# COVER SHEET

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S.E.C. Registration Number

LEPANTO CONSOLIDATED MINING CO

(Company's Full Name)

21ST FLOOR LEPANTO BUILDING
PASEO DE ROXAS MAKATI CITY

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

| ODETTE A. JAVIER | 815-9447 |
|---|---|
| Contact Person | Company Telephone Number |

| Fiscal Year | FORM TYPE | Annual Meeting |
|---|---|---|
| | D E F I N I T I V E | 3rd Monday of April |
| Month: 12 Day: 31 | SEC IS 20 | Month: Day: |

Secondary License Type, If Applicable: ---

Dept. Requiring this Doc.:

Amended Articles Number/Section:

| Total no. of Stockholders | Total Amount of Borrowings: Domestic | Total Amount of Borrowings: Foreign |
|---|---|---|
| 21,487 | | |

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

S T A M P S

Remarks = please use **black ink** for scanning purposes

Lepanto Consolidated Mining Company

## NOTICE OF 2021 ANNUAL STOCKHOLDERS' MEETING

Please be informed that the **Annual Stockholders' Meeting of Lepanto Consolidated Mining Company** will be held on **Monday, September 20, 2021 at 4:00 o'clock p.m.** The Meeting will be conducted virtually via remote access communication and the access link will be provided in the Company's website at **www.lepantomining.com**

The agenda for the Meeting will be as follows:

1. Call to Order
2. Proof of due notice of the meeting and determination of quorum
3. Approval of the Minutes of the Annual Meeting held on July 27, 2020
4. Approval of the Annual Report
5. Retention of Messrs. Ray C. Espinosa and Val Antonio B. Suarez as independent directors
6. Election of Directors
7. Amendment of Article VII of the Articles of Incorporation to increase the authorized capital stock from P6.64 Billion to P12.00 Billion
8. Appointment of External Auditor
9. Transaction of such other and further business as may properly come before the Meeting
10. Adjournment

Only stockholders of record as of August 31, 2021 are entitled to notice of, and to vote at, the Meeting. The stock and transfer book of the Company will be closed from August 31, 2021 to the close of business hours on September 20, 2021.

The Definitive Information Statement and Management Report and SEC Form 17-A and other pertinent documents are posted on the Company's website and PSE Edge. Guidelines for registration and participation in the Meeting shall likewise be posted on the Company's website.

Stockholders who intend to participate in the Meeting via remote communication should email on or before September 15, 2021 the Asst. Corporate Secretary at oaj@lepantomining.com a scanned copy of a valid government-issued identification card (ID) for registration and verification purposes. Indirect stockholders should include in their email their broker's certification of shareholding.

Stockholders may also be represented and vote at the Meeting by submitting a Proxy via email to oaj@lepantomining.com together with a government-issued ID. Hardcopies of proxies may also be submitted to the Company's principal office at the 21st Fl., Lepanto Building, 8747 Paseo de Roxas, Makati City. Proxies emailed or submitted after September 15, 2021 shall not be recorded for the Meeting.

Makati City, 16 August 2021.

**ETHELWOLDO E. FERNANDEZ**
Corporate Secretary

**ANNEX "A"**

## EXPLANATION OF AGENDA ITEMS

1. **Call to Order** – The Chairman of the Board and CEO, Mr. Felipe U. Yap, will call the meeting to order.

2. **Proof of due notice of the meeting and determination of quorum** – The Corporate Secretary, Atty. Ethelwoldo E. Fernandez, will certify that (a) in accordance with SEC Notice dated April 20, 2020, notice of the meeting was duly published in two newspapers of general circulation for two consecutive days at least 21 days before the meeting date; and that (b) a quorum exists for the transaction of business.

   The said published notice of the meeting advised stockholders that: (a) those who intend to participate in the meeting via remote communication should send by email on or before September 15, 2021 to the Asst. Corporate Secretary at oaj@lepantomining.com a scanned copy of a valid government-issued identification card (ID) for registration and verification purposes. An Indirect shareholder should include in the email a scanned copy of his/her broker's certification of shareholding. (b) Stockholders may also be represented and vote at the meeting by submitting a Proxy (form attached) via email to oaj@lepantomining.com together with a scanned copy of a valid government-issued ID. Hardcopies of proxies may also be submitted to the Company's principal office at the 21st Fl., Lepanto Building, 8747 Paseo de Roxas, Makati City.

   Stockholders who have successfully registered will receive an email with (a) instructions on how to access the Ballot through a secure online portal which will allow them to vote at the meeting. The Ballot gives the stockholder the option not to vote directly, but to allow the Chairman to vote all items (except the election of directors) as his/her Proxy; and (b) the ZOOM meeting link. A stockholder who participates and votes *in absentia* or by remote communication shall be deemed present for purposes of quorum.

3. **Approval of the Minutes of the Annual Meeting held on July 27, 2020**– The minutes of the previous stockholders' meeting may be accessed through the Corporation's website www.lepantomining.com. A resolution on this item requires the approval of a majority of the votes of stockholders present and eligible to vote.

4. **Approval of the Annual Report** – The Chairman will deliver a report to the stockholders on the Company's performance in 2020. The President, Mr. Bryan U. Yap, will report on the Outlook for 2021. The Chairman will then open the floor for clarificatory questions. Then, the audited financial statements for the year ended 31 December 2020 (attached to the Information Statement and accessible through the company's website) will be presented for the approval by the stockholders. A resolution on this agenda item requires the approval of a majority of the votes of stockholders present and eligible to vote.

5. **Retention of Messrs. Ray C. Espinosa and Val Antonio B. Suarez as independent directors** – The Board is submitting to the stockholders for approval the retention for two more years of Messrs. Ray C. Espinosa and Val Antonio B. Suarez as independent directors, beyond the term limit of nine years per SEC Memorandum Circular No. 4, Series of 2017.

6. **Election of Directors** – The Nomination Committee received nominations for the Board of Directors within the prescribed period and found such nominees to have all the qualifications and none of the disqualifications to serve as directors. The names of the nominees and their respective personal profiles, including directorships in listed companies, are duly indicated in the Information Statement. Election of directors will be done by plurality of votes.

   Each shareholder is entitled to one (1) vote per share multiplied by the number of board seats to be filled, i.e. nine (9), and may cumulate his/her votes by giving as many votes as he/she wants to any candidate provided that the total votes cast shall not exceed the total votes to which he/she is entitled.

   In the event that only nine (9) are nominated to fill the nine seats in the Board, the Chairman, unless otherwise instructed by a stockholder, may direct the Corporate Secretary to cast all votes in favor of those nominated.

7. **Amendment to Article Seven of the Articles of Incorporation** – The stockholders will be asked to approve an amendment to the Seventh Article of the Articles of Incorporation to increase the authorized capital stock from P6.64 Billion to ₱12.00 Billion.

   The Board is recommending to the stockholders that the Board of Directors be authorized to take appropriate steps and means to support the increase in the authorized capital stock from P6.64 Billion to P12.0 Billion.

   Approval of the foregoing amendment to Article VII requires the affirmative vote of shareholders owning or representing at least 2/3 of the outstanding capital of the company.

8. **Appointment of External Auditor** – The Corporation's Audit Committee has recommended the re-appointment of SyCip Gorres Velayo & Co. as external auditors for the current year. A resolution on this agenda item requires the approval of a majority of the votes of stockholders present and eligible to vote.

9. **Transaction of such other and further business as may properly come before the Meeting** - Stockholders may propose to discuss other issues and matters.

10. **Adjournment** – After all matters in the agenda have been taken up, the Chairman will entertain a motion to adjourn the meeting.

**ANNEX "A-1"**

**P R O X Y**

This undersigned stockholder of **LEPANTO CONSOLIDATED MINING COMPANY** (the "Company") hereby appoints Felipe U. Yap or Bryan U. Yap, as attorney-in-fact and proxy, to represent and vote all shares registered in his/her/its name at the Annual Meeting of Stockholders to be held on **20 September 2021 (Monday) at 04:00 p.m**. by remote communication and at any adjournments thereof for the purpose of acting on the following matters:

Unless i have indicated my preference or my votes on the issues in the form as provided below, my shares shall be voted in accordance with the recommendation of the Board of Directors or, if there is none, at the discretion of the Proxy, except in the election of directors, on which the Proxy shall vote only the number of shares i have indicated for the candidate i have chosen.

Hereunder are the matters to be taken up during the meeting. Please indicate your vote by firmly placing an "X" in the appropriate box.

| | | | | |
|---|---|---|---|---|
| 1. | Approval of the Minutes of the Annual Meeting held on July 27, 2020 | ☐ Yes | ☐ No | ☐ Abstain |
| 2. | Approval of the Annual Report | ☐ Yes | ☐ No | ☐ Abstain |
| 3. | Retention of independent directors for two more years: | | | |
| | Ray C. Espinosa | ☐ Yes | ☐ No | ☐ Abstain |
| | Val Antonio B. Suarez | ☐ Yes | ☐ No | ☐ Abstain |

4. Election of Directors

Vote for nominees listed below:

| | Nominee | No. of Votes |
|---|---|---|
| ☐ | Felipe U. Yap | ________________ |
| ☐ | Bryan U. Yap | ________________ |
| ☐ | Marilyn V. Aquino | ________________ |
| ☐ | Ethelwoldo E. Fernandez | ________________ |
| ☐ | Douglas John Kirwin | ________________ |
| ☐ | Regis V. Puno | ________________ |
| ☐ | Cresencio C. Yap | ________________ |
| | *Independent Directors* | |
| ☐ | Ray C. Espinosa | ________________ |
| ☐ | Val Antonio B. Suarez | ________________ |

| | | | | |
|---|---|---|---|---|
| 5. | Amendment of Article VII of the Articles of Incorporation to increase the authorized capital stock from P6.64 Billion to P12.00 Billion | ☐ Yes | ☐ No | ☐ Abstain |
| 6. | Appointment of SGV as External Auditor | ☐ Yes | ☐ No | ☐ Abstain |
| 7. | Transaction of such other and further business as may properly come before the meeting. | ☐ Yes | ☐ No | ☐ Abstain |

IF THE STOCKHOLDER IS A CORPORATION, A SECRETARY'S CERTIFICATE QUOTING THE BOARD RESOLUTION AUTHORIZING THE CORPORATE OFFICER WHO SIGNED THIS PROXY MUST BE SUBMITTED TO THE CORPORATE SECRETARY AT oaj@lepantomining.com.

A STOCKHOLDER GIVING A PROXY HAS THE POWER TO REVOKE IT ANY TIME BEFORE THE RIGHT GRANTED IS EXERCISED. A PROXY IS CONSIDERED REVOKED IF THE STOCKHOLDER REGISTERS ON THE VOTING IN ABSENTIA & SHAREHOLDER (VISH) SYSTEM AND/OR NOTIFIES THE COMPANY BY EMAIL BY 15 SEPTEMBER 2021 OF HIS INTENTION TO PARTICIPATE IN THE MEETING BY REMOTE COMMUNICATION.

STOCKHOLDERS PARTICIPATING BY REMOTE COMMUNICATION WILL NOT BE ABLE TO VOTE UNLESS THEY REGI STER IN THE VISH SYSTEM OR AUTHORIZE THE CHAIRMAN TO VOTE AS PROXY, ON OR BEFORE 15 SEPTEMBER 2021.

**A SCANNED COPY OF THIS PROXY SHOULD BE SENT TO THE CORPORATE SECRETARY AT** oaj@lepantomining.com **ON OR BEFORE 15 SEPTEMBER 2021 WHICH IS THE DEADLINE FOR SUBMISSION OF PROXIES.**

________________________________________
(Stockholder)

By: ________________________________________
Signature over printed name

ANNEX “A-2”

**ONLINE BALLOT**

Email Address: ______________________

| | | | | |
|---|---|---|---|---|
| 1. | Approval of the Minutes of the Annual Meeting held on July 27, 2020 | ☐ Yes | ☐ No | ☐ Abstain |
| 2. | Approval of the Annual Report | ☐ Yes | ☐ No | ☐ Abstain |
| 3. | Retention of independent directors for two more years: | | | |
| | Ray C. Espinosa | ☐ Yes | ☐ No | ☐ Abstain |
| | Val Antonio B. Suarez | ☐ Yes | ☐ No | ☐ Abstain |

4. Election of Directors

Vote for nominees listed below:

| | No. of Votes |
|---|---|
| ☐ Felipe U. Yap | _______________ |
| ☐ Bryan U. Yap | _______________ |
| ☐ Marilyn V. Aquino | _______________ |
| ☐ Ethelwoldo E. Fernandez | _______________ |
| ☐ Douglas John Kirwin | _______________ |
| ☐ Regis V. Puno | _______________ |
| ☐ Cresencio C. Yap | _______________ |
| *Independent Directors* | |
| ☐ Ray C. Espinosa | _______________ |
| ☐ Val Antonio B. Suarez | _______________ |

| | | | | |
|---|---|---|---|---|
| 5. | Amendment of Article VII of the Articles of Incorporation to increase the authorized capital stock from P6.64 Billion to P12.00 Billion | ☐ Yes | ☐ No | ☐ Abstain |
| 6. | Appointment of SGV as External Auditor | ☐ Yes | ☐ No | ☐ Abstain |
| 7. | Transaction of such other and further business as may properly come before the meeting. | ☐ Yes | ☐ No | ☐ Abstain |

☐ **I OPT NOT TO VOTE DIRECTLY AND INSTEAD APPOINT THE CHAIRMAN AS MY PROXY TO VOTE ON ALL MATTERS EXCEPT IN RESPECT OF THE ELECTION OF THE DIRECTORS.**

## ANNEX "B"

## REQUIREMENTS AND PROCEDURE FOR VOTING AND PARTICIPATING IN THE 2021 ANNUAL STOCKHOLDERS' MEETING

**A. CONDUCT OF THE MEETING** - The 2021 Annual Stockholders' Meeting of Lepanto Consolidated Mining Company will be conducted virtually on Monday, September 20, 2021, via ZOOM. Due to the Covid-19 crisis, there will be no physical venue for the meeting. Stockholders who participate in the meeting by remote communication shall be deemed present for purposes of quorum.

**B. PRE-REGISTRATION** - Stockholders intending to participate **by remote communication or by Proxy** (Annex "A-1") are required to pre-register by emailing the Asst. Corporate Secretary at oaj@lepantomining.com **not later than September 15, 2021**. Following are the requirements for pre-registration:

1. Name of the stockholder
2. Mailing Address
3. Contact number (landline or mobile)
4. email address through which the stockholder will send and receive communication from the Company
5. Scanned copy of any valid government-issued ID with photo and signature of the stockholder
6. If attending through a duly-appointed Proxy, the name of the Proxy, together with a scanned copy of the Proxy's valid government-issued ID with photo and signature (except if the designated Proxy is the Chairman of the meeting)
7. If the stockholder is a corporation, a scanned copy of the Corporate Secretary's certification stating the representative's authority to represent the corporation, and a scanned copy of the government-issued ID with photo and signature of the Company representative and email address of the representative.

THE SUBMISSION OF INCOMPLETE OR INCONSISTENT INFORMATION MAY RESULT IN UNSUCCESSFUL REGISTRATION AND WILL RENDER THE STOCKHOLDER INELIGIBLE TO PARTICIPATE IN THE MEETING.

**C. REGISTRATION PROPER-** Successful registrants will receive a notice by email:

1. confirming their registration status and providing:
   a. link to the online secure portal where they can vote/accomplish the Ballot (Annex "A-2"), which should be accomplished not later than September 20, 2021;
   b. ZOOM meeting link to enable them to participate at the meeting.
2. for those who submitted a PROXY, a confirmation of the validity of the PROXY.

## D. VOTING

1. A stockholder who chooses to vote electronically should vote on the agenda items by accessing the Ballot through the secure online portal.
2. A stockholder who does not wish to vote electronically can only appoint the Chairman of the meeting as Proxy.
3. The Office of the Corporate Secretary will tabulate all votes received and an independent third party will validate the results.
4. The Corporate Secretary will report the results of the voting during the meeting.

## E. MEETING PROPER

1. During the meeting, each proposed resolution will be shown on the screen as the relevant agenda item is taken up.
2. Participating stockholders can send questions or comments on any item on the agenda through the chat facility of ZOOM.
3. The meeting proceedings will be recorded in audio and video format. A copy of the recorded proceedings will be made available to a stockholder upon request.

**SECURITIES AND EXCHANGE COMMISSION**

**SEC FORM 20-IS**

**INFORMATION STATEMENT PURSUANT TO SECTION 20**
**OF THE SECURITIES REGULATION CODE**

1. Check the appropriate box:

   ___ Preliminary Information Statement

   _X_ Definitive Information Statement

2. Name of Registrant as specified in its charter: **LEPANTO CONSOLIDATED MINING COMPANY**

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

4. SEC Identification Number: 101

5. BIR Tax Identification Code: 320-000-160-247

6. Address of principal office: 21st Floor, Lepanto Building
   8747 Paseo de Roxas
   1229 Makati City, Philippines

7. Registrant's telephone number, including area code : (632) 815-9447

8. Date, time and place of the meeting of security holders :

   **Monday, September 20, 2021 at 4:00 o'clock p.m.** The meeting will be conducted virtually via remote access communications and the access link will be provided in the Company's website at **www.lepantomining.com**

9. Approximate date on which the Information Statement is first to be sent or given to security holders: August 31, 2021

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

| Title of Each Class | Number of Shares of Common Stock Outstanding |
|---|---|
| Class "A" | 39,822,869,196 |
| Class "B" | 26,552,888,901 |

The Company has no Preferred Stock.

11. Are any or all of registrant's securities listed on a Stock Exchange?

    Yes __X__ No _______

    If yes, disclose the name of such Stock Exchange and the class of securities listed therein.

    Philippine Stock Exchange Classes "A" & "B"

## GENERAL INFORMATION

**WE ARE NOT REQUESTING YOU FOR A PROXY AND YOU ARE REQUESTED NOT TO SEND US A PROXY.**

### Date, time and place of meeting of security holders

The Annual Meeting of Stockholders of Lepanto Consolidated Mining Company will be will be conducted virtually via remote access communications and the access link will be provided in the Company's website at **www.lepantomining.com** on **Monday, September 20, 2021 at 4:00 o'clock p.m.** The complete mailing address of the offices of the Company is 21st Floor, Lepanto Building, 8747 Paseo de Roxas, Makati City, Philippines. This Information Statement will be posted on the Company's website on or before August 30, 2021.

### Dissenters' Right of Appraisal

A stockholder has the right to dissent and demand payment of the fair value of his share: (1) in case any amendment to the articles of incorporation has the effect of changing or restricting the rights of any stockholders or of authorizing preference over the outstanding shares or of extending or shortening the term of corporate existence; (2) in case of any sale, lease, mortgage or disposition of all or substantially all the corporate property or assets; and (3) in case of any merger or consolidation.

The appraisal right may be exercised by a stockholder who has voted against the proposed corporate action, by making a written demand on the corporation for the payment of the fair market value of his shares within thirty (30) days after the date on which the vote was taken.

There is no matter in the Agenda that may trigger the exercise of shareholders of the right of appraisal.

### Interest of Certain Persons in or Opposition to Matters to be Acted Upon

Except for Directors Ray C. Espinosa and Val Antonio B. Suarez for whom an extension of two years as independent directors is being sought, none of the directors, officers, nominees for director, or any of the associates of the foregoing persons have any substantial interest in the Matters to be Acted Upon in the Annual Meeting nor has any of them informed the Company in writing of any opposition to the matters to be acted upon.

## CONTROL AND COMPENSATION INFORMATION

### Voting Securities and Principal Holders Thereof

Of the 66,375,758,097 outstanding shares of the Company, 66,355,164,424 shares as of August 31, 2021 are entitled to one (1) vote each. Said outstanding shares, all of which are common shares, are broken down as follows:

| | | |
|---|---|---|
| Class "A" | - | 39,817,947,179 |
| Class "B" | - | 26,537,217,245 |

A stockholder entitled to vote at the meeting shall have the right to vote in person or by proxy (which need not be notarized) the number of shares of stock held in his name on the stock books of the Company as of August 31, 2021 and said stockholder may vote such number of shares for as many persons as there are directors to be elected or he may cumulate said shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of his shares shall equal, or he may distribute them on the same principle among as many candidates as he shall see fit.

Article VII of the Corporation's Articles of Incorporation, "No stockholder of this corporation shall have any pre-emptive or preferential right to subscribe to any increase thereof that may be lawfully authorized, in proportion to his respective holding at the time such increase is so authorized."

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

Owners of more than 5% of the Company's securities, as of August 15, 2021, 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.<br>*U-2301 & 2302, 23/F, PSE Centre, Exchange Rd.,Ortigas Center, Pasig City* | F. Yap Securities, Inc./ Principal Stockholder | Filipino | 13,592,362,044<br>12,088,069,379 | 34.14<br>45.52 | 25,680,431,457 | 38.69 |
| A & B | ** First Metro Investment Corp.<br>*Makati City* | First Metro Investment Corp./ Principal Stockholder | Filipino | 2,720,445,426<br>799,642,268 | 6.83<br>3.01 | 3,520,087,701 | 5.30 |
| A | ****Philex Mining Corporation, Brixton St., Pasig City* | Philex Mining Corporation/ shareholder | Filipino | 2,164,240,810<br>3,494,999 | 5.43<br>0.01 | 2,167,735,824 | 3.27 |

**Equity Ownership of Foreigners**

As of August 31, 2021, the record date, none of the "A" shares and 13.74% of the "B" shares were held by foreigners.

**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.

**Security Ownership of Management** (as of August 15, 2021)

| 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 | 254,161,744 /134,355,552 | Filipino | 0.64 / 0.51 |
| A & B | Bryan U. Yap | Director / President | 970,846,692 / 50,107,284 | -do- | 2.44 / 0.19 |
| B | Marilyn V. Aquino | Director | 23,440,591 / 13,515,060 | -do- | 0.06 / 0.05 |
| A& B | Douglas John Kirwin | Director | 1 | Australian | nil |
| A & B | ***Ray C. Espinosa | Director | 1,213,447 / 500,000 | Filipino | nil |
| A & B | Ethelwoldo E. Fernandez | Director/Corp. Sec. | 1,697,900 / 983,659 | -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 | 12,813,538 / 22,332,961 | -do- | 0.03 / 0.11 |
| A | Ramon T. Diokno | Chief Finance Officer | 953,183 / 333,066 | -do- | Nil |
| A & B | Ma. Lourdes B. Tuason | Vice Pres./Treasurer | 23,991,732 / 16,328,419 | -do- | 0.06 / 0.06 |

| | | | | | |
|---|---|---|---|---|---|
| A & B | Odette A. Javier | Vice Pres./Asst Corp Sec | 11,965,525 / 5,688,130 | -do- | 0.03 / 0.02 |
| A & B | Rene F. Chanyungco | Vice President | 3,882,141 / 4,568,095 | -do- | 0.01 / 0.02 |
| A & B | Abigail Y. Ang | Vice President | 6,913,351 / 8,542,361 | -do- | 0.02 / 0.03 |
| A & B | Pablo T. Ayson, Jr. | Vice President | 866,516 / 2,720,074 | -do- | 0.00 / 0.01 |
| A & B | Cherry H. Tan | Asst. Vice President | 4,662,880 / 3,130,959 | -do- | 0.012 / 0.012 |
| A & B | Knestor Jose Y. Godino | Vice Pres./HR | 989,090 / 659,693 | -do- | nil |
| A & B | *Aggregate as a group* | | *1,318,408,331 / 263,765,314* | | *3.31 /1.00* |

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

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

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

**** - Independent Directors

There is no arrangement which may result in a change in the control of the Company and there have been no such changes since January 2021.

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

None of the directors and officers were involved during the past five (5) years in any bankruptcy petition. Neither has any director or officer been convicted by final judgment in any criminal proceeding, or been subject to any order, judgment or decree of competent jurisdiction, permanently or temporarily enjoining, barring, suspending, or otherwise limiting their involvement in any type of business, securities, commodities or banking activities, nor found in an action by any court or administrative bodies to have violated a Securities or Commodities law.

There are pending material legal proceedings involving the Company, to wit:

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

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. In a decision dated February 5, 2018, the Regional Trial Court ("RTC") of Makati City ruled in favor of Lepanto, declaring the subject contracts null and void. Defendant Rothschild has elevated the matter to the Court of Appeals where the case remains pending.

<u>In re an Arbitration between Lepanto Consolidated Mining Company (LCMC) and Far Southeast Gold Resources, Inc. (FSGRI) and the Republic of the Philippines, represented by the Department of Environment and Natural Resources (DENR)</u>

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. In a Decision dated April 30, 2018, the Court of Appeals affirmed the final award of the Arbitral Tribunal. Following the Court of Appeals' denial of the Republic's Motion for Reconsideration, the Republic filed a Petition for Review with the Supreme Court.

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.

