



111142018001881



## SECURITIES AND EXCHANGE COMMISSION

SEC Building, EDSA, Greenhills, Mandaluyong City, Metro Manila, Philippines  
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Company Information

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SEC Registration No. PW00000101  
Company Name LEPANTO CONSOLIDATED MINING CO.  
Industry Classification  
Company Type Stock Corporation

### Document Information

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# COVER SHEET

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S.E.C. Registration Number

L	E	P	A	N	T	O		C	O	N	S	O	L	I	D	A	T	E	D		M	I	N	I	N	G		C	O		

(Company's Full Name)

2	1	S	T		F	L	O	O	R		L	E	P	A	N	T	O		B	U	I	L	D	I	N	G			
8	7	4	7		P	A	S	E	O		D	E		R	O	X	A	S											
M	A	K	A	T	I		C	I	T	Y																			

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

ODETTE A. JAVIER
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Contact Person

815-9447
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Company Telephone Number

1	2		3	1
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Month      Day

Fiscal Year

1	7	-	Q
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FORM TYPE

3rd Monday of April

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Month      Day

Annual Meeting

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Secondary License Type, If Applicable

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Dept. Requiring this Doc.

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Amended Articles Number/Section

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Total no. of Stockholders

Total Amount of Borrowings

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Domestic

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Foreign

To be accomplished by SEC Personnel concerned

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File Number

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Document I.D.

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended: **September 30, 2018**
2. Commission identification number: **101**      3. BIR Tax Identification No.: **000-160-247**
4. Exact name of issuer as specified in its charter:

**LEPANTO CONSOLIDATED MINING COMPANY**

5. Province, country or other jurisdiction of incorporation or organization:  
**Makati City, Philippines**

6. Industry Classification Code:  (SEC Use Only)

7. Address of issuer's principal office:

**21<sup>st</sup> Floor, Lepanto Building  
8747 Paseo de Roxas, Makati City, Philippines**

8. Issuer's telephone number, including area code:

**(632) – 815-9447**

9. Former name, former address and former fiscal year, if changed since last report: **N/A**

10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the  
RSA

Title of each Class	Number of shares of common stock outstanding:
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<b>Class "A"</b>	<b>39,822,869,196</b>
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<b>Class "B"</b>	<b>26,552,888,901</b>
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Amount of Debt Outstanding: **Please refer to the attached Balance Sheet (Annex "B")**

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

Yes []

No []

If yes, state the name of such Stock Exchange and the class/es of securities listed therein.

**Philippine Stock Exchange**

**Classes "A" and "B"**

12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports)

Yes  No

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

Yes  No

#### PART I- FINANCIAL INFORMATION

<b>Item 1. Financial Statements:</b>	<i>Income Statement</i>	- Annex "A"
	<i>Balance Sheet</i>	- Annex "B"
	<i>Statement of Cash Flow</i>	- Annex "C"
	<i>Stockholders' Equity</i>	- Annex "D"
	<i>Notes to Financial Statements</i>	- Annex "E"
	<i>Aging of Accounts Receivable-Trade</i>	- Annex "F"
<b>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</b>		- Annex "G"
<b>Item 3. Impact of Current Global Financial Condition</b>		- Annex "H"
<b>Item 4. Financial Ratios</b>		- Annex "I"

#### PART II- OTHER INFORMATION (None)

#### SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Issuer : LEPANTO CONSOLIDATED MINING COMPANY

Signature :   
MA. LOURDES B. TUASON

Title : Vice President/Treasurer

Date : November 14, 2018

Signature :   
ODETTE A. JAVIER

Title : Vice President/Assistant Corporate Secretary

Date : November 14, 2018

**LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES**  
**STATEMENT OF INCOME**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018**  
(With Comparative Figures for 2017)  
(Amounts In Thousand , Except Loss Per Share)

