



## **LEPANTO CONSOLIDATED MINING COMPANY**

(A corporation organized and existing under Philippine Laws)

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

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

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

## **PROSPECTUS**

**October 5, 2017**

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**LEPANTO CONSOLIDATED MINING COMPANY**

By:

**FELIPE U. YAP**

Chairman and Chief Executive Officer

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

Doc. No. \_\_\_\_:

Page No. \_\_\_\_:

Book No. \_\_\_\_:

Series of 2017

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## **GLOSSARY OF TERMS**

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

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



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

## **Business and General Information**

### **Business**

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

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

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

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

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

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

Lepanto continues to produce gold from its Victoria operations, located in Mankayan, Benguet. Lepanto resumed copper operations in 2008, which it suspended in the fourth quarter of that year due to the sharp decline in copper prices.

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

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

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

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

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

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

#### MINING CLAIMS

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

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

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

#### SUBSIDIARIES

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

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

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

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

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

#### Marketability of Products

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

The Company started commercial operation of gold and silver-bearing copper concentrates in the first week of October. The first 1,048 dry metric tons of concentrates produced during the trial/debugging period have been sold to a Swiss copper concentrate trader. The Company is in talks with a number of prospective buyers for the sale of its subsequent copper concentrate production.

## **Recent Developments**

### MPSA Renewal

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

### ISO Certification

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

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

### DENR Audit/ Suspension Order

Another intensive audit of the Company's compliance with environmental and mining rules and regulations was made from 11-14 August 2016 by a DENR Mine Audit team pursuant to DENR Memorandum Order No. 2016-01. The Company passed the audit, and received on 22 August 2017 a signed audit report with the following conclusion: "The Company substantially complied with the pertinent provisions of the Environmental and Mining laws, rules and regulations, thus No penalty is recommended by the Team". The said report was jointly signed by the audit team leader and Lepanto's Vice President-Resident Manager.

However, on 27 September 2016, in a televised press conference, then Undersecretary Leo L. Jasareno announced that there were "mines in which the audit resulted in the determination of various violations and therefore the audit team recommended for suspension", and that the Company was among those recommended for suspension. In another press conference on 2 February 2017, DENR Sec. Regina Lopez announced that 23 companies shall be closed down and five, suspended. The list of suspended companies included Lepanto. However, Lepanto was served a copy of an order of suspension only on 14 February 2017. On the same day, Lepanto filed a Notice of Appeal with the Office of the President. Pursuant to Administrative Order No. 22, Series of 2011, such filing stays the execution of the Order, allowing Lepanto to continue operating.

### Exploration Program

Since October 2015, Lepanto's exploration team has completed 47,275 meters of underground drilling to evaluate the copper – gold project resources at the former enargite mining area. This program has successfully discovered combined indicated and inferred resources of 7.746 Mt at 0.896 % Cu and

1.974 g/t Au. Furthermore, on-going drilling has outlined an additional geologic resource of 7.288 Mt at 1.694 % Cu and 2.017 g/t Au, and an increased drilling program will bring these areas into inferred and indicated categories.

#### Copper/Gold Project

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

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

#### **CERTIFICATION AND CONSENT**

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

- *I am a Licensed Geologist registered with the Professional Regulations Commission of the Philippines (PRC No. 0497).*
- *I graduated from the University of the Philippines, Diliman in 1977 with a Bachelor of Science degree in Geology.*
- *I hold the following Professional Qualifications, and have been in good standing with the following professional organizations:  
Geological Society of the Philippines (GSP) – Member  
Philippine Mineral Reporting Code (PMRC)/Geological Society of the Philippines (GSP) – Accredited Competent Person (CP Reg. No. 12-10-3 valid until November 2018)*
- *I have practiced my profession since my graduation in 1977, and have worked as an Exploration Geologist and Mining Geologist, and on occasions, as Geological Consultant for over 35 years. I have been involved in mineral exploration on properties in the Philippines, Indonesia and Brazil, and have undertaken project generation activities in these same areas.*
- *I have extensive experience and know-how in the evaluation of mineral properties, in particular, exploration, evaluation and exploitation of epithermal gold and/or copper vein deposits and porphyry copper and gold deposits. My experience is well beyond the minimum required by the PMRC and other equivalent reporting codes.*
- *I am aware of the definition of "Competent Person" as defined in the Philippine Mineral Reporting Code ("PMRC"), and certify that by virtue of my education, training, related work experience as well as affiliation and accreditation with the sole professional organization for Geologists, that I fulfill the requirements for a "Competent Person" set out by the Philippine Mineral Reporting Code.*
- *I was employed by Lepanto Consolidated Mining Company ("Lepanto") from April 1977 to December 1977 and from February 1992 and March 1995 but am no longer connected with the Company; I am presently, and since April 2011 has been, employed by Cordillera Exploration Company Incorporated as Exploration Manager.*

- *It is my professional opinion that the Mineral Resource Estimates, as prepared by the technical staff of Lepanto is a result of diligent and systematic geological work, systematic drilling programs, and maintenance of an impeccable and functional geological database.*
- *I have no vested interest whatsoever in Lepanto which has engaged me to review the mineral resource estimates prepared by the company's technical staff and consultants for its Enargite Operations at its Mankayan Mine Operation in Mankayan, Benguet Province, covered by MPSA No. 001-90-CAR.*
- *I have read the guidelines set out by the Philippine Mineral Reporting Code and certify that this review has been prepared in accordance with the Code.*
- *I consent to the filing of this certification with the Philippine Stock Exchange and other regulatory government authorities and any publication by Lepanto for regulatory and disclosure purposes, including electronic publication in the public company files on their websites*

**JOEL S. DIAZ**

*Competent Person*

*Reg. No. 12-10-3*

*Licensed Geologist*

*PRC Lic. No. 0497*

*PTR No. A-3245343*

*Issued on 18 January 2017*

*Issued in Taguig City*

## **EXECUTIVE SUMMARY**

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

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

☐ Cu bearing

☐ alunite.

*This PMRC-compliant technical report, prepared by the Lepanto technical staff Exploration team under the supervision of Mr. Joel S. Diaz, PMRC/GSP-accredited Competent Person, discloses information related to the results of exploration activities and mineral resource estimation of Lepanto's Copper-Gold Project effective 28 July 2017. This report has been also prepared for submission to the Philippine Stock Exchange (PSE) as support to the Company's listing application for Stock Right's Offering.*

*The updated mineral resource estimates of Lepanto, also referred to as Run 9A, cover the enargite- QPG ore bodies comprising of Carmen, NW QPG, Florence, Elena and Easterlies. The estimates utilized all*

available drillhole data generated up to June 07, 2017 and all channel cut data available from 2001 up to May 31, 2017. A total of 981 drillholes equivalent to more than 173.0 km of drill cores and 25,558 channel cut samples were considered in the current resource model and estimate. All resource estimation processes such as database validation, geological modeling, geostatistical analysis, block modeling and estimation were carried out using GEMS v6.5 software.

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

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

### **Mineral Resource Tabulation**

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

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

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

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

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

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

<b>Area</b>	<b>Classification</b>	<b>Tonnage (kT)</b>	<b>Au (g/t)</b>	<b>Cu (%)</b>	<b>koz Au</b>	<b>klb Cu</b>
<b>Carmen</b>	<i>Indicated</i>	2,184	1.770	0.625	124	30,098
<b>Florence</b>	<i>Indicated</i>	2,118	1.672	1.371	114	64,000

<b>Elena</b>	<i>Indicated</i>	440	2.045	1.875	29	18,188
<b>NW QPG</b>	<i>Indicated</i>	1,646	2.508	0.463	133	16,797
<b>Easterlies</b>	<i>Indicated</i>	474	2.085	0.820	32	8,564
<b>TOTAL</b>		<b>6,861</b>	<b>1.956</b>	<b>0.910</b>	<b>431</b>	<b>137,647</b>

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

### Exploration Target

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

Table 11-22. Copper-gold exploration targets.