**Directors and Executive Officers**

The Directors of the Company are elected at the Regular Annual Meeting of Stockholders to hold office until the next succeeding annual meeting or until their respective successors have been elected and qualified. The incumbent Directors are:

| Directors | Age | Citizenship | Period Served |
|---|---|---|---|
| FELIPE U. YAP | 84 | Filipino | Since 1975 |
| BRYAN U. YAP | 48 | -do- | Since 1997 |
| DOUGLAS J. KIRWIN | 70 | Australian | Since 2017 |
| RAY C. ESPINOSA (Independent) | 64 | Filipino | Since 2005 |
| MARILYN V. AQUINO | 65 | -do- | Since 2012 |
| ETHELWOLDO E. FERNANDEZ | 93 | -do- | Since 2007 |
| REGIS V. PUNO | 63 | -do- | Since 2016 |
| VAL ANTONIO B. SUAREZ (Independent) | 62 | -do- | Since 2011 |
| CRESENCIO C. YAP | 75 | -do- | 2000-2004;<br>2006 to present |

Following are the names of the Candidates for election to the Board of Directors with the names of the shareholders who nominated them, in the case of the candidates for independent directors:

| | Age | Citizenship |
|---|---|---|
| FELIPE U. YAP | 84 | Filipino |
| BRYAN U. YAP | 48 | -do- |
| CRESENCIO C. YAP | 75 | -do- |
| REGIS V. PUNO | 63 | -do- |
| MARILYN V. AQUINO | 65 | -do- |
| DOUGLAS J. KIRWIN | 70 | Australian |
| ETHELWOLDO E. FERNANDEZ | 93 | Filipino |
| For Independent Directors: | | |
| RAY C. ESPINOSA | 64 | Filipino - nominated by Mr. Antonio Cielo with whom he has no relations |
| VAL ANTONIO B. SUAREZ | 62 | Filipino - nominated by Ms. Ma. Theresa B. Tuason with whom he has no relations |

**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 Kalayaan Copper-Gold Resources, Inc. and Zeus Holdings, Inc. and Vice Chairman of Ayala Land Logistics Holdings Corporation. Mr. Yap is a director of, among others, Manila Peninsula Hotel, Inc. and Philippine

Associated Smelting and Refining Corp. (PASAR). 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.; and Diamond Drilling Corporation of the Philippines. He is also a director and Vice Chairman of Far Southeast Gold Resources, Inc.

Atty. Marilyn V. Aquino has been a member of the board of Philex Mining Corporation since December 2009 and of PXP Energy Corporation since 2013. She was a partner of the law firm Sycip Salazar Hernandez & Gatmaitan until June 2012 when she joined First Pacific Company Limited as Assistant Director. She is now the Chief Legal Counsel of PLDT.

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

Atty. Ethelwoldo E. Fernandez rejoined the Company as Corporate Secretary in 2001, 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.

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 an independent director of Zeus Holdings, Inc. since 2017.

Atty. Regis V. Puno is currently the Vice Chairman of Metrobank Card Corporation and Special Legal Counsel to the Metrobank Group. He was a Senior Partner at Puno & Puno Law Offices until his retirement in 2018. He 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.

There is no director who has resigned or declined to stand for re-election since the last annual meeting because of a disagreement with the Company.

Nomination of Independent Directors

In compliance with existing rules, the following are the criteria for Independent Directors

1. Not a director or officer or substantial stockholder of the corporation or of its related companies or any of its substantial shareholders (other than as an independent director of any of the foregoing);

2. Not a relative of any director, officer or substantial shareholder of the corporation, any of its related companies or any its substantial shareholders. For this purpose, relative included spouse, parent, child, brother, sister, and the spouse of such child, brother or sister;

3. Not acting as a nominee or representative of a substantial shareholder of the corporation, any of its related companies or any of its substantial shareholders;

4. Not been employed in any executive capacity by that public company, any of its related companies or any of its substantial shareholders within the last five (5) years;

5. Not retained as professional adviser by that public company, any of its related companies or any of its substantial shareholders within the last five (5) years, either personally or through his firm;

6. Not engaged and does not engage in any transaction with the corporation, or with any of its related companies or with any of its substantial shareholders, whether by himself or with other persons or through a firm of which he is a partner or a company of which he is a director or substantial shareholder, other than transactions which are conducted at arm's length and are immaterial or insignificant.

The Nomination Committee of the Board of Directors is composed of: Atty. Ray C. Espinosa, Chairman; and Mr. Bryan U. Yap and Atty. Ethelwoldo E. Fernandez, members. In pre-screening the qualifications of the nominees, the Nomination Committee considered nomination letters for independent directors submitted on or before March 10, 2021 by shareholders of record. With due regard to the qualifications and disqualifications set forth in the Company's Manual for Corporate Governance, the Securities Regulation Code and its Implementing Rules and the criteria prescribed in SRC Rule 38, the Nomination Committee has determined that Atty. Ray C. Espinosa and Atty. Val Antonio B. Suarez are qualified to sit in the Board as independent directors.

Executive Officers

| | | |
|---|---|---|
| FELIPE U. YAP | - | Chairman of the Board and CEO |
| BRYAN U. YAP | - | President and COO |
| RAMON T. DIOKNO | - | Chief Finance Officer |
| ETHELWOLDO E. FERNANDEZ | - | Corporate Secretary |
| MA. LOURDES B. TUASON | - | Vice President/Treasurer |
| RENE F. CHANYUNGCO | - | Vice President-Logistics & Marketing |
| ABIGAIL K. YAP | - | Vice President for Technology & Planning |
| ODETTE A. JAVIER | - | Vice President/Asst. Corporate Secretary |
| PABLO T. AYSON, JR. | - | Vice President-Mining Claims |
| KNESTOR JOSE Y. GODINO | - | Vice President- Human Resource & Admin. |
| JOSEPH B. PATANO | - | Vice President – Legal Services |
| CHERRY H. TAN | - | Asst. Vice President- Purchasing |

**Business Experience of Executive Officers**

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. and Zeus Holdings, Inc. He is also a director and the CFO of the Diamond Drilling Corporation of the Philippines (DDCP) and LIDC, and a director and Vice President of Far Southeast Gold Resources, Inc.

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

Mr. Rene F. Chanyungco is also a director and Senior Vice President-Treasurer of Manila Mining Corporation. He is the Vice President-Treasurer of Kalayaan Copper Gold Resources, Inc. 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 Assistant Corporate Secretary of Manila Mining Corporation and Far Southeast Gold Resources, Inc. and is a Director and Corporate Secretary of Zeus Holdings, Inc. and LIDC. She is also Lepanto's Chief Information Officer.

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 Zeus Holdings, Inc. and Kalayaan Copper-Gold Resources, Inc.

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 in 2015. He is also the Asst. Vice President for Human Resource of Manila Mining Corporation.

Atty. Joseph B. Patano joined the Company as Legal Manager in 2019. He was promoted to Vice President in July 2021.

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

**Attendance of Directors for the year 2020 Meetings:**

| Board | Name | No. of Board Meetings Held during the year | No. of Meetings Attended | % |
|---|---|---|---|---|
| Chairman | Felipe U. Yap | 13 | 13 | 100% |
| Member | Bryan U. Yap | 13 | 13 | 100% |
| Member | Marilyn V. Aquino | 13 | 11 | 85% |
| Independent | Ray C. Espinosa | 13 | 8 | 62% |
| Member | Ethelwoldo E. Fernandez | 13 | 13 | 100% |
| Member | Douglas John Kirwin | 13 | 12 | 92% |
| Member | Regis V. Puno | 13 | 12 | 92% |
| Independent | Val Antonio B. Suarez | 13 | 12 | 92% |
| Member | Cresencio C. Yap | 13 | 9 | 69% |

**Continuing Education Attended:**

| Name of Director/Officer | Date of Training | Program | Name of Training Institution |
|---|---|---|---|
| Felipe U. Yap | October 28, 2020 | Corporate Governance Updates and Economic Briefing | Center for Global Best Practices |
| Bryan U. Yap | October 28, 2020 | Corporate Governance Updates and Economic Briefing | Center for Global Best Practices |
| Marilyn V. Aquino | September 25, 2020 | Corporate Governance – How to lead courageously during a crisis | |
| Ray C. Espinosa | October 28, 2020 | Corporate Governance Updates and Economic Briefing | Center for Global Best Practices |

| | | | |
|---|---|---|---|
| Ethelwoldo E. Fernandez | October 28, 2020 | Corporate Governance Updates and Economic Briefing | Center for Global Best Practices |
| Douglas John Kirwin | October 28, 2020 | Corporate Governance Updates and Economic Briefing | Center for Global Best Practices |
| Regis V. Puno | October 28, 2020 | Corporate Governance Updates and Economic Briefing | Center for Global Best Practices |
| Val Antonio B. Suarez | October 28, 2020 | Corporate Governance Updates and Economic Briefing | Center for Global Best Practices |
| Cresencio C. Yap | October 28, 2020 | Corporate Governance Updates and Economic Briefing | Center for Global Best Practices |

**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.

**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.

The Parent Company has a Board-approved Material Related Party Transactions (Material RPTs) Policy defining Material RPTs and setting forth the approval procedure for the same in compliance with the requirements of Revised SRC Rule 68 and SEC Memorandum Circular 10, series of 2019.

Under the said policy, Material RPTs, that is, transactions which, either individually, or in aggregate over a twelve (12)-month period with the same related party, amount to at least ten percent (10%) of the Company's consolidated total assets based on its latest audited financial statements, need to be approved by at least a two-thirds (2/3) vote of the board of directors prior to execution.

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:

| | **2020** | | | |
|---|---|---|---|---|
| | **Amount/ Volume** | **Outstanding Balance** | **Terms** | **Conditions** |
| **Subsidiaries** | | | | |
| ***Receivables*** | | | | |
| **DDCP** | **₱74,955** | **₱129,932** | **On demand; noninterest-bearing and collectible in cash** | **Unsecured, no impairment, not guaranteed** |
| **LIDC** | **146** | **89,867** | **On demand; noninterest-bearing and collectible in cash** | **Unsecured, no impairment, not guaranteed** |
| **FSGRI** | **2,566** | **685** | **On demand; noninterest-bearing and collectible in cash** | **Unsecured, no impairment, not** |

| | 2020 | | | |
|---|---|---|---|---|
| | **Amount/ Volume** | **Outstanding Balance** | **Terms** | **Conditions** |
| | | | | **guaranteed** |
| ***Advances*** | | | | |
| **FSGRI** | **–** | **94,140** | **On demand; noninterest-bearing and collectible in cash** | **Unsecured, no impairment, not guaranteed** |
| ***Payables*** | | | | |
| **SI** | **16,417** | **(163,768)** | **On demand; noninterest-bearing and collectible in cash** | **Unsecured, not guaranteed** |
| **MMC** | **25,512** | **(25,512)** | **On demand; noninterest-bearing and collectible in cash** | **Unsecured, not guaranteed** |
| ***Rental*** | | | | |
| **FSGRI** | **2,274** | – | **Noninterest-bearing and normally settled on 30-day term** | **Unsecured, not guaranteed** |
| ***Services*** | | | | |
| **DDCP** | **36,227** | – | **Noninterest-bearing and normally settled on 30-day term** | **Unsecured, not guaranteed** |
| **SI** | **16,380** | – | **Noninterest-bearing and normally settled on 30-day term** | **Unsecured, not guaranteed** |

| | 2019 | | | |
|---|---|---|---|---|
| | Amount/ Volume | Outstanding Balance | Terms | Conditions |
| Subsidiaries | | | | |
| *Receivables* | | | | |
| DDCP | ₱– | ₱144,695 | On demand; noninterest-bearing and collectible in cash | Unsecured, no impairment, not guaranteed |
| LIDC | 225 | 89,721 | On demand; noninterest-bearing and collectible in cash | Unsecured, no impairment, not guaranteed |
| *Advances* | | | | |
| FSGRI | – | 94,140 | On demand; noninterest-bearing and collectible in cash | Unsecured, no impairment, not guaranteed |
| *Payables* | | | | |
| DDCP | – | – | On demand; noninterest-bearing and collectible in cash | Unsecured, not guaranteed |
| SI | 15,381 | (166,585) | On demand; noninterest-bearing and collectible in cash | Unsecured, not guaranteed |
| FSGRI | 2,749 | (1,344) | On demand; noninterest-bearing and collectible in cash | Unsecured, not guaranteed |
| *Rental* | | | | |
| FSGRI | 2,274 | – | Noninterest-bearing and normally settled on 30-day term | Unsecured, not guaranteed |
| *Services* | | | | |
| SI | 2,664 | – | Noninterest-bearing and normally settled on 30-day term | Unsecured, not guaranteed |

a. In the normal course of business, the Group grants and receives advances to and from its associates and stockholders, which are considered related parties.

The corresponding receivables and payables arising from the said transactions, including operational support as at December 31, 2020 and 2019 are as follows:

| | 2020 | | | |
|---|---|---|---|---|
| | **Amount/ Volume** | **Outstanding Balance** | **Terms** | **Conditions** |
| **Associates** | | | | |
| ***Receivable:*** | | | | |
| **DMTC** | **₱139** | **₱1,861** | **On demand; noninterest-bearing and collectible in cash** | **Unsecured, no impairment, not** |

| | | | | |
|---|---|---|---|---|
| | | | | **guaranteed** |
| ***Payables:*** | | | | |
| **DMTC (Note 13)** | **–** | **(15,132)** | **On demand; noninterest-bearing and collectible in cash** | **Unsecured, no impairment, not guaranteed** |
| **MMC (Note 13)** | **36,030** | **(38,163)** | **On demand; noninterest-bearing and collectible in cash** | **Unsecured, no impairment, not guaranteed** |
| **Stockholders** | | | | |
| ***Payables:*** | | | | |
| **Various (Note 13)** | **–** | **(56,083)** | **Noninterest-bearing and are normally settled in cash on 30-day term** | **Unsecured, no guarantee** |

| | 2019 | | | |
|---|---|---|---|---|
| | Amount/ Volume | Outstanding Balance | Terms | Conditions |
| Associates | | | | |
| *Receivable:* | | | | |
| DMTC | ₱3,254 | ₱3,254 | On demand; noninterest-bearing and collectible in cash | Unsecured, no impairment, not guaranteed |
| *Payables:* | | | | |
| DMTC (Note 13) | 1,198 | (16,606) | On demand; noninterest-bearing and collectible in cash | Unsecured, no impairment, not guaranteed |
| MMC (Note 13) | – | (31,218) | On demand; noninterest-bearing and collectible in cash | Unsecured, no impairment, not guaranteed |
| *Advances:* | | | | |
| MMC (Note 11) | 6,426 | 4,874 | Noninterest-bearing and normally settled on 30-day term | Unsecured, no impairment, not guaranteed |
| Stockholders | | | | |
| *Payables:* | | | | |
| Various (Note 13) | – | (56,083) | Noninterest-bearing and are normally settled in cash on 30-day term | 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 ₱550,755 and ₱478,881 as at December 31, 2020 and 2019, respectively (see Note 17).

The retirement fund consists of cash in banks, short-term investments, investments in quoted and unquoted equity securities which accounts for 0.28% and 86.25% and 13.44% and 0.03% of the trust fund, respectively, as at December 31, 2020 (see Note 17).

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 ₱49,720 and ₱72,399 in 2020 and 2019, respectively (see Note 17).

c. Compensation of key management personnel are as follows:

| | **2020** | 2019 | 2018 |
|---|---|---|---|
| Short-term benefits | **₱51,100** | ₱51,100 | ₱51,100 |
| Post-employment benefits | **13,200** | 13,200 | 13,200 |
| | **₱64,300** | ₱64,300 | ₱64,300 |

**Summary Compensation Table**

| **Board of Directors per diem:** | **Year 2021** | **Year 2020** | **Year 2019** |
|---|---|---|---|
| Felipe U. Yap | none | 40,000 | 120,000 |
| Bryan U. Yap | none | 40,000 | 120,000 |
| Marilyn V. Aquino | none | 30,000 | 80,000 |
| Ray C. Espinosa | none | 10,000 | 105,000 |
| Ethelwoldo E. Fernandez | none | 30,000 | 155,000 |
| Douglas John Kirwin | none | 20,000 | 80,000 |
| Regis V. Puno | none | 20,000 | 80,000 |
| Val Antonio B. Suarez | none | 20,000 | 100,000 |
| Cresencio C. Yap | none | 20,000 | 120,000 |
| | **2019 Total (All Cash)** | **Basic Salary** | **Bonus ($13^{th}$ month)** |
| Felipe U. Yap, Chairman<br>Bryan U. Yap, President<br>Ramon T. Diokno, CFO<br>Ma. Lourdes B. Tuason, Vice Pres./Treasurer<br>Rene F. Chanyungco, Vice President | P34.6 million | P31.9 million | P2.7 million |
| All officers and directors | P51.2 million | P45.3 million | P5.9 million |
| | **2020 (Total)** | | |
| Felipe U. Yap, Chairman<br>Bryan U. Yap, President<br>Ramon T. Diokno, CFO<br>Ma. Lourdes B. Tuason, Vice Pres./Treasurer<br>Rene F. Chanyungco, Vice President | P34.6 million | P31.9 million | P2.7 million |
| All officers and directors | P51.2 million | P45.3 million | P5.9 million |
| | **2021 (Estimate)** | | |
| Felipe U. Yap, Chairman<br>Bryan U. Yap, President<br>Ramon T. Diokno, CFO<br>Ma. Lourdes B. Tuason, Vice Pres./Treasurer<br>Rene F. Chanyungco, Vice President | P34.6 million | P31.9 million | P2.7 million |
| All officers and directors | P51.2 million | P45.3 million | P5.9 million |

**Compensation of Directors/Committee Members**

Directors are paid a per diem of P10,000.00 each for attendance of every regular or special meeting in accordance with the Corporation's By-Laws. For committee meetings attended, non-executive member-directors are paid a per diem of P5,000.00 to P10,000.00 each.

**Contracts with Officers/ Employees**

The Company has no contracts or special arrangements with any of its officers or employees with respect to the terms of employment.

**Pension Plan**

The Parent Company has a 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, 2020, 2019 and 2018.

**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 last award, the 17th Stock Option Award, expired on January 30, 2013.

**Authorization or Issuance of Securities Other than for Exchange**

The following table illustrates the proposed authorized capital stock ("ACS") or the number of common shares after the proposed increase in ACS is approved and implemented.

| **AUTHORIZED CAPITAL STOCK** | | | | |
|---|---|---|---|---|
| Type of "Common" Shares | Before the Increase in ACS | Increase in ACS | After the Increased in ACS | Amount (Php) |
| "A" | 39,840,000,000 | 32,160,000,000 | 72,000,000,000 | 7,200,000,000.00 |
| "B" | 26,560,000,000 | 21,440,000,000 | 48,000,000,000 | 4,800,000,000.00 |
| **Total** | **66,400,000,000** | **53,600,000,000** | **120,000,000,000** | **12,000,000,000.00** |

Pursuant to the Revised Corporation Code, at least 25% of the increase in ACS, amounting P1.34 billion shall be subscribed, of which at least 25% will be paid-up. There will be no changes in the voting, dividend, or preemption rights of stockholders in connection with the issuance of additional shares.

Class "A" and Class "B" shares enjoy the same rights and privileges. The only distinction between Class "A" and Class "B" shares is the former are available only to Filipino citizens, while the latter are available to all nationalities. Every share can vote for as many nominees as there are directors to be elected (nine for this Company) and the votes may be cumulated in favor of one, or a few candidates, or distributed among as many candidates as the shareholder may wish. Under the first paragraph of Article VII of the Corporation's Articles of Incorporation, "No stockholder of this corporation shall have any pre-emptive or preferential right to subscribe for any increase thereof that may be lawfully authorized, in proportion to his respective holding at the time such increase is so authorized."

**Modification or Exchange of Securities**

No action is to be taken by the Company with respect to the modification of any class of securities of the Company or the issuance or authorization for issuance of one class of securities of the Company in exchange for outstanding securities of another class.

**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 and 2014-2017. Ms. Eleanore A. Layug was the certifying partner in 2012 and 2013, and again for the 2018 to 2020 financial statements.

Representatives of SGV will be present at the Annual Meeting on September 20, 2021 to give statements in response to queries on issues they can shed light on.

SGV is being recommended for re-appointment as external auditor of the Company.

**Audit Fees**

For the audit of the financial statements for the year 2019, SGV & Co. billed the Company the sum of P2,460,000. The same amount was agreed for the audit of the 2020 financial statements.

**Tax Fees**

No professional services in relation to taxes were rendered by SGV to the Company in the last three years.

**All Other Fees**

SGV & Co. was engaged to review the utilization of the proceeds of the Company's 1:4.685 SRO in 2017 pursuant to the PSE's conditions for listing. They were paid P40,000 for the engagement. No other non-audit services were rendered by SGV to the Company in the last two years.

**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; Atty. Ethelwoldo E. Fernandez and Mr. Cresencio C. Yap, members.

The Committee revised its charter in 2012 to conform to SEC Memorandum Circular No. 4, Series of 2012.

FINANCIAL AND OTHER INFORMATION

Action with Respect to Reports

At the last Annual Stockholders Meeting held on July 27, 2020 conducted virtually via remote access communications, the Chairman and CEO reported to the stockholders of the Company the operational and financial performance in 2019 while the President and COO updated the stockholders on the operations for the first quarter of 2020 and Outlook for the rest of the year. Thereafter, the Chairman opened the floor for clarificatory questions. There were no questions from the floor.

The following were the matters discussed and the voting results for each item:

| AGENDA ITEM | IN FAVOR | | AGAINST | | ABSTAIN |
|---|---|---|---|---|---|
| | No. of Shares | % | No. of Shares | % | |
| Approval of the Minutes of the Annual Meeting held on April 15, 2019 | 44,756,357,115 | 67.71 | 0 | 0 | 0 |
| Approval of the Annual Report | 44,756,357,115 | 67.71 | 0 | 0 | 0 |
| Appointment of Sycip, Gorres, Velayo and Co., as External Auditor | 44,756,357,115 | 67.71 | 0 | 0 | 0 |
| **Election of Directors** | **IN FAVOR** | | | | |
| | **No. of Shares** | **%** | | | |
| FELIPE U. YAP | 44,926,119,615 | 67.71% | | | |
| BRYAN U. YAP | 44,926,119,615 | 67.71% | | | |
| CRESENCIO C. YAP | 44,926,119,615 | 67.71% | | | |
| ETHELWOLDO E. FERNANDEZ | 44,926,119,615 | 67.71% | | | |
| MARILYN V. AQUINO | 44,926,119,615 | 67.71% | | | |
| RAY C. ESPINOSA | 44,926,119,615 | 67.71% | | | |
| DOUGLAS JOHN KIRWIN | 44,926,119,615 | 67.71% | | | |
| REGIS V. PUNO | 44,926,119,615 | 67.71% | | | |
| VAL ANTONIO B. SUAREZ | 44,926,119,615 | 67.71% | | | |

The following were the Board of Directors present via remote communication:

1. FELIPE U. YAP
2. BRYAN U. YAP
3. CRESENCIO C. YAP
4. ETHELWOLDO E. FERNANDEZ
5. MARILYN V. AQUINO
6. DOUGLAS JOHN KIRWIN
7. REGIS V. PUNO
8. RAY C. ESPINOSA
9. VAL ANTONIO B. SUAREZ

The following were the Officers present via remote communication:

1. Mr. Ramon T. Diokno – Chief Finance Officer
2. Ms. Ma. Lourdes B. Tuason– Vice President-Treasurer
3. Atty. Odette Javier – Vice President and Asst. Corporate Secretary

4. Atty. Pablo Ayson – Vice President for Mining Claims
5. Mr. Knestor Godino – Vice President for Human Resource
6. Cherry H. Tan - Asst. Vice President - Purchasing

Stockholders in attendance or represented at the meeting represented 44,756,357,115 shares constituting 67.45% of the outstanding shares of the Company.

**Material Information on the current stockholders and their voting rights**

For the Annual Stockholders Meeting scheduled on September 20, 2021, the Chairman will report on the operational and financial performance of the Company in 2020 while the President will report on the operations in the second quarter of 2021 and Outlook for the rest of 2021.

The Company will submit to the shareholders for approval the following:

1. Call to Order
2. Proof of due notice of the meeting and determination of quorum
3. Approval of the Minutes of the Annual Meeting held on July 27, 2020
4. Approval of the Annual Report
5. Retention of Messrs. Ray C. Espinosa and Val Antonio B. Suarez for two more years as independent directors
6. Election of Directors
7. Amendment of Article VII of the Articles of Incorporation to increase the authorized capital stock from P6.64 Billion to P12.00 Billion to read:

   *Seventh: –That the capital stock of said corporation is TWELVE BILLION PESOS (P12,000,000,000.00), Philippine Currency, and said capital stock is divided into SEVENTY TWO BILLION (72,000,000,000) shares of Class "A" Common Stock and FORTY EIGHT BILLION (48,000,000,000) shares of Class "B" Common Stock, both classes of shares being of the par value of Ten Centavos (P0.10) each. All shares of stock of the corporation shall enjoy the same rights and privileges except only as herein otherwise provided. The shares of capital stock of this corporation may be issued from time to time for not less than par; and all issued shares of the capital stock of this corporation shall be deemed fully paid and non-assessable and the holder of such shares shall not be liable thereunder to this corporation or its creditors.

8. Appointment of External Auditor

**Reason and Effect of the Amendment**

The Company's ACS of P6.64 billion is almost fully subscribed. Increasing the ACS to P12.0 billion will enable the Company to raise capital to fund its exploration and development projects as well as settle debts.