	<b>FOR THE THIRD QUARTER</b>		<b>FOR NINE MONTHS ENDED SEPTEMBER 30</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
<b>REVENUES</b>				
Sale of metals	P 537,272	P 415,930	P 1,485,811	P 1,068,289
Service fees and other operating income	83	(14,254)	957	34,325
	<u>537,355</u>	<u>401,676</u>	<u>1,486,768</u>	<u>1,102,614</u>
<b>COSTS AND EXPENSES</b>				
Mining, milling, smelting, refining and other related charges; administrative expenses; depreciation, amortization and depletion; and other charges	(672,019)	(585,354)	(1,979,244)	(1,651,544)
<b>INCOME (LOSS) FROM OPERATIONS</b>	(134,664)	(183,678)	(492,476)	(548,930)
<b>FINANCE COST, net</b>	(4,385)	(5,117)	(13,467)	(15,945)
<b>FOREIGN EXCHANGE GAINS (LOSS) - net</b>	(129)	(2,764)	1,740	(8,507)
<b>OTHER INCOME, net</b>	3,731	(1,280)	13,935	1,576
<b>SHARE IN NET LOSSES OF ASSOCIATES</b>	(42)	(122)	(6,265)	(856)
<b>LOSS BEFORE INCOME TAX</b>	<u>(135,489)</u>	<u>(192,961)</u>	<u>(496,533)</u>	<u>(572,662)</u>
<b>PROVISION FOR (BENEFIT FROM) INCOME TAX</b>				
CURRENT	509	44	1,229	118
DEFERRED	(2,040)	56	13,699	(6)
	<u>(1,531)</u>	<u>100</u>	<u>14,928</u>	<u>112</u>
<b>NET LOSS</b>	<u>P (133,958)</u>	<u>P (193,061)</u>	<u>P (511,461)</u>	<u>P (572,774)</u>
<b>Attributable to:</b>				
Stockholders of the parent company	(133,932)	(185,792)	P (511,336)	P (572,417)
Non-controlling interests	(26)	(7,269)	(125)	(357)
<b>Net Loss</b>	<u>P (133,958)</u>	<u>P (193,061)</u>	<u>P (511,461)</u>	<u>P (572,774)</u>
<b>LOSS PER SHARE</b>				
attributable to stockholders of the parent company				
Basic & Diluted	<u>(0.00202)</u>	<u>(0.00362)</u>	<u>(0.00770)</u>	<u>(0.01115)</u>
	(-P133,930,770 / 66,373,926,649 shares)	(-P185,791,634 / 51,355,248,170 shares)	(-P511,334,941 / 66,373,926,649 shares)	(-P572,417,761 / 51,355,248,170 shares)

ANNEX "B"

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

	<b>SEPTEMBER 30</b>	<b>*DECEMBER 31</b>
	<b>2018</b>	<b>2017</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalent	P 7,675	P 268,575
Receivables, net	200,228	88,973
Inventories, net	563,238	536,844
Advances to suppliers and contractors	209,478	154,816
Other current assets	797,782	711,488
<b>Total current assets</b>	<b>1,778,401</b>	<b>1,760,695</b>
<b>NON-CURRENT ASSETS</b>		
Property, plant and equipment, net	7,350,939	7,423,203
Available-for-sale financial assets	197,931	197,931
Investments and advances in associates	589,737	567,912
Mine exploration cost	6,883,700	6,620,301
Deferred income tax assets	364,291	378,020
Other noncurrent assets	153,719	78,379
<b>Total non-current assets</b>	<b>15,540,317</b>	<b>15,265,747</b>
<b>Total assets</b>	<b>P 17,318,718</b>	<b>P 17,026,442</b>
<b>LIABILITIES AND EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Trade and other payables	P 1,350,720	P 1,236,417
Short-term borrowings	222,885	213,607
Unclaimed dividends	26,694	26,695
Income tax payable	1,229	271
<b>Total current liabilities</b>	<b>1,601,528</b>	<b>1,476,990</b>
<b>NON-CURRENT LIABILITIES</b>		
Advances from Far Southeast Services Limited	6,006,850	5,982,829
Long-term borrowings	52,217	130,481
Liability for mine rehabilitation cost	104,937	102,690
Retirement benefit obligations	1,462,352	1,533,431
Deferred income tax liabilities	217,094	217,125
Stock subscriptions payable	11,443	11,443
Deposit for future stock subscriptions	69,200	69,200
<b>Total non-current liabilities</b>	<b>7,924,093</b>	<b>8,047,199</b>
<b>Total liabilities</b>	<b>9,525,621</b>	<b>9,524,189</b>
<b>EQUITY</b>		
Capital stock	6,635,689	5,833,386
Additional paid-in capital	5,077,033	5,077,033
Re-measurement loss on retirement plan	(297,053)	(297,053)
Cumulative changes in fair values of AFS investments	47,856	47,856
Deficit	(3,909,866)	(3,398,532)
	<b>7,553,659</b>	<b>7,262,691</b>
Non-controlling interests	239,436	239,562
<b>Total equity</b>	<b>7,793,095</b>	<b>7,502,253</b>
<b>Total liabilities and equity</b>	<b>P 17,318,718</b>	<b>P 17,026,442</b>