<b>Area</b>	<b>Tonnage (kT)</b>	<b>Au (g/t)</b>	<b>Cu (%)</b>	<b>Remarks</b>
<i>Carmen</i>	400	1.549	0.471	<i>Consists of blocks from Run 9A that were interpolated using less than 2 points within the 75 m search radius. Cut-off grade applied is 1.0% CuEq.</i>
<i>Florence</i>	424	2.022	1.470	
<i>Elena</i>	290	1.878	1.717	
<i>NW QPG</i>	719	2.504	0.680	
<i>Easterlies</i>	133	1.711	0.562	
<i>NW Enargite</i>	1,088	1.062	2.524	<i>Derived from LeCCa Project; tonnages were calculated from actual vein width and total lateral ore exposures on silled-out areas; grades were estimated manually</i>
<i>Yolanda</i>	1,407	2.542	1.088	



<i>Claudia</i>	<i>115</i>	<i>2.529</i>	<i>1.998</i>	<i>using prismoidal averaging; declared on Jan 01, 2017 and certified by a Competent Person in</i>
<i>Footwall Branch Veins</i>	<i>2,478</i>	<i>2.005</i>	<i>2.156</i>	<i>Tonnages and grades were manually estimated based on last stope cut dimensions and samples' grades.</i>
<i>940 Shaft</i>	<i>236</i>	<i>2.821</i>	<i>2.680</i>	
<b><i>Total</i></b>	<b><i>7,288</i></b>	<b><i>2.017</i></b>	<b><i>1.694</i></b>	

## **Risk Factors**

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

### **a) Risks relating to the Company's over-all business**

#### **i) Further Net Losses Projected for 2017**

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

#### **ii) Suspension Order**

The suspension order dated February 8, 2017 is subject of an appeal with the Office of the President. The Appeal is based on the following grounds: 1) Secretary Lopez is without authority or power to issue the suspension order in question; 2) Assuming, without admitting, that Secretary Lopez has the power to issue the questioned suspension order, her imposition of the penalty of suspension upon Lepanto is without basis in fact and in law, as Lepanto had actually passed the mine audit; and 3) Secretary Lopez violated Lepanto's right to due process of law when she issued the suspension order. Lepanto will avail of all legal remedies for the reversal of the suspension order, should the Appeal be dismissed. Such remedies include the filing of a Motion for Reconsideration with the Office of the President, which if denied, will prompt Lepanto to file a petition with the Court of Appeals or the Supreme Court and seek a Temporary Restraining Order to stay the execution of the Suspension Order.

#### **iii) MPSA Renewal/Arbitration Case**

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

It should be noted that, prior to resorting to arbitration, the MGB-CAR had advised Lepanto and FSGRI through a letter dated August 20, 2014 that they had substantially complied with the requirements for the

renewal of MPSA 001-90 save for the FPIC and Certification Precondition requirement under the IPRA. If Lepanto's position is upheld, then there is no need to obtain the FPIC and Certification Precondition for the renewal of the MPSA. Otherwise, Lepanto will have to initiate the FPIC process. Pls refer to page 6 for a more detailed discussion of this matter.

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

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

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

**v) Estimates of Proved and Probable Reserves are Uncertain**

Estimates of proven and probable reserves are subject to considerable uncertainty. Such estimates are, to a large extent, based on interpretations of geologic data obtained from drill holes and other sampling techniques. Lepanto observes industry accepted procedures and guidelines in the management of its exploration data during the execution of the drilling program and employs the latest resource estimation tools in the processing of data.

**vi) Operational and Environmental Risks**

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

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

**vii) Exercise of Option by Gold Fields**

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

**viii) Competition/ Market for Lepanto's Products**

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

**ix) Labor**

The Company has CBAs with its labor unions. Its 27<sup>th</sup> CBA with the mine-based Lepanto Local Employees Union (which won over the KMU-affiliated union in a certification election in 2013) was executed on November 17, 2016. The 11<sup>th</sup> CBA of the Lepanto Supervisors' Union was executed on May 5, 2017. The CBA with the Lepanto Employees Union Makati expired on June 30, 2017, pending negotiations for a new CBA. Please see further discussion on Labor on page 24.

**x) Volatility of Metal Prices**

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

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

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

**xii) Risk on Environmental Legislation**

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

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

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

**b) Risks relating to the Rights Shares**

**i) Marketability of Shares**

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

**ii) Fluctuations in the Peso/US\$ rate**

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

**Use of Proceeds**

The proceeds of the offering will amount to P1,751,845,000, to be utilized as follows:

<b><u>PURPOSE</u></b>	<b><u>TO BE PAID</u></b>		<b><u>TOTAL</u></b>
	<b><u>4th Quarter 2017</u></b>	<b><u>1st Quarter 2018</u></b>	
Copper/Gold Project Development	P1,399,512,000.00	0.00	P1,399,512,000
Exploration	40,000,000.00	40,000,000.00	80,000,000
Debt Settlement/Pension	260,333,000.00	0.00	260,333,000
Cost of Offering	4,381,152.41	5,839,483.95	12,000,000
<b>Total</b>	<b>1,706,005,516.05</b>	<b>45,839,483.95</b>	<b>1,751,845,000</b>

All the accounts shown above will be paid within the period 2017-2018.

**Copper-Gold Project Development**

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

### Exploration Program

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

### Settlement of Debts

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

The Company took out loans from two creditor banks, namely the United Coconut Planters Bank (UCPB) and Philippine Bank of Communication (PBC) to fund the Company's operations. Total amounts owing to UCPB are US\$677,888 and P4.04 million of which P28.3 million will be paid in the fourth quarter of 2017, the balance to be paid out of the Company's operations from 2018 to 2019. Total amount owing to PBC is P155 million, of which P7.2 million will be paid in the fourth quarter of 2017. The balance will be paid out the Company's operations also in 2018-2019.

Debts to power providers San Miguel Energy Corporation, Phinma Energy Corporation, and the National Grid Corporation of the Philippines, will be fully settled in the fourth quarter of 2017, amounting to P71.1 million.

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

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

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

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

## Cost of Offering

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

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

## Determination of Offering Price

The shares will be offered to all eligible Lepanto shareholders at the exercise price of P0.15 per share of either class or a discount of about 32% to the closing price of Lepanto Class "A" and 35% to closing prices of Lepanto Class "B" shares on July 14, 2017 the day prior to the Lepanto Board's approval and announcement of the offering. The discount is being given to encourage participation in the offering. The exercise price is 1.5 times the par value of P0.10 per share.

## Plan of Distribution

The Rights Shares shall be offered on a pre-emptive rights basis to existing shareholders of the Company as of the Record Date. The Offer shall be in the proportion of one (1) share for every 4.685 shares of the same class held as of September 14, 2017, the Record Date, at a Rights Offer Price of P0.15 per Rights Share. The Available Shares shall be granted to those shareholders who had exercised their rights and had applied for Additional Shares. These shall be distributed by the underwriter Multinational Investment Bancorporation ("MIB") on a pro-rata basis, to be determined after all the subscription agreements with the required payments shall have been received by the Company. The principal stockholder, F. Yap Securities, Inc., has firmly committed to subscribe not just to its entitlement of Rights Shares, but also to any rights shares that will not otherwise be taken up by other qualified shareholders. In the event that F. Yap Securities, Inc. should fail to subscribe to the unsubscribed portion of the SRO, the Underwriter will fully take up all the unsubscribed shares.