**Voting Procedures**

Items 1 to 5 above will require the affirmative vote of a majority of the shares of the Company present or represented and entitled to vote at the Annual Meeting. Likewise, directors shall be elected upon the majority vote of the shares present or represented and entitled to vote at the Annual Meeting. Item 7 will need the affirmative vote of stockholders representing 2/3 of the outstanding capital of the Company. The Voting Procedure is set forth in the Requirements and Procedure for Voting and Participating in the 2021 Annual Stockholders' Meeting attached hereto as Annex "B".

**Incorporated herein are the following:**

1. General Nature and Scope of Business of Lepanto and Subsidiaries;
2. Plan of Operation for 2021;
3. Management's Discussion and Analysis of Financial Condition and Results of Operations for the First and Second Quarters ended March 31 and June 30, 2021, respectively, and for the years 2020, 2019 and 2018;
4. Quarterly Market Prices of Securities from 2019, 2020 to the 2nd quarter of 2021 and August 20, 2021; and
5. Audited Financial Statements for 2020 with Management's Responsibility for Financial Statements.

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in Makati City on August 23, 2021.

LEPANTO CONSOLIDATED MINING COMPANY
(Issuer)

For and in behalf of the Board of Directors:

ODETTE A. JAVIER
Vice President and
Asst. Corporate Secretary

## ANNUAL REPORT TO SECURITY HOLDERS

General Nature and Scope of Business

Lepanto Consolidated Mining Company is a Filipino primary gold producer. Lepanto has been a proud corporate resident of Mankayan, Benguet for 82 years since 1936.

From 1948 to 1996, Lepanto's 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. Lepanto resumed copper operations in 2008, which it suspended in the fourth quarter of that year due to the sharp decline in copper prices.

Lepanto continues to produce gold from its Victoria and Teresa operations in Mankayan, Benguet. The Victoria Project has produced over 1,400,000 ounces gold from 1997 to 2020.

Lepanto has three wholly-owned subsidiaries, to wit:

SHIPSIDE, INC., based in San Fernando, La Union, is engaged principally in the hauling business. It also has a sawmill in La Union.

DIAMOND DRILLING CORPORATION OF THE PHILIPPINES is in the diamond drilling business. Itservices mostly mining companies.

LEPANTO INVESTMENT AND DEVELOPMENT CORPORATION (LIDC) is in the insurance business.

Lepanto owns 60% of FAR SOUTHEAST GOLD RESOURCES, INC., another mining company with resources in Mankayan, Benguet.

**Plan of Operation for 2021**

Lepanto will continue producing gold and silver dore from its Victoria and Teresa deposits. Exploration drilling is ongoing targeting extensions of the said deposits. The rehabilitation of the carbon-in-pulp plant continues, a project that started last year and which has been showing positive results. The Copper/Gold resources are being reviewed with a view to resuming copper production in the near future.

**Management's Discussion and Analysis of Financial Condition and Results of Operations for the First and Second Quarters ended March 31 and June 30, 2021, respectively and for the years 2020, 2019 and 2018**

**As of 30 June 2021**

Consolidated revenues for the second quarter of 2021 amounted to P389.5 million compared with P273.9 million in 2020. Consolidated net loss decreased to P100.1 million versus P242.6 million the previous year.

For the first half of 2021, combined revenues reached P797.1 million compared with P725.6 million for the same period in 2020. Consolidated net loss significantly decreased to P163.3 million, better than last year's loss of P457.0 million.

**Mining Operations**

April – June 2021 versus April – June 2020

Dore production contained 4,146 ounces of gold and 11,016 ounces of silver versus last year's 3,228 ounces and 9,375 ounces, respectively.

Metal sales went up by P121.5 million to P382.3 million because of the higher production and better metal prices. Net loss totaled P104.2 million compared with last year's P210.0 million.

Gold price averaged US$1,815.5 versus US$1,737.3/oz while silver price averaged US$26.54/oz. versus US$17.37/oz. the preceding year. The P/US$ exchange rate averaged P48.17/US$1 compared with P50.40/US$1 last year.

Tonnage milled increased by 15,810 tonnes to 113,572 tonnes as last year's production was affected by the prolonged lockdown. Milling cost went down from P83.3 million to P81.9 million; depletion and depreciation increased by a total of P 5.0 million to P102.8 million on account of the higher production and the acquisition of additional equipment, respectively.

January – June 2021 versus January – June 2020

Metal production in the form of dore consisted of 8,649 oz of gold and 34,100 oz of silver. Last year's metal production included gold copper concentrates (suspended in March 2020) and totaled 7,861 oz. of gold; 20,733 oz. of silver; and 618,442 lbs. of copper.

The higher production and metal prices caused metal revenue to increase from P682.99 million to P788.22 million; and combined with the lower costs, contributed to the 65% decrease in net loss from P454.6 million to P158.7 million.

Gold price averaged US$1,796.56/oz. versus US$1,630.64/oz. last year, while silver price averaged US$26.30/oz. versus US$17.41/oz. Copper price averaged US$2.71/lb last year. The P/US$ exchange rate averaged P48.23/US$1 compared with P50.66/US$1 last year.

Largely due to the suspension of copper operations, total cost and expenses decreased by 14% to P951.5 million from P1,105.4 million on account of: 56,375 tonne- drop in the tonnes broken causing an 11% reduction in mining cost; decrease of milling tonnage to 195,884 tonnes from 222,496 tonnes and of milling cost from P181.21 million to P165.16 million; reduction in depletion and depreciation from P219.2 million to P206.2 million; and overhead and administrative costs from P257.7 million to P213.9 million.

**BALANCE SHEET MOVEMENTS**

June 30, 2021 versus December 31, 2020

Cash and cash equivalents increased by P89.4 million due mainly to timing of disbursements for operational and capital spending. Receivables increased by P13.2 million representing the unpaid portion of a dore shipment. The increase in advances to suppliers and contractors of P98.2 million represent outstanding deliverables from various suppliers. Other current assets increased by P47.4 million resulting from unamortized operating development expenses.

Trade and other payables increased by P371.6 million due to mine development, mill upgrade and exploration expenditures.

Deficit increased by P163.2 million representing the net loss from operations during the period.

## CAPITAL EXPENDITURES

Capital expenditures for the quarter totaled P96.7 million, of which P35.6 million went to exploration; P53.1 million to machinery and equipment; P3.8 million to mine development; and P4.1 million to maintenance of tailings storage facility 5A.

For the first semester, total capital expenditures amounted to P164.8 million; of which P59.3 million went to exploration; P85.0 million to machinery and equipment; P14.0 million to mine development; and P6.4 million to maintenance of tailings storage facility 5A.

## OUTLOOK FOR THE YEAR

Lepanto is presently focusing on gold dore production from its Victoria and Teresa deposits. Exploration drilling is concentrated on targeting extensions of the said deposits. Meantime, the mill plant and CIP are undergoing rehabilitation to improve gold and silver recoveries and increase throughput. There are no plans for any significant changes in the number of employees or purchase of significant equipment. Raising of capital may be resorted to support operations, further exploration (including of copper areas), and development.

## SUBSIDIARIES

The key performance indicator used for the subsidiaries is net income for the six months ended June 2021 versus the same period the previous year.

Diamond Drilling Corporation of the Philippines reported a net loss of P7.9 million this year versus P6.6 million net income last year. Lepanto Investment and Development Corporation reported a net income of P6.2 million compared with last year's net loss of P53.7 thousand. Shipside, Incorporated registered a net loss of P572 thousand against last year's net income of P0.26 million.

* - KEY PERFORMANCE INDICATORS-LCMC

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

## As of 31 March 2021

Consolidated revenues for the first quarter of 2021 amounted to P407.6 million compared with P451.7 million in 2020. Consolidated net loss decreased to P63.2 million versus P214.4 million the previous year.

### Mining Operations

Metal production in the form of bullion consisted of 4,503 oz of gold and 23,084 oz of silver. Until March 2020 when copper operations were suspended, metal production in the form of dore and gold-copper concentrate totaled 4,633 oz. of gold; 11,358 oz. of silver; and 618,442 lbs. of copper. Thus, metal revenue this year went down from P422.2 million to P405.94 million.

Gold price averaged US$1,778.96/oz. versus US$1,559.43/oz. last year, while silver price averaged US$26.18/oz. versus US$17.44/oz. Copper price averaged US$2.71/lb last year. The P/US$ exchange rate averaged P48.29/US$1 compared with P50.82/US$1 last year.

Largely due to the suspension of copper operations, total cost and expenses decreased by 28% to P465.5 million from P643.8 million as the tonnes broken decreased by 56,355 tonnes to 111,776 tonnes, translating to a 29% reduction in mining cost. Accordingly, milling tonnage decreased to 104,628 tonnes from 150,090 tonnes in 2020, and milling cost from P97.8 million to P83.2 million; depletion and depreciation from P121.4 million to P103.4 million; and overhead and administrative costs from P137.9 million to P105 million.

**BALANCE SHEET MOVEMENTS**

Cash and cash equivalents increased by P30.6 million due mainly to timing of disbursements for operational and capital spending. Receivables increased by P2.6 million representing the unpaid portion of a dore shipment. The increase in advances to suppliers and contractors of P17.5 million represent outstanding deliverables from various suppliers.

Deficit increased by P63.1 million representing the net loss from operations during the period.

**CAPITAL EXPENDITURES**

Capital expenditures for the quarter totaled P68.1 million, of which P23.7 million went to exploration; P31.9 million to machinery and equipment; P10.2 million to mine development; and, P2.3 million to maintenance of tailings storage facility 5A.

**OUTLOOK FOR THE YEAR**

Lepanto is presently focusing on gold dore production from its Victoria and Teresa deposits. Exploration drilling continues, targeting extensions of the said deposits. Meantime, the carbon-in-pulp plant is undergoing rehabilitation to improve gold and silver recoveries and increase production. There are no plans for any significant changes in the number of employees or purchase/sale of any plant or significant equipment. Raising of capital may be resorted to support operations, further exploration (including of copper areas), and development.

**SUBSIDIARIES**

The key performance indicator used for the subsidiaries is net income for the three months ended March 2021 versus the same period the previous year.

Diamond Drilling Corporation of the Philippines reported a net loss of P5.2 million this year versus P6.6 million net income last year. Lepanto Investment and Development Corporation reported a net loss of P79.9 thousand compared with last year's net loss of P53.7 thousand. Shipside, Incorporated registered a net loss of P1.3 million against last year's net income of P.26 million.

*** - KEY PERFORMANCE INDICATORS-LCMC**

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

**2020**

Consolidated revenues for the year 2020 amounted to P1,473 million compared with P2,047.4 million in 2019. Net loss declined from P1,056.7 million to P747.7 million or 29%.

**Mining Operations**

Production in 2020 was lower than the previous year's largely on account of the operational disruptions caused by COVID-19 related safety protocols, affecting the availability of spare parts and supplies and delaying their deliveries to the minesite, and presenting the Company from operating at full capacity. The suspension of copper concentrate production also contributed to the lower metal production.

The dore production contained 13,314 oz. of gold and 43,007 oz. of silver compared with 6,032 oz. of gold and 1,423 oz. of silver last year.

Copper concentrate production was suspended in March 2020 after producing 618,442 lbs. of copper, 2,744 oz. of gold, and 10,827 oz. of silver contained in 2,173 DMT copper-gold concentrate. Last year's copper concentrate production totaled 7,335 DMT and contained 2,912,623 lbs. of copper, 19,926 oz. of gold, and 85,469 oz. of silver.

For the reasons cited above, revenues and costs dropped from 2019 levels. Metal sales went down by 28% from P2039.0 million to P1,460.3 million. Net loss decreased by 19% from P872.9 million to P705.6 million this year.

Gold price averaged US$1,763.4/oz. versus US$1,382.21/oz. while silver price averaged US$21.72/oz. versus US$16.1/oz. last year. The P/US$ exchange rate averaged P49.6/US$1 compared with P51.8/US$1 last year.

Costs declined across the board as mine deliveries and milling tonnage dropped by 38% and 33%, respectively. Total cost and expenses decreased by 29% to P2,166 million. Mining cost decreased to P716.6 million from P802.9 million while milling cost went down by P109.6 million to P346.7 million. Depletion and depreciation decreased by P368.7 million to P261.6 million.

Production tax decreased by 30% to P57.3 million due to lower production. Finance cost decreased to P66.9 million from P99.4 last year due to repayment of loans. Other income totaled P13.3 million, much lower than last year's P33.1 million which came from the sale of shares of stock.

**BALANCE SHEET MOVEMENTS**

December 31, 2020 versus December 31, 2019

Cash and cash equivalents decreased by P31.1 million on account of disbursements for operations. Receivables increased by P8.3 million representing the unpaid portion of a dore shipment. The decrease in other current assets of P59.1 million was due to the amortization of development cost and decrease in creditable input vat.

Trade payables increased by P521.8 million while short term borrowings decreased by P16.5 million due to repayment of loans.

Deficit increased by P750.9 million representing the net loss from operations during the period.

## CAPITAL EXPENDITURES

Capital expenditures for the year totaled P326.4 million, of which P165 million went to exploration; P113 million to machinery and equipment; P32.6 million to mine development; and P15.8 million to maintenance of tailings storage facility 5A.

## SUBSIDIARIES

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

Diamond Drilling Corporation of the Philippines reported a net loss of P29.1 million compared with P45.1 million net loss last year. Lepanto Investment and Development Corporation reported a net loss of P14.8 million compared with last year's net loss of P161.9 thousand. Shipside, Incorporated registered a net loss of P4.5 million against last year's net income of P3.3 million.

## * - KEY PERFORMANCE INDICATORS-LCMC

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

**2019**

Consolidated revenues decreased by 3% from ₱2.12 billion in 2018 to ₱2.05 billion. Consolidated net loss was ₱1,027 billion versus last year's loss of ₱775.0 million as explained below.

**MINING OPERATIONS**

Metal sales decreased slightly from ₱2.1 billion to ₱2.04 billion this year. Gold production decreased to 25,958 oz. from last year's 28,147 oz. due to the lower gold grade, 1.68 g/t vs. 2.03 g/t. Silver production decreased to 86,888 oz. from 87,365 oz. Copper production decreased from 3,171,060 lbs to 2,912,623 lbs. Average gold price went up from US$1,261.59/oz. to US$1,381.21/oz. and silver price, from US$15.65/oz. to US$16.05/oz. Average copper price dropped from US$2.96/lb to US$2.72/lb. The Peso was stronger vs. the US$, ₱51.84/ US$1 compared with last year's P52.72/ US$1.

Mine deliveries increased from 564,601 tonnes to 685,779 tonnes; total mine cost however decreased by ₱102.8 million as the development cost (which in prior years was immediately expensed) was amortized. Milling cost increased by ₱35.0 million as milled tonnage increased by 18%. Production tax decreased by P3 million due to the lower gold production. Depreciation rose by ₱6.1 million due to the mill retrofit project. Marketing expenses increased by ₱0.93 million in relation to the marketing, handling and assaying of copper – gold concentrate.

Administration costs remained flat at ₱ 166.0 million.

Other income totaled ₱4.0 million from sale of by - products, compared with last year's ₱5.0 million representing sale of scrap.

Net loss amounted to ₱977.8 million against last year's net loss of ₱800 million.

## BALANCE SHEET MOVEMENTS

Cash on hand and in banks decreased to ₱62.6 million from ₱123.6 million on account of capital expenditures and exploration and payment of borrowings. Receivables went up to ₱71.1 million from ₱42.3 million. Parts and supplies inventories decreased to ₱524.5 million from ₱585.9 million due to decrease in materials and supplies requirement and the increase in allowance for obsolescence of a subsidiary. Advances to suppliers and contractors went up to ₱225.9 million from ₱206.0 million.

Assets-For-Sale (AFS) decreased to ₱161.9 million from ₱212.0 million mainly due to disposal of financial assets. Other current assets increased to ₱938.4 million from ₱780.3 due to prepaid and unamortized development cost.

Trade Payables and Accrued Expenses increased to ₱1,780.0 million from ₱1,382.1 million on account of materials and supplies purchased. Short-term and long-term borrowings decreased by ₱40.0 million and ₱14.2 million, respectively, due to loan settlements. Income tax payable increased to P0.6 million from P0.4 million in relation to income earned by a subsidiary.

Retirement benefit liability went up by ₱0.79 million to ₱1,205.8 million following a re-measurement of the retirement liability.

Re-measurement loss on retirement liability was ₱4.7 million compared with a gain of ₱41.0 million last year due to a change in actuarial assumption pursuant to Philippine Accounting Standards 19. Unrealized gain on AFS financial assets decreased to ₱58.6 million from ₱61.3 million due to the sale of a financial asset. A gain of ₱23.0 million from the sale of AFS was recognized in the Retained Earnings pursuant to PFRS 9 on Financial Instruments. Deficit climbed to ₱5.17 billion from ₱4.18 billion on account of the consolidated loss for the year.

## CAPITAL EXPENDITURES

Total capital expenditures for the year reached ₱873.4 million consisting of: mine development, ₱287.5 million; mine exploration, ₱310.6 million; TSF 5A maintenance, ₱7.7 million; and machineries, equipment and other depreciable assets, ₱267.6 million.

## SUBSIDIARIES

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

### DIAMOND DRILLING CORPORATION OF THE PHILIPPINES (DDCP)

Gross revenue decreased by 92.1% to ₱12.9 million as there were no drilling projects during the first three quarters of 2019. A net loss of ₱47.5 million was incurred versus last year's net income of ₱25.2.

### LEPANTO INVESTMENT AND DEVELOPMENT CORPORATION (LIDC)

Lepanto Investment and Development Corporation reported a net loss of P0.16 million compared with last year's net loss of P0.31 million.

### SHIPSIDE, INCORPORATED (SSI)

Total revenue increased to ₱37.1 million from ₱35.9 million last year. SSI posted a net income of ₱3.3 million, up from last year's P2.9 million.

**FAR SOUTHEAST GOLD RESOURCES, INC. (FSGRI)**

This year's net income amounted to ₱0.68 million compared to last year's ₱4.2 million on account of scrap sales.

**2018**

Consolidated revenues rose 31% to P2.12 billion from P1.62 billion in 2017. Net loss was P774.97 million versus last year's loss of P948.61 million as explained below.

**MINING OPERATIONS**

Metal sales improved by 34% to ₱2.1 billion from the previous year's ₱1.6 billion. Gold production increased to 28,147 ounces (oz.) from 23,290 oz. the previous year. Silver production increased to 87,365 oz. from 54,649 oz. Copper production increased to 3,171,060 lbs from 1,390,025 lbs. Average gold price went down from US$1,263.13/oz. last year to US$1,261.59/oz. and silver price dropped from US$16.97/oz. to US$15.65/oz. Average copper price dropped from US$3.04/lb to US$2.96/lb. The Peso weakened vs. the US$, ₱52.72 to US$1 compared with last year's P50.52 to US$1.
Due to the higher tonnage delivered and processed, major cost items increased: mining cost by P164.8 million, milling cost by P168.6 million, depreciation cost by P5.1 million, depletion cost by P6.3 million. Marketing expenses rose to P35.2 million in relation to the marketing, handling and assaying of cooper-gold concentrate. Production tax increased by P52.1 million on account of the higher revenue and doubling of the excise tax rate.

Administration costs went down by P6.3 million due to lower taxes and fees. Overhead decreased by P10.0 million. Other income totaled P5.0 million representing sale of scrap, compared with last year's P4.9 million from the sale of old equipment.

Net loss amounted to P820.5 million against last year's net loss of P875.3 million.

**BALANCE SHEET MOVEMENTS**

Cash on hand and in banks decreased to P123.6 million from P266.1 million on account of capital expenditures and exploration. Receivables went down to P42.3 million from P89.0 million on account of collections. Parts and supplies inventories increased to P585.9 million from P536.8 million due to increased materials and supplies requirements of operations. Advances to suppliers and contractors went up to P206.0 million from P154.8 million.

AFS financial assets increased to P212.0 million from P197.9 million mainly due to revaluation. Other current assets increased to P780.3 million from P 711.5 due mainly to the increase in Input Value-Added-Tax and importations.

Trade Payables and Accrued Expenses increased to P1,382.1 million from P1,263.1 million on account of materials and supplies purchased. Short-term borrowing increased by P29 million and long-term borrowing decreased by P116.3 million, due to loan settlements and re-classification from long-term borrowing. Income tax payable increased to P0.4 million from P0.3 million in relation to income earned by a subsidiary.

Retirement benefit liability went down by P426.2 million to P1,104.8 million following a re-measurement of the retirement liability.

The actuarial revaluation pursuant to Philippine Accounting Standards 19 resulted in a re-measurement gain of P41.0 million compared to a loss of P297.1 million the previous year. Unrealized gain on AFS financial assets increased to P61.3 million from P47.9 million due to the improvement in the market value of other AFS investments. Deficit climbed to P4.18 billion from P3.40 billion on account of the consolidated loss for the year.

Capital stock increased by P802.3 million on account of stock subscriptions.

**CAPITAL EXPENDITURES**

Total capital expenditures for the year reached P667.4 million, consisting of: mine development, P234.6 million; mine exploration and diamond drilling, P241.4 million; TSF 5A maintenance, P8.6 million; and machineries, equipment and other depreciable assets, P182.8 million.

**SUBSIDIARIES**

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

**DIAMOND DRILLING CORPORATION OF THE PHILIPPINES (DDCP)**

Gross revenue decreased by 43.6% to P164.3 million due to lower drilling output in projects for Lepanto. DDCP reported a net income of P25.2 million versus last year's net loss of P25.9 million on account of minimized costs.

**LEPANTO INVESTMENT AND DEVELOPMENT CORPORATION (LIDC)**

The company had no revenue-generating activities in 2018. Lepanto Investment and Development Corporation reported a net loss of P0.1 million compared with last year's net loss of P0.2 million.

**SHIPSIDE, INCORPORATED (SSI)**

Total revenue increased to P35.9 million from P32.8 million last year. SSI posted a net income of P4.6 million, up from last year's P2.9 million.

**FAR SOUTHEAST GOLD RESOURCES, INC. (FSGRI)**

This year's net income amounted to P4.4 million on account of scrap sales compared with last year's loss of P45.2 million which arose from foreign exchange losses in connection with the revaluation of a foreign currency-denominated financial asset.

** - <u>KEY PERFORMANCE INDICATORS-LCMC</u>* *(***applicable to the period 2018-2020***)*
*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.*

**Securities and Shareholders:**

The Company had 27,717 stockholders as of 15 August 2021. Holders of common "A" and common "B" shares number 22,496 and 5,221, respectively.