\* - AUDITED

**LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018**

(With comparative figures for 2017)  
(Amounts in thousand pesos)

	<u>FOR THE QUARTER ENDED</u> <u>ENDED SEPTEMBER 30</u>		<u>FOR NINE MONTHS</u> <u>ENDED SEPTEMBER 30</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Loss before tax	P (135,489)	F (192,961)	P (496,533)	F (572,662)
Adjustments for:				
Depreciation and depletion	16,693	210,886	420,512	577,856
Equity in net losses of affiliated companies	42	121	959	856
Foreign exchange losses (income), net	(591)	8,507	(39)	8,507
Provision for retirement benefit cost	1,207	379	3,319	2,910
Loss on sale of asset	-	-	-	-
Interest income	(28)	(39)	(229)	(140)
Interest expense	4,385	5,117	13,467	15,945
Provision for income tax	1,531	(100)	(14,928)	(112)
Operating income (loss) before changes in working capital	(112,250)	34,284	(73,472)	35,473
Decrease (Increase) in:				
Receivables and advances to suppliers	35,897	(105,282)	(188,701)	(223,643)
Inventories and PPE	161,422	(61,621)	321,097	(143,247)
Prepayments and other assets	(30,387)	(1,565)	(161,635)	(87,475)
Increase (Decrease) in:				
Accounts payable and accrued expenses	152,595	547,266	115,944	438,457
Liability for mine rehabilitation cost	749	749	2,247	2,247
Deferred income tax liability, net	(2,041)	-	13,699	-
Cash generated from (used in) operations	205,986	413,831	29,178	21,811
Retirement benefits paid	(24,755)	(30,538)	(74,397)	(79,457)
Interest received	28	39	229	140
Net cash provided by (used in) operating activities	181,259	383,332	(44,990)	(57,506)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Investments, net	-	(13,030)	-	(13,030)
Acquisition of property and equipment	(182,316)	(234,751)	(695,738)	(530,693)
Unrecovered exploration costs and other assets	(29,741)	(104,434)	(263,399)	(189,450)
Net cash used in investing activities	(212,057)	(352,215)	(959,137)	(733,173)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Proceeds from:				
Borrowings	2,991	6,448	24,021	41,727
Payments of:				
Borrowings	(20,498)	11,745	(68,986)	317,355
Interest	(4,515)	(2,460)	(14,110)	(14,283)
Capital and other reserves	4	(1,874)	802,303	498,114
Net cash provided by (used in) financing activities	(22,018)	13,859	743,228	842,913
<b>NET INCREASE (DECREASE) IN CASH</b>	(52,816)	44,976	(260,898)	52,233
Beginning of period	60,492	93,492	268,575	86,234
<b>CASH AT END OF THE PERIOD</b>	<b>P 7,675</b>	<b>F 138,467</b>	<b>P 7,675</b>	<b>F 138,467</b>

**LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2018 & 2017**  
(Amounts in thousands)

	<u>SEPTEMBER 30</u> <u>2018</u>	<u>SEPTEMBER 30</u> <u>2017</u>
Authorized - P 6.64 billion		
Share capital at par value	P 6,637,393	P 5,135,525
Subscribed capital (net of subscriptions receivable)	(1,707)	334,181
Share premium	5,077,033	4,499,345
Cumulative changes in fair values of AFS investments	47,856	38,664
Re-measurement loss on retirement plan	(297,053)	(418,303)
Retained earnings		
Beginning balance	(3,398,532)	(2,488,625)
Net loss for the period	(511,336)	(572,417)
	<u>(3,909,868)</u>	<u>(3,061,042)</u>
<b>EQUITY ATTRIBUTABLE TO THE STOCKHOLDERS OF THE PARENT COMPANY</b>	<b>7,553,654</b>	<b>6,528,370</b>
<b>NON-CONTROLLING INTERESTS</b>	<b>239,436</b>	<b>257,188</b>
	<u><u>P 7,793,096</u></u>	<u><u>P 6,785,558</u></u>



## ANNEX "E"

### LEPANTO CONSOLIDATED MINING COMPANY

NOTES TO FINANCIAL STATEMENTS  
AS OF SEPTEMBER 30, 2018 and DECEMBER 31, 2017

#### **Note 1 - General information**

Lepanto Consolidated Mining Company (parent company) was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on September 8, 1936 primarily to engage in the exploration and mining of gold, silver, copper, lead, zinc and all kinds of ores, metals, minerals, oil, gas and coal and their related by-products. On January 29, 1985, the SEC approved the extension of the parent company's corporate term for another fifty (50) years after the expiration of its original term on September 8, 1986.

