences Bureau and Environmental Management Bureau; and (ii) The appropriate agency of the DENR is directed to conduct a monthly inspection on Company's compliance with the decision and to submit a monthly report to the Office of the President regarding the progress of the corrective measures. The Parent Company has paid the fines and is complying with the said decision.

32. 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 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. The Parent Company's existing contracts with gold refineries allow for advances of 98% of payable metals paid in two working days from pricing. Full settlement is normally received within three working days. For copper concentrates, Parent Company's existing contracts with smelters allow for advances of 95% of payable metals paid within two to five working days from pricing. Full settlement, however, takes three to six 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 Cliveden Trading AG 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 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, 2018 and 2017.

	2018	2017
Cash in banks (Note 4)	**₱ 120,816**	₱262,948
Trade receivables (Note 5)	**51,519**	34,980
Mine rehabilitation fund (MRF), under Other Noncurrent Assets	**5,130**	5,092
Nontrade receivables	**3,931**	64,196
Financial assets designated at FVOCI and AFS financial assets (Note 10)		
Quoted instruments	**81,666**	67,646
Unquoted instruments	**130,285**	130,285
Total credit risk exposure	**₱ 393,347**	₱565,147

Aging analysis of the Group's financial assets as at December 31, 2018 and 2017 are summarized below

2018	**Neither Past Due Nor Impaired**	**Past Due But Not Impaired (30-180 days)**	**Past Due and Individually Impaired**	**Total**
Cash with banks	**₱ 120,816**	**₱ -**	**₱ -**	**₱ 120,816**
Trade receivables	**16,110**	**20,600**	**14,809**	**51,519**
AFS financial assets				
Quoted	**81,666**	**-**	**-**	**81,666**
Unquoted	**130,285**	**-**	**-**	**130,285**
Total	**₱ 348,877**	**₱ 601**	**₱ 14,809**	**₱ 384,286**

2017	Neither Past Due Nor Impaired	Past Due But Not Impaired (30-180 days)	Past Due and Individually Impaired	Total
Cash with banks	₱ 262,948	₱ -	₱ -	₱ 262,948
MRF	5,092	-	-	5,092
Trade receivables	197	18,681	14,734	33,612
AFS financial assets				
Quoted	67,646	-	-	67,646
Unquoted	130,285	-	-	130,285
Total	₱ 466,168	₱ 18,681	₱ 14,734	₱ 499,583

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.

Aging analysis of past due but not impaired financial assets per class
As of December 31, 2018, the aging analysis of past due but not impaired receivables presented per class, follow (amounts in thousands):

	Past Due but Not Impaired				
	Within 30 days	**31 to 60 days**	**61 to 90 days**	**Over 90 Days**	**Total**
December 31, 2018					
Trade receivables	**₱ 773**	**₱ 162**	**₱ 174**	**₱ 19,491**	**₱ 20,600**

Excessive risk concentration
Given the Group's diverse base of counterparties in its financial assets, it is not exposed to large or excessive concentrations of credit risk in any geographical region or industry.

Write-off policy
The Group writes-off a financial asset, in whole or in part, when the asset is considered uncollectible, it has exhausted all practical recovery efforts and has concluded that it has no reasonable expectations of recovering the financial asset in its entirety or a portion thereof. The Group writes off an account when all of the following conditions are met:

- the asset is in past due for over 120 days or 360 for special customers, or is already an item-in-litigation with any of the following:
  a. no properties of the borrower could be attached
  b. the whereabouts of the client cannot be located
  c. it would be more expensive for the Group to follow-up and collect the amount, hence the Group has ceased enforcement activity, and
  d. collections can no longer be made due to insolvency of bankruptcy of the borrower
- restructuring is no longer possible
- filing of legal case is not possible

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.