The Company's securities are listed in the Philippine Stock Exchange. Following are the average quarterly prices for the past two years:

**Lepanto "A" (P/share)**

| | 1Q19 | 2Q19 | 3Q19 | 4Q19 | 1Q20 | 2Q20 | 3Q20 | 4Q20 | 1Q21 | 2Q21 | 20 August 2021 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Low | 0.120 | 0.115 | 0.105 | 0.091 | 0.0710 | 0.0890 | 0.1270 | 0.1510 | 0.1290 | 0.1540 | 0.136 |
| High | 0.122 | 0.120 | 0.108 | 0.097 | 0.0710 | 0.0920 | 0.1320 | 0.1600 | 0.1340 | 0.1570 | 0.140 |

**Lepanto "B" (P/share)**

| | 1Q19 | 2Q19 | 3Q19 | 4Q19 | 1Q20 | 2Q20 | 3Q20 | 4Q20 | 1Q21 | 2Q21 | 20 August 2021 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Low | 0.153 | 0.127 | 0.111 | 0.113 | 0.0800 | 0.0950 | 0.1290 | 0.1560 | 0.1200 | 0.1570 | 0.141 |
| High | 0.118 | 0.129 | 0.110 | 0.101 | 0.0820 | 0.0980 | 0.1300 | 0.1600 | 0.1390 | 0.1590 | 0.141 |

**Top 20 "A" and "B" Stockholders of the Company (as of August 15, 2021)**

| | Name of Stockholder | Class "A" | % |
|---|---|---|---|
| 1 | F. Yap Securities, Inc. | 13,592,362,044 | 34.14 |
| 2 | First Metro Investment Corp. | 2,550,682,926 | 6.41 |
| 3 | Philex Mining Corporation | 2,164,240,810 | 5.43 |
| 4 | F. Yap Sec., Inc. A/C #CPHC-2 | 362,240,169 | 0.91 |
| 5 | F. Yap Sec., Inc. A/C #CPHC-3 | 337,989,616 | 0.85 |
| 6 | Felcris Hotels & Resorts | 310,000,000 | 0.78 |
| 7 | F. Yap Sec., Inc. A/C #CPHC-1 | 301,859,763 | 0.76 |
| 8 | Coronet Property Holdings Corp | 277,556,566 | 0.70 |
| 9 | Emma Yap | 242,838,706 | 0.61 |
| 10 | Bryan Yap | 175,915,571 | 0.44 |
| 11 | First Metro Investment Corp. | 169,762,500 | 0.43 |
| 12 | Paulino Yap | 155,062,032 | 0.43 |
| 13 | Pacita K. Yap | 117,176,650 | 0.29 |
| 14 | Christine Yap | 116,620,522 | 0.29 |
| 15 | Felipe U. Yap | 86,063,611 | 0.22 |
| 16 | Manila Mining Corporation | 65,870,000 | 0.17 |
| 17 | Arlene King Yap | 40,000,000 | 0.10 |
| 18 | Christine Karen Uy Yap | 40,000,000 | 0.10 |
| 19 | Fausto R. Preysler Jr. | 38,222,363 | 0.10 |
| 20 | F. Yap Securities, Inc. A/C No. PKY-89 | 30,942,477 | 0.08 |

| | Name of Stockholder | Class "B" | % |
|---|---|---|---|
| 1 | F. Yap Securities, Inc. | 8,326,090,030 | 31.38 |
| 2 | F. Yap Securities, Inc. | 3,761,979,349 | 14.18 |
| 3 | F. Yap Securities, Inc. A/C 521 | 1,343,773,000 | 5.06 |
| 4 | F. Yap Securities, Inc. A/C 1411 | 1,129,238,161 | 4.26 |
| 5 | F. Yap Securities, Inc. A/C 5217 | 1,020,000,000 | 3.84 |
| 6 | First Metro Investment Corp. | 799,642,268 | 3.01 |
| 7 | F. Yap Securities, Inc. A/C 5218 | 669,905,750 | 2.64 |
| 8 | Coronet Property Holdings Corp | 447,665,860 | 1.69 |
| 9 | F. Yap Securities A. S | 218,404,905 | 0.82 |
| 10 | YHS Holdings Corporation | 87,758,339 | 0.33 |

| | | | |
|---|---|---|---|
| 11 | Felipe U. Yap | 54,643,386 | 0.21 |
| 12 | Chase Leonard So Yap | 50,000,000 | 0.19 |
| 13 | David Go Securities Corp. | 45,604,103 | 0.17 |
| 14 | Luis L. and Teresa M. Oh, Trustees Luis Oh and Teresa Oh Trust Oh | 24,365,714 | 0.09 |
| 15 | Emma Yap | 24,313,091 | 0.09 |
| 16 | F. Yap Sec., Inc. A/C No. 87-EU | 23,014,545 | 0.09 |
| 17 | Kathy Sue Trout | 22,619,631 | 0.09 |
| 18 | F. Yap Sec., Inc. A/C #PKY-89 | 20,577,792 | 0.08 |
| 19 | F. Yap Sec., Inc. A/C #BSUY | 20,302,971 | 0.08 |
| 20 | Felcris Realty Investment Corp. | 19,769,688 | 0.07 |

**Recent Sales of Unregistered or Exempt Securities**

On July 17, 2017, the parent company's Board of Directors approved the offer of 7,007,384,282 Class "A" shares and 4,671,583,606 Class "B" shares, or 1 share for every 4.685 shares held by shareholders as at November 6, 2017 from the parent company's unissued capital stock at the offer price of ₱0.15 per share. The offer of shares was exempt from registration. A total of 11,678,967,888 shares were sold during the Offer Period, December 4 to 8, 2017, in connection with the said offer.

**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 42, Revised Corporation Code).

Due to operational losses, there have been no dividends declared in the last two years.

**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.

**The Company undertakes to send a copy of its Annual Report on Form 17-A free of charge to any stockholder who makes a written request for it. The request should be addressed to the Corporate Secretary, 21st Floor, Lepanto Building, Paseo de Roxas, Makati City, Philippines.**

## CERTIFICATION OF INDEPENDENT DIRECTOR

I, RAY C. ESPINOSA, Filipino, of legal age and a resident of Unit 25H, One McKinley Place, 26th Street, Crescent Park West, Bonifacio Global City, Taguig, Metro Manila, after having been duly sworn in accordance with the law do hereby declare that:

1. I am a nominee for Independent Director of Lepanto Consolidated Mining Company and have been an independent director since April 18, 2005.

2. I am affiliated with the following companies or organizations (including Government-Owned and Controlled Corporations):

| Company/Organization | Position/Relationship | Period of Service |
|---|---|---|
| Please see attached Annex | | |
| "A" | | |
| | | |

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of Lepanto Consolidated Mining Company, as provided for in Section 38 of the Securities Regulation Code and its Implementing Rules and Regulations and other SEC issuances.

4. I am related to the following direct/officer/substantial shareholders of (covered company and its subsidiaries and affiliates) other than the relationship provided under Rule 38.2.3 of the Securities Regulation Code.

| Name of Director/Officer/ Substantial Shareholder | Company | Nature of Relationship |
|---|---|---|
| N/A | | |
| | | |

5. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding/ I disclose that I am the subject of the following criminal/administrative investigation or proceeding (as the case may be):

| Offense Charged/ Investigated | Tribunal or Agency Involved | Status |
|---|---|---|
| N/A | | |
| | | |

6. (For those in government service/affiliated with a government agency or GOCC) I have the required written permission or consent from the ___N/A________ to be an independent director in ____N/A____, pursuant to Office of the President Memorandum Circular No. 17 and Section 12, Rule XVIII of the Revised Civil Service Rules.

7. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance and Other SEC issuances.

8. I shall inform the Corporate Secretary of Lepanto Consolidated Mining Company of any changes in the abovementioned information within five days from its occurrence.

Done, this MAR 10 2021 day of March 2021 at Makati City.

RAY C. ESPINOSA
Affiant

MAKATI CITY MAR 10 2021

SUBSCRIBED AND SWORN to before me this _____ day of March 2021 at Makati City, affiant personally appeared before me and exhibited to me his Driver's License I.D No. ___________, valid until _______________.

ATTY. GERVACIO B. ORTIZ JR.
NOTARY PUBLIC CITY OF MAKATI
UNTIL DECEMBER 31, 2022
IBP NO. 75729-LIFETIME MEMBER
MCLE COMPLIANCE NO. VI-0024312
APPOINTMENT NO. M-183 (2019-2020)
PTR NO. 8531011 JAN. 4, 2021
MAKATI CITY ROLL NO. 40091
GROUND FLOOR 8747 PASEO DE
ROXAS, LEPANTO BLDG.

DOC. NO. 433
PAGE NO. 88
BOOK NO. VII
SERIES OF 2021

**List of Directorships**

1. AGN Philippines, Inc. – Co-Chairman of the Board
2. Atimonan Land Ventures Development Corporation – Chairman of the Board
3. Atimonan One Energy, Inc. – Chairman of the Board
4. BTF Holdings, Inc – President and Director
5. Beacon Electric Asset Holdings, Inc – Director
6. Beacon PowerGen Holdings, Inc. – Director
7. Bell Telecommunication Philippines, Inc. – Co-Chairman of the Board
8. Bonifacio Communications Corp. – Director
9. Bow Arken Holding Company, Inc. – Co-Chairman of the Board
10. Brightshare Holdings Corporation – Co-Chairman of the Board
11. Business World Publishing Corporation – Chairman of the Board
12. Calamba Aero Power Corporation – Chairman of the Board
13. Cignal Cable Corporation (formerly Dakila Cable TV Corporation) – Director
14. Cignal TV, Inc. – Director
15. Cinegear, Inc. – Chairman of the Board
16. CIS Bayad Center, Inc. – Chairman of the Board
17. Clark Electric Distribution Corporation – Chairman of the Board
18. Cobaltpoint Telecom, Inc. – Co-Chairman of the Board
19. Comstech Integration Alliance, Inc. – Chairman of the Board
20. Connectivity Unlimited Resource Enterprise Inc. – Director
21. Corporate Information Solutions, Inc. – Chairman of the Board
22. Dominer Pointe, Inc. – Co-Chairman of the Board
23. Eastern Telecommunications Philippines, Inc. – Co-President
24. Enterprise Investments Holdings, Inc. – Director
25. Epik Studios, Inc. – Vice Chairman of the Board
26. E-Meralco Ventures, Inc. – Chairman of the Board
27. eSakay, Inc. – Chairman of the Board
28. eTelco, Inc. – Co-Chairman of the Board
29. ESPI Real Estate Ventures Inc. – President
30. Federation of Philippine, Industries, Inc. - Director
31. First Agri Holdings Corporation – President and Director
32. First Coconut Manufacturing Inc. – Vice Chairman of the Board
33. First Pacific Leadership Academy, Inc.- Trustee
34. Francom Holdings Inc. – Director
35. Global Business Power Corporation – Director
36. Hastings Holdings, Inc. – Chairman and Director
37. Hi Frequency Telecommunications, Inc. – Co-Chairman of the Board
38. JS' Publications (THE FREEMAN) Company, Inc. - Director
39. Landco Pacific Corporation – Director
40. Lepanto Consolidated Mining Company - Independent Director
41. Liberty Telecom Holdings, Inc. – Co-Chairman of the Board
42. Maybank Philippines, Inc. – Independent Director
43. Manila Electric Company – President and CEO and Director
44. Manila Overseas Press Club – Director
45. Med Vision Resources, Inc. – Chairman of the Board
46. Mediaquest Holdings, Inc. – President and CEO and Director
47. Media5 Marketing Corporation – Director
48. MGen Renewable Energy, Inc. – Chairman of the Board
49. Meralco Energy, Inc. – Chairman of the Board
50. Meralco Industrial Engineering Services Corporation (MIESCOR) – Chairman of the Board
51. Meralco Power Academy – Vice Chairman of the Board
52. Meralco PowerGen Corporation – Vice Chairman of the Board
53. Meralco Power Foundation, Inc. – Vice Chairman and Trustee
54. Meridian Power Ventures Limited - Director
55. Metro Pacific Assets Holdings, Inc. – Director

56. Metro Pacific Holdings, Inc. – Director
57. Metro Pacific Investments Corporation - Director
58. Metro Pacific Resources, Inc. – Director
59. MPG Holdings Philippines, Inc. – Chairman of the Board
60. MPG Mauban LP Corporation – Chairman of the Board
61. M Pioneer Insurance, Inc. – Chairman of the Board
62. MRail Inc. – Chairman of the Board
63. MSpectrum, Inc. – Chairman of the Board
64. Multipay Corporation – Director
65. Multisys Technologies Corporation – Director
66. Multi Technology Investments Holdings, Inc. – Co-Chairman of the Board
67. MVP Rewards and Loyalty Solutions Inc. – Director
68. Nation Broadcasting Corp. – Chairman of the Board
69. New Century Telecoms, Inc. –Co-Chairman of the Board
70. One Meralco Foundation, Inc. –Vice Chairman and Trustee
71. Pacific Aurora Plantation Corp. – Vice Chairman of the Board
72. Pacific Global One Aviation Company, Inc. – Director
73. Pacific Light Power PTE LTD – Chairman of the Board
74. Paragon Vertical Corporation – Chairman of the Board
75. Perchpoint Holdings, Inc. – Co-Chairman of the Board
76. Perihelion, Inc. – Director
77. PH Broadband Networks Holdings, Inc.– Co-Chairman of the Board
78. PH Communications Holdings Corporation – Director
79. Philippine Telecommunications Investment Corp. – Director and Corporate Secretary
80. Philstar Daily, Inc. – Chairman of the Board
81. Philstar Global Corporation – Chairman of the Board
82. Pilipinas Global Network Limited – Director
83. Pilipinas Natural Resources Holdings, Inc. – President and Director
84. Pilipinas Pacific Enterprise Holdings, Inc. – President and Director
85. Pilipina Pacific Natural Resources Holdings Inc. – President and Director
86. Pilipinas Pacific Telecom Holdings, Inc. – Asst. Corporate Secretary
87. Pilipino Star Ngayon, Inc. – Chairman of the Board
88. Pilipino Star Printing Company, Inc. – Chairman of the Board
89. PLDT, Inc. – Director
90. PLDT - Beneficial Trust Fund - Vice Chairman and Trustee
91. PLDT Capital PTE Ltd. – Director
92. PLDT Capital Investments PTE Ltd – Director
93. PLDT Communications and Energy Ventures, Inc - Director
94. PLDT Digital Investments PTE Ltd – Director
95. PLDT Global Corporation – Director
96. PLDT Global Investments Corporation – Director
97. PLDT Global Investments Holdings Inc. – Director
98. PLDT Online Investments PTE Ltd - Director
99. PLDT - Smart Foundation – Trustee
100. Power Smart Capital Ltd. – Director
101. Radius Telecoms, Inc. – Chairman of the Board
102. Redondo Peninsula Energy, Inc. – Chairman of the Board
103. Roxas Holdings Inc. – Director
104. Roxas Power Corporation – Director
105. Sari Sari Network Inc. – Co-Chairman of the Board
106. SatVentures, Inc. – Director
107. Skyphone Logistics, Inc. – Co-Chairman of the Board
108. Somete Logistics & Development Corporation – Co-Chairman of the Board
109. Smart Communications, Inc. - Director
110. Stargate Media Corporation ( People Asia) – Chairman of the Board
111. Straight Shooters Media, Inc. - Vice Chairman of the Board
112. Studio5, Inc. – Chairman of the Board
113. Talas Data Intelligence Inc. – Director

114. Telecommunication Technologies Philippines, Inc. –Co-President and Co-Chairman of the Board
115. Telemedia Business Ventures, Inc. – Chairman of the Board
116. Tori Spectrum Telecom, Inc. –Co-Chairman of the Board
117. Trans Digital Excel Inc. – Director
118. Two Cassandra - CCI Conglomerate, Inc. – Co-Chairman of the Board
119. Two Rivers Pacific Holdings Corporation – Director
120. TV5 Network Inc. – Director
121. UxS Inc. (formerly Unitel Production, Inc.) – Vice Chairman of the Board
122. Upbeam Investments, Inc. – Chairman of the Board
123. Vega Telecom, Inc. – Co-Chairman
124. Wolfpac Mobile Inc. – Director

# CERTIFICATION OF INDEPENDENT DIRECTOR

I, **VAL ANTONIO B. SUAREZ,** Filipino, of legal age with postal office address at Unit 5C, OPL Building, 100 C. Palanca Street, Legazpi Village, Makati City 1229, after having been duly sworn in accordance with the law do hereby declare that:

1. I am a nominee for Independent Director of Lepanto Consolidated Mining Company and have been an independent director since April 18, 2011.

2. I am affiliated with the following companies or organizations (including Government-Owned and Controlled Corporations):

| Company/Organization | Position/Relationship | Period of Service |
|---|---|---|
| Suarez & Reyes Law Offices | Managing Partner | 2000 to Present |
| Filinvest Development Corporation | Independent Director; Chairman, Compensation Committee; Chairman, Related Party Transaction Committee; Chairman, Corporate Governance Committee; Member, Audit and Risk Management Oversight Committee | 2014 to Present |
| Filinvest Land, Inc. | Lead Independent Director, Chairman, Compensation Committee; Chairman, Related-Party Transaction Committee; Chairman, Corporate Governance Committee Member, Audit and Risk Management Oversight Committee | 2015 to Present |
| Cyberzone Properties, Inc. | Independent Director | 2017 to Present |
| Tayabas Resources Ventures Corporation | Director and Corporate Secretary | 2003 to Present |
| Southeast Cable TV Corporation | Director and Corporate Secretary | 2003 to Present |
| Asian Vision Cable Holdings Group | Corporate Secretary | 2003 to Present |
| Ambassador Suarez Development Corp. | Chairman and President | 2003 to Present |
| Five Karats Property Holdings, Inc. | Director and Treasurer | 2003 to Present |
| Gendrugs, Inc. | Director and Treasurer | 2008 to Present |
| Amun Ini Resort and Spa, Inc. | Director and Corporate Secretary | 2010 to Present |
| Carmen's Best Dairy Products, Inc. | Director and Corporate Secretary | 2011 to Present |
| Headland Road Capital, Inc. | Chairman and President | 2012 to Present |
| Camiguin Gendrugs, Inc. | Director and President | 2013 to Present |
| Avocado Broadband Telecoms, Inc. | Director and Corporate Secretary | 2015 to Present |
| Gendrugs Distributors, Inc. | Director and Treasurer | 2016 to Present |
| Cebu Gendrugs, Inc. | Director and Treasurer | 2016 to Present |
| Chocohills Generics, Inc. | Director and Treasurer | 2016 to Present |
| Vertere Global Solutions, Inc. | Chairman | 2017 to Present |
| Vertere Venture Capital, Inc. | Director | 2017 to Present |
| R&S Development Corporation | Director and Treasurer | 2017 to Present |
| Suarez Bridge Ventures Inc. | Chairman and President | 2018 to Present |
| Financial Executives Institute of the Phils. | Member | 2010 to Present |
| Integrated Bar of the Philippines- Makati Chapter | Member | 1986 to Present |

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of Lepanto Consolidated Mining Company, as provided for in Section 38 of the Securities Regulation Code and its Implementing Rules and Regulations and other SEC issuances.

4. I am related to the following director/officer/substantial shareholders of (covered company and its subsidiaries and affiliates) other than the relationship provided under Rule 38.2.3 of the Securities Regulation Code.

| Name of Director/Officer/ Substantial Shareholder | Company | Nature of Relationship |
|---|---|---|
| N/A | | |

5. I disclose that I (together with the other members of the Board of Directors of Filinvest Land, Inc.) am the subject of the following criminal/administrative investigation or proceeding (as the case may be):

| Offense Charged/ Investigated | Tribunal or Agency Involved | Status |
|---|---|---|
| Complaint for Syndicated Estafa filed by Manila Paper Mills International, Inc. (MPMI) dated April 12, 2016 | Department of Justice | Petition for Review pending after Complaint was dismissed by City Prosecutor of Dasmariñas for no probable cause |

In its Resolution dated November 16, 2016 ("Resolution"), the Office of the City Prosecutor Dasmariñas ruled against MPMII, finding that there was no probable cause to charge the respondents and upholding the validity of FLI's titles to the property. MPMII then filed with the Secretary of Justice (SOJ) a Petition for Review dated February 21, 2017 questioning the Resolution. On March 21, 2017, the respondents who are directors and officers of FLI filed their Comment on the Petition. The Petition is still pending resolution by the SOJ.

6. (For those in government service/affiliated with a government agency or GOCC) I have the required written permission or consent from the ___N/A___ to be an independent director in ___N/A___, pursuant to Office of the President Memorandum Circular No. 17 and Section 12, Rule XVIII of the Revised Civil Service Rules.

7. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance and Other SEC issuances.

8. I shall inform the Corporate Secretary of Lepanto Consolidated Mining Company of any changes in the abovementioned information within five days from its occurrence.

Done this ~~3rd~~ MAR 04 2021 day of March 2021 at Makati City.

**VAL ANTONIO B. SUAREZ**
Affiant

SUBSCRIBED AND SWORN to before me this MAR 04 2021 day of March 2020 at Makati City, affiant personally appeared before me and exhibited to me his IBP Lifetime Membership No. 01967 issued by the Integrated Bar of the Philippines.

Doc. No. 18;
Page No. 5;
Book No. 63
Series of 2021.

FELIPE I. ILEDAN JR.
Notary Public for and in Makati City
Until Dec. 31, 2022, Appt. No. M-09
Roll No. 27625, TIN 136897808
Rm. 412, 4th Flr. VGP Center, Ayala, Makati City
2021 PTR No.Mla 9792919, 15/7/2020
IBP No. 119432, 06/17/2020
MCLE Compliance No. VI-0012066

Lepanto Consolidated Mining Company

10 March 2021

Corporate Governance and Finance Department
Securities and Exchange Commission
HEAD OFFICE Secretariat Building
PICC Complex, Roxas Boulevard
Pasay City

Gentlemen:

Subject: DEFINITIVE INFORMATION STATEMENT (IS)

Gentlemen:

This certifies that none of the nominees for Directors this year or incumbent officers of Lepanto Consolidated Mining Company are government employees.

Very truly yours,

ODETTE A. JAVIER
Vice President and
Asst. Corporate Secretary

# LEPANTO CONSOLIDATED MINING CO.

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

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

## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **Lepanto Consolidated Mining Company** is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended **December 31, 2020 and 2019**, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as going concern, disclosing, as applicable matters related to going concern and using the going concern basis of accounting unless management either intends to liquidated the Company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

The Board of Directors reviews and approves the financial statements including the schedules attached therein, and submits the same to the stockholders.

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

Signature:

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

Signature:

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

Signature:

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

Signed this 31st day of May 2021.

MAY 3 1 2021

SUBSCRIBED AND SWORN TO before me this _____ day of May 2021 at Makati City, affiant exhibiting to me their SSS ID nos.

| | | |
|---|---|---|
| FELIPE U. YAP | - | 06-0091101-0 |
| BRYAN U. YAP | - | 33-3067339-5 |
| MA. LOURDES B. TUASON | - | 03-2082979-6 |

ATTY. GERVACIO B. ORTIZ JR.
NOTARY PUBLIC CITY OF MAKATI
UNTIL DECEMBER 31, 2022
IBP NO. 75729-LIFETIME MEMBER
MCLE COMPLIANCE NO. VI-0024312
APPOINTMENT NO. M-183 (2019-2020)
PTR NO. 8531011 JAN. 4, 2021
MAKATI CITY ROLL NO. 40091
GROUND FLOOR 8747 PASEO DE
ROXAS, LEPANTO BLDG

Doc. No. 357
Page No. 73
Book No. V
Series of 2021.

# COVER SHEET
for
## AUDITED FINANCIAL STATEMENTS

SEC Registration Number

1 0 1

**COMPANY NAME**

LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES

**PRINCIPAL OFFICE** ( No. / Street / Barangay / City / Town / Province )

21st Floor, Lepanto Building, Paseo de Roxas, Makati City

| Form Type | Department requiring the report | Secondary License Type, If Applicable |
|---|---|---|
| ACFS | CRM | N/A |

**COMPANY INFORMATION**

| Company's Email Address | Company's Telephone Number | Mobile Number |
|---|---|---|
| inquiry@lepantomining.com | (632) 8815-9447 | Not Applicable |

| No. of Stockholders | Annual Meeting (Month / Day) | Fiscal Year (Month / Day) |
|---|---|---|
| 27,736 | 06/21 | 12/31 |

**CONTACT PERSON INFORMATION**

The designated contact person ***MUST*** be an Officer of the Corporation

| Name of Contact Person | Email Address | Telephone Number/s | Mobile Number |
|---|---|---|---|
| Mr. Ramon T. Diokno | ramon.diokno@lepantomining.com | (632) 8815-9447 | Not Applicable |

**CONTACT PERSON's ADDRESS**

21st Floor, Lepanto Building, Paseo de Roxas, Makati City

*NOTE 1: In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.*

*2: All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.*

SGV
Building a better working world

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

Tel: (632) 8891 0307
Fax: (632) 8819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

# INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
Lepanto Consolidated Mining Company
21st Floor, Lepanto Building
Paseo de Roxas, Makati City

## Opinion

We have audited the consolidated financial statements of Lepanto Consolidated Mining Company and its Subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2020 and 2019, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2020, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2020, in accordance with Philippine Financial Reporting Standards (PFRSs).

## Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

*Going Concern Assessment*

The Group incurred net losses of ₱751.0 million, ₱1,027.4 million and ₱775.0 million in 2020, 2019 and 2018, respectively, resulting in deficit of ₱5,924.1 million and ₱5,173.2 million as of December 31, 2020 and 2019, respectively. As of December 31, 2020 and 2019, the Group's current liabilities exceeded its total assets by ₱653.2 million and ₱149.7 million, respectively.

The consolidated financial statements have been prepared on a going concern basis. The availability of sufficient funding and management's assessment of whether the Group will be able to continue meeting its currently maturing obligations are largely based on the expectations of, and the estimates made by management. The expectations and estimates can be influenced by subjective elements such as estimated future cash flows, forecasted results and margins from operations, that are subject to higher level of estimation uncertainty, and the feasibility of the Group's financing activities. As the going concern assessment is a significant aspect of our audit, we have identified this as a key audit matter.

The Group's disclosures on the going concern assessment are included in Notes 1 and 3 to the consolidated financial statements.

*Audit Response*

We obtained an understanding of management's going concern assessment, taking into consideration the current business environment and the Group's recovery plans. We evaluated the key assumptions, such as the forecasted revenues and operating costs, that were used by management in the Group's cash flows forecast for the next twelve months from reporting period. We evaluated these key assumptions by reference to historical information and experience, information up to report date, and relevant market data and by taking into consideration the actions undertaken and the planned strategies by management in relation to the Group's operating activities. We obtained and reviewed documents, such as minutes of meetings, letters and correspondence with external parties, on management's actions to raise capital through loans, private placements and/or stock rights offering, and deferral of payments on current liabilities. We reviewed events that transpired up to date of our report which may have an impact on the Group's financing activities. We also assessed the adequacy of the related disclosures in the notes to the consolidated financial statements.

*Recoverability of Property, Plant and Equipment*

The Group has property, plant and equipment amounting to ₱6.7 billion, which includes mine and mining properties of ₱5.3 billion as at December 31, 2020, comprising about 41% of the Group's consolidated total assets. The Group has been incurring net losses which is an impairment indicator requiring an assessment of the recoverable amount of property, plant and equipment. We considered this as a key audit matter because of the materiality of the amount involved, and the impairment assessment requires significant judgment and involves estimation and assumptions about future production levels and costs, as well as external inputs such as commodity prices, discount rate, and foreign currency exchange rate. Hence, such assessment is a key audit matter in our audit. The Group's disclosures in relation to property, plant and equipment are included in Note 9 to the consolidated financial statements.