The Parent company's shares are listed and traded in the Philippine Stock Exchange.

On January 14, 1997, the Parent Company was registered with the Board of Investments (BOI) under Executive Order No. 226 as a new export producer of gold bullion on a preferred non-pioneer status. This registration 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 Victoria Project gold mine. Consequently, in October 1997, the parent company temporarily ceased operating its copper concentrate roasting plant facilities in Isabel, Leyte for an indefinite period. The Roasting plant facility was also registered with the Philippine Economic Zone Authority (PEZA) on December 17, 1985 pursuant to the provisions of Presidential Decree No. 66, as amended, and Executive Order No. 567 as a zone export enterprise to operate a roasting plant for the manufacture of copper calcine at the Isabel Special Export Economic Processing Zone.

On March 30, 2000, the Parent Company registered its copper flotation with the BOI as a new producer of copper concentrates on a preferred non-pioneer status. This registration 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; BOI registration was cancelled on July 11, 2006.

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

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

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

The Parent Company currently operates 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 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. 001-90-CAR was jointly executed by the Company and 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 Company and FSGRI filed an application for its renewal on June 4, 2014. The application for renewal of the mining rights are still pending approval as at December 31, 2017.

The Parent Company has its principal office at the 21st Floor, 8747 Lepanto Building, Paseo de Roxas, Makati City.

## **Note 2 – Compliance with Generally Accepted Accounting Principles**

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

The accounting policies adopted in the preparation of the financial statements are consistent with the most recent annual financial statements.

### **Note 3 – Cash and Cash Equivalents**

	<b>09/30/2018</b>	12/31/2017
Cash on hand	<b>1,940</b>	3,169
Cash in banks	<b>5,735</b>	265,405
	<b>7,675</b>	268,575

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

### **Note 4 – Receivables**

	<b>09/30/2018</b>	12/31/2017
Trade	<b>156,438</b>	34,528
Nontrade	<b>54,879</b>	64,451
Advances to officers and employees	<b>3,645</b>	4,727
	<b>214,962</b>	103,706
Less: Allowance for impairment losses	<b>14,734</b>	14,734
	<b>200,228</b>	88,973

The Parent Company's trade receivables arise from its shipments of gold, silver and concentrate to refinery and smelter customer based on contract/agreement.

Trade and nontrade are non-interest bearing and are generally collectible on demand. Nontrade receivables comprise mainly of receivables from subcontractors and other third parties, while receivables from officers and employees pertain to cash advances made by employees for the operations of the Group.

Receivables from officers and employees are non-interest bearing and are generally subject to liquidation. Unliquidated receivables from officers and employees are collectible on demand or considered as salary deduction.

### **Note 5 – Inventories**

	<b>06/30/2018</b>	12/31/2017
Parts and supplies	<b>468,208</b>	465,389
Mine Products	<b>95,030</b>	71,455
	<b>563,238</b>	536,844

Parts and supplies include materials and supplies stored in Metro Manila, Bulacan, Mankayan, and Leyte. The increase in the amount of P28.2 million represents restocking of imported materials for use in operations.

Mine products inventory include copper concentrates stored in a concentrate bodega owned by SSI located at its compound in Poro, San Fernando City, La Union.

### **Note 6 – Advances to suppliers and contractors**

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

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

### **Note 7 – Other current assets**

	06/30/2018	12/31/2017
Input VAT	726,582	676,624
Deferred costs	944	1,232
Prepayments	67,168	32,178
Others	3,087	1,454
	797,781	711,488

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

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

Deferred costs represent cost of withdrawn tubings to be used in drilling operations. Aforesaid costs are amortized based on meters drilled.

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

### **Note 8 – Trade and other payables**

Composed of trade, due to related parties, accrued expenses and other liabilities, trust receipts, employee related expenses, unclaimed dividends, payables to regulatory authorities, accrued utilities and accrued production tax.

Nature, terms and conditions of the Group's liabilities:

- Trade payables include import and local purchases of equipment and inventories such as various parts and supplies used in the operations of the Group. These are non-interest bearing and are normally settled on sixty (60) days' terms.