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, 2018 and 2017 follow:

	2018		2017	
	Original Currency	**Peso Equivalent**	Original Currency	Peso Equivalent
Assets				
Cash	**US$1,914**	**₱ 100,649**	US$1,975	₱ 98,620
Trade receivables	**480**	**25,240**	242	12,094
	US$2,394	**₱ 125,889**	US$2,217	₱ 110,714
Liabilities				
Trade payables and accrued expenses	**US$499**	**₱ 26,261**	US$1,849	₱ 92,341
	AU$-	**-**	AU$1	40
Borrowings	**US$1,161**	**61,021**	US$1,516	75,718
	US$1,660	**87,282**	US$3,365	168,099
	AU$-	**-**	AU$1	40
Net asset in US$	**US$734**	**₱ 38,607**	(US$1,148)	(₱ 57,345)
Net liabilities in AU$	**AU$-**	**₱ -**	(AU$1)	(₱ 40)

As at December 31, 2018 and 2017, the exchange rate of the Philippine Peso to the US$ is ₱52.58 and ₱49.93, respectively to US$1 while the exchange rate of the Philippine Peso to the AU$ is ₱37.07 and ₱38.91, 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, 2018 and 2017 is as follows:

2018	**Change in foreign exchange rate**	**Sensitivity of pretax income**
US$	**Strengthens by ₱0.71**	**₱ 521**
	Weakens by 0.64	**(470)**
AU$	**Strengthens by ₱0.95**	**₱ -**
	Weakens by 0.72	**-**

2017	Change in foreign exchange rate	Sensitivity of pretax income
US$	Strengthens by ₱0.63	₱ 723
	Weakens by 0.42	(482)
AU$	Strengthens by ₱0.86	₱ 1
	Weakens by 0.95	(1)

There is no other impact on the Group's equity other than those already affecting the consolidated profit or loss.

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 availment of 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 profile of the Group's financial liabilities which is based on contractual undiscounted payments and financial assets which are used to manage the liquidity risk as at December 31, 2018 and 2017

2018	On demand	Less than 3 months	3 to 6 months	6 to 12 months	1 to 2 Years	More than 2 years	Total
Financial Liabilities:							
Trade and other payables	**₱1,283,327**	**₱ 83,665**	**₱ 1,693**	**₱ 12,073**	**₱ 753**	**₱ 564**	**₱ 1,382,075**
Borrowings	**72,350**	**124,943**	**14,415**	**14,167**	**30,833**	**-**	**256,708**
Total	**₱1,355,677**	**208,608**	**16,108**	**26,240**	**31,586**	**564**	**1,638,783**
Financial Assets:							
Cash on hand	**₱ 2,781**	**-**	**-**	**-**	**-**	**-**	**2,781**
Cash in banks	**120,816**	**-**	**-**	**-**	**-**	**-**	**120,816**
Trade receivables	**16,110**	**773**	**162**	**174**	**19,491**	**-**	**36,710**
Non- Trade receivables	**₱ 3,931**	**-**	**-**	**-**	**-**	**-**	**3,931**
FVOCI	**₱ 211,951**	**-**	**-**	**-**	**-**	**-**	**211,951**
Total	**355,589**	**773**	**162**	**174**	**19,491**	**-**	**376,189**
	1,000,088	**₱ 207,835**	**₱ 15,946**	**₱ 26,066**	**₱ 12,095**	**₱ 564**	**₱ 1,262,594**

2017	On demand	Less than 3 months	3 to 6 months	6 to 12 months	1 to 2 Years	More than 2 years	Total
Financial Liabilities:							
Trade and other payables	₱1,015,837	₱ 110,142	₱ 87,681	₱ 4,481	₱ 23,651	₱ 21,320	₱ 1,263,112
Borrowings	-	144,869	24,579	44,159	130,481	-	344,088
Total	1,015,837	255,011	112,260	48,640	154,132	21,320	1,607,200
Financial Assets:							
Cash on hand	3,169	₱ -	-	-	-	-	3,169
Cash in banks	262,948	-	-	-	-	-	262,948
Trade receivables	4,392	₱ 4,001	-	-	10,485	-	18,878
Non- Trade receivables	64,196	₱ -	-	-	-	-	64,196
AFS	197,931	₱ -	-	-	-	-	197,931
Total	532,636	₱ 4,001	-	-	10,485	-	547,122
	₱ 483,201	₱ 251,010	₱ 112,960	₱ 48,640	₱143,647	₱ 21,320	₱ 1,060,078

The group plans to address its liquidity gap by a combination of issuance of equity securities, availment of advances from related parties or loans from banks.