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*Audit Response*

We involved our internal specialists in evaluating the methodology and the assumptions used in determining the value-in-use, such as future production levels and costs, as well as external inputs such as commodity prices, discount rate and foreign currency exchange rate. For the external inputs, we compared the key assumptions used against external data such as analysts' reports and industry benchmarks. We tested the parameters used in the determination of the discount rate against market data. For the internal inputs, we compared the ore reserves assumptions used in the cash flow projection to the ore reserves assessed by the various experts employed by the Group to produce the estimates of proven and probable reserves as at December 31, 2020. We also assessed the objectivity, competence and capabilities of those various experts, and obtained an understanding of the scope of their work. We compared the operating expense forecasts to the historical operating expenses and the production and sales forecasts against historical data and mine plans. We compared the capital expenditure projections to existing capital development work plans necessary to extract the mineable ore reserves. We also reviewed the Group's disclosures about those assumptions to which the outcome of the impairment test is most sensitive; specifically, those that have the most significant effect on the determination of the recoverable amount of property, plant and equipment.

*Recoverability of Mine Exploration Costs*

As at December 31, 2020, the carrying value of the Group's mine exploration costs amounted to ₱6.8 billion, which mainly pertain to the expenditures incurred by the Group for the Far Southeast Project. Under PFRS 6, *Exploration for and Evaluation of Mineral Resources*, these mine exploration costs shall be assessed for impairment when facts and circumstances suggest that the carrying amount exceeds the recoverable amount. The ability of the Group to recover its mine exploration costs would depend on the discovery of commercially viable quantities of mineral resources and of extracting the resulting ore reserves. We considered this as a key audit matter because of the materiality of the amount involved, and the significant management judgment required in assessing whether there is any indication of impairment. The Group's disclosures about mine exploration costs are included in Note 12 to the consolidated financial statements.

*Audit Response*

We obtained the schedule of exploration expenses by project, performed an understanding of the stage of the related project and the type of expenses incurred. We obtained management's assessment on whether there is any indication that mine exploration costs may be impaired. We reviewed contracts and agreements, and budget for exploration and development costs. We inspected all the licenses/permits of each of the exploration projects to determine that the period for which the Group has the right to explore in the specific area has not expired, will not expire in the near future, and will be renewed or have been applied for renewal accordingly, and compared these licenses and permits with the disclosures of regulatory agencies. We also inquired about the existing mining areas that are expected to be abandoned or any exploration activities that are planned to be discontinued in those areas.

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**Other Information**

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2020 but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2020 are expected to be made available to us after the date of this auditor's report.

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

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

**Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Eleanore A. Layug.

SYCIP GORRES VELAYO & CO.

Eleanore A. Layug
Partner
CPA Certificate No. 0100794
SEC Accreditation No. 1250-AR-2 (Group A),
February 28, 2019, valid until February 27, 2022
Tax Identification No. 163-069-453
BIR Accreditation No. 08-001998-097-2020,
November 27, 2020, valid until November 26, 2023
PTR No. 8534308, January 4, 2021, Makati City

June 7, 2021

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

| | December 31 | |
|---|---|---|
| | **2020** | 2019 |
| **ASSETS** | | |
| **Current Assets** | | |
| Cash (Note 4) | **₱31,446** | ₱62,623 |
| Receivables (Note 5) | **79,438** | 71,073 |
| Contract assets (Note 5) | – | 18,732 |
| Inventories (Note 6) | **550,965** | 524,477 |
| Advances to suppliers and contractors (Note 7) | **298,659** | 225,869 |
| Other current assets (Note 8) | **879,374** | 938,434 |
| **Total Current Assets** | **1,839,882** | 1,841,208 |
| **Noncurrent Assets** | | |
| Property, plant and equipment - net (Note 9) | **6,656,554** | 6,858,669 |
| Mine exploration costs (Note 12) | **6,827,286** | 6,746,644 |
| Financial assets designated at fair value through other comprehensive income (FVOCI; Note 10) | **67,915** | 161,937 |
| Investments in and advances to associates (Note 11) | **557,847** | 564,256 |
| Deferred tax assets - net (Note 18) | **374,890** | 293,071 |
| Other noncurrent assets | **86,035** | 89,794 |
| **Total Noncurrent Assets** | **14,570,527** | 14,714,371 |
| **TOTAL ASSETS** | **₱16,410,409** | ₱16,555,579 |
| **LIABILITIES AND EQUITY** | | |
| **Current Liabilities** | | |
| Trade and other payables (Note 13) | **₱2,301,506** | ₱1,779,991 |
| Current portion of long-term borrowings (Note 14) | **185,984** | 202,542 |
| Current portion of lease liabilities (Note 30g) | **5,594** | 7,714 |
| Income tax payable | **7** | 649 |
| **Total Current Liabilities** | **2,493,091** | 1,990,896 |
| **Noncurrent Liabilities** | | |
| Advances from Far Southeast Services Limited (FSE; Note 30a) | **6,131,772** | 6,074,657 |
| Long-term borrowings (Note 14) | **422** | |
| Lease liabilities - net of current portion (Note 30g) | **861** | 4,108 |
| Liability for mine rehabilitation cost (Note 16) | **169,349** | 159,974 |
| Retirement benefits liability (Note 17) | **1,547,663** | 1,205,852 |
| Deferred tax liabilities - net (Note 18) | **211,918** | 215,547 |
| Deposit for future subscriptions | **69,200** | 69,200 |
| **Total Noncurrent Liabilities** | **8,131,185** | 7,729,338 |
| **Total Liabilities** | **10,624,276** | 9,720,234 |
| **Equity Attributable to the Equity Holders of the Parent Company** | | |
| Capital (Note 19) | **6,635,685** | 6,635,685 |
| Additional paid-in capital (APIC) | **5,077,033** | 5,077,033 |
| Remeasurement loss on retirement benefits liability | **(206,924)** | (4,729) |
| Fair value reserve of financial assets designated at FVOCI (Note 10) | **(35,390)** | 58,603 |
| Deficit | **(5,924,109)** | (5,173,166) |
| | **5,546,295** | 6,593,426 |
| Non-controlling interests (NCI; Note 20) | **239,838** | 241,919 |
| **Total Equity** | **5,786,133** | 6,835,345 |
| **TOTAL LIABILITIES AND EQUITY** | **₱16,410,409** | ₱16,555,579 |

*See accompanying Notes to Consolidated Financial Statements.*

## LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
**(Amounts in Thousands, Except Loss per Share)**

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2020** | 2019 | 2018 |
| **REVENUES** (Note 29) | **₱1,472,978** | ₱2,047,384 | ₱2,120,642 |
| **COST OF SALES** (Note 22) | **(1,907,586)** | (2,699,878) | (2,425,246) |
| **COST OF SERVICES** (Note 23) | **(32,935)** | (25,339) | (149,689) |
| **OPERATING EXPENSES** (Note 24) | **(225,492)** | (315,032) | (235,802) |
| **FINANCE COSTS** (Note 27) | **(66,892)** | (99,378) | (107,731) |
| **SHARE IN NET LOSSES OF ASSOCIATES** (Note 11) | **(1,875)** | (2,972) | (2,104) |
| **FOREIGN EXCHANGE GAINS (LOSSES)** - net | **834** | 5,326 | 717 |
| **OTHER INCOME** - net (Note 28) | **13,317** | 33,149 | 12,502 |
| **LOSS BEFORE INCOME TAX** | **(747,651)** | (1,056,740) | (786,711) |
| **PROVISION FOR (BENEFIT FROM) INCOME TAX** (Note 18) | | | |
| Current | **1,261** | 2,124 | 5,293 |
| Deferred | **2,064** | (31,500) | (17,034) |
| | **3,325** | (29,376) | (11,741) |
| **NET LOSS** | **(750,976)** | (1,027,364) | (774,970) |
| **OTHER COMPREHENSIVE INCOME, NET OF TAX** | | | |
| *Items that will not be reclassified to profit or loss in subsequent periods:* | | | |
| Changes in fair values of financial assets designated at FVOCI (Note 10) | **(₱93,993)** | ₱26,801 | ₱13,432 |
| Remeasurement gain (loss) on retirement benefits liability - net of tax (Note 17) | **(204,243)** | (45,715) | 338,610 |
| | **(298,236)** | (18,914) | 352,042 |
| **TOTAL COMPREHENSIVE LOSS** | **(₱1,049,212)** | (₱1,046,278) | (₱422,928) |
| **Net income (loss) attributable to:** | | | |
| Equity holders of the Parent Company | **(₱750,943)** | (₱1,027,391) | (₱776,729) |
| NCI (Note 20) | **(33)** | 27 | 1,759 |
| | **(₱750,976)** | (₱1,027,364) | (₱774,970) |
| **Total comprehensive income (loss) attributable to:** | | | |
| Equity holders of the Parent Company | **(₱1,047,131)** | (₱1,046,305) | (₱425,258) |
| NCI (Note 20) | **(2,081)** | 27 | 2,330 |
| | **(₱1,049,212)** | (₱1,046,278) | (₱422,928) |
| **BASIC/DILUTED LOSS PER SHARE** (Note 21) | **(₱0.0113)** | (₱0.0155) | (₱0.0122) |

*See accompanying Notes to Consolidated Financial Statements.*

# LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

**(Amounts in Thousands)**

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2020** | 2019 | 2018 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Loss before income tax | **(₱747,651)** | (₱1,056,740) | (₱786,711) |
| Adjustments for: | | | |
| Depletion, depreciation and amortization | **460,416** | 880,462 | 783,730 |
| Finance costs (Note 27) | **66,892** | 99,378 | 107,731 |
| Provision for impairment of investment in associates (Note 28) | **7,359** | – | – |
| Gain (loss) on disposal of property, plant and equipment (Note 28) | **(7,317)** | (13,372) | 739 |
| Share in net losses of associates (Note 11) | **1,875** | 2,972 | 2,104 |
| Movement in retirement benefits liability | **(1,577)** | (39,258) | (22,330) |
| Unrealized foreign exchange losses (gains) - net | **(834)** | (5,325) | (720) |
| Interest income (Note 28) | **(102)** | (2,324) | (274) |
| Operating income (loss) before working capital changes | **(220,939)** | (134,207) | 84,269 |
| Decrease (increase) in: | | | |
| Receivables and contract assets | **9,999** | (28,363) | 34,252 |
| Inventories | **(26,488)** | 61,394 | (49,027) |
| Advances to suppliers and contractors | **(72,790)** | (19,836) | (51,217) |
| Other current assets | **58,873** | (158,299) | (68,825) |
| Increase in trade and other payables | **518,646** | 397,324 | 119,098 |
| Cash generated from operations | **267,301** | 118,013 | 68,550 |
| Interest received | **102** | 2,324 | 274 |
| Income taxes paid | **(1,902)** | (2,417) | (5,375) |
| Net cash flows from operating activities | **265,501** | 117,920 | 63,449 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Additions to: | | | |
| Property, plant and equipment | **(267,015)** | (197,354) | (596,278) |
| Mine exploration costs | **(61,634)** | (40,813) | (336,066) |
| Proceeds from disposal of investment designated at FVOCI (Note 10) | – | 77,135 | – |
| Proceeds from disposal of property, plant and equipment | **9,087** | 21,126 | 6,976 |
| Payment of subscription payable (Note 10) | – | (11,443) | – |
| Increase in other noncurrent assets | **1,839** | (5,519) | (9,527) |
| Extension of advances to an associate | **(7,694)** | (2,334) | (13) |
| Net cash flows used in investing activities | **(325,417)** | (159,202) | (934,908) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Advances from FSE (Note 30a) | **57,115** | 54,105 | 37,723 |
| Availment of loans | **1,042** | – | – |
| Payments of: | | | |
| Borrowings (Note 26) | **(14,436)** | (51,594) | (90,633) |
| Interest | **(2,666)** | (12,330) | (18,947) |
| Principal portion of lease liability (Note 30g) | **(9,418)** | (8,668) | |
| Proceeds from issuance of shares of stocks | – | – | 802,299 |
| Net cash flows from (used in) financing activities | **31,637** | (18,487) | 730,442 |
| **NET DECREASE IN CASH** | **(28,279)** | (59,769) | (141,017) |
| **CASH AT BEGINNING OF YEAR** | **62,623** | 123,597 | 266,117 |
| **EFFECT OF EXCHANGE RATE CHANGES ON CASH** | **(2,898)** | (1,205) | (1,503) |
| **CASH AT END OF YEAR** (Note 4) | **₱31,446** | ₱62,623 | ₱123,597 |

*See accompanying Notes to Consolidated Financial Statements.*

## LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
**FOR THE YEARS ENDED DECEMBER 31, 2020, 2019 AND 2018**
**(Amounts in Thousands)**

| | Attributable to Equity Holders of the Parent Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Capital Stock (Note 19) | | | | Remeasurement Gain (Loss) on Retirement Benefits Liability | Fair Value Reserves of Financial Asset Designated at FVOCI | | | | |
| | Issued | Subscribed | Sub-total | APIC | (Note 17) | (Note 10) | Deficit | Sub-total | NCI (Note 20) | Total |
| **Balances at January 1, 2020** | ₱5,136,596 | ₱1,499,089 | ₱6,635,685 | ₱5,077,033 | (₱4,729) | ₱58,603 | (₱5,173,166) | ₱6,593,426 | ₱241,919 | ₱6,835,345 |
| Net loss | | | – | – | | | (750,943) | (750,943) | (33) | (750,976) |
| Other comprehensive income (loss), net of tax | | | | – | (202,195) | (93,993) | – | (296,188) | (2,048) | (298,236) |
| Total comprehensive income (loss) | | – | | | (202,195) | (93,993) | (750,943) | (1,047,131) | (2,081) | (1,049,212) |
| **Balances at December 31, 2020** | ₱5,136,596 | ₱1,499,089 | ₱6,635,685 | ₱5,077,033 | (₱206,924) | (₱35,390) | (₱5,924,109) | ₱5,546,295 | ₱239,838 | ₱5,786,133 |
| **Balances at January 1, 2019** | ₱5,136,596 | ₱1,499,089 | ₱6,635,685 | ₱5,077,033 | ₱40,986 | ₱61,288 | (₱4,175,261) | ₱7,639,731 | ₱241,892 | ₱7,881,623 |
| Net loss | – | – | | | – | | (1,027,391) | (1,027,391) | 27 | (1,027,364) |
| Other comprehensive income, net of tax | | | – | | (45,715) | 26,801 | | (18,914) | – | (18,914) |
| Total comprehensive income (loss) | | | – | – | (45,715) | 26,801 | (1,027,391) | (1,046,305) | 27 | (1,046,278) |
| Transfer of fair value reserve of financial assets designated at FVOCI (Note 10) | | | | | | (29,486) | 29,486 | | | – |
| **Balances at December 31, 2019** | ₱5,136,596 | ₱1,499,089 | ₱6,635,685 | ₱5,077,033 | (₱4,729) | ₱58,603 | (₱5,173,166) | ₱6,593,426 | ₱241,919 | ₱6,835,345 |
| Balances at January 1, 2018 | ₱5,136,596 | ₱696,790 | ₱5,833,386 | ₱5,077,033 | (₱297,053) | ₱47,856 | (₱3,398,532) | ₱7,262,690 | ₱239,562 | ₱7,502,252 |
| Net loss | – | – | | | – | – | (776,729) | (776,729) | 1,759 | (774,970) |
| Other comprehensive income | | | – | – | 338,039 | 13,432 | – | 351,471 | 571 | 352,042 |
| Total comprehensive income (loss) | – | | | – | 338,039 | 13,432 | (776,729) | (425,258) | 2,330 | (422,928) |
| Issuance subscription of shares | | 802,299 | 802,299 | | – | – | | 802,299 | | 802,299 |
| **Balances at December 31, 2018** | ₱5,136,596 | ₱1,499,089 | ₱6,635,685 | ₱5,077,033 | ₱40,986 | ₱61,288 | (₱4,175,261) | ₱7,639,731 | ₱241,892 | ₱7,881,623 |

*See accompanying Notes to Consolidated Financial Statements.*

## 1. Corporate Information and Authorization for Issuance of the Consolidated Financial Statements

Lepanto Consolidated Mining Company

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

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

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

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

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

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

On November 21, 2006, the Parent Company was registered with the BOI under EO No. 226 as new export producer of copper-gold concentrate on a non-pioneer status for its copper-gold flotation project located also in Mankayan, Benguet, Philippines. This registration entitles the Parent Company to ITH for four (4) years, which can be further extended for another three (3) years subject to compliance with certain conditions, and duty-free importation of equipment, spare parts and accessories for five (5) years. The copper-gold flotation operations were suspended in 2009 in view of the sharp decline in copper prices, of which the BOI was notified. In August 2017, the Parent Company notified the BOI that it will resume copper-gold flotation operations in the fourth quarter of 2017.

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

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

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

MPSA No. 001-090-CAR was jointly executed by the Parent Company and a subsidiary, Far Southeast Gold Resources, Inc. (FSGRI) on March 3, 1990 with the Philippine Government, through the Department of Environment and Natural Resources. This MPSA has a term of 25 years, renewable for another term not exceeding 25 years under the same terms and conditions. The Parent Company and FSGRI filed an application for its renewal on June 4, 2014. The application for renewal of this MPSA is still pending approval as at December 31, 2020 (Note 30c).

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

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

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

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

DDCP's principal office was previously located at 344 South Superhighway, Brgy. Sun Valley, Parañaque City. Starting 2020, DDCP's registered office, which is also its principal office, is 20th Floor, Lepanto Building, Paseo de Roxas, Makati City. The amendments of its Articles of Incorporation to change its principal office was approved by Board of Directors (BOD) and shareholders of the Corporation on January 20, 2020 and by the SEC on April 7, 2020.

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

In 1985, SI included in its activities the leasing of its properties which include apartments/guesthouses and warehouses. Pier-related activities continued to be limited to handling materials and supplies.

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

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

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

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

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

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

The Parent Company continues to provide financial and administrative support to FSGRI. As at December 31, 2020, FSGRI is still in the pre-operating stage.

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

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

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

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

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

As of August 11, 2017, DMTC is effectively 74.56% owned by Caliper and 25.44% by LIDC, a wholly owned subsidiary of the Parent Company. On December 10, 2020, DMTC engaged KnowledgeLab, Inc. to perform the December 31, 2020 year end audit.

DMTC's principal office was previously located at Km. 14 344 West Service, Brgy. Sun Valley, Parañaque City. Starting 2020, DMTC's registered office, which is also its principal office, is 20th Floor, Lepanto Building, Paseo de Roxas, Makati City. The amendments of its Articles of Incorporation to change its principal office was approved by Board of Directors (BOD) and shareholders on January 9, 2020 and by the SEC on February 6, 2020.

The Group's Ability to Continue as a Going Concern
The Group incurred net losses of ₱751.0 million, ₱1,027.4 million and ₱775.0 million in 2020, 2019 and 2018, respectively, resulting in deficit of ₱5,924.1 million and ₱5,173.2 million as of December 31, 2020 and 2019, respectively. And, as of December 31, 2020 and 2019, the Group's current liabilities exceeded its total assets by ₱653.2 million and ₱149.7 million, respectively.

In response to these matters, the Group came up with the following actions:
- raise capital through loans, private placements, and/or stock rights offering to address liquidity gap
- restructuring of the Group's loans
- manage expenditures for its day-to-day activities
- negotiate deferral of payments of related party and third-party liabilities
- improve efficiency and production level of mine operations through capital developments to increase cash inflows generated

Management has determined that the actions above are sufficient to raise financial resources for at least the next twelve months from December 31, 2020 and has therefore prepared the financial reporting on a going concern basis.

Authorization for Issue of the Consolidated Financial Statements
The consolidated financial statements of the Group as at December 31, 2020 and 2019 and for each of the three years in the period ended December 31, 2020 were authorized for issue by the BOD on June 7, 2021.

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

Basis of Preparation
The consolidated financial statements of the Group have been prepared on a historical cost basis, except for financial assets designated at FVOCI that have been measured at fair value in the consolidated statements of financial position. Disclosures have not been illustrated for standards that are either not relevant to the Group's consolidated financial instruments and are not applicable to the Group's circumstances. The consolidated financial statements are presented in Philippine Peso, the Group's functional and presentation currency. All values are rounded to the nearest thousand (₱000), except when otherwise indicated.

Statement of Compliance
The consolidated financial statements of the Group have been prepared in accordance with PFRSs.

Basis of Consolidation
The consolidated financial statements comprise the financial statements of the Group as at December 31, 2020 and 2019. The financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company using consistent accounting policies.

Control exists when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if, and only if, the Group has all of the following:
- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:
- The contractual arrangement(s) with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

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

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group losses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary. Where the Group's interest is less than 100%, the interest attributable to outside shareholders is reflected in Non-controlling Interest (NCI).

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Parent Company of the Group and to the NCI, even if this results in the NCI having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, NCI and other components of equity, while any resulting gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.

Subsidiaries are deconsolidated from the date on which control ceases.

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

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

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:
- Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any NCI;
- Derecognizes the cumulative translation differences, recognized in equity;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained;
- Recognizes any surplus or deficit in profit or loss; and
- Reclassifies the Parent Company's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate.

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

| | | **2020** | 2019 |
|---|---|---|---|
| | Nature of | **% of Ownership** | % of Ownership |
| Subsidiaries | Business | **Direct** | Direct |
| DDCP | Service | **100** | 100 |
| SI | Service | **100** | 100 |
| LIDC | Investment | **100** | 100 |
| FSGRI* | Mining | **60** | 60 |

*Pre-operating subsidiary

Changes in Accounting Policies
The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of new standards effective as at January 1, 2020. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Unless otherwise indicated, adoption of these new standards did not have an impact on the consolidated financial statements of the Group.

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

  The amendments to PFRS 3 clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. These amendments may impact future periods should the Group enter into any business combinations.

- Amendments to PFRS 7, *Financial Instruments: Disclosures* and PFRS 9, *Financial Instruments, Interest Rate Benchmark Reform*

  The amendments to PFRS 9 provide a number of reliefs, which apply to all hedging relationships that are directly affected by the interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument.

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

  The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

  The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

- Conceptual Framework for Financial Reporting issued on March 29, 2018

  The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the standard-setters in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards.

  The revised Conceptual Framework includes new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.

- Amendments to PFRS 16, *COVID-19-related Rent Concessions*

  The amendments provide relief to lessees from applying the PFRS 16 requirement on lease modifications to rent concessions arising as a direct consequence of the COVID-19 pandemic. A lessee may elect not to assess whether a rent concession from a lessor is a lease modification if it meets all of the following criteria:
  - The rent concession is a direct consequence of COVID-19;
  - The change in lease payments results in a revised lease consideration that is substantially the same as, or less than, the lease consideration immediately preceding the change;
  - Any reduction in lease payments affects only payments originally due on or before June 30, 2021; and
  - There is no substantive change to other terms and conditions of the lease.

  A lessee that applies this practical expedient will account for any change in lease payments resulting from the COVID-19 related rent concession in the same way it would account for a change that is not a lease modification, i.e., as a variable lease payment.

  The amendments are effective for annual reporting periods beginning on or after June 1, 2020. Early adoption is permitted. These amendments do not have any impact on the consolidated financial statements of the Group as the Group does not have COVID-19-related rent concessions.

Standards and Interpretations Issued but not yet Effective

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

*Effective beginning on or after January 1, 2021*

- Amendments to PFRS 9, PFRS 7, PFRS 4 and PFRS 16, *Interest Rate Benchmark Reform – Phase 2*

*Effective beginning on or after January 1, 2022*

- Amendments to PFRS 3, *Reference to the Conceptual Framework*
- Amendments to PAS 16, *Plant and Equipment: Proceeds before Intended Use*
- Amendments to PAS 37, *Onerous Contracts – Costs of Fulfilling a Contract*
- *Annual Improvements to PFRSs* 2018-2020 Cycle
  - Amendments to PFRS 1, *First-time Adoption of Philippines Financial Reporting Standards, Subsidiary as a first-time adopter*
  - Amendments to PFRS 9, *Financial Instruments, Fees in the '10 per cent' test for derecognition of financial liabilities*
  - Amendments to PAS 41, *Agriculture, Taxation in fair value measurements*

*Effective beginning on or after January 1, 2023*

- Amendments to PAS 1, *Classification of Liabilities as Current or Non-current*
- PFRS 17, *Insurance Contracts*

*Deferred effectivity*

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

Summary of Significant Accounting Policies

Presentation of Consolidated Financial Statements

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

Current versus Noncurrent Classification

The Group presents assets and liabilities in the consolidated statement of financial position based on current or noncurrent classification.

An asset as current when it is:

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

All other assets are classified as noncurrent.

A liability is current when:

- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading

- It is due to be settled within 12 months after the reporting period or
- There is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period

The Group classifies all other liabilities as noncurrent.