- Accrued expenses and other liabilities are noninterest-bearing and are normally settled on a 30 to sixty (60) days' term. These include other operating expenses that are payable to various suppliers and contractors.
- Trust receipts refer to arrangements of the Group with banks related to its importations of inventories and various equipment which are interest bearing and have an average term of ninety (90) to one hundred twenty (120) days.
- Employee related expenses include unclaimed wages, accrued vacation and sick leave and accrued payroll. These are non-interest bearing and are payable in thirty (30) days' term.
- Unclaimed dividends pertain to unpaid cash dividends declared by the Parent Company to its stockholders. These are non-interest bearing and are payable upon demand of the payee.
- Payable to regulatory agencies include withholding taxes and other government contributions related to employees of the Group. These are non-interest bearing and are normally remitted within ten (10) days from the close of each month.
- Accrued utilities pertain to unpaid billings for power, communication, light and water charges. These are non-interest bearing and are normally settled within thirty (30) to ninety (90) days.
- Accrued production taxes pertain to excise taxes on metal sales. These are non-interest bearing and are settled within fifteen (15) days after the end of each quarter.

#### **Note 9 - Business Segments**

The Group derives revenue from the following main operating business segments:

**Mining activities** – This segment engages in exploration and mining of gold, silver, copper, lead, zinc and all kinds of ores, metals, minerals, oil, gas, and coal and related by-products.

**Investment activities** – This segment derives its income as a general agent, broker or factor of any insurance company or as a commercial broker, agent or factor of any person, partnership, corporation or association engaged in any lawful business, industry or enterprise. Income is derived from commissions, which represent income on non-life insurance policies underwritten by a subsidiary for certain principals.

**Hauling and Leasing activities** – This segment engages in handling all kinds of material, products and supplies in bulk and maintaining and operating terminal facilities such pier and warehouses. Income is derived mainly from hauling fees and warehouse rentals.

**Insurance activities** – This segment derives its revenues from premiums from short duration insurance contracts, which are recognized over a period of the contracts using the 24<sup>th</sup> month method.

**Drilling activities** – This segment derives its income from drilling services to its related and outside parties.

**Manufacturing and Trading** – This segment derives its revenue from manufacturing, distributing, selling and buying machinery and equipment, general merchandise and articles related to diamond core drilling industry.

The assets, liabilities and results of the business segments of the LCMC Group for the 3<sup>rd</sup> quarter of the year 2018 and 2017 are as follow:

**Mining activities**

	2018 (in thousands)	2017 (in thousands)
CURRENT ASSET	1,611,819	1,808,262
NON-CURRENT ASSET	15,299,618	14,734,665
CURRENT LIABILITES	1,607,808	2,002,645
NON-CURRENT LIABILITIES	7,865,845	7,870,382
GROSS INCOME	1,485,811	1,068,289
NET INCOME / (LOSS)	(538,568)	(538,630)

**Investment activities**

	2018 (in thousands)	2017 (in thousands)
CURRENT ASSET	291	155
NON-CURRENT ASSET	205,716	201,349
CURRENT LIABILITES	89,655	89,204
NON-CURRENT LIABILITIES	18,763	18,763
GROSS INCOME	-	-
NET INCOME / (LOSS)	(214)	(4,496)

**Hauling and Leasing Activities**

	2018 (in thousands)	2017 (in thousands)
CURRENT ASSET	163,902	158,841
NON-CURRENT ASSET	411,830	406,215
CURRENT LIABILITES	7,569	6,094
NON-CURRENT LIABILITIES	128,219	128,749
GROSS INCOME	27,428	20,830
NET INCOME / (LOSS)	2,799	(2,016)

**Drilling Activities**

	2018 (in thousands)	2017 (in thousands)
CURRENT ASSET	236,085	410,875
NON-CURRENT ASSET	122,934	137,502
CURRENT LIABILITES	195,909	419,354
NON-CURRENT LIABILITIES	33,830	41,879
GROSS INCOME	140,181	220,536
NET INCOME / (LOSS)	30,788	(26,777)

**Note 10 – Seasonality**

There is no seasonality or cyclical factors in the company's operations.

LEPANTO CONSOLIDATED MINING CO.