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

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

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

## **Relationship with the Issuer**

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

## **TERMS AND CONDITIONS OF THE OFFER**

ISSUER:	Lepanto Consolidated Mining Company
RATIO:	one (1) new common share for every 4.685 common shares held
ELIGIBLE SHAREHOLDER/ MINIMUM SHAREHOLDINGS	a shareholder with fully paid subscriptions and at least five (5) shares of stock of the Company as of the Record Date
OFFER SHARES:	Common Shares of the Company with par value of P0.10 per share consisting of 7,007,384,282 class "A" shares and 4,671,583,606 class "B" shares or a total of 11,678,967,888 shares. The Offer Shares shall be considered issued and shall rank equally in all respects with the existing shares after a valid subscription agreement is perfected between LCMC and the subscriber as evidenced by the written acceptance by LCMC of the application to subscribe and issuance of an official receipt covering the payment of at least 50% of the Subscription Price
OFFER PRICE:	P0.15 per share
PAR VALUE:	P0.10 per share
RECORD DATE:	November 6, 2017
EX-DATE:	October 30, 2017
OFFER PERIOD:	December 4 to 8, 2017
PAYMENT TERMS:	50% due within the Offer Period; balance due on January 5, 2018. Full Payment is acceptable and will be duly receipted but (i) but the Offer Shares will not be tradable before the actual due date of the balance, that is January 5, 2018; and (ii) such full payment does not guarantee the Company's approval of the Additional Subscription, as the Available Shares, to be determined only after the Offer Period, will be distributed to the Applicants in proportion to their original shareholdings as of the Record Date.
ADDITIONAL DOCUMENTS NEEDED:	If the Subscriber is a partnership, corporation or trust account, the Subscription Agreement must be accompanied by a Secretary's Certificate embodying the resolution authorizing the subscription to the Rights offer and designating the authorized signatory for the transaction;

	Individual subscribers must submit a copy of a valid ID together with the Subscription Agreement.
SECOND ROUND:	To be considered for the Second Round, Additional Subscriptions must be indicated in the Subscription Agreement and submitted within the Offer Period with the corresponding 50% payment. In the event that the SRO is not fully taken up on the First Round, shareholders who have applied for Additional Subscriptions ("Applicant") will automatically qualify for the Second Round of the rights offering; the Available Shares shall be distributed to the Applicants in proportion to their original shareholdings as of the Record Date.
REFUND:	The initial subscription payment of each Applicant shall be applied first to the approved Additional Subscription; then to the payment of the balance of the entire subscription. Any further balance shall be refunded via check not later than five (5) banking days after the end of the Offer Period. Such refund check shall be mailed to the Applicant's address as indicated in the Subscription Agreement
UNDERWRITER:	Multinational Investment Bancorporation (MIB) will act as Underwriter of the Offer. Any unsold Rights Shares will be taken up and distributed by MIB. F. Yap Securities, Inc., a principal shareholder of the Company, has firmly committed to subscribe not just to its entitlement of Rights Shares but also to any rights shares that will not otherwise be taken up by other qualified shareholders. In the event that the F.Yap Securities, Inc. should fail to subscribe to the unsubscribed portion of the SRO, MIB will fully take up all the unsubscribed shares.
STOCK TRANSFER AGENT:	STOCK TRANSFER SERVICE, INC.
RECEIVING AGENT:	Office of the Chief Accountant 20/F Lepanto Building, 8747 Paseo de Roxas, Makati City
USE OF PROCEEDS:	To fund the development and further exploration of the Copper-Gold Project and settle debts and pension obligations
ISSUANCE TAX/ DOCUMENTARY STAMP TAX	All documentary stamp taxes applicable to the issuance of the Offer Shares shall be for the account of LCMC
LISTING DATE:	The shares offered will be listed within ten calendar days from the end of the Offer Period or on or around December 18, 2017, subject to compliance with the post-approval requirements of the PSE
TRADING DATE:	The shares will be tradable upon LCMC's compliance with post-listing requirements of the PSE and full payment by the



shareholder concerned of the subscribed shares, but not before January 5, 2018, the due date for the second/full payment of the subscribed shares.

#### REGISTRATION AND LODGMENT

All Offer Shares shall be lodged with the PDTC but no stock certificates shall be issued corresponding to fully-paid subscriptions. Instead, a Registry Confirmation Advice will be issued by the Transfer Agent to the Depository Participants or brokers designated by the subscriber; if the Subscriber does not indicate any broker's name, then the Company will designate F. Yap Securities, Inc. on the Subscriber's behalf.

#### FOREIGN OWNERSHIP RESTRICTION

Common "A" Shares, constituting 60% of the capital stock of the Company, are available only to Filipino Shareholders. This is a built-in mechanism to ensure that at any one time, foreign ownership in the Company does not exceed 40% of the outstanding capital.

#### ACCEPTANCE / REJECTION OF APPLICATIONS

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

### SECURITIES

#### Market for Registrant's Common Equity and Related Matters

LCMC's shares of stock are listed in the Philippine Stock Exchange. Following are the quarterly prices of LCMC securities since 2015-2016 and as of October 4, 2017:

##### LCMC "A" (P/share)

	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	4 October 2017
Low	0.228	0.221	0.179	0.172	0.27	0.242	0.188	0.195	0.179
High	0.23	0.223	0.18	0.175	0.28	0.246	0.192	0.196	0.183

##### LCMC "B" (P/share)

	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	4 October 2017
Low	0.238	0.226	0.195	0.202	0.290	0.250	0.193	0.199	0.188
High	0.238	0.228	0.195	0.202	0.295	0.255	0.195	0.200	0.190

## Securities and Shareholders

As of June 30, 2017, there were a total of 27,867 shareholders, with 22,628 shareholders holding Common "A" shares, or 84.83% of total shareholders; and 5,239 shareholders with Common "B" shares, or 15.17% of total.

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

	STOCKHOLDER NAME	"A" Shares	"B" Shares	Total	%
1	PCD NOMINEE CORPORATION (FIL)	14,506,781,696	3,563,813,687	18,070,595,383	33.04
2	F-YAP SECURITIES, INC	7,527,838,780	6,984,331,914	14,512,170,694	26.53
3	YAPSTER E-TRADE, INC.	2,010,000,000	1,340,000,000	3,350,000,000	6.12
4	FIRST METRO INVESTMENT CORP	2,550,682,926		2,550,682,926	4.66
5	F.YAP SECURITIES INC.		2,362,701,203	2,362,701,203	4.32
6	PHILEX MINING CORPORATION	2,164,240,810	3,494,999	2,167,735,809	3.96
7	F.YAP SECURITIES, INC. A/C 1411		1,129,238,161	1,129,238,161	2.06
8	F.YAP SECURITIES INC. A/C 5217		1,020,000,000	1,020,000,000	1.86
9	F.YAP SECURITIES INC. A/C 521		1,020,000,000	1,020,000,000	1.86
10	FIRST METRO INVESTMENT CORP	169,762,500	799,642,268	969,404,768	1.77
11	CORONET PROPERTY HOLDINGS	277,556,566	447,665,860	725,222,426	1.33
12	F.YAP SECURITIES INC. A/C 5218		699,905,750	699,905,750	1.28
13	PCD NOMINEE CORPORATION (NF)		662,524,429	662,524,429	1.21
14	F.YAP SECURITIES INC. A/C #CPHC-2	362,240,169		362,240,169	0.66
15	F.YAP SECURITIES INC. A/C #CPHC-3	337,989,616		337,989,616	0.62
16	F.YAP SECURITIES INC. A/C 521		323,773,000	323,773,000	0.59
17	FELCRIS HOTELS & RESORTS CORP	310,000,000		310,000,000	0.57
18	F.YAP SECURITIES INC. A/C #CPHC-1	301,859,763		301,859,763	0.55
19	EMMA YAP	242,838,706	24,313,091	267,151,797	0.49
20	F.YAP SECURITIES INC. - A. S.		218,404,905	218,404,905	0.40
	<b>TOTAL</b>	<b>30,761,791,532</b>	<b>20,599,809,267</b>	<b>51,361,600,799</b>	<b>93.90</b>
	<b>OTHERS</b>	<b>2,053,693,382</b>	<b>1,281,496,028</b>	<b>3,335,189,410</b>	<b>6.10</b>
	<b>OVER ALL TOTAL</b>	<b>32,815,484,914</b>	<b>21,881,305,295</b>	<b>54,696,790,209</b>	<b>100.00</b>