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

Cash

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

Financial Instruments - Initial Recognition and Subsequent Measurement

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

*Initial recognition and measurement*

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

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

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

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

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

*Subsequent measurement*

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortized cost (debt instruments)
- FVOCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at FVOCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at FVPL

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

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

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

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

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

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

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

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

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

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

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

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

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

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

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

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

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

For cash, the Group applies the low credit risk simplification. At every reporting date, the Group evaluates whether the debt instrument is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the internal credit rating of the debt instrument.

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

In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

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

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

Financial Liabilities

*Initial recognition and measurement*

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

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

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

*Subsequent measurement*

*Payables and loans and borrowings*

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

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

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

*Derecognition*

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the consolidated statement of comprehensive income.

*Reclassifications of financial instruments*

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

The Group does not reclassify its financial assets when:

- A financial asset that was previously a designated and effective hedging instrument in a cash flow hedge or net investment hedge no longer qualifies as such;
- A financial asset becomes a designated and effective hedging instrument in a cash flow hedge or net investment hedge; and
- There is a change in measurement on credit exposures measured at fair value through profit or loss.

*Financial liabilities*

A financial liability is derecognized when the obligation under the liability has expired or is discharged or has cancelled. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of comprehensive income.

Offsetting Financial Instruments

Financial assets and financial liabilities undergo offsetting and, the net amount reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Group assesses that it has a currently enforceable right of offset if the right is not contingent on a future event and, is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Group and all of the counterparties.

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

| | |
|---|---|
| • Significant estimates and assumptions | Note 3 |
| • Financial assets at FVOCI | Note 10 |
| • Financial instruments | Note 31 |

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

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

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

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

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

All assets and liabilities for which fair value is measured or disclosed in the financial statement are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

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

Operating Segment
A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

A geographical segment is engaged in providing products or services within a distinct economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

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

Inventories

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

NRV for mine products inventory is the selling price in the ordinary course of business, less the estimated costs of completion and estimated costs necessary to make the sale. In the case of parts and supplies, NRV is the current replacement cost. In determining the NRV, the Group considers any adjustments necessary for obsolescence. Provision for obsolescence is determined by reference to specific items of stock.

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

Advances to Suppliers and Contractors

Advances to suppliers and contractors are non-financial assets arising from payments made by the Group to its suppliers and contractors before goods or services have been received or rendered. These are classified as current since it follows the final classification of the asset to which the advances pertain to and are recognized in the books at amounts initially paid.

Other Current Assets

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

*Input VAT*

Revenues, expenses, and assets are recognized net of the amount of VAT, if applicable.

When VAT from sales of goods and/or services (output VAT) exceeds VAT passed on from purchases of goods or services (input VAT), the excess is recognized as payable in the statement of financial position. When VAT passed on from purchases of goods or services (input VAT) exceeds VAT from sales of goods and/or services (output VAT), the excess is recognized as an asset in the consolidated statement of financial position to the extent of the recoverable amount.

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

Input VAT on capitalized goods exceeding ₱1 million is subject to amortization and any excess may be utilized against output VAT, if any, beyond 12 months from the reporting period or can be claimed for refund or as tax credits with the Philippine Department of Finance. The current portion is presented as part of "Other current assets" and the noncurrent portion under "Other noncurrent assets" in the consolidated statement of financial position and stated at its estimated NRV.

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

Under the equity method, the investments in associates are carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associates, less any allowance for impairment losses. Goodwill relating to an associate included in the carrying amount of the investment and is not tested for impairment individually.

The carrying amount of an investment in associates also includes other long-term interests in an associate, such as loans and advances. Advances and loans granted by the Group are within the nature of cash advances or expenses paid by the Group on behalf of its associates. These are based on normal credit terms, unsecured, interest-free and are recognized and carried at original amounts advanced.

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

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

| | Percentage of Ownership | |
|---|---|---|
| | **2020** | 2019 |
| MMC | **19.60%** | 19.60% |
| DMTC | **25.44%** | 25.44% |

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

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

a) when the investment becomes a subsidiary,
b) If the retained interest in the former associate or joint venture is a financial asset, the Group shall measure the retained interest at fair value. The fair value of the retained interest shall be regarded as its fair value on initial recognition, as a financial asset in accordance with the relevant standards.

   The Group shall recognize the profit or loss the difference in:
   i. the fair value of any retained interest and any proceeds from disposing of a part interest in the associate; and
   ii. the carrying amount of the investment at the date the equity method was discontinued.

c) The Group shall account for all amounts previously recognized in OCI in relation to that investment on the same basis as would have been required if the investee had directly disposed of the related assets.

Property, Plant and Equipment

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

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

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

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

The Group classify its right-of-use assets as part of property, plant and equipment. The Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date of the underlying assets is available for use). Right-of-use assets are initially measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The initial cost of right-use-assets includes the amounts of lease liabilities recognized, initial direct costs incurred, lease payments made at or before the commencement date less any lease incentives received and estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of their estimated useful life and lease term. Right-of-use assets are subject to impairment.

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

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

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

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

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

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

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

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

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

When assets are sold or retired, the cost and related accumulated depletion, amortization, and depreciation, and accumulated impairment in value are removed from the accounts. Gains and losses on disposals are determined by comparing the disposal proceeds with carrying amount and are included in the consolidated statement of comprehensive income.

Fully depreciated property, plant and equipment are maintained in the accounts until these are no longer in use.

Mine Exploration Costs

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

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

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

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

*Mine Rehabilitation Fund*
MRF are funds deposited in banks, which is stated at face value, and is allotted for use in satisfying the Group's environmental and rehabilitation obligations. The funds earn interest based on the respective bank deposit rates.

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

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

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognized.

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

Impairment of Nonfinancial Assets
*Property, Plant and Equipment and Other Nonfinancial Assets*
Property, plant and equipment and other nonfinancial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If any such indication exists, as when the carrying amount of an asset exceeds its recoverable amount, the asset or cash-generating unit (CGU) is written down to its recoverable amount. The recoverable amount is the higher of an asset's or CGU's fair value less cost to sell and its value in use. The fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's-length transaction less the costs of disposal while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the asset is tested as part of a larger CGU to which it belongs. If the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Management has assessed its CGUs as being individual mines, which is the lowest level for which cash inflows are largely independent of those of other assets.

Impairment losses are recognized in profit or loss. In calculating value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset/CGU. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators. The Group bases its impairment calculation on detailed budgets and forecasts, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated based on the life-of-mine plans. The estimated cash flows are based on expected future production, metal selling prices, operating costs and forecast capital expenditure, and cash flows beyond six years are based on life-of-mine plans.

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

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

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

*Investments in and Advances to Associates*
After application of the equity method for investment in associates, the Group determines whether it is necessary to recognize an additional impairment loss of the Group's investments in its associates, including long-term interests, that, in substance, form part of the Group's net investment in associates. The Group determines at the end of the reporting period whether there is any objective evidence that the investment and advances in associate is impaired. If this is the case, the Group calculates the amount of impairment as being the difference between the recoverable amount of the associate and the acquisition cost and recognizes the amount in the consolidated statement of comprehensive income. Recoverable amount is determined as the higher between fair value less cost of disposal and value in use.

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

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

Provisions

*General*

Provisions are recognized when the Group has a present obligation (legal and constructive) as a result, of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all provisions to be reimbursed, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as part of finance costs in the consolidated statement of comprehensive income.

*Liability for Mine Rehabilitation*

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

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

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

Any reduction in the rehabilitation liability and, therefore, any deduction from the asset to which it relates, may not exceed the carrying amount of that asset. If it does, any excess over the carrying value is taken immediately to the consolidated statement of comprehensive income.

If the change in estimate results in an increase in the liability for mine rehabilitation cost and, therefore, an addition to the carrying value of the asset, the Group considers whether this is an indication of impairment of the asset and if so tests for impairment. If, for mature mines, the estimate for the revised mine assets net of liability of mine rehabilitation exceeds the recoverable value, that portion of the increase is charged directly to expense.

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

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

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

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

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

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

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

Provisional shipment up to 98% of total value for gold and silver based on provisional prices is collected upon shipment, while the remaining 2% for gold and silver is collected upon the determination of the final shipment value based on final weight and assay for metal content and prices during the applicable QP less applicable smelting and treatment charges.

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

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

The terms of metal sales contracts with third parties contain provisional pricing arrangements whereby the selling price is based on prevailing spot prices on a specified future date after shipment to the customer (the "quotation period"). Mark-to-market adjustments to the sales price occur based on movements in quoted market prices up to the date of final settlement, and such adjustments are recorded as part of revenue. The period between provisional invoicing and final settlement can be between one and six months.

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

*Bill and Hold Sales*
The Group recognized sale on deliveries classified as bill and hold when there is transfer of risk and reward from the Group to the buyer due to the following:
- It is probable that delivery will be made;
- The item is on hand, identified and ready for delivery to the buyer at the time the sale is recognized;
- The buyer specifically acknowledges the deferred delivery instructions; and
- The usual payment terms apply.

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

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

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

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

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

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

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

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

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

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

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

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

Diluted earnings (loss) per share amounts are calculated by dividing the net income (loss) attributable to ordinary equity holders of the Parent Company by the weighted average number of ordinary shares outstanding, adjusted for any stock dividends declared during the year plus weighted average number of ordinary shares that would be issued on the conversion of all the dilutive ordinary shares into ordinary shares. The Group has no dilutive potential common shares as at December 31, 2020, 2019 and 2018.

Leases (prior to adoption of PFRS 16)
*Determination of Whether an Arrangement Contains a Lease*
The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the date of inception. The arrangement is assessed to determine whether fulfilment is dependent on the use of a specific assets and the arrangement conveys a right to use the assets, even if those assets are not explicitly specified in an arrangement. The Group is not a lessor in any transactions, it is only lessee. A reassessment is made after inception of the lease only if one of the following applies:
(a) There is a change in contractual terms, other than a renewal or extension of the arrangement;
(b) A renewal option is exercised, or extension granted, unless that term of the renewal or extension was initially included in the lease term;
(c) There is a change in the determination of whether fulfillment is dependent on a specified asset; or

(d) There is a substantial change to the asset.

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

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

Leases (upon adoption of PFRS 16)
*Determination of Whether an Arrangement Contains a Lease*
The Group assesses at contract inception, all arrangements to determine whether they are, or contain, a lease. That is, if the contract conveys the right of control the use of an identified asset for a period of time in exchange for consideration.

*Leases - Group as a Lessee*
The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognizes lease liabilities to make lease payments and right-to-use assets representing the right to use the underlying assets.

*Lease Liabilities*
At the commencement date of the lease, the Group recognized lease liabilities measured the present value of lease payments to be made over the lease term. The lease payments include fixed payments (and in, some instances, in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate.

In calculating the present value of lease payments, the Group uses its IBR at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment of an option to purchase the underlying asset.

*Short-term Leases and Leases of Low-value Assets*
The Group applies the short-term lease recognition exemption to its short-term leases of equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value are recognized as expense on a straight-line basis over the lease term.

Employee Benefit
The net defined retirement benefits liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:
- Service cost
- Net interest on the net defined retirement benefits liability or asset
- Remeasurements of net defined retirement benefits liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined retirement benefits liability or asset is the change during the period in the net defined retirement benefits liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined retirement benefits liability or asset. Net interest on the net defined retirement benefits liability or asset is recognized as expense or income in profit or loss.

Remeasurements comprising actuarial gains and losses, return on plan assets, and any change in the effect of the asset ceiling (excluding net interest on defined retirement benefits liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods. Remeasurements recognized in OCI after the initial adoption of Revised PAS 19 are not closed to any other equity account and is shown as a separate item in equity under "Remeasurement gain (loss) on retirement benefits liability".

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined retirement benefits liability, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

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

*Termination Benefit*
Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either an entity's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment.

A liability and expense for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of those benefits and when the entity recognizes related restructuring costs. Initial recognition and subsequent changes to termination benefits are measured in accordance with the nature of the employee benefit, as either post-employment benefits, short-term employee benefits, or other long-term employee benefits.

*Employee Leave Entitlement*
Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled wholly before 12 months after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period.

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

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

Income Taxes
*Current Income Tax*
Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authority. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted as at the end of the reporting period.

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

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

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

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

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

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

Deferred tax assets and liabilities are measured at the tax rate that is expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

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

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

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

Contingencies
Contingent liabilities are not recognized in the consolidated financial statements. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable. Contingencies, if it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the consolidated financial statements.

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

## 3. Summary of Significant Accounting Judgments, Estimates and Assumptions

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

Judgments, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcome can differ from these estimates.

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the consolidated financial statements.

*Use of Going Concern Assumption*

The underlying assumption in the preparation of the accompanying consolidated financial statements is that the Group has the ability to continue as a going concern for at least the next 12 months from December 31, 2020. The use of the going concern assumption involves management making significant judgments, at a particular point in time, about the future outcome of events or conditions that are inherently uncertain which include, but are not limited to, forecasted level of revenue and operating costs, cash flows, and the other potential sources of financing including capital raising activities. Management's assessment on going concern and steps undertaken or will be undertaken to reduce operating costs and manage financing plans are disclosed in Note 1. Accordingly, the accompanying consolidated financial statements have been prepared on a going concern basis of accounting.

*Mine Exploration Costs*

The application of the Group's accounting policy for exploration and evaluation expenditure requires judgment in determining whether it is likely that future economic benefits are likely either from future exploitation or sale or where activities have not reached a stage which permits a reasonable assessment of the existence of reserves. The determination of a resource is itself an estimation process that requires varying degrees of uncertainty depending on sub-classification and these estimates directly impact the point of deferral of exploration and evaluation expenditure. The deferral policy requires management to make certain estimates and assumptions about future events or circumstances, in particular whether an economically viable extraction operation can be established. Estimates and assumptions made may change if new information becomes available.

If, after expenditure is capitalized, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalized is written off in profit or loss in the period when the new information becomes available. Mine exploration costs amounted to ₱6,827,286 and ₱6,746,644 as at December 31, 2020 and 2019, respectively (see Note 12).

*Assessing Recoverability of Mine Exploration Costs*

Mineral property acquisition costs are capitalized until the viability of the mineral interest is determined. Exploration, evaluation and pre-feasibility costs are charged to "Mine exploration costs" until such time as it has been determined that a property has economically recoverable reserves, in which case subsequent exploration costs and the costs incurred to develop a property are capitalized to mine and mining properties. The Group reviews the carrying values of its mineral property interests whenever events or changes in circumstances indicate that their carrying values may exceed their estimated net recoverable amounts. Mine exploration costs amounted to ₱6,827,286 and ₱6,746,644 as at December 31, 2020 and 2019, respectively (see Note 12).

As at December 31, 2020 and 2019, mine exploration costs transferred to mine and mining properties amounted to nil (see Note 12).

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

The factors that the Group considers important which could trigger an impairment review include the following:
- Significant underperformance relative to expected historical or projected future operating results;
- Significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- Significant negative industry or economic trends.

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

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

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

The aggregate net book values of property, plant and equipment amounted to ₱6,656,554 and ₱6,858,669 as at December 31, 2020 and 2019, respectively (see Note 9).

The carrying amount of other nonfinancial assets, which include advances to officers and employees, advances to suppliers and contractors, other current assets and other noncurrent assets amounted to ₱1,262,956 and ₱1,256,786 as at December 31, 2020 and 2019, respectively.

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

As at December 31, 2020 and 2019, the Group assessed that it has significant influence over DMTC and MMC and has accounted for the investments as associates (see Note 11).

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

The Group has deferred tax assets amounting to ₱374,890 and ₱293,071 as at December 31, 2020 and 2019, respectively (see Note 18). No deferred tax assets were recognized for temporary differences amounting to ₱2,301,922 and ₱2,465,921 as at December 31, 2020 and 2019, respectively, since there is no assurance that the Group will generate sufficient future taxable income to allow all or part of its deferred tax assets to be utilized (see Note 18).

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

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

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

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

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

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

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

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

- an actual or expected significant deterioration in the operating results of the debtor; or
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

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

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if i) the financial instrument has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a financial asset to have low credit risk when it has an internal or external credit rating of "investment grade" as per globally understood definition.

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

Estimates and Assumptions

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

*Revenue Recognition*

The Group recognizes revenue from sale of bullion and concentrate at the time these are produced and shipped to buyer smelters, respectively. Revenue is measured based on shipment value based on quoted metal prices in the London Bullion Market and London Market Exchange or Shanghai Gold Exchange, and weight and assay for metal content net of smelting and treatment charges. Provisional shipment values up to 98% bullion and up to 100% concentrate while the remaining balance is collected upon determination of the final shipment value based on final weights and assays for metal content and prices during the applicable QP less deduction for smelting and treatment charges. Total recognized revenue relating to sale of metals amounted to ₱1,456,484, ₱2,030,103 and ₱2,081,563, net of smelting and treatment charges of ₱36,183 ₱168,879 and ₱152,756, in 2020, 2019 and 2018, respectively (see Note 29).

*Estimating Ore Reserves and Resources*

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

Estimates of reserves for undeveloped or partially developed areas are subject to greater uncertainty over their future life than estimates of reserves for areas that are substantially developed and depleted. As an area goes into production, the amount of proven reserves will be subject to future revision once additional information becomes available. As those areas are further developed, new information may lead to revisions. The estimated recoverable reserves are used in the calculation of depletion, depreciation, amortization and testing for impairment, the assessment of life of mine, and forecasting the timing of the payment of provision for mine rehabilitation and decommissioning.

In accordance with its policy, the Company reviews the estimated resources and reserves on an ongoing basis. This review indicated that a portion of resource were part of the ore extracted in prior year. As a result, effective January 1, 2019, the Company added a portion of resources expected to be converted into reserves in the calculation of depletion. As at December 31, 2020 and 2019, mine and mining properties presented under property, plant and equipment amounted to ₱5,315,156 and ₱5,419,986, respectively (see Note 9).

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

Inventories carried at lower of cost or NRV, amounted to ₱550,965 and ₱524,477 as at December 31, 2020 and 2019, respectively (see Note 6).

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

Provision for impairment of investment in associates amounted to ₱7,359 and nil has been recognized in 2020 and 2019. Investments in and advances to associates amounted to ₱557,847 and ₱564,256 as at December 31, 2020 and 2019, respectively (see Note 11).

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

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

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

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

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

As at December 31, 2020 and 2019, total financial assets of the Group amounted to P194,787 and P310,993, respectively. Allowance for ECL on financial assets amounted to P18,955 as at December 31, 2020 and 2019.

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

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

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

- *Loss given default*
  Loss Given Default represents the Group's expectation of the extent of loss on a defaulted exposure, taking into account the mitigating effect of collateral, its expected value when realized and the time value of money. LGD varies by type of counterparty, type of seniority of claim and

availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

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

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

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

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

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period December 31, 2020 and 2019.

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

*Leases - Estimating IBR*
The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its IBR to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the

subsidiary's stand-alone credit rating). The Group's lease liabilities amounted ₱6,455 and ₱11,822 as of December 31, 2020 and 2019, respectively (see Note 30g).

*Estimation of Retirement Benefit Expense*
The cost of defined retirement obligation as well as the present value of the defined benefit obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, expected rates of return on assets, future salary increases, mortality rates and future retirement increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligation are highly sensitive to changes in these assumptions. All assumptions are reviewed at each end of the reporting period. As at December 31, 2020 and 2019, the retirement benefits liability of the Group amounted to ₱1,547,663 and ₱1,205,852, respectively. Net retirement costs amounted to ₱101,921, ₱122,432 and ₱142,666 in 2020, 2019 and 2018, respectively (see Note 17).

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. Further details about the assumptions used are provided in Note 17.

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

The provision for mine rehabilitation and decommissioning costs is based on estimated future costs using information available at the end of the reporting period. To the extent the actual costs differ from these estimates, adjustments will be recorded and, the profit or loss may be impacted. As at December 31, 2020 and 2019, liability for mine rehabilitation cost amounted to ₱169,349 and ₱159,974, respectively (see Note 16).

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

The carrying values and corresponding fair values of financial assets and financial liabilities as well as the manner, in which fair values were determined are discussed (see Note 31).

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

## 4. Cash

| | 2020 | 2019 |
|---|---|---|
| Cash on hand | **₱4,079** | ₱6,118 |
| Cash in banks | **27,367** | 56,505 |
| | **₱31,446** | ₱62,623 |

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

Interest income earned from cash in banks amounted to ₱102, ₱198 and ₱274 in 2020, 2019 and 2018, respectively.

The Group has United States dollar (US$)-denominated cash in banks amounting to US$99 and US$407 as at December 31, 2020 and 2019, respectively (see Note 31).

## 5. Receivables and Contract Assets

*Receivables*

| | 2020 | 2019 |
|---|---|---|
| Trade | **₱68,898** | ₱53,970 |
| Nontrade | **26,670** | 33,412 |
| Officers and employees | **2,825** | 2,646 |
| | **98,393** | 90,028 |
| Less allowance for expected credit losses | **18,955** | 18,955 |
| | **₱79,438** | ₱71,073 |

Trade receivables include the Group's receivables arising from its shipments of gold, silver and concentrate to refinery and smelter customer under the Refining Agreements (RA; see Note 29) and receivables from third party customers for drilling, hauling and rental services.

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

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

Provision for expected credit losses on receivables amounting to nil, ₱4,146 and ₱86 were recognized by the Group in 2020, 2019 and 2018, respectively (see Note 24).

Movements of allowance for expected credit losses are as follows:

| | 2020 | 2019 |
|---|---|---|
| Balance at beginning of year | | |
| Trade | **₱18,441** | ₱14,295 |
| Nontrade | **514** | 514 |
| Provision (Note 24) | **–** | 4,146 |
| Balance at end of year | **₱18,955** | ₱18,955 |

The Group has US$-denominated trade receivables amounting to US$968 and US$595 as at December 31, 2020 and 2019, respectively (see Note 31).

*Contract assets*
Contract assets are initially recognized revenue earned from unbilled charges to MMC for drilling services rendered in 2018. Contract assets recognized as at December 31, 2020 and 2019 amounted to nil and ₱18,732, respectively.

## 6. Inventories

| | 2020 | 2019 |
|---|---|---|
| Parts and supplies: | | |
| At NRV | **₱547,416** | ₱484,611 |
| At cost | **94** | 359 |
| Mine products at NRV | **3,455** | 39,507 |
| | **₱550,965** | ₱524,477 |

Parts and supplies on hand include materials and supplies stored in Metro Manila, Bulacan, Mankayan and Leyte. Cost of parts and supplies on hand amounted to ₱588,983 and ₱544,673 as at December 31, 2020 and 2019, respectively.

Mine products inventory includes copper concentrates stored in a concentrate bodega owned by SSI located compound in Poro, San Fernando City, La Union. Cost of mine products amounted to ₱3,455 and ₱39,507 as at December 31, 2020 and 2019, respectively.
Movements in allowance for inventory obsolescence on parts and supplies on hand as at December 31, 2020 and 2019 are as follows:

| | 2020 | 2019 |
|---|---|---|
| Balance at beginning of year | **₱59,703** | ₱41,471 |
| Provision (Note 22) | **–** | 18,232 |
| Reversal of allowance for inventory losses | **(18,230)** | – |
| Balance at end of year | **₱41,473** | ₱59,703 |

Parts and supplies inventories charged to profit and loss under "Consumables and supplies" account amounted to ₱437,737, ₱575,844 and ₱560,708 in 2020, 2019 and 2018, respectively (see Notes 22, 23 and 24).

## 7. Advances to Suppliers and Contractors

As at December 31, 2020 and 2019, the Group has advances to suppliers and contractors amounting to ₱298,659 and ₱225,869, respectively. These advances will be offset against future billings. Advances to suppliers and contractors are non-financial assets arising from advanced payments made by the Group to its suppliers and contractors before goods and services have been received or rendered. These are classified as current since these are expected to be offset against future short-term billings and are recognized in the books at the amounts initially paid.

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

## 8. Other Current Assets

| | 2020 | 2019 |
|---|---|---|
| Input VAT | **₱776,498** | ₱773,581 |
| Prepaid expenses | **89,941** | 153,182 |
| Deferred costs | **10,190** | 11,221 |
| Rental deposits | **2,745** | 450 |
| | **₱879,374** | ₱938,434 |

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

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

Prepaid expenses include advance payments for taxes, insurance, rent and other services and costs incurred under operating development drives.

Deferred costs represent withdrawals of tubing to be used in drilling operations. Costs of which is amortized based on meters drilled.