**AGING OF ACCOUNTS RECEIVABLE - TRADE**

AS OF SEPTEMBER 30, 2018

<i>CUSTOMERS</i>	<i>CURRENT</i>	<i>OVER 30 DAYS</i>	<i>OVER 60 DAYS</i>	<i>TOTAL</i>
HERAEUS LTD.	17,026,745	-	-	17,026,745
LOUIS DREYFUS COMPANY	-	-	-	-
CLIVEDEN TRADING	104,885,458	-	-	104,885,458
	121,912,203	-	-	121,912,203

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND  
RESULT OF OPERATIONS**

As of September 30, 2018

Consolidated revenues for the third quarter of 2018 amounted to P537.4 million compared with P401.7 million in 2017. Net loss decreased to P134.1 million versus P193.1 million the previous year.

For the nine months ended September 2018, consolidated revenues improved to P1,486.8 million versus P1,102.6 million in the same period last year. Net loss totaled P511.5 million compared with P572.8 million in 2017.

**Mining Operations**

July – September 2018 versus July – September 2017

Copper-gold concentrate produced from the rehabilitated copper flotation plant totaled 2,887 dry metric tons (DMT) containing 5,962 oz. of gold; 18,365 oz. of silver; and 874,904 lbs. of copper versus last year 1,541 dry metric tons (DMT) containing 3,523 oz. of gold; 18,744 oz. of silver; and 593,413 lbs. of copper. Of the copper-gold concentrate produced, 588 DMT remained in inventory with an estimated value of around P102.50 million.

The dore production contained 1,888 oz. of gold and 1,469 oz. of silver, for a total gold production of 7,850 oz. versus 7,017 oz. last year; and total silver production of 19,834 oz. versus 20,557 oz. last year. Metal sales went up by P120.7 million to P551.2 million due largely to the copper-gold concentrate production. Net loss decreased to P115.91 million from last year's P162.9 million.

Gold price averaged US\$1,209.33/oz. versus US\$1,288.37/oz. while silver price averaged US\$14.78/oz. versus US\$16.95/oz. the preceding year. The P/US\$ exchange rate averaged P53.55/US\$1 compared with P50.92/US\$1 last year.

Cost and expenses increased by 13% to P665 million from P588.13 million last year as the tonnage mined increased by 35,590 tonnes and tonnage milled, by 44,470 tonnes. Mining cost went up from P217 million to P254 million; milling cost from P76.5 million to P120.3 million.

Production tax went up by 113% to P21.7 million due to higher production and the doubling of the excise tax rate to 4%. Depreciation increased by P2.7 million and Dore/Concentrate handling & assaying costs, by P6.9 million.



Finance cost went down to P4.4 million from P5.0 million. Dollar-denominated transactions resulted in a foreign exchange loss of P0.1 million this year compared with a loss of P2.8 million the previous year. Other income was unchanged at P2.0 million.

January – September 2018 versus January – September 2017

A total of 7,597 DMT copper-gold concentrate containing 2,238,929 lbs. of copper, 15,156 ounces of gold, and 55,859 ounces of silver was produced in 2018 versus last year 1,541 DMT containing 593,413 lbs. of copper, 3,523 ounces of gold, and 18,744 ounces of silver.

The dore production contained 4,856 oz. of gold and 3,410 oz. of silver, for a total gold production of 20,213 oz. versus 17,338 oz. last year; and total silver production of 60,237 oz. versus 34,706 oz. last year.

Metal sales went up by P417.5 million to P1,485.8 million due mainly to the copper-gold concentrate production. Net loss increased by P0.5 million to P538.2 million compared with last year's P537.7 million.

Gold price averaged US\$1,269.46 /oz. versus US\$1,258.68 /oz. while silver price averaged US\$16.09 /oz. versus US\$17.18 /oz. the previous year. The P/US\$ exchange rate averaged P 52.60 /US\$1 compared with P 50.18 /US\$1 last year.

Cost and expenses increased by 27% to P2,020.1 million from P1,586.3 million last year due largely to the higher tonnage milled and the resumption of operations of the copper flotation circuit. Mining cost went up by P178.1 million to P683.4 million; milling cost by P134.1 million; and depletion cost by P1.9 million to P412.8 million. Dore/Concentrate handling and hauling cost increased by P38.4 million to P54.6 million.

Overhead went up by 5% to P298.6 million from P283.5 million on account of higher lime & sodium metabisulfate consumption (P11.8 million); and costs of handling, freight, and delivery of materials/supplies (P3.4 million). Production tax increased by 164% to P61.39 million due to higher metal production and the doubling of the excise tax rate.