Fair Values

PFRSs 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.

Financial Assets Designated at FVOCI
Fair values of financial assets designated at FVOCI quoted equity securities are based on quoted prices published in markets. Fair values of financial assets at FVOCI unquoted equity securities are based on the latest selling price available.

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, 2018 and 2017 bear floating rates that are repriced monthly and quarterly.

The fair value of the interest bearing long-term debt in 2018 and 2017 is based on the discounted value of future cash flows using the applicable rates for the similar types of loans.

<u>Fair Values of Financial Instruments</u>
The following table shows the carrying values and fair values of the Group's financial instruments, whose carrying values approximates its fair values as at December 31 of each year:

	Carrying Values		Fair Values	
	2018	2017	**2018**	2017
Other Financial Liability				
Short-term debt	**₱ 130,285**	₱ 213,607	**₱ 130,285**	₱ 213,607

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.

Financial Assets Designated at FVOCI and 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 31 of each year is presented as follows:

2018	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets designated at FVOCI	**₱ 81,666**	**₱ -**	**₱ 130,285**	**₱ 211,951**
Long-term debt	-	(256,708)	-	**(256,708)**
	₱ 81,666	(₱ 256,708)	**₱ 130,285**	**(₱ 44,757)**

2017	Level 1	Level 2	Level 3	Total
AFS financial asset	₱ 67,646	₱ -	₱ 130,285	₱ 197,931
Long-term debt	-	(344,088)	-	(344,088)
	₱ 67,646	(₱ 344,088)	₱ 130,285	(₱ 146,157)

There were no transfers between levels of fair value measurement as at December 31, 2018 and 2017.

33. 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, 2018 and 2017. The Group monitors capital using the consolidated financial statements.

As at December 31, 2018, the Group's capital, which is composed of common shares and additional paid-in capital, amounted to ₱11,712,718.

34. 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:

2018	**Mining**	**Service**	**Others**	**Elimination**	**Consolidated**
Revenue from external customers:					
Sale of metals - net	**₱ 2,093,054**	**₱ -**	**₱ -**	**₱ -**	**₱ 2,093,054**
Others	**7,704**	**18,727**	**1,157**	**-**	**27,588**
Inter-segment revenue	**1,768**	**145,535**	**34,742**	**(182,045)**	**-**
Segment revenue	**2,102,526**	**164,262**	**35,899**	**(182,045)**	**2,120,642**
Cost and operating expenses	**(2,824,118)**	**(134,149)**	**(30,974)**	**178,504**	**(2,810,737)**
Share in operating results of associates	**-**	**-**	**-**	**(2,104)**	**(2,104)**
Income (loss) before income tax	**(721,592)**	**30,113**	**4,925**	**(5,645)**	**(692,199)**
Finance cost, net of other income	**(94,126)**	**2,072**	**(1,255)**	**(1,203)**	**(94,512)**
Provision for (benefit from) income tax	**19,953**	**(7,021)**	**(1,191)**	**-**	**11,741**
Net income (loss)	**(₱ 795,765)**	**₱ 25,164**	**₱ 2,479**	**(₱ 6,848)**	**(₱ 774,970)**
Segment assets	**₱ 16,738,730**	**₱ 373,406**	**₱ 792,356**	**(₱858,510)**	**₱ 17,045,982**
Investments and advances to associate	**961,190**	**-**	**110,499**	**(506,475)**	**565,214**
Segment liabilities	**(9,043,107)**	**(246,518)**	**(250,235)**	**375,501**	**(9,164,359)**
Depreciation	**721,641**	**56,194**	**5,895**	**-**	**783,730**
Capital expenditures:					
Tangible fixed assets	**6,961,078**	**104,025**	**380,136**	**50,076**	**7,495,315**
Intangible assets	**4,621**	**-**	**-**	**-**	**4,621**
Cash flows arising from (used in):					
Operating activities	**(13,610)**	**55,961**	**(198)**	**21,296**	**63,449**
Investing activities	**(868,316)**	**(50,291)**	**(2,218)**	**(14,083)**	**(934,908)**
Financing activities	**737,475**	**(11,085)**	**389**	**3,663**	**730,442**