### Recent Sales of Unregistered or Exempt Securities

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

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

### **Dividends Policy**

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

### **Properties**

#### **MINING PROPERTIES**

##### **Mineral Production and Sharing Agreements (MPSAs)**

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

LCMC and FSGRI applied in June 2014 for the renewal of MPSA No. 001-90-CAR. The renewal became subject of an arbitration case which was resolved in their favor in December 2015, but now subject of a Petition for Review with the Court of Appeals, as discussed on page 11 hereof. All operations of the Company are within MPSA No. 001-90-CAR.

##### **MPSA Applications**

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

##### **Patented Claims**

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

##### **Operating Agreements**

a. APSA Nos. 063, 064 and 065 – On October 12, 1992, LCMC entered into separate Operating Agreements with Jaime Paul B. Panganiban, June Prill Brett and Heirs of James D. Brett, registered

MPSA applicants of APSA Nos. 063, 064, and 065, respectively, all situated in Suyoc, Mankayan. The combined total area of the subject MPSA Applications is 343.86 hectares.

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

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

#### OTHER PROPERTIES

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

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

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

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

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

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

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

Lepanto’s assets directly utilized for the Victoria Project were mortgaged to Rothschild and Dresdner Banks in connection with a Loan and Hedging Facilities Agreement executed in 1998. These include the plants and other facilities used for the Victoria project. The real properties covered by the mortgage constitutes about 1.2% of the Company’s landholdings in Mankayan, Benguet. The subject

loan has been fully repaid. It is the Company's position that the hedging contracts with the said banks are null and void and therefore the mortgages are likewise not effective. In fact, the contracts with Rothschild are now subject of a case of declaration of nullity pending with the RTC Makati. Declaration of the hedging contracts as null and void would mean that Lepanto has no obligation to pay any losses to Rothschild.

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

#### Subsidiaries

Shipside has substantial properties in La Union. It owns about 19.78 hectares of land in Poro Point, San Fernando, La Union and in Bauang, La Union, used for its hauling, warehousing, and sawmilling businesses. It owns 2 flatbed trucks for its trucking/ hauling business.

DDCP leases a 18 sq. meter property at P24,640.00 per month in Parañaque City, adjacent to that leased by DMTC. The lease is good until 2018. It also owns about 16 units of drill rigs which are vital to its operations, and 5.6982 hectares of land in Tanquigan, La Union.

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

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

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

#### Legal Proceedings

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

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

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

##### In re an Arbitration between LCMC and FSGRI and the Republic of the Philippines, represented by the DENR

LCMC and FSGRI applied in June 2014 for the renewal of MPSA No. 001-90-CAR. An issue arose as to the applicability of certain provisions of the Indigenous Peoples' Rights Act to such renewal, which issue has been submitted to arbitration. Pending and in connection with the arbitration proceedings, LCMC and FSGRI (Petitioners) filed a petition for interim reliefs with the Regional Trial Court. On 18 March 2015, the court issued a writ of preliminary injunction, enjoining the respondents DENR, MGB, NCIP and the NCIP Regional Hearing Office- CAR from performing any acts that would (a) disrupt, disturb or impede the operations of Petitioners in the area covered by the MPSA; and acts that would

(b) hinder, prevent or delay the Petitioners from exercising their rights and/or from discharging their obligations under the MPSA in any manner whatsoever, until such time that a final and executory award is issued with respect to the arbitration proceedings commenced by the Petitioners; and directing the respondents to perform all acts necessary and proper to maintain and protect the validity and/or enforceability of the Petitioners' vested rights under the MPSA during the pendency of the arbitration proceedings. In a final award dated November 27, 2015, the Arbitral Tribunal ruled that the Free and Prior Informed Consent (FPIC) and Certification Precondition may not be validly imposed as requirements for the renewal of MPSA 001-90, and the latter should be renewed under the same terms and conditions, without prejudice to changes mutually agreed upon by the parties. The matter is now subject of a Petition for Review with the Court of Appeals.

Should the case be finally resolved in favor of LCMC and FSGRI, then the renewed MPSA shall be issued by the DENR. Otherwise, LCMC and FSGRI will have to seek the FPIC and Certification Precondition from the IPs/National Commission on Indigenous Peoples.

Lepanto vs. Regina Paz L. Lopez in her capacity as DENR Secretary

Lepanto received on February 14, 2017 an Order of Suspension from Secretary Lopez alleging that Lepanto 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, Lepanto filed a Notice of Appeal with the Office of the President pursuant to Administrative Order No. 22, Series of 2011, which filing effectively stayed the execution of the Order. On March 15, 2017, Lepanto filed its Memorandum on Appeal with the Office of the President, praying for the reversal of the Order and that the same be declared null and void on the following grounds: i) the DENR Secretary is without authority or power to issue the Order; ii) assuming without admitting that the DENR Secretary has the power to issue the Order, her imposition of the penalty of suspension upon Lepanto is without basis in fact and in law; and iii) the DENR Secretary violated the Parent Company's right to due process of law when she issued the Order. Lepanto submitted to the Office of the President a copy of an Affidavit executed by a senior DENR official attesting that Lepanto actually passed the mine audit of August 2016 but the audit team was instructed to state in its report that Lepanto was recommended for suspension

SUMMARY OF MATERIAL CONTRACTS

- a. Refining and Transportation Agreement with Heraeus Limited of Hongkong dated October 1, 2015 effective for two years for the refining by Heraeus or otherwise sale to it by Lepanto of Lepanto's gold dore;
- b. MPSA No. 01-90 dated March 3, 1990. This MPSA covers a total of 948.9696 has., all located in Mankayan, Benguet, including: the Enargite Project, which the Company operated from 1936-1997 and in 2008; the Victoria project, which the Company started operating in 1997; and the Far Southeast Project, now subject of an Option and Shareholders' Agreement with GFS. The MPSA has a term of 25 years, renewable for another 25 years.
- c. MPSA No. 151-2000 dated March 9, 2000. This MPSA covers 1,8929.3565 has. located in Mankayan, Benguet. The area is subject of exploration works.
- d. Option and Shareholders' Agreement with GFS. This was executed by the Company, FSGRI and Gold Fields Switzerland Holding AG, a wholly-owned subsidiary of Gold Fields Limited on September 20, 2010. The Agreement grants GFS an 18-month option, for a fee of US\$10 million, to subscribe to new shares of stock of FSGRI representing a 20% interest therein. If the option is exercised by GFS, Lepanto's interest in FSGRI will be reduced from 60% to 40%. The Parties intend to progress the Project under a Financial or Technical Assistance Agreement, with Lepanto owning 40% of the outstanding capital and GFS owning the balance.