Finance cost dropped to P13.2 million from P15.8 million as short-term loans were partly settled in the current year. Payment of dollar-denominated loans resulted in a foreign exchange gain of P1.7 million compared with a loss of P8.5 million the previous period. Other income increased to P7.5 million from P4.6 million arising from rental income.

**BALANCE SHEET MOVEMENTS**

September 30, 2018 versus December 31, 2017

Cash and cash equivalents decreased by P260.9 million on account of capital expenditures and exploration. Receivables increased by P111.3 million representing the unpaid portion of a copper-gold concentrate shipment. Inventories and advances to suppliers went up by 5% and 35%, respectively, due to increased materials and supplies

requirements for operations. Other current assets increased by 12% or P86.3 million due mainly to the increase in Input Value-Added-Tax and prepaid expenses.

The increase in other noncurrent assets of P75.3 million was due mainly to deferred charges awaiting final recording.

Short-term borrowings increased by P9.3 million and long-term borrowings decreased by P78.3 million due to the reclassification to short-term loans and partial settlement of outstanding loans. Income tax payable increased by 354% in relation to income earned by a subsidiary.

Capital stock increased by 13.8% on account of the stock rights offering.

Deficit increased by P511.3 million representing the net loss from January to September 2018.

### **CAPITAL EXPENDITURES**

Capital expenditures for the quarter totaled P178.5 million, of which P29.7 million went to exploration; P80.4 million to machinery and equipment; P65.7 million to mine development; and P2.6 million to maintenance of tailings storage facility 5A.

For the nine months ended September 2018, total capital expenditures amounted to P721.2 million; of which P263.3 million went to exploration; P255.8 million to machinery and equipment; P195.3 million to mine development; and P6.8 million to maintenance of tailings storage facility 5A.

### **OUTLOOK FOR THE YEAR**

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The projected metal output for the year is 30,600 oz. of gold, 85,600 oz. of silver and 3.0 million pounds of copper.

Various improvements have been and are continually being introduced in the copper flotation plant. The grinding circuit will be automated to better control the particle size distribution of slurry presented to the milling process. The gravity concentrators will be replaced with new units to improve metal recoveries. A major change in the gravity recovery system will be leaching of the whole gravity concentrate stream in an Intensive Leach Reactor eliminating the use of shaking tables and the smelting of gravity concentrates. These changes are expected to raise the overall gold recovery and reduce operating costs.

### **SUBSIDIARIES**

The key performance indicator used for the subsidiaries is net income for the nine months ended September 2018 versus the same period the previous year.

Diamond Drilling Corporation of the Philippines reported a net income of P30.8 million compared with P26.8 million net loss last year. Lepanto Investment and Development Corporation reported a net loss of P214.1 thousand compared with last year's net loss of P4.5 million. Shipperside, Incorporated registered a net income of P2.8 million against last year's net loss of P2.1 million.

\* - KEY PERFORMANCE INDICATORS-LCMC

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

**LEPANTO CONSOLIDATED MINING COMPANY**  
**Impact of Current Global Financial Condition**

**Credit Risk**

Credit risk refers to the potential loss arising from any failure by counterparties to fulfill their obligations, as and when they fall due. It is inherent to the business as potential losses may arise due to the failure of its customers and counterparties to fulfill their obligations on maturity dates or due to adverse market conditions.

All gold exports when priced are practically settled on cash basis. Parent Company's existing contracts with gold refineries allow for advances of 98% of payable metals paid in two (2) working days from pricing. Full settlement is normally received within three (3) working days. For copper concentrates, Parent Company's existing contracts with smelters allow for advances of 90% of payable metals paid within two (2) to five (5) working days from pricing. Full settlement, however, takes three (3) to six (6) months.

The Parent Company enters into marketing contracts only with refineries and smelters of established international repute. Since the Parent Company became a primary gold and copper concentrates producer, it has entered into exclusive marketing contracts with Heraeus for gold and Trafigura Beheer BV and Shanghang County Jinshan Trading Co., Ltd. for copper concentrates.

The Group has a significant concentration of credit risk in relation to its trade receivables from Heraeus. Such risk is managed by securing the specific approval of the BOD before entering into contracts with refineries and by assessing the creditworthiness of such refineries.

The credit risk arising from these financial assets arises from default of the counterparty, with maximum exposure equal to the carrying amount of these instruments. The Group's gross maximum exposure to credit risk is equivalent to the carrying values since there are no collateral agreements for these financial assets.

There is no significant exposure to credit risk.