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

## 9. Property, Plant and Equipment

| | 2020 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Mine and mining properties | Buildings and improvements | Plant, machinery, equipment, and office furniture and fixtures | Land | Construction in-progress | Right-of-use assets - warehouse and building | Total |
| **Cost:** | | | | | | | |
| Balances at December 31, 2019 | ₱11,923,372 | ₱556,500 | ₱3,273,982 | ₱713,469 | ₱114,969 | ₱20,669 | ₱16,602,961 |
| Additions | 150,460 | 160 | 66,352 | – | 50,043 | 4,238 | 271,253 |
| Transfers | 623 | – | 5,118 | – | (5,741) | – | – |
| Adjustment to capitalized cost of mine rehabilitation and decommissioning (Note 16) | 5,672 | – | – | – | – | – | 5,672 |
| Retirements/disposals | – | 276 | (277,811) | – | – | – | (277,535) |
| Balances at end of year | 12,080,127 | 556,936 | 3,067,641 | 713,469 | 159,271 | 24,907 | 16,602,351 |
| **Accumulated depletion, depreciation and amortization:** | | | | | | | |
| Balances at beginning of year | 6,503,386 | 347,989 | 2,859,624 | – | – | 9,361 | 9,720,360 |
| Depletion, depreciation and amortization | 261,585 | 36,084 | 170,189 | – | – | 9,411 | 477,269 |
| Retirement and disposals | – | 276 | (276,040) | – | – | – | (275,764) |
| Balances at end of year | 6,764,971 | 384,349 | 2,753,773 | – | – | 18,772 | 9,921,865 |
| **Allowance for impairment:** | | | | | | | |
| Balances at beginning and end of year | – | 19,241 | 4,691 | – | – | – | 23,932 |
| Net book values | ₱5,315,156 | ₱153,346 | ₱309,177 | ₱713,469 | ₱188,160 | ₱6,135 | ₱6,656,554 |

| | 2019 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Mine and mining properties | Buildings and improvements | Plant, machinery, equipment, and office furniture and fixtures | Land | Construction in-progress | Right-of-use assets warehouse and building | Total |
| Cost: | | | | | | | |
| Balances at December 31, 2019, as previously reported | ₱11,836,491 | ₱471,554 | ₱3,425,526 | ₱713,469 | ₱226,969 | ₱– | ₱16,674,109 |
| Adoption of PFRS 16 | – | – | – | – | – | 20,669 | 20,669 |
| Balances at January 1, 2019, as restated | 11,836,491 | 471,554 | 3,425,526 | 713,469 | 226,969 | 20,669 | 16,694,778 |
| Additions | 41,233 | 9,851 | 24,217 | – | 122,053 | – | 197,354 |
| Transfers | (7,666) | 76,878 | 164,841 | – | (234,053) | – | – |
| Adjustment to capitalized cost of mine rehabilitation and decommissioning (Note 16) | 53,314 | – | – | – | – | – | 53,314 |
| Retirements/disposals | – | (1,383) | (340,602) | – | – | – | (342,485) |
| Balances at end of year | 11,923,372 | 556,500 | 3,273,982 | 713,469 | 114,969 | 20,669 | 16,602,961 |
| Accumulated depletion, depreciation and amortization: | | | | | | | |
| Balances at beginning of year | 5,890,464 | 317,392 | 2,946,405 | – | – | – | 9,154,861 |
| Depletion, depreciation and amortization | 612,922 | 31,154 | 246,793 | – | – | 9,361 | 900,230 |
| Retirement and disposals | – | (1,157) | (333,574) | – | – | – | (334,731) |
| Balances at end of year | 6,503,386 | 347,389 | 2,859,624 | – | – | 9,361 | 9,720,360 |
| Allowance for impairment: | | | | | | | |
| Balances at beginning and end of year | – | 19,241 | 4,691 | – | – | – | 23,932 |
| Net book values | ₱5,419,986 | ₱189,270 | ₱409,667 | ₱713,469 | ₱114,969 | ₱11,308 | ₱6,858,669 |

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

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

The Group re-estimated its provision for mine rehabilitation and decommissioning as at June 14, 2020. Mine and mining properties include provision for mine rehabilitation and decommissioning amounting to ₱106,331 and ₱105,972 as at December 31, 2020 and 2019, respectively. The rates used by the Parent Company in computing depletion are ₱1,145, ₱2,838 and ₱2,464 per ton in 2020, 2019 and 2018, respectively, as a result of the costs capitalized under "Mine and mining properties" for the development of the Victoria and Quartz Pyrite Gold (QPG) Project.

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

Construction in-progress pertains to various mining operations requirements that undergo in-house constructions and fabrications in Mankayan. As at December 31, 2020 and 2019, the Group transferred construction in-progress amounting to ₱5,741 and ₱234,053 , respectively, to mine and mining properties, and plant, machinery, equipment, office furniture and fixtures.

## 10. Financial Assets Designated at FVOCI

As at December 31, 2020 and 2019, the financial assets designated at FVOCI consists of investments in:

| | 2020 | 2019 |
|---|---|---|
| Quoted equity shares | **₱26,194** | ₱31,652 |
| Unquoted equity shares | **41,721** | 130,285 |
| | **₱67,915** | ₱161,937 |

Movements in financial assets designated at FVOCI are as follows:

| | 2020 | 2019 |
|---|---|---|
| Balance at beginning of year | **₱161,937** | ₱211,951 |
| Changes in fair values of financial assets designated at FVOCI | **(94,022)** | 27,121 |
| Disposals | **–** | (77,135) |
| Balance at end of year | **₱67,915** | ₱161,937 |

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

| | 2020 | 2019 |
|---|---|---|
| Balance at beginning of year | **₱58,603** | ₱61,288 |
| Changes in fair values of financial assets designated at FVOCI | **(93,993)** | 26,801 |
| Transfer of fair value reserve of financial assets designated at FVOCI to retained earnings | **–** | (29,486) |
| Balance at end of year | **(₱35,390)** | ₱58,603 |

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

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

Dividend income earned by the Group amounted to nil in 2020, 2019 and 2018.

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

The obligation to pay the balance of stocks subscriptions payable of ₱96,341 has been agreed and accepted by the Plan. In May 2019, the Parent Company paid its remaining stock subscriptions payable amounting to ₱11,443. The outstanding balance of stock subscription payable amounted to nil as at December 31, 2020 and 2019.

In May 2019, the Parent Company disposed its shares in POPI with total shares of 19,431,225 for ₱69,234. On July 2019, SSI disposed its shares in POPI with total shares of 2,060,000 for ₱7,901.

As at December 31, 2020, the Group has no intention to dispose its unquoted equity shares. The aggregate cost of these investments amounted to ₱41,721 and ₱130,285 as at December 31, 2020 and 2019, respectively.

## 11. Investments in and Advances to Associates

| **2020** | **DMTC** | **MMC** | **Total** |
|---|---|---|---|
| **Acquisition cost:** | | | |
| **Balances at beginning and end of year** | **₱11,800** | **₱518,426** | **₱530,226** |
| **Accumulated equity:** | | | |
| **Share in net earnings (loss):** | | | |
| **Balances at beginning of year** | **(1,150)** | **30,306** | **29,156** |
| **Equity in net loss** | **(470)** | **(1,405)** | **(1,875)** |
| **Share in OCI - FA at FVOCI** | **–** | **28** | **28** |
| **Share in OCI - RBO** | **–** | **(23)** | **(23)** |
| **Balances at end of year** | **(₱1,620)** | **₱28,906** | **₱27,286** |

*(Forward)*

| **2020** | **DMTC** | **MMC** | **Total** |
|---|---|---|---|
| **Allowance for impairment losses:** | | | |
| **Balances at beginning of year** | **₱–** | **₱–** | **₱–** |
| **Provision for impairment losses** | **(7,359)** | **–** | **(7,359)** |
| **Balances at end of year** | **(7,359)** | **–** | **(7,359)** |
| **Investments in associates** | **2,821** | **547,332** | **550,153** |
| **Advances to associate (Note 15)** | **–** | **7,694** | **7,694** |
| | **₱2,821** | **₱555,026** | **₱557,847** |

| 2019 | DMTC | MMC | Total |
|---|---|---|---|
| Acquisition cost: | | | |
| Balances at beginning and end of year | ₱11,800 | ₱518,426 | ₱530,226 |
| Accumulated equity: | | | |
| Share in net earnings (loss): | | | |
| Balances at beginning of year | 81 | 32,295 | 32,376 |
| Equity in net loss | (1,231) | (1,741) | (2,972) |
| Actuarial gain on retirement obligation | | 72 | 72 |
| Unrealized loss on financial assets designated at FVOCI | – | (320) | (320) |
| Balances at end of year | (1,150) | 30,306 | 29,156 |
| Investments in associates | 10,650 | 548,732 | 559,382 |
| Advances to associate (Note 15) | – | 4,874 | 4,874 |
| | ₱10,650 | ₱553,606 | ₱564,256 |

*Investment in MMC*
The Group effectively has 19.60% ownership in MMC in 2020 and 2019. Thus, the Group assessed that it has significant influence over MMC due to the following:
(a) The Group has four out of nine board seats and three out of nine representations; and
(b) The Group has at least nine executive officers and one managerial personnel serving as part of MMC's corporate management.

As at December 31, 2020, the fair value per share of MMC shares A and B amounted to ₱0.0100 and ₱0.0110, respectively. As at December 31, 2019, the fair value per share of MMC shares A and B amounted to ₱0.0079 and ₱0.0080. Fair market value of the investment in MMC amounted to ₱543,875 and ₱412,391 as at December 31, 2020 and 2019, respectively.

*Investment in DMTC*
The Group assessed that it has significant influence over DMTC due to the following:
(a) The Group has ownership interest of 25.44% over its outstanding capital shares; and
(b) The Group, through DDCP, has at least ₱15.1 million or 54.71% contribution in the total assets of the DMTC.

Provision for impairment of investment in associates amounting to ₱7,359 and nil were recognized by the Company in 2020 and 2019, respectively (see Note 28).

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

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

| **2020** | **DMTC** | **MMC** | **Totals** |
|---|---|---|---|
| **Assets:** | | | |
| **Current Assets** | **₱19,213** | **₱54,460** | **₱73,673** |
| **Noncurrent Assets** | **225** | **3,111,747** | **3,111,972** |
| **Total Assets** | **19,438** | **3,166,207** | **3,185,645** |
| **Liabilities:** | | | |
| **Current Liabilities** | **6,868** | **183,814** | **190,682** |
| **Noncurrent Liabilities** | **1,480** | **70,214** | **71,694** |
| **Total Liabilities** | **8,348** | **254,028** | **262,376** |
| **Net Assets** | **₱11,090** | **₱2,912,179** | **₱2,923,269** |
| **Net Loss** | **(₱1,847)** | **(₱7,169)** | **(₱9,016)** |

| 2019 | DMTC | MMC | Totals |
|---|---|---|---|
| Assets: | | | |
| Current Assets | ₱26,333 | ₱81,679 | ₱108,012 |
| Noncurrent Assets | 1,216 | 3,101,451 | 3,102,667 |
| Total Assets | 27,549 | 3,183,130 | 3,210,679 |
| Liabilities: | | | |
| Current Liabilities | 10,619 | 181,551 | 192,170 |
| Noncurrent Liabilities | 3,994 | 71,322 | 75,316 |
| Total Liabilities | 14,613 | 252,873 | 267,486 |
| Net Assets | ₱12,936 | ₱2,930,257 | ₱2,943,193 |
| Net Loss | (₱4,839) | (₱8,880) | (₱13,719) |

## 12. Mine Exploration Costs

| | **2020** | 2019 |
|---|---|---|
| Balance at beginning of year | **₱6,746,644** | ₱6,683,763 |
| Additions | **80,642** | 62,881 |
| Balance at end of year | **₱6,827,286** | ₱6,746,644 |

Pursuant to the agreement between Gold Fields Limited, FSGRI and the Parent Company, ongoing exploration and pre-development expenses are being incurred on the Far Southeast Project (see Note 30a).

Depreciation expense capitalized as part of mine exploration costs in 2020, 2019 and 2018 amounted to ₱18,774, ₱21,568 and ₱17,315, respectively.

No allowance for impairment losses on mine exploration costs was recognized in 2020 and 2019.

## 13. Trade and Other Payables

| | 2020 | 2019 |
|---|---|---|
| Trade | **₱1,194,810** | ₱562,032 |
| Accrued expenses and other liabilities | **740,052** | 929,397 |
| Employee related expenses | **104,523** | 80,174 |
| Accrued utilities | **64,477** | 28,920 |
| Unclaimed dividends | **26,695** | 26,695 |
| Payable to regulatory authorities | **72,408** | 27,135 |
| Accrued production tax | **14,675** | 19,884 |
| Due to related parties (Note 15) | **83,866** | 103,907 |
| Trust receipts | **–** | 1,847 |
| | **₱2,301,506** | ₱1,779,991 |

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

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

Interest incurred on trust receipts amounted to ₱11, ₱1,274 and ₱1,411 in 2020, 2019 and 2018, respectively (see Note 27).

The Group has US$-denominated trade and other payables amounting to US$2,831 and US$2,821 as at December 31, 2020 and 2019, respectively (see Note 31).

## 14. Short-term and Long-term Debt and Other Interest-bearing Liabilities

| | 2020 | 2019 |
|---|---|---|
| Gold delivery agreement (US$1,000 in 2020 and 2019) | ₱48,023 | ₱50,635 |
| Obtained loan from banks: | | |
| Peso-denominated loans | 135,990 | 149,384 |
| US$-denominated loans | 2,393 | 2,523 |
| Total borrowings | 186,406 | 202,542 |
| Less current portion of long-term borrowings | 185,984 | 202,542 |
| | ₱422 | ₱ |

Gold Delivery Agreement (GDA):
In December 1998, the Parent Company entered into a Loan and Hedging Facilities Agreement (the Agreement) with NM Rothschild & Sons (Australia) Ltd. (Rothschild) and Dresdner Bank AG (Dresdner) which provides for borrowings up to US$30 million and hedging facility up to 300,000 ounces of gold as may be agreed upon by the parties up to December 2002. A minimum hedging amount of 250,000 ounces was imposed to secure the payment of the loan. The loan was intended to finance the working capital requirements of the Victoria Project (see Note 1).

The Agreement was first amended in 2000, and further amended in 2002 principally with respect to the repayment of the loan. The 2002 deed of amendment provides for the extension of the loan agreement up to September 2007. As at December 31, 2004, the loans obtained from Rothschild and Dresdner have been fully paid.

In accordance with the hedging facility, the Parent Company entered into various forward gold contracts with Rothschild and Dresdner (Lenders) which provide for the buying or selling of gold in fixed quantities at certain fixed prices for delivery in various maturity dates in the future. Any gains or losses on the forward sales contracts are recognized upon closing of the pertinent contracts.

At December 31, 2004, the Parent Company's forward gold contracts to sell 169,043 ounces of gold at an average price of US$295 per ounce will mature on various dates in the future and are being rolled forward relative to the ongoing discussion with Lenders. These contracts had a negative mark-to-market valuation of US$24 million based on the spot rate of US$437 per ounce as at December 31, 2004.

The Parent Company does not recognize any derivative financial liability under the hedging contracts with Dresdner. After months of discussion and negotiations, the Parent Company and Dresdner agreed in December 2005 on a commercial resolution to their controversy which was formalized through a GDA that was signed on January 25, 2006. Under the GDA, a gold loan of about US$14 million shall be repaid by way of minimum monthly installments starting from February 1, 2006 up to September 30, 2009 of the cash equivalent in US$ of 200 ounces of gold computed at the spot price in the market and any remaining balance to be fully repaid by the final delivery on September 30, 2009. The Parent Company also has an option to settle by delivery of quantity of gold.

The GDA contains certain covenants, which include, among others, payment of interest, strict compliance with regulatory provisions regarding internal revenue taxes and environmental requirements, restrictions in the incurrence of indebtedness and certain derivative transactions, limitation in the disposal and transfer of assets and prohibitions in the purchase of issued shares, reduction in capital and issuance of shares other than for cash or make a distribution of assets or other capital to its stockholders.

As from September 28, 2010, the rights of Commerzbank AG (Commerzbank; formerly constituted as Dresdner Bank AG) under the GDA have been transferred to Statham Capital Corporation (Statham). Accordingly, Statham is substituted for Commerzbank as the financier under the GDA.

An amendment to the GDA was entered into by the Parent Company. On October 5, 2010, a moratorium was agreed on, providing for the resumption of monthly deliveries of 200 ounces in January 2011 and a final delivery date of December 31, 2011. Total amount under the GDA is US$10,027.

On February 10, 2011, another moratorium and restructure agreement were entered into by the Parent Company. This resulted in a reduction in the total outstanding liability, with the corresponding gain included in "Service fees and other operating income" in the consolidated statements of comprehensive income. In 2014, the Parent Company and Statham entered into another restructure agreement wherein the due date was extended to 2017. The due date has been extended again to 2019 and, in 2019, the due date has been further extended to 2021. As at December 31, 2020 and 2019, the remaining obligation owing to Statham under the GDA amounting to US$1,000 with Peso equivalents of ₱48,023 and ₱50,635, respectively, is payable on December 31, 2021 as the final delivery date based on latest restructuring.

The Parent Company filed a civil case against Rothschild for the declaration of the nullity of the forward gold contracts to sell 97,476 ounces of gold. Rothschild filed a motion to dismiss and this was denied by the Regional Trial Court (RTC) and subsequently by the Court of Appeals in December 2006. Rothschild elevated the matter to the Supreme Court (SC) in February 2007. On November 28, 2011, the SC denied the Motion to Dismiss of Rothschild and upheld the jurisdiction of the RTC over the person of Rothschild in the case for nullity of hedging contracts filed by the Parent Company in 2005. Trial of the case was completed by the RTC in 2017. In a decision dated February 5, 2018, the RTC ruled in favor of the Parent Company, declaring the forward gold contracts null and void. Defendant Rothschild has filed an appeal with the Court of Appeals.

Bank Loans
Borrowings from a local bank are all clean loans with interest rates ranging from 5.50% to 10.25% in 2020 and 5.50% to 8.75% in 2019.

In September 2016, the Parent Company obtained credit accommodations from the Bank of Commerce which turned past due and had an outstanding principal balance in the total amount of US$432, exclusive of interest and penalties as of May 31, 2016, evidenced by trust receipts. During 2017, the Parent Company settled the full amount of the outstanding loan balance. Total interest on the above-mentioned loan for the year 2017 amounted to ₱424.

In March 1, 2017, DDCP entered into a loan agreement with United Coconut Planters Bank for additional working capital. The proceeds of the loans amounted to ₱20,000. The loan carries interest per annum of 6.5%. This loan is payable in eight equal quarterly installments of ₱2,500. The loan is secured by a chattel mortgage of drilling equipment. The carrying value of the loan amounted to nil as at December 31, 2020 and 2019, respectively. The loan was paid on March 8, 2019. The interest expense recognized related to this loan amounted to nil, ₱45 and ₱536 in 2020, 2019 and 2018, respectively (see Note 27).

In March 30, 2017, the Parent Company entered into an Omnibus Loan agreement amounting to ₱150,000 with United Coconut Planters Bank (UCPB). Maturity date of the said loan is on July 28, 2017. The loan carries interest per annum of 6.50%. The loan is payable in full on maturity date and, is secured by chattel mortgage of drilling equipment which covers 200% of the loan. The loan was rolled over at maturity date after the Parent Company paid ₱12,400 of principal amount, therefore carrying an outstanding balance of ₱137,600. Same terms and conditions apply for the rolled over loan. The new maturity date of the loan is November 24, 2017 but was rolled over again during 2017. The carrying value of the loan amounted to ₱106,885 as at December 31, 2020 and 2019. Total interest incurred related to the said loan in 2020, 2019 and 2018 amounted to ₱8,911, ₱9,005 and ₱7,785, respectively (see Note 27).

In March 30, 2017, the Parent Company entered into a Term Loan agreement amounting to ₱170,000 with UCPB. The loan carries an interest rate of 6.50% and will vary after the first payment depending on prevailing market rate and is payable in 12 equal and continuous quarterly amortizations. The loan is secured by a chattel mortgage of drilling equipment (see Note 9). The carrying value of the short- term portion of the loan amounted to ₱28,333 and ₱42,500 as at December 31, 2020 and 2019, respectively. As of December 31, 2020 and 2019, the long- term portion of this loan amounted to nil. Total interest incurred for the said loan in 2020, 2019 and 2018 amounted to ₱1,930, ₱5,340 and ₱7,235, respectively (see Note 27).

In July 31, 2017, the Parent Company entered into an agreement with Philippine Bank of Communications (PBCOM) to restructure its outstanding trust receipts into long-term bank loans. The outstanding balance of Peso and USD trust receipts on the date of restructuring amounted to ₱3,080 and ₱25,788, respectively. The Peso and USD loans bear interest at 8.75% and 5.50%, respectively, and are due on April 18, 2019. The carrying value of the USD loan amounted to ₱2,393 and ₱2,523, as at December 31, 2020 and 2019, respectively. Total interest incurred amounted to ₱149 and nil for Peso and USD loans for 2020, respectively, ₱25 and ₱304 for 2019, respectively and ₱143 and ₱990 for 2018, respectively (see Note 27).

On January 17, 2020, the Company entered into a loan agreement with Asia United Bank (AUB) also for additional working capital. The proceeds of the loan amounted to ₱1,042, net of processing fees, documentary stamp taxes and mortgage fees. The loan carries an interest per annum of 10.25% and is payable in 36 equal monthly installments of ₱34, which started on February 17, 2020. The loan is secured by a chattel mortgage of transportation equipment. Total interest incurred for the said loan in 2020 amounted to ₱88 (see Note 27).

## 15. Related Party Disclosures

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

The Parent Company has a Board-approved Material Related Party Transactions (Material RPTs) Policy defining Material RPTs and setting forth the approval procedure for the same in compliance with the requirements of Revised SRC Rule 68 and SEC Memorandum Circular 10, series of 2019.

Under the said policy, Material RPTs, that is, transactions which, either individually, or in aggregate over a twelve (12)-month period with the same related party, amount to at least ten percent (10%) of the Company's consolidated total assets based on its latest audited financial statements, need to be approved by at least a two-thirds (2/3) vote of the board of directors prior to execution.

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:

| | 2020 | | | |
|---|---|---|---|---|
| | **Amount/ Volume** | **Outstanding Balance** | **Terms** | **Conditions** |
| **Subsidiaries** | | | | |
| ***Receivables*** | | | | |
| **DDCP** | **P24,256** | **P129,932** | **On demand; noninterest-bearing and collectible in cash** | **Unsecured, no impairment, not guaranteed** |
| **LIDC** | **146** | **89,867** | **On demand; noninterest-bearing and collectible in cash** | **Unsecured, no impairment, not guaranteed** |
| **FSGRI** | **2,566** | **685** | **On demand; noninterest-bearing and collectible in cash** | **Unsecured, no impairment, not guaranteed** |
| ***Advances*** | | | | |
| **FSGRI** | **–** | **94,140** | **On demand; noninterest-bearing and collectible in cash** | **Unsecured, no impairment, not guaranteed** |
| ***Payables*** | | | | |
| **SI** | **16,380** | **(163,767)** | **On demand; noninterest-bearing and collectible in cash** | **Unsecured, not guaranteed** |
| ***Rental*** | | | | |
| **FSGRI** | **2,274** | **–** | **Noninterest-bearing and normally settled on 30-day term** | **Unsecured, not guaranteed** |
| ***Services*** | | | | |
| **DDCP** | **36,227** | | **Noninterest-bearing and normally settled on 30-day term** | **Unsecured, not guaranteed** |
| **SI** | **16,380** | **–** | **Noninterest-bearing and normally settled on 30-day term** | **Unsecured, not guaranteed** |

| | 2019 | | | |
|---|---|---|---|---|
| | Amount/ Volume | Outstanding Balance | Terms | Conditions |
| Subsidiaries | | | | |
| *Receivables* | | | | |
| DDCP | P– | P144,695 | On demand; noninterest-bearing and collectible in cash | Unsecured, no impairment, not guaranteed |
| LIDC | 225 | 89,721 | On demand; noninterest-bearing and collectible in cash | Unsecured, no impairment, not guaranteed |
| *Advances* | | | | |
| FSGRI | – | 94,140 | On demand; noninterest-bearing and collectible in cash | Unsecured, no impairment, not guaranteed |
| *Payables* | | | | |
| DDCP | – | | On demand; noninterest-bearing and collectible in cash | Unsecured, not guaranteed |
| SI | 15,381 | (166,585) | On demand; noninterest-bearing and collectible in cash | Unsecured, not guaranteed |
| FSGRI | 2,749 | (1,344) | On demand; noninterest-bearing and collectible in cash | Unsecured, not guaranteed |
| *Rental* | | | | |
| FSGRI | 2,274 | – | Noninterest-bearing and normally settled on 30-day term | Unsecured, not guaranteed |
| *Services* | | | | |
| SI | 2,664 | | Noninterest-bearing and normally settled on 30-day term | Unsecured, not guaranteed |

a. In the normal course of business, the Group grants and receives advances to and from its associates and stockholders, which are considered related parties.