FSGRI owns the FSE Project, a large gold-copper porphyry deposit located in Mankayan, Benguet, adjacent to the current operations of Lepanto. The option requires GFS to sole-fund pre-development expenses including exploration and a feasibility study of the Project and contribute US\$110 million into FSGRI. GFS must also contribute its proportionate share of the development cost at which point GFS will receive its 20% interest in FSGRI.

- e. Operating Agreement with Montañosa Mining Exploration Co.( Montañosa) Lepanto and Montañosa entered into an Operating Agreement on January 21, 1983 whereby Montañosa, for valuable consideration including the payment of royalties ranging from 1.2% to 3.6% (depending on the mill grade) of the gross value of copper produced and 1.8% of the gross value of gold, silver and other metals produced, granted Lepanto the right to explore, develop, equip, mine and operate a total of 18 mineral claims located in Bontoc, Mountain Province consisting of 3,924.3266 hectares. Pursuant to the Operating Agreement, Lepanto filed on October 7, 1991 with the MGB an application for an MPSA denominated as APSA No. 023, currently pending evaluation by the MGB- Cordillera Administrative Region.
- f. Operating Agreement with Jaime Paul Panganiban. Lepanto and Panganiban entered into an Operating Agreement dated October 12, 1992 whereby Panganiban, for valuable consideration including the payment of royalties ranging from 1.0% to 2.0% (depending on the mill grade) of the net income from copper produced and 2.0% of the net income on gold and silver produced from the mineral claims, conveyed, transferred and delivered to Lepanto the possession, occupancy, use and enjoyment of a total of 3 mineral claims totaling 98.72 hectares located in Mankayan, Benguet. Pursuant to the Operating Agreement, Lepanto filed with the MGB on August 11, 1997 an application for an MPSA denominated as APSA No. 063, pending evaluation by the MGB- Cordillera Administrative Region.
- g. Operating Agreement with James D. Brett and June Prill Brett. Lepanto entered into an Operating Agreement with James D. Brett and June Prill Brett dated October 12, 1992 whereby the Bretts, for valuable consideration including the payment of royalties ranging from 1.0% to 2.0% (depending on the mill grade) of the net income from copper produced and 2.0% of the net income on gold and silver produced from the mineral claims, conveyed, transferred and delivered to Lepanto the possession, occupancy, use and enjoyment of a total of 5 mineral claims totaling 288 hectares located in Mankayan, Benguet. Pursuant to the Operating Agreement, Lepanto filed 2 separate applications for MPSAs over the subject mining claims. APSA No. 064- CAR was filed under the name of the Heirs of James Brett on August 11, 1997, covering 98.72 has; and APSA No. 065-CAR under the name of June Prill Brett was filed on the same date, covering 146.42 has. Both applications are pending evaluation by the MGB-Cordillera Administrative Region.
- h. Transfer Agency Agreement with the Stock Transfer Service, Inc., effective on April 1, 2017 and renewable for similar terms.

## Employees

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

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

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

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

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

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

LIDC has no employees.

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

### **Investor Relations**

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

### **Corporate Governance**

LCMC adopted in May 2017 a New Manual on Corporate Governance to incorporate the latest principles of good governance in the entire organization. Pursuant to the said Manual, the Company's Board of Directors have constituted the following committees: Audit Committee; Good Governance Committee, Nomination Committee; Stock Option Committee.



## Financial Information

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

For the six months ended June 30, 2017	For the year ended		
	December 31, 2016	December 31, 2015	December 31, 2014
(Unaudited)	(Audited)	(Audited)	(Audited)

### Income Statement

* Revenue	700,938	1,534,056	1,212,902	1,479,438
Operating Income (Loss)	(365,252)	(697,181)	(782,391)	(630,854)
Net Income (Loss)	(379,713)	(733,569)	(859,376)	(713,286)

### Balance Sheet

<b>Assets</b>				
Current	1,938,785	1,735,075	1,951,080	2,220,495
Non-current	15,902,318	14,743,856	15,042,811	14,688,603
<b>Total</b>	<b>17,841,103</b>	<b>16,478,931</b>	<b>16,993,891</b>	<b>16,909,098</b>
Current	1,687,389	1,611,859	1,423,445	1,361,302
Non-current	9,159,770	7,986,180	8,143,655	8,157,365
<b>Total</b>	<b>10,847,159</b>	<b>9,598,039</b>	<b>9,567,100</b>	<b>9,518,667</b>
Stockholders' Equity	6,993,944	6,880,892	7,426,791	7,390,431
Earnings Per Share (EPS)	(0.007)	(0.014)	(0.017)	(0.016)

## Management's Discussion and Analysis of Financial Condition

### Second Quarter of 2017

Consolidated revenues for the second quarter of 2017 amounted to P325.4 million compared with P343.3 million in 2016. Net loss increased to P216.6 million versus P170.9 million the previous year.

For the first half of the year, consolidated revenues improved to P700.9 million versus P694.1 million in the same period last year. Net loss totaled P379.7 million compared with P332.0 million in 2016.

### Mining Operations

#### April – June 2017 versus April – June 2016

Gold production from the Victoria continued to decline as the company transitioned towards the joint operation of the Victoria and Copper-Gold Projects to produce gold bullion and gold and silver-bearing copper concentrate, respectively. Gold production dropped to 4,761 ounces from 5,429 ounces last year and silver, from 8,056 ounces to 5,959 ounces on account of lower tonnage and lower mill heads.

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

Metal grades declined to 3.0 g/t from 3.30 g/t last year for gold and to 12.07 g/t from 12.22 g/t last year for silver.

Metal sales went down by P21.35 million to P303.13 million due largely to lower metal production. Consequently, net loss increased to P215.42 million compared with last year's P177.53 million.

Gold price averaged US\$1,257.36/oz. versus US\$1,260.86/oz. while silver price averaged US\$16.86/oz. versus US\$16.40/oz. the preceding year. The P/US\$ exchange rate averaged P49.86/US\$1 compared with P46.54/US\$1 last year.

Cost and expenses increased by 2% to P509.4 million from P498.1 million last year due mainly to the increase in milling cost and overhead expenses. Mining cost dropped from P159.6 million to P140.2 million on account of the lower operating development cost (P18.4 million) and major consumables i.e., explosives and accessories (P1.8 million). Milling cost increased by P5.8 million to P51.6 million due to the higher labor cost (P2.0 million); major consumables and operating supplies (P3.1 million); and other services (P0.9 million). Overhead cost went up by 35% to P101.2 million from P74.8 million on account of the higher cost of lime consumption (P97.2 million); lump sum pay related to collective bargaining agreements of rank and file and local staff unions (P8.1 million); handling, freight and delivery of materials supplies (P7.2 million); and, labor and security services costs of administrative group (P3.7 million).

Production tax went down 7% to P6.1 million due to lesser revenue. Depletion and depreciation cost decreased by P1.5 million to P167.0 million.

Finance cost went up by P0.5 million to P5.8 million due to conversion of short-term loans to term loans. Payment of dollar-denominated loans resulted in a foreign exchange loss of P4.1 million compared with a gain of P0.2 million the previous period. Other income dropped from P1.2 million to P1.0 million due to lower rental income following the sale of a Cebu property.

January – June 2017 versus January – June 2016

Metal production went down to 10,322 ounces compared with 11,225 ounces of gold last year, and silver from 17,700 ounces to 14,149 ounces due to lower tonnage milled, from 133,060 tonnes to 111,250 tonnes. Metal grades improved to 3.19 g/t from 2.94 g/t last year for gold and to 12.12 g/t from 11.48 g/t last year for silver.

Metal sales went down by P6.1 million to P652.4 million due mainly to lower metal production. Conversely, net loss decreased by P2.6 million to P360.3 million compared with year's P362.8 million.