2017	Mining	Service	Others	Elimination	Consolidated
Revenue from external customers:					
Sale of metals - net	₱ 1,558,191	₱ -	₱ -	₱ -	₱ 1,558,191
Others	4,404	40,088	18,619	-	63,111
Inter-segment revenue	-	273,386	14,226	(287,612)	-
Segment revenue	1,562,595	313,474	32,845	(287,612)	1,621,302
Cost and operating expenses	(2,337,789)	(345.253)	(31,644)	296,667	(2,418,019)
Inter-segment expenses	-	-	-	-	-
Share in operating results of associates	-	-	-	(5,306)	(5,306)
Income (loss) before income tax	(775,194)	(31,779)	1,201	3,749	(802,023)
Finance cost, net of other income	(153,343)	(3,226)	1,389	(10,837)	(166,017)
Inter-segment expenses	-	-	-	-	-
Provision for income tax	9,532	10,742	(847)	-	19,427
Inter-segment provision for income tax	-	-	-	-	-
Net income (loss)	(₱ 919,005)	(₱ 24,263)	₱ 1,743	(₱ 7,088)	(₱ 948,613)
Segment assets	₱ 16,566,693	₱ 453,929	₱ 782,842	(₱779,481)	₱ 17,023,983
Investment and advances to associate	961,401	-	110,499	(503,988)	567,912
Segment liabilities	(9,220,228)	(343,448)	(247,944)	289,889	(9,521,731)
Depreciation	712,426	54,780		-	772,039
Capital expenditures:			23,537		
Tangible fixed assets	6,872,969	111,453	385,544	53,237	7,423,203
Intangible assets	6,281	-	-	-	6,281
Cash flows arising from (used in):					
Operating activities	(8,231)	(12,802)	9,384	(218,252)	(229,901)
Investing activities	(51,174)	(1,244)	(9,367)	(1,225,040)	(1,286,825)
Financing activities	46,136	12,500	202	1,648,700	1,707,538

2016	Mining	Service	Others	Elimination	Consolidated
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)
Segment assets	₱ 16,041,601	₱ 576,711	₱ 778,647	(₱918,028)	₱ 16,478,931
Investment 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

BOARD OF DIRECTORS

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Chairman of the Board, Zeus Holdings, Inc.
Vice Chairman, Prime Orion Philippines, Inc.
Director, Manila Peninsula Hotel, Inc. and Philippine Associated Smelting and Refining Corporation

BRYAN U. YAP

President and COO

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Director, Far Southeast Gold Resources, Inc.

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Senior Vice President and Corporate Secretary, Oriental Petroleum and Minerals Corporation

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Filinvest Development Corporation

CRESENCIO C. YAP

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Chairman of the Board and
Chief Executive Officer

BRYAN U. YAP
President and
Chief Operating Officer

RAMON T. DIOKNO
Chief Finance Officer

MA. LOURDES B. TUASON
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Corporate Secretary

RENE F. CHANYUNGCO Vice
President, Logistics and
Marketing

ODETTE A. JAVIER Vice
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Secretary, and Chief Information
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Vice President and
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OPERATING STAFF
MAKATI HEAD OFFICE