**Market Risk**

Market risk is the risk of loss to future earnings, to fair values or to future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in foreign currency exchanges rates, interest rates, equity prices and other market changes.

**Foreign Exchange Risk**

Foreign exchange risk is the risk to earnings or capital arising from changes in foreign exchange rates. The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its consolidated financial statements and consolidated statements of cash flows.

The Group follows a policy to manage its currency risk by closely monitoring its cash flow position and by providing forecast on all other exposures in non-Philippine Peso currencies.

The Group sells its product to the interstates national market. All metal sales are denominated in US\$. Dollar conversion of metal sales to Philippine Peso is based on the prevailing exchange rate at the time of sale. The Group also has purchase transactions denominated in AU\$.

Foreign currency-denominated liabilities of Parent Company totaled US\$1.4 million at the end of second quarter this year. Same amount was revalued at the start of the year based on an exchange rate of P49.93/US\$. No revaluation of said liabilities during the current year. Foreign exchange gain or losses due to the movement of the Philippine peso vis a vis the US\$ are recognized at year-end on outstanding US\$ denominated assets and liabilities. The gain/(loss) on Philippine peso appreciation/(depreciation) against the dollar as a result of settlement of liabilities is reflected as foreign exchange gain/(loss) in the financial statements.

As of the end of the quarter, Far Southeast Gold Resources, Inc., a 60%-owned subsidiary, had total foreign currency-denominated liabilities of US\$144.9 million. Said foreign currency liabilities are converted to Philippine peso at the time of their incurrence. No revaluation of said liabilities is done on account of the appreciation/depreciation of the Philippine peso; hence, no foreign exchange gain/loss is recognized for the quarter ended. Settlement of these obligations will be at their recorded value based on the agreement with the creditor/investor.

#### **Interest Rate Risk**

The Group's exposure to the risk for changes in market interest rate relates primarily to its long-term borrowings with floating interest rates. The Group regularly monitors its exposure to interest rates movements. Management believes that cash generated from operations is sufficient to pay for its obligations under the loan agreements as they fall due.

#### **Liquidity Risk**

Liquidity risk arises from the possibility that the Group may encounter difficulties in raising funds to meet maturing obligations from financial instruments or that a market for derivatives may not exist in some circumstances.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of advances from related parties. The Group considers its available funds and its liquidity in managing its long-term financial requirements. For its short-term funding, the Group's policy is to ensure that there are sufficient capital inflows to match repayments of short-term debt.

As part of its liquidity risk management, the Group regularly evaluates its projected and actual cash flows. It also continuously assesses conditions in the financial markets for opportunities to pursue fund raising activities, in case any requirements arise. Fund raising activities may include bank loans and capital market issues. Accordingly, its loan maturity profile is regularly reviewed to ensure availability of funding through an adequate amount of credit facilities with financial institutions.

#### **Fair Values**

PFRS defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models, as appropriate.

*Cash, Receivables, Trade Payables and Accrued Expenses*

The carrying amounts of cash and cash equivalents, receivables and trade and other payables, which are all subject to normal trade credit terms and are short-term in nature, approximate their fair values.

*AFS Investments*

Fair values of investments are estimated by reference to their quoted market price at the end of the reporting period. Unquoted equity securities are carried at cost, net of impairment in value, since fair value of these AFS securities cannot be reliably determined as these securities are not listed and have no available bid price.

*Loans Payable and Borrowings*

Carrying value of the loans payable and borrowings as at end of the quarter approximate their fair values. Borrowings from local banks are all clean loans with interest rates ranging from 5.0% to 7.0%.

**LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES**  
**FINANCIAL RATIOS**  
**PURSUANT TO SRC RULE 68, AS AMENDED**  
**SEPTEMBER 30, 2018**  
**(With Comparative Annual Figures for 2017)**

	3RD QUARTER SEPTEMBER 2018	YEAR ENDED DECEMBER 2017
Profitability Ratios:		
Return on assets	-2.95%	-5.57%
Return on equity	-6.56%	-12.64%
Gross profit margin	-22.15%	-34.32%
Net profit margin	-34.40%	-58.51%
Liquidity and Solvency Ratios:		
Current ratio	1.11:1	1.19:1
Quick ratio	0.26:1	0.35:1
Solvency ratio	-0.05:1	-0.10:1
Financial Leverage Ratios:		
Asset to equity ratio	2.22:1	2.27:1
Debt to equity ratio	1.22:1	1.27:1
Interest coverage ratio	35.87:1	8.32:1