Gold price averaged US\$1,242.10/oz. versus US\$1,226.57/oz. while silver price averaged US\$17.39/oz. versus US\$15.93/oz. the previous year. The P/US\$ exchange rate averaged P49.95/US\$1 compared with P46.90/US\$1 last year.

Cost and expenses decreased by 1% to P998.2 million from P1,012.3 million last year due largely to the reduction in mining, depreciation and depletion costs. Mining cost dropped from P318.5 million to P288.4 million on account of the lower operating development cost (P32.3 million). Depreciation expense went down to P70.6 million versus P94.6 million due to capital assets that have fully depreciated value and/or retired while depletion also decreased by P6.2 million to P253.8 million in relation to the lower tonnage mined, 134,377 versus 117,282 tonnes.

Milling cost increased by P4.1 million to P98.8 million attributable to higher labor cost (P2.6 million); and, major consumables and operating supplies (P2.4 million). Overhead went up by 25% to P187.36 million from P149.61 million on account of higher cost of lime consumption (P10.2 million); lump sum

pay related to collective bargaining agreements of rank and file and local staff unions (P8.1 million); handling, freight and delivery of materials supplies (P6.9 million); fees and licenses (P5.0 million); and, labor, medical supplies, security services, and other contractual services costs of administrative group (P6.4 million). Production tax decreased by 1% to P13.05 million due to lesser revenue.

Finance cost dropped slightly from P11.0 million to P10.7 million as short-term loans were settled in the current year. Payment of dollar-denominated loans resulted in a foreign exchange loss of P5.5 million compared with P0.2 million the previous period. Other income remained at P2.1 million.

#### BALANCE SHEET MOVEMENTS

June 30, 2017 versus December 31, 2016

Cash and cash equivalents increased by P7.2 million on account of a loan availment by a subsidiary. Inventories and advances to suppliers went up by 7.1% and 37.7%, respectively, due to increased materials and supplies requirements for operations. Other current assets increased by 7.5% or P47.8 million due mainly to the increase in Input Value-Added-Tax and prepaid import charges.

The increase in other noncurrent assets of P38.1 million was due mainly to deferred charges awaiting final recording.

On liabilities, trade and other payables decreased by 6.4% on account of payments. Short-term and long-term borrowings increased by P178.1 million and P127.5 million, respectively, due to availments. Income tax payable decreased due to payment in April 2017 of last year's tax liability.

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

Deficit increased by P386.7 million due to net loss from January to June 2017 operations.

#### CAPITAL EXPENDITURES

Capital expenditures for the quarter totaled P179.4 million, of which P76.9 million went to exploration; P25.2 million to machinery and equipment; P73.4 million to mine development; and, P3.9 million to maintenance of tailings storage facility 5A.

For the first semester, total capital expenditures amounted to P270.4 million; of which P85.3 million went to exploration; P50.4 million to machinery and equipment; P128.0 million to mine development; and P6.7 million to maintenance of tailings storage facility 5A.

#### OUTLOOK FOR THE YEAR

The Copper-Gold Project will start commercial operation in the fourth quarter, following the rehabilitation and debugging of the copper flotation plant. The projected milling tonnage for the year is 303,000 metric tonnes, producing 29,000 ounces of gold, 61,000 ounces of silver and 1,400,000 pounds of copper.

Exploration and development of the Copper-Gold Project will continue this year with a view to ramping milling tonnage up to 3,000 metric tonnes per day by 2019.

#### SUBSIDIARIES

The key performance indicator used for the subsidiaries is net income for the first half of the year versus the same period the previous year.

Diamant Manufacturing and Trading Corporation recorded an income of P0.7 million compared with last year's income of P3.4 million. Diamond Drilling Corporation of the Philippines reported a net loss of P17.2 million compared with P42.4 million net income last year. Lepanto Investment and Development Corporation reported a net loss of P117 thousand compared with last year's net loss of P114 thousand. Shipside, Incorporated registered a net loss of P1.3 million against last year's net income of P62.2 million mainly from the sale of land.

\* - KEY PERFORMANCE INDICATORS-LCMC

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

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

2016

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

MINING OPERATIONS

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

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

Operating costs went up by P229.0 million from last year's P1,923.0 million mainly due to increase in mining cost and depletion. Mining cost went up on account of the change in treatment of development costs (P177.0 million) from capital development to operating development; increase in labor cost (P39.8 million) and in the maintenance cost of mine machinery/equipment and mine ventilation (P97.8 million). Total milling cost however fell by P16.6 million mainly due to the reduced usage of major consumables and supplies. Production tax went up by P5.6 million on account of the higher revenue. Depletion cost increased by P51.3 million due to full depletion in the current year of capital development accumulated in 2015. Depreciation expense went down by P23.4 million as some machineries and equipment became fully-depreciated. Overhead was reduced by P10.9 million due principally to the lower pension expense. Administration costs decreased by P33.7 million due to

lower taxes and fees and other general supplies. Bullion handling and assaying increased by P1.5 million on account of the higher metal production.

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

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

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

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

#### BALANCE SHEET MOVEMENTS

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

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

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

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

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

#### CAPITAL EXPENDITURES

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

#### SUBSIDIARIES

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

#### DIAMANT MANUFACTURING AND TRADING CORPORATION

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

#### DIAMOND DRILLING CORPORATION OF THE PHILIPPINES

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

#### LEPANTO INVESTMENT AND DEVELOPMENT CORPORATION

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

#### SHIPSIDE, INCORPORATED

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

#### FAR SOUTHEAST GOLD RESOURCES, INC.

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

#### CONTINGENT OBLIGATIONS AND KNOWN TRENDS OR EVENTS

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

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

#### 2015

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

#### MINING OPERATIONS

Metal sales revenues totaled P1.15 billion compared with the previous year's P1.43 billion. The decline in revenue was due to the 14% drop in gold production aggravated by lower metal prices. Average price of gold sold was US\$1,145.38/oz. compared with US\$1,269.04/oz. last year. Average price of silver sold was US\$15.45/oz. versus US\$18.97/oz. in 2014. Loss from operations amounted to P777.0 million compared with last year's loss of P584.2 million.

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

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

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

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

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

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

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

#### BALANCE SHEET MOVEMENTS

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

Available-for-sale (AFS) financial assets increased to P477.1 million from P188.1 million due to the rise in the fair value of quoted instruments and the reclassification to AFS of the investment in an associate. Investments and advances to associates fell to P566.8 million from P683.7 million on account of the aforesaid reclassification and the recognition of a share in the losses of subsidiaries. Mine exploration cost increased by P395.9 million on account of the parent company's exploration program and the pre-operating costs of Far Southeast Gold Resources, Inc. (FSGRI). Deferred Income Tax Assets went down to P431.7 million from P474.7 million mainly due to the reduction in retirement liability. Other Non-current assets decreased by P11.0 million due to reclassification of deferred charges to proper accounts.

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

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

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

#### CAPITAL EXPENDITURES

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

#### SUBSIDIARIES

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

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

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

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

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

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

#### CONTINGENT OBLIGATIONS AND KNOWN TRENDS OR EVENTS

There were no material off-balance sheet transactions, arrangements or obligations or contingent obligations, and other relationships of the company with unconsolidated entities of other persons



created during the period. Neither were there events or any known trends that will trigger direct or contingent financial obligations that are material to the company or otherwise materially impact the Company's sales.

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

#### 2014

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

#### MINING OPERATIONS

Revenue from sale of metals totaled P1.43 billion compared with the previous year's P2.02 billion. The decline in revenue was due to the 26% decline in gold production and 35% decline in silver production, aggravated by the lower metal prices. Average price of gold sold was US\$1269.04/oz. compared with US\$1386.75/oz. last year. Average price of silver sold was US\$18.97/oz. vs. US\$23.03/oz. in 2013. Loss from operations amounted to P583.2 million compared with last year's loss of P288.4 million.