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Controller

DIANA Y. YAP
Asst. Department Head
Treasury

EMMANUEL G. LARA
Chief Pilot
Aviation

MARVIN LESTER N. DE PAZ
Legal Officer
Corporate Legal Services

AERON ALDRICH B. HALOS
Legal Officer
Corporate Legal Services

LEAH ANDREA A. REYES
Asst. Department Manager
Human Resource and
Administration

SERAFIN G. SOSA JR.
Asst. Department Head
Information Systems

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Vice President and Resident
Manager

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Manager, Technical Services and
Technical Assistant to the RM

LEONARDO A. SUBANG Group
Manager, Exploration Geology

RUBEN H. QUITORIANO Group
Manager, Geology & Mine
Engineering

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Services

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Mine Operations

VICTOR S. QUINTANA
Acting Mill Manager
Mill Operations

MERVIN C. DELOS SANTOS
Senior Mine Geologist, Mine
Geology

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Human Resource

OMAR R. EVANGELISTA
Department Manager
Legal and Security

ROLANDO C. REYES
Department Manager, Mine
Environment,
Protection and Enhancement

RODNEY A. WACAN
Mine Superintendent
Mine Operations

ZERUBABEL D. PATEÑA
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Physician – Surgeon Medical
Services

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Department Manager Safety &
Loss Control

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Mine Operations

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Mine Superintendent
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Mine General Services

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Project & Civil Engineering

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Mill Superintendent
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Chief Mine Geologist
Mine Geology

MILES E. TROCIO JR.
Mill Maintenance
Superintendent
Mill Maintenance

WENNIER K. BOAGING
Assist. Maintenance
Superintendent
Mine Mechanical & Electrical

MARLON A. CALAMOHOY
Assist. Chief Mine Geologist
Mine Geology

LOURDES T. DOLINEN
Department Manager
Community Relations Office

MARLO LYNBERT I. BATALANG
Ventilation Superintendent
Mine Engineering

NEIL MARCEL F. PAQUITO
Chief Electrical Engineer
Mine Mechanical & Electrical

FERNANDO A. BUSTILLO JR.
Acting Mine Mechanical &
Electrical Superintendent
Mine Mechanical & Electrical

NICANOR L. ABELARDO
Assistant Superintendent
Mine Mechanical & Electrical

JAIME F. CABRERA JR.
Asst. Security Superintendent
Legal and Security

MYRA G. ILUSTRE
Chief Chemist Assay

ANGELINE B. ABRENICA
Resource & Research Geologist
Exploration

HILBERT G. ANDONG
Asst. Mine Superintendent
General Mine Services

SALVADOR S. MENDIZABAL JR.
Communication Head
General Management

ANNA MAE A. CORPUZ-LICYAYO
Legal Officer
Legal and Security

FREDDIE L. DUMAL-IN
Asst. Mine Superintendent
Mine Operations

CESARIO B. GAYADAN
Asst. Mine Superintendent
Mine Operations

JURBY S. JUMAWAN
Senior Metallurgist
Metallurgy

ISIDRO A. MATUNDING
Asst. Mill Superintendent
Mill Operations

AARON M. MAGHINANG
Physician – Surgeon
Medical Services

MARTINA M. CAMTUGAN
Company Dentist
Medical Services

KARIZZA CLAIRE G. RAGURO
Physician – OB & GYNE Medical
Services

LEPANTO ROASTER DIVISION

RANDOLPH G. RIVERA
Officer-in-Charge

SUBSIDIARIES

DIAMOND DRILLING CORPORATION OF THE PHILIPPINES

BRYAN U. YAP
President

PETER JAMES D. LEAÑO
General Manager

FAR SOUTHEAST GOLD RESOURCES, INC.