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

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

Operating costs went down by P302.0 million from last year mainly due to the 39% decrease in tonnage, which translated to decreases in consumption of materials and supplies. Mining cost fell by P97.0 million even as the costs of labor increased by P7.8 million and power, by P2.1 million. Milling cost fell by P100.1 million as the following cost components were reduced: power, P19.5 million; major consumables, P67.0 million; supplies, P15.7 million; services, P1.0 million. The labor component however increased by P3.1 million. Production tax went down by P11.8 million on account of lower revenues. Depletion cost decreased by P66.4 million on account of lower tonnage mined while Depreciation expense rose by P10.7 million on account of the rehabilitation and acquisition of new equipment. Overhead went down by P36.9 million due to reductions in materials, supplies, services, building maintenance, freight and delivery. Administration costs decreased by P2.8 million. Refining and other charges however went up by P2.5 million on account of higher costs relating to the transport of bullion.

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

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

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

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

#### BALANCE SHEET MOVEMENTS

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

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

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

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

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

#### CAPITAL EXPENDITURES

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

## SUBSIDIARIES

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

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

## CONTINGENT OBLIGATIONS AND KNOWN TRENDS OR EVENTS

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

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

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

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

## Compliance with Leading Practices on Corporate Governance

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

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

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

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

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

#### **Independent Public Accountant**

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

#### **Audit and Audit Related Fees**

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

#### **Audit Committee's Approval Policies and Procedures**

Prior to the commencement of audit services, the external auditors submit their Audit Plan to the Audit Committee, indicating the applicable accounting standards, audit objectives, scope, approvals, methodology, needs and expectations and timetable, among others. A presentation on the same Plan is made by the external auditors before all the members of the Committee. All the items in the Plan are considered by the Committee, along with industry standards, in approving the services and fees of the external auditors. The Audit Committee is composed of: Atty. Ray C. Espinosa, Committee Chairman and an independent director; and Atty. Ethelwoldo E. Fernandez and Mr. Cresencio C. Yap.

### **Directors and Executive Officers of the Company**

<u>Directors (with term of office of one year)</u>	<u>Age</u>	<u>Citizenship</u>	<u>Period Served</u>
FELIPE U. YAP	80	Filipino	Since 1975
BRYAN U. YAP	44	-do-	Since 1997
RAY C. ESPINOSA (Independent)	60	-do-	Since 2005
MARILYN V. AQUINO	61	-do-	Since 2012
DOUGLAS J. KIRWIN	67	Australian	Since 2017
ETHELWOLDO E. FERNANDEZ	89	-do-	Since 2007
REGIS V. PUNO	59	-do-	Since 2016
VAL ANTONIO B. SUAREZ (Independent)	58	-do-	Since 2011
CRESENCIO C. YAP	71	-do-	2000-2004; 2006 to present

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

### **Business Experience in the Last Five (5) Years**

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

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

Philippines and Diamant Manufacturing and Trading Corporation (DMTC). He is also a director of Far Southeast Gold Resources, Inc.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### **Significant Employees**

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

### **Family Relationships**

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

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

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

### **Compensation of Directors/Committee Members**

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

## **Related Party Transactions**

Related party relationships exist when one party has the ability to control, directly or indirectly through one or more intermediaries, the other party or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting enterprise, or between and/or among the reporting enterprise and their key management personnel, directors, or its stockholders.

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

<b>2016</b>				
	<b>Amount in P'000/ Volume</b>	<b>Outstanding Balance</b>	<b>Terms</b>	<b>Conditions</b>
<b>Subsidiaries</b>				
<b>Receivables</b>				
DDCP	<b>₱394,093</b>	<b>₱141,865</b>	On demand; non-interest-bearing and collectible in cash	Unsecured, no impairment, no guarantee
LIDC	<b>150</b>	<b>88,905</b>	On demand; non-interest bearing and collectible in cash	Unsecured, no impairment, no guarantee
DMTC	<b>1,946</b>	<b>2,364</b>	On demand; non-interest bearing and collectible in cash	Unsecured, no impairment, no guarantee
FSGRI	<b>8,815</b>	<b>827</b>	On demand; non-interest bearing and collectible in cash	Unsecured, no impairment, no guarantee
SSI	<b>21,445</b>	<b>-</b>	On demand; non-interest bearing and collectible in cash	Unsecured, no impairment, no guarantee
<b>Advances</b>				
FSGRI	<b>-</b>	<b>94,140</b>	On demand; non-interest bearing and collectible in cash	Unsecured, no impairment, no guarantee
<b>Payables</b>				
DDCP	<b>365,683</b>	<b>138,495</b>	On demand; non-interest bearing and collectible in cash	Unsecured, no impairment, no guarantee
SSI	<b>128,193</b>	<b>151,233</b>	On demand; non-interest bearing and collectible in cash	Unsecured, no impairment, no guarantee
<b>Rental</b>				
SSI	<b>₱437</b>	<b>₱-</b>	Non-interest bearing and normally settled on 30-day term	Unsecured, no impairment, no guarantee
<b>Services</b>				



DDCP	374,686	-	Non-interest bearing and normally settled on 30-day term	Unsecured, no impairment, no guarantee
SSI	8,455	-	Non-interest bearing and normally settled on 30-day term	Unsecured, no impairment, no guarantee
<b>Revenue</b>				
DMTC	475	-	Non-interest bearing and normally settled on 30-day term	Unsecured, no impairment, no guarantee
<b>Other Expense</b>				
SSI	2,667	-	Non-interest bearing and normally settled on 30-day term	Unsecured, no guarantee
DMTC	67	-	Non-interest bearing and normally settled on 30-day term	Unsecured, no guarantee
DDCP	812	-	Non-interest bearing and normally settled on 30-day term	Unsecured, no guarantee
2015				
	Amount/ Volume	Outstanding Balance	Terms	Conditions
<b>Subsidiaries</b>				
<b>Receivables</b>				
DDCP	₱97,545	₱142,283	On demand; noninterest-bearing and collectible in cash	Unsecured, no impairment, no guarantee
LIDC	200	88,755	On demand; noninterest-bearing and collectible in cash	Unsecured, no impairment, no guarantee
DMTC	6,068	1,954	On demand; noninterest-bearing and collectible in cash	Unsecured, no impairment, no guarantee
FSGRI	7,123	1,321	On demand; noninterest-bearing and collectible in cash	Unsecured, no impairment, no guarantee
<b>Advances</b>				
FSGRI	-	94,140	On demand; noninterest-bearing and collectible in cash	Unsecured, no impairment, no guarantee
<b>Payables</b>				
SSI	11,476	44,486	On demand; noninterest-bearing and are normally settled in cash	Unsecured, no guarantee
<b>Rental</b>				
SSI	301	-	Noninterest-bearing and are normally settled in cash on 30-days' term	Unsecured, no guarantee
<b>Services</b>				
DDCP	213,670	-	Noninterest-bearing and are normally settled in cash on 30-days' term	Unsecured, no guarantee
SSI	10,087	-	Noninterest-bearing and are normally settled in cash on 30-days' term	Unsecured, no guarantee
<b>Sales</b>				
DMTC	198	-	Noninterest-bearing and are normally settled in cash on 30-days' term	Unsecured, no guarantee
<b>Other Expense</b>				
SSI	2,984	-	Non-interest bearing and normally settled on 30-day term	Unsecured, no guarantee

DMTC	470	- Non-interest bearing and normally settled on 30-day term	Unsecured, no guarantee
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a. In the normal course of business, the Group grants and receives advances to and from its associates and stockholders, which are considered related parties. The corresponding receivables and payables arising from the said transactions, including operational support as at December 31, 2016 and 2015 are as follows:

2016				
	Amount/ Volume	Outstandin g Balance	Terms	Conditions
<b>Associate Receivable:</b>				
MMC (Note 11)	P757	P2,240	Non-interest bearing and are normally settled in cash on 30-day term	Unsecured, no impairment, no guarantee
<b>Stockholders: Payables:</b>				
Various (Note 13)		56,084	Non-interest bearing and are normally settled in cash on 30-day term	Unsecured, no guarantee
2015				
	Amount/ Volume	Outstanding Balance	Terms	Conditions
<b>Associate Receivable:</b>				
MMC (Note 11)	P1,259	P1,483	Non-interest bearing and are normally settled in cash on 30-day term	Unsecured, no impairment, no guarantee
<b>Stockholders: Payables:</b>				
Various (Note 13)	-	56,084	On demand; noninterest- bearing and collectible in cash	Unsecured, no guarantee

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

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

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

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

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

c. Compensation of key management personnel are as follows:

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

### Summary Compensation Table

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

### Voting Trusts and Change in Control

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

### Pension Plan

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

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

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

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

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

### **\*Security Ownership**

#### **Security Ownership of Certain Record and Beneficial Owners**

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

Title of Class	Name/Address of Record Owner	Name of Beneficial Owner/ Relationship to Issuer	Citizenship	A / B Shareholdings	%	Total Shareholdings	%
A & B	*F. Yap Securities, Inc. U-2301 & 2302, 23/F, PSE Centre, Exchange Rd., Ortigas Center, Pasig City	F. Yap Securities, Inc./ Principal Stockholder	Filipino	7,527,838,780 12,516,271,278	22.93 57.19	20,044,110,058	36.63
A & B	* First Metro Investment Corp. Makati City	First Metro Investment Corp./ Principal Stockholder	Filipino	2,720,445,426 799,642,268	8.29 3.65	3,520,087,694	6.43
A & B	Yapster E-trade, Inc.	F. Yap Securities, Inc.	Filipino	2,010,000,000 1,340,000,000	6.12 6.12	3,350,000,000	6.12
A	***Philex Mining Corporation, Brixton St., Pasig City	Philex Mining Corporation/ shareholder	Filipino	2,164,240,810 3,494,999	6.59 0.016	2,167,735,824	3.96

### **Equity Ownership of Foreigners**

As of June 30, 2017, none of the "A" shares and 15.17% of the "B" shares were held by foreigners.

### Security Ownership of Management (June 30, 2017)

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

- \* - Power to dispose of shares is vested in: F. Yap Securities - Pacita K. Yap; Voting rights/proxies for F. Yap Securities have been granted to Mr. Felipe U. Yap.
- \*\* - Power to dispose of shares is vested in their respective Board of Directors; Voting rights/proxies have been granted to: Atty. Regis V. Puno.
- \*\*\* - Power to dispose of shares vested in the Board of Directors of Philex Mining Corporation; Voting rights/ proxies have been granted to Marilyn V. Aquino.
- \*\*\*\* - Independent Directors

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

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

The 1987 Constitution provides that:

“All lands of the public domain, waters, minerals, coal, petroleum and other mineral oils, all forces of potential energy, fisheries, forests or timber, wildlife, flora and fauna, and other natural resources are owned by the State. With the exception of agricultural lands, all other natural resources shall not be alienated. The exploration, development and utilization of natural resources shall be under the full control and supervision of the State. The State may directly undertake such activities, or it may enter into co-production, joint venture, or production sharing agreements with Filipino citizens, or corporations or associations at least sixty per centum of whose capital is owned by such citizens. Such agreements may be for a period not exceeding twenty-five years, renewable for not more than twenty-five years, and under such terms and conditions as may be provided by law. XXX. *Section 2, Article XII, Philippine Constitution.*

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

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

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

## **PHILIPPINE STOCK MARKET**

### **BRIEF HISTORY**

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

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

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

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

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

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

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

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

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

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

## **NON-RESIDENT TRANSACTIONS**

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

## **SETTLEMENT**

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

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

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

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

## **SCRIPLESS TRADING**

In 1995, PDTC (formerly the Philippine Central Depository, Inc.) was organized to establish a central depository in the Philippines and introduce scripless or book-entry trading in the Philippines. On December 16, 1996, the PDTC was granted a provisional license by the SEC to act as a central securities depository. All listed securities at the PSE have been converted into book-entry settlement in the PDTC. The depository service of the PDTC provides the infrastructure for lodgment and



upliftment of securities, pledge of securities, securities lending and borrowing and corporate action including shareholders' meetings, dividend declarations and rights offerings. The PDTC also provides depository and settlement services for non-PSE trades of listed equity securities. For transactions on the PSE, the security element of the trade will be settled through the book-entry system, while the cash element will be settled through the current banks, Rizal Commercial Banking Corporation and Banco de Oro, Unibank Inc.

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

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

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

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

The difference between the depository and the registry would be on the recording of ownership of the shares in the issuing corporations' books. In the depository set-up, shares are simply immobilized, wherein customers' certificates are cancelled and a new Jumbo Certificate is issued in the name of PCD Nominee. Transfers among /between broker and/or custodian accounts, as the case may be, will only be made within the book-entry system of PDTC. However, as far as the issuing corporation is concerned, the underlying certificates are in the nominee's name. In the registry set-up, settlement recording of ownership of traded securities will already be directly made

in the corresponding issuing company's transfer agents' books or system. Likewise, recording will already be at the beneficiary level (whether it be a client or a registered custodian holding securities for its clients), thereby removing from the broker its current. "de facto" custodianship role.

#### **AMENDED RULE ON LODGMENT OF SECURITIES**

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

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

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

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

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

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

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

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

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

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

#### **ISSUANCE OF STOCK CERTIFICATES FOR CERTIFICATED SHARES**

On or after the listing of the shares on the PSE, any beneficial owner of the shares may apply with PDTC through his broker or custodian-participant for a withdrawal from the book-entry system and return to the conventional paper-based settlement. If a shareholder wishes to withdraw his stockholdings from the PDTC system, the PDTC has a procedure of upliftment under which PCD Nominee will transfer back to the shareholder the legal title to the shares lodged. The uplifting shareholder shall follow the Rules and Operating Procedures of the PDTC for the uplifting of the

shares lodged under the name of the PCD Nominee. The transfer agent shall prepare and send a Registry Confirmation Advice to the PDTC covering the new number of shares lodged under PCD Nominee. The expenses for upliftment are on the account of the uplifting shareholder. Upon the issuance of stock certificates for the shares in the name of the person applying for upliftment, such shares shall be deemed to be withdrawn from the PDTC book-entry settlement system, and trading on such shares will follow the normal process for settlement of certificated securities. The expenses for upliftment of the shares into certificated securities will be charged to the person applying for upliftment. Pending completion of the upliftment process, the beneficial interest in the shares covered by the application for upliftment is frozen and no trading and book-entry settlement will be permitted until the relevant stock certificates in the name of the person applying for upliftment shall have been issued by the relevant company's transfer agent.

## **TAXATION AND FOREIGN EXCHANGE**

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

### **Tax on Dividends**

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

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

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

## **SALE, EXCHANGE OR DISPOSITION OF SHARES**

### **Taxes on Capital Gains**

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

#### Taxes on Transfer of Shares Listed and Traded Through the PSE

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

#### Documentary Stamp Tax

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

#### **PHILIPPINE FOREIGN INVESTMENT, EXCHANGE CONTROLS AND FOREIGN OWNERSHIP**

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

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

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

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