FELIPE U. YAP
Chairman of the Board

LEPANTO INVESTMENT AND DEVELOPMENT CORPORATION

BRYAN U. YAP
President

SHIPSIDE, INCORPORATED

BRYAN U. YAP
President

LORENZO D. BALBIN, JR.
Vice President and
General Manager

MA. BELINA A. MARIANO
Vice President

DIRECTORY

EXECUTIVE OFFICES

21st Floor Lepanto Building
8747 Paseo de Roxas, 1226 City of Makati
Tel. No. 815-9447

ADDRESSES

MAILING
Domestic Surface Mail
P.O. Box 1460
Makati Central Post Office
1254 City of Makati

Domestic and Foreign Air Mail
P.O. Box 7507
Domestic Airport Post Office
1300 Domestic Road, Pasay City
Philippines

FAX
63 (2) 810-5583

E-MAIL ADDRESS
inquiry@lepantomining.com

WEBSITE
http://www.lepantomining.com

TRANSFER AGENT

Stock Transfer Service, Inc.
34/F Unit D., Rufino Pacific Tower
6784 Ayala Avenue, City of Makati

AUDITORS

Sycip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City

GENERAL COUNSELS

Abello Concepcion Regala & Cruz Law Offices
22/F ACCRALAW TOWER
Second Avenue corner 30th Street,
Crescent Park West
Bonifacio Global City, 0399 Taguig

Andres Padernal & Paras Law Offices
8th Floor, Sagittarius Office Condominium
111 H.V. Dela Costa St., Salcedo Village
Makati City

SyCip Salazar Hernandez & Gatmaitan Law Offices
4th Floor, SyCip Law All-Asia Center
Paseo de Roxas, Makati City

BANKERS

Bank of the Philippine Islands
Ormoc City Branch, Leyte
NRA – Reclamation Area Branch, Cebu City

Banco de Oro
Paseo Tower – Makati Branch
City of Makati

Bank of Commerce
Zuellig Bldg. –Makati Branch, City of Makati

China Banking Corporation
Makati Head Office Branch, City of Makati

Land Bank of the Philippines
Buendia Branch, City of Makati
Abatan Branch, Buguias, Benguet

Philippine Bank of Communications
Head Office, City of Makati

United Coconut Planters Bank
Head Office, City of Makati

GOLD REFINERY

Heraeus Limited
Hong Kong

STOCK EXCHANGE LISTING

Philippine Stock Exchange

ANNUAL MEETING

The Annual Meeting of Stockholders of Lepanto Consolidated Mining Company will be held on April 15, 2019 at 4:00 p.m. at the Rigodon Ballroom, The Peninsula Manila, corner Ayala and Makati Avenues, Makati City, Philippines.

A copy of the Company's Annual Report on SEC 17-A shall be provided without charge to any stockholder who makes a written request for such copy.

VISION AND MISSION

To be a global Filipino mining company by attaining world-class capabilities and becoming a corporate model in the fulfillment of social responsibilities.

We shall turn this vision into reality through the efforts of highly motivated committed and competent employees who:

- Continually explore and develop ore reserves
- Optimize metal production through cost-efficient operations
- Maintain outstanding safety records and ensure responsible environmental stewardship
- Foster mutually beneficial partnerships with host communities; and
- Exhibit initiative and decisiveness

We in Lepanto are determined to enhance shareholders' investment through the pursuit of excellence.

CORE VALUES

- Accountability
- Commitment
- Innovation
- Ownership
- Social Responsibility
- Operational Excellence

ENVIRONMENTAL POLICY

We commit to become a model of a socially responsible mining organization through the effective implementation of our Environmental Management System.

We commit to protect, keep sustainable and enhance our environment, minimize the impact of our operations thereon and continually improve our environmental management system performance by:

- Ensuring compliance with all applicable environmental compliance obligations and industry standards;
- Promoting environmental management system awareness to all interested parties through an effective information, education and communication strategy and program;
- Fostering sustainable, effective and responsible use of resources, conservation of biodiversity and effective means of pollution prevention, including tailings storage facility and waste management;
- Enhancing the organizational capability and employees' competencies towards environmentally responsible and efficient operations;

We further commit to consistently implement, measure, monitor, review and continually improve our environmental management system and performance to achieve the foregoing objectives.

This Policy has been disseminated to all interested parties in order to instill in them a commitment to environmental stewardship and accountability.