The corresponding receivables and payables arising from the said transactions, including operational support as at December 31, 2020 and 2019 are as follows:

| | 2020 | | | |
|---|---|---|---|---|
| | **Amount/ Volume** | **Outstanding Balance** | **Terms** | **Conditions** |
| **Associates** | | | | |
| ***Receivable:*** | | | | |
| **DMTC** | **₱139** | **₱1,861** | **On demand; noninterest-bearing and collectible in cash** | **Unsecured, no impairment, not guaranteed** |
| ***Payables:*** | | | | |
| **DMTC (Note 13)** | **62** | **(15,132)** | **On demand; noninterest-bearing and collectible in cash** | **Unsecured, no impairment, not guaranteed** |
| **MMC (Note 13)** | **–** | **(12,650)** | **On demand; noninterest-bearing and collectible in cash** | **Unsecured, no impairment, not guaranteed** |
| ***Advances:*** | | | | |
| **MMC (Note 11)** | **2,672** | **7,694** | **Noninterest-bearing and normally settled on 30-day term** | **Unsecured, no impairment, not guaranteed** |
| **Stockholders** | | | | |
| ***Payables:*** | | | | |
| **Various (Note 13)** | **–** | **(56,084)** | **Noninterest-bearing and are normally settled in cash on 30-day term** | **Unsecured, no guarantee** |

| | 2019 | | | |
|---|---|---|---|---|
| | Amount/ Volume | Outstanding Balance | Terms | Conditions |
| Associates | | | | |
| *Receivable:* | | | | |
| DMTC | ₱3,254 | ₱3,254 | On demand; noninterest-bearing and collectible in cash | Unsecured, no impairment, not guaranteed |
| *Payables:* | | | | |
| DMTC (Note 13) | 1,198 | (16,606) | On demand; noninterest-bearing and collectible in cash | Unsecured, no impairment, not guaranteed |
| MMC (Note 13) | – | (31,218) | On demand; noninterest-bearing and collectible in cash | Unsecured, no impairment, not guaranteed |
| *Advances:* | | | | |
| MMC (Note 11) | 6,426 | 4,874 | Noninterest-bearing and normally settled on 30-day term | Unsecured, no impairment, not guaranteed |
| Stockholders | | | | |
| *Payables:* | | | | |
| Various (Note 13) | – | (56,083) | Noninterest-bearing and are normally settled in cash on 30-day term | 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 ₱550,755 and ₱478,881 as at December 31, 2020 and 2019, respectively (see Note 17).

The retirement fund consists of cash in banks, short-term investments, investments in quoted and unquoted equity securities which accounts for 0.28% and 86.25% and 13.44% and 0.03% of the trust fund, respectively, as at December 31, 2020 (see Note 17).

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 ₱49,720 and ₱72,399 in 2020 and 2019, respectively (see Note 17).

c. Compensation of key management personnel are as follows:

| | **2020** | 2019 | 2018 |
|---|---|---|---|
| Short-term benefits | **₱51,100** | ₱51,100 | ₱51,100 |
| Post-employment benefits | **13,200** | 13,200 | 13,200 |
| | **₱64,300** | ₱64,300 | ₱64,300 |

## 16. Liability for Mine Rehabilitation Cost

| | **2020** | 2019 |
|---|---|---|
| Balance at beginning of year | **₱159,974** | ₱101,383 |
| Effect of change in estimate (Note 9) | **5,672** | 53,314 |
| | **165,646** | 154,697 |
| Accretion of interest (Note 27) | **3,703** | 5,277 |
| Balance at end of year | **₱169,349** | ₱159,974 |

The Parent Company makes a full provision for the future cost of rehabilitating the mine site and other future costs on a discounted basis amounting to ₱169,349 and ₱159,974 as at December 31, 2020 and 2019, respectively. Provision for mine rehabilitation and decommissioning represents the present value of future rehabilitation and other costs. These provisions have been created based on the Parent Company's internal estimates. Assumptions, based on the current economic environment, have been made which management believes are reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual costs will ultimately depend upon future market prices for the necessary works required which will reflect market conditions at the relevant time. Furthermore, the timing of the rehabilitation and expenditure of other costs is likely to depend on when the mine ceases to produce at economically viable rates, and the timing that the event for which the other provisions provided for will occur.

Discount rate used by the Parent Company is 1.88% and 1.49% in 2020 and 2019, respectively.

## 17. Retirement Plans

The Parent Company has funded, noncontributory defined benefit retirement plans covering substantially all regular employees, while EDCP, FSGRI and SI have unfunded defined benefit retirement plans. Benefits are dependent on the years of service and the respective employee's compensation. The defined benefit retirement obligation is determined using the projected unit credit method.

The amounts of defined benefit retirement expense recognized in the consolidated statements of comprehensive income follow:

| | 2020 | | | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Funded | Unfunded | Total | Funded | Unfunded | Total | Funded | Unfunded | Total |
| Current service cost (Note 25) | ₱48,126 | ₱1,850 | ₱49,976 | ₱42,197 | ₱2,437 | ₱44,634 | ₱57,420 | ₱1,522 | ₱58,942 |
| Interest cost - net (Note 27) | 49,117 | 2,828 | 51,945 | 73,486 | 4,312 | 77,798 | 81,994 | 1,730 | 83,724 |
| | ₱97,243 | ₱4,678 | ₱101,921 | ₱115,683 | ₱6,749 | ₱122,432 | ₱139,414 | ₱2,752 | ₱142,666 |

The Group has current service costs capitalized to mine exploration costs amounted to ₱837, ₱696 and ₱915 in 2020, 2019 and 2018, respectively. Further, interest costs capitalized to mine exploration costs in 2020, 2019 and 2018 amounted to ₱289, ₱243 and ₱284 , respectively.

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

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| Remeasurement gain (loss) on retirement | (₱291,776) | (₱65,308) | ₱483,729 |
| Less deferred tax | 87,533 | 19,593 | (145,119) |
| Remeasurement gain (loss) on retirement liability - net of tax | (₱204,243) | (₱45,715) | ₱338,610 |

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

| | Funded | | | Unfunded | |
|---|---|---|---|---|---|
| 2020 | Defined Benefit Liability | Fair Value of Plan Assets | Net Defined Benefit Liability | Defined Benefit Liability | Total |
| **Balances at beginning of year** | ₱1,624,228 | ₱478,881 | ₱1,145,347 | ₱60,505 | ₱1,205,852 |
| **Interest cost/income** | 69,842 | 20,725 | 49,117 | 2,828 | 51,945 |
| **Current service cost** | 48,126 | – | 48,126 | 1,850 | 49,976 |
| **Benefits paid** | (50,443) | (50,443) | – | (2,133) | (2,133) |
| **Actuarial gain/loss:** | | | | | |
| **Change in demographic assumptions** | 185,812 | 51,872 | 133,940 | 7,005 | 140,945 |
| **Change in financial assumptions** | (92,592) | – | (92,592) | 4,956 | (87,636) |
| **Experience adjustment** | 242,227 | | 242,227 | (3,793) | 238,434 |
| **Contributions** | – | 49,720 | (49,720) | | (49,720) |
| **Balances at end of year** | ₱2,027,200 | ₱550,755 | ₱1,476,445 | ₱71,218 | ₱1,547,663 |

| | Funded | | | Unfunded | |
|---|---|---|---|---|---|
| 2019 | Defined Benefit Liability | Fair Value of Plan Assets | Net Defined Benefit Liability | Defined Benefit Liability | Total |
| Balances at beginning of year | ₱1,340,815 | ₱295,349 | ₱1,045,466 | ₱59,298 | ₱1,104,764 |
| Interest cost/income | 94,527 | 21,041 | 73,486 | 4,312 | 77,798 |
| Current service cost | 42,197 | | 42,197 | 2,437 | 44,634 |

*(Forward)*

| 2019 | Funded: Defined Benefit Liability | Funded: Fair Value of Plan Assets | Funded: Net Defined Benefit Liability | Unfunded Defined Benefit Liability | Total |
|---|---|---|---|---|---|
| Benefits paid | (₱72,577) | (₱72,577) | ₱– | (₱3,654) | (₱3,654) |
| Gains due to retrenchment | – | – | – | (10,703) | (10,703) |
| Actuarial gain/loss: | | | | | |
| Change in demographic assumptions | 288,319 | 162,669 | 125,650 | 8,500 | 134,150 |
| Change in financial assumptions | (21,431) | | (21,431) | (388) | (21,819) |
| Experience adjustment | (47,622) | – | (47,622) | 703 | (46,919) |
| Contributions | – | 72,399 | (72,399) | | (72,399) |
| Balances at end of year | ₱1,624,228 | ₱478,881 | ₱1,145,347 | ₱60,505 | ₱1,205,852 |

The overall expected return on plan assets is determined based on the market prices prevailing on that date applicable to the period over which the obligation is to be settled.

The major categories of the Group's plan assets as a percentage of the fair value of total plan assets follow:

| | **2020** | 2019 | 2018 |
|---|---|---|---|
| Cash in banks | **0.28%** | 0.52% | 0.93% |
| Short-term investments | **86.25%** | 87.12% | – |
| Equity investments: | | | |
| Quoted | **13.44%** | 8.06% | 99.00% |
| Unquoted | **0.03%** | 4.30% | 0.07% |
| | **100.00%** | 100.00% | 100.00% |

The principal assumptions used in determining pension and post-employment benefits for the Group's plan assets in 2020, 2019 and 2018 follow:

| | **2020** | 2019 | 2018 |
|---|---|---|---|
| Discount rate | **3.40%** | 4.30% | 7.05% |
| Expected rate of return on plan assets | **4.30%** | 4.30% | 4.23% |
| Salary increase rate | **0% for 2021; 2.00% for 2022 onwards** | 2.00% | 2.00% |
| Turnover rate | **Across the board 5.00% rate** | Across the board 8.50% rate | Across the board 8.00% rate |
| Mortality rate | **1994 US Group Annuity Mortality** | 1994 US Group Annuity Mortality | 1994 US Group Annuity Mortality |

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined retirement benefits liability as of the end of the reporting period, assuming all other assumptions were held constant:

| | Increase (decrease) | **2020** | 2019 |
|---|---|---|---|
| Discount rates | +0.25% | **(₱1,512,366)** | (₱1,264,303) |
| | -0.25% | **1,623,627** | 1,322,141 |
| Salary increase rate | +1.00% | **297,688** | 571,082 |
| | -1.00% | **(249,241)** | (510,555) |

The average future working years of service covered by the Group's retirement benefit plan is eight to 14 years in 2020 and eight to 13 years in 2019.

Shown below is the maturity analysis of the undiscounted benefit payments as at December 31, 2020:

| | |
|---|---|
| Less than one year | ₱1,323,033 |
| More than one year to five years | 11,790,195 |
| More than five years to 10 years | 28,602,323 |
| More than 10 years to 15 years | 15,830,407 |
| More than 15 years to 20 years | 15,661,430 |
| More than 20 years | 67,904,831 |
| | ₱141,112,219 |

The actuarial valuation report was certified by the Actuarial Society of the Philippines on March 16, 2021 as presenting fairly the fair value of plan assets and defined benefit liability as of December 31, 2020.

## 18. Income Taxes

Current provision for income tax in 2020 pertains to DDCP's, SI's and FSGRI's Minimum Corporate Income Tax (MCIT) amounting to ₱1,261. Current provision for income tax in 2019 pertains to DDCP's Minimum Corporate Income Tax (MCIT) and SI's and FSGRI's Regular Corporate Income Tax (RCIT) amounting to ₱412 and ₱1,712, respectively. Current provision for income tax in 2018 pertains to FSGRI's MCIT and DDCP's, DMTC's and SI's RCIT amounting to ₱106 and ₱5,187, respectively.

The components of the Group's deferred tax assets and liabilities at December 31, 2020 and 2019 follow:

| | Deferred Tax Assets -net | | Deferred Tax Liabilities -net | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| *Recognized directly in profit or loss:* | | | | |
| Accrual of: | | | | |
| Retirement benefits liability | **₱330,649** | ₱316,378 | **₱6,521** | ₱ |
| Liability for mine rehabilitation cost | **50,805** | 47,992 | – | – |
| Lease liability | **1,473** | 1,317 | – | |
| Provisions for: | | | | |
| Inventory obsolescence | **11,402** | 11,402 | **312** | 345 |
| Impairment losses on property, plant and equipment | **7,180** | 7,180 | **32** | – |
| Impairment losses on receivables | **4,307** | 4,744 | **93** | 93 |
| Unrealized foreign exchange losses | **8** | 145 | – | |
| NOLCO | – | 17,980 | – | |
| Unrealized foreign exchange loss | – | 941 | – | |
| Excess MCIT | – | – | | |
| Various expense | **1,573** | – | | |
| *Recognized directly in other comprehensive income:* | | | | |
| Retirement benefits liability | **77,098** | – | **6,267** | 10,618 |
| Deferred tax assets | **484,495** | 408,079 | **13,225** | 11,056 |

*(Forward)*

| | Deferred Tax Assets -net | | Deferred Tax Liabilities -net | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| *Recognized directly in profit or loss:* | | | | |
| Revaluation increment on land | **(₱74,550)** | (₱74,550) | **(₱107,600)** | (₱107,600) |
| Cost of mine rehabilitation and decommissioning | **(31,899)** | (31,792) | **–** | – |
| Right-of-use assets | **(1,420)** | (1,290) | **–** | |
| Unrealized foreign exchange gains | **(1,322)** | – | **(119,016)** | (119,003) |
| Unbilled revenue | **(414)** | – | | |
| Remeasurement of DBO | **–** | – | **1,473** | – |
| *Recognized directly in other comprehensive income:* | | | | |
| Retirement benefits liability | **–** | (7,376) | **–** | – |
| Deferred tax liabilities | **(109,605)** | (115,008) | **(225,143)** | (226,603) |
| Net deferred tax assets (liabilities) | **₱374,890** | ₱293,071 | **(₱211,918)** | (₱215,547) |

The reconciliation of the Group's provision for income tax for the three years ended December 31, 2020 computed at the statutory tax rates to the provision for (benefit from) income tax shown in the consolidated statements of comprehensive income follow:

| | **2020** | 2019 | 2018 |
|---|---|---|---|
| Tax at statutory income tax rates | **(₱224,295)** | (₱317,022) | (₱236,013) |
| Additions to (reductions in) income taxes resulting from tax effects of: | | | |
| NOLCO and Excess MCIT for which no deferred tax assets were recognized | **14,525** | – | – |
| Change in unrecognized deferred tax assets | **206,903** | 249,907 | 210,104 |
| NOLCO Application | **–** | – | 4,078 |
| Share in operating results of associates | **562** | 892 | 631 |
| Nondeductible expenses | **6,505** | 37,492 | 17,961 |
| Interest income subjected to final tax | **(20)** | (34) | (82) |
| Others | **(855)** | (611) | (8,420) |
| Tax at effective income tax rates | **₱3,325** | (₱29,376) | (₱11,741) |

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

| | **2020** | 2019 |
|---|---|---|
| NOLCO | **₱2,271,378** | ₱2,454,136 |
| Provisions | **21,805** | 11,645 |
| Allowance for impairment of investments in associates (Note 11) | **7,359** | – |
| Excess MCIT over RCIT | **1,379** | 140 |

As of December 31, 2020, the Group has incurred NOLCO and excess MCIT over RCIT before taxable year 2020 which can be claimed as deduction from future taxable income and income tax payable and, excess MCIT over RCIT that can be claimed as tax credit, respectively, as follows:

| Year Incurred | Year of Expiration | NOLCO | Excess MCIT over RCIT |
|---|---|---|---|
| 2018 | 2021 | ₱898,532 | ₱13 |
| 2019 | 2022 | 788,840 | 112 |
| 2020 | 2023 | 584,006 | 1,254 |
| | | ₱2,271,378 | ₱1,379 |

Movements of NOLCO and excess MCIT over RCIT for the years ended December 31, 2020 and 2019 are as follows:

| NOLCO | 2020 | 2019 |
|---|---|---|
| Balances at beginning of year | **₱2,454,136** | ₱2,076,998 |
| Additions | **584,006** | 794,185 |
| Applications | **(5,345)** | |
| Expirations | **(761,419)** | (417,047) |
| Balances at end of year | **₱2,271,378** | ₱2,454,136 |

| Excess MCIT over RCIT | 2020 | 2019 |
|---|---|---|
| Balances at beginning of year | **₱140** | ₱39 |
| Additions | **1,254** | 112 |
| Expirations | **(15)** | (11) |
| Balances at end of year | **₱1,379** | ₱140 |

On September 30, 2020, the BIR issued Revenue Regulations No. 25-2020 implementing Section 4(bbbb) of "Bayanihan to Recover As One Act", which states that the NOLCO incurred for taxable years 2020 and 2021 can be carried over and claimed as a deduction from gross income for the next five taxable years following the year of such loss.

As at December 31, 2020, the Group has incurred NOLCO before taxable year 2020 that can be claimed as deduction from future taxable income for the next three consecutive taxable years, as follows:

Parent Company

| Year Incurred | Availment Period | Amount | NOLCO Applied Previous Years | NOLCO Expired | NOLCO Applied Current Year | NOLCO Unapplied |
|---|---|---|---|---|---|---|
| 2017 | 2018-2020 | ₱572,255 | ₱– | ₱572,255 | ₱– | ₱– |
| 2018 | 2019-2021 | 640,217 | – | – | – | 640,217 |
| 2019 | 2020-2022 | 793,982 | – | – | – | 793,982 |
| | | ₱2,006,454 | ₱– | ₱572,255 | ₱– | ₱1,434,199 |

LIDC

| Year Incurred | Availment Period | Amount | NOLCO Applied Previous Years | NOLCO Expired | NOLCO Applied Current Year | NOLCO Unapplied |
|---|---|---|---|---|---|---|
| 2017 | 2018-2020 | ₱240 | ₱– | ₱240 | ₱– | ₱– |
| 2018 | 2019-2021 | 294 | – | – | – | 294 |
| 2019 | 2020-2022 | 162 | – | – | – | 162 |
| | | ₱696 | ₱– | ₱240 | ₱– | ₱456 |

DDCP

| Year Incurred | Availment Period | Amount | NOLCO Applied Previous Years | NOLCO Expired | NOLCO Applied Current Year | NOLCO Unapplied |
|---|---|---|---|---|---|---|
| 2017 | 2018-2020 | ₱24,793 | ₱– | ₱24,793 | ₱– | ₱– |
| 2018 | 2019-2021 | – | – | – | – | – |
| 2019 | 2020-2022 | 48,727 | – | – | 5,211 | 43,516 |
| | | ₱73,520 | ₱– | ₱24,793 | ₱5,211 | ₱43,516 |

SI

| Year Incurred | Availment Period | Amount | NOLCO Applied Previous Years | NOLCO Expired | NOLCO Applied Current Year | NOLCO Unapplied |
|---|---|---|---|---|---|---|
| 2017 | 2018-2020 | ₱– | ₱– | ₱– | ₱– | ₱– |
| 2018 | 2019-2021 | – | – | – | – | – |
| 2019 | 2020-2022 | – | – | – | – | – |
| | | ₱– | ₱– | ₱– | ₱– | ₱– |

FSGRI

| Year Incurred | Availment Period | Amount | NOLCO Applied Previous Years | NOLCO Expired | NOLCO Applied Current Year | NOLCO Unapplied |
|---|---|---|---|---|---|---|
| 2017 | 2018-2020 | ₱22,544 | ₱– | ₱22,544 | ₱– | ₱– |
| 2018 | 2019-2021 | – | – | – | – | – |
| 2019 | 2020-2022 | 54 | – | – | – | 54 |
| | | ₱22,598 | ₱– | ₱22,544 | ₱– | ₱54 |

As of December 31, 2020, the Group incurred NOLCO in taxable year 2020 which can be claimed as deduction from the regular taxable income or the next five consecutive taxable years pursuant to the Bayanihan to Recover As One Act, as follows:

Parent Company

| Year Incurred | Availment Period | Amount | NOLCO Applied Previous Years | NOLCO Expired | NOLCO Applied Current Year | NOLCO Unapplied |
|---|---|---|---|---|---|---|
| 2020 | 2021-2025 | ₱580,903 | ₱– | ₱– | ₱– | ₱580,903 |

LIDC

| Year Incurred | Availment Period | Amount | NOLCO Applied Previous Years | NOLCO Expired | NOLCO Applied Current Year | NOLCO Unapplied |
|---|---|---|---|---|---|---|
| 2020 | 2021-2025 | ₱205 | ₱– | ₱– | ₱– | ₱205 |

DDCP

| Year Incurred | Availment Period | Amount | NOLCO Applied Previous Years | NOLCO Expired | NOLCO Applied Current Year | NOLCO Unapplied |
|---|---|---|---|---|---|---|
| 2020 | 2021-2025 | ₱– | ₱– | ₱ | ₱– | ₱– |

SI

| Year Incurred | Availment Period | Amount | NOLCO Applied Previous Years | NOLCO Expired | NOLCO Applied Current Year | NOLCO Unapplied |
|---|---|---|---|---|---|---|
| 2020 | 2021-2025 | ₱2,783 | ₱– | ₱– | ₱– | ₱2,783 |

FSGRI

| Year Incurred | Availment Period | Amount | NOLCO Applied Previous Years | NOLCO Expired | NOLCO Applied Current Year | NOLCO Unapplied |
|---|---|---|---|---|---|---|
| 2020 | 2021-2025 | ₱114 | ₱– | ₱– | ₱– | ₱114 |

## 19. Capital Stock

The Parent Company's authorized share capital is ₱6.64 billion divided into 66.4 billion shares at ₱0.10 par value each, consisting of 39.8 billion Class "A" and 26.6 billion Class "B" common shares.

Only Philippine nationals are qualified to acquire, own, or hold Class "A" shares. The total number of Class "B" shares of stock subscribed, issued or outstanding at any time shall in no case exceed two/thirds (2/3) of the number of Class "A" shares or 40 of the aggregate number of Class "A" and Class "B" shares then subscribed, issued or outstanding.

As at December 31, 2020 and 2019, the Parent Company's capital stock is as follows:

| | No. of shares | Amount |
|---|---|---|
| Issued | | |
| Class "A" | 39,821,417,656 | ₱3,982,142 |
| Class "B" | 26,552,508,993 | 2,655,251 |
| | 66,373,926,649 | 6,637,393 |
| Subscribed | | |
| Class "A" | 1,451,540 | 145 |
| Class "B" | 379,908 | 38 |
| | 1,831,448 | 183 |
| Total shares issued and subscribed | 66,375,758,097 | 6,637,576 |
| Less subscription receivable | | 1,891 |
| | | ₱6,635,685 |

As at December 31, 2020 and 2019, subscriptions receivable amounted to ₱1,891 and was presented as a deduction to capital stock.

On August 15, 2005, the Parent Company's BOD approved the offer of 2,558,803,769 Class "A" shares and 1,705,868,182 Class "B" shares, or 1 share for every 5 shares held by shareholders as at September 21, 2005 from the Parent Company's unissued capital stock at the offer price of ₱0.20 per share. The offer of shares was exempt from registration. As at the end of that year, the Parent Company had 22,035 stockholders.

On July 17, 2006, the Parent Company's BOD approved the offer of 1,919,102,827 Class "A" shares and 1,279,401,137 Class "B" shares, or 1 share for every 8 shares held by shareholders as at August 16, 2006 from the Parent Company's unissued capital stock at the offer price of ₱0.20 per share. The sale of shares was exempt from registration. As at the end of that year, the Parent Company had 21,788 stockholders.

On November 19, 2007, the Parent Company's BOD approved the grant of the 17th Stock Option Awards (Awards) to selected employees, directors and officers of the Group in accordance with the BOD approved Revised Stock Option Plan ("RSOP"). The Awards cover a total of 420,000,000 common shares consisting of 252,000,000 Class "A" and 168,000,000 Class "B" shares from the Parent Company's unissued capital stock, exercisable at the price of ₱0.32 per share, within five (5) years from the date of SEC approval of the same. The option price of ₱0.32 per share was computed based on a new formula in the RSOP, i.e., the amount equivalent to 80% of the average closing price of the stock for the ten (10) trading days immediately preceding the date of the approval of the Grant by the Parent Company's BOD. The SEC approved the Awards and the RSOP on February 1, 2008.

On February 18, 2008, the Parent Company's BOD approved the offer of 2,467,419,971 Class "A" shares and 1,644,944,414 Class "B" shares, or one (1) share for every seven (7) shares held by shareholders as at March 25, 2008 from the Parent Company's unissued capital stock at the offer price of ₱0.25 per share. The offer of shares was exempt from registration. As at the end of that year, the Parent Company had twenty-one thousand four hundred thirty-nine (21,439) stockholders. By virtue of the 1:7 stock rights offering at the price of ₱0.25 per share approved by the Parent Company's BOD on February 18, 2008, the shares covered by the Awards increased by 36,000,000 Class "A" shares and 24,000,000 Class "B" shares. The average option price was accordingly adjusted to ₱0.3112 per share.

During the annual meeting of the stockholders on April 20, 2009, the shareholders approved the increase in the authorized capital stock from ₱3.35 billion to ₱6.64 billion. The stockholders also approved the one-time waiver of their pre-emptive right to subscribe to issues or dispositions of shares of the Parent Company in proportion to their respective shareholdings but only with respect to the issues or dispositions of shares in support of the increase in the authorized capital stock to ₱6.64 billion, provided that the shares to be issued to support such increase in the Authorized Capital Stock shall not exceed 20% of the stock subscribed, issued and outstanding after such issuance.

On October 18, 2010, the Parent Company's BOD approved the offer of 6,031,372,952 Class "A" shares and 4,020,909,888 Class "B" shares, or one (1) share for every 3.3 shares held by shareholders as at December 3, 2010 at the offer price of ₱0.30 per share to support the increase in the Parent Company's authorized capital stock from ₱3.35 billion to ₱6.64 billion. The offer was approved and confirmed by the SEC as an exempt transaction on November 9, 2010. As at the end of that year, the Parent Company had 21,173 stockholders.

By virtue of the 1:3.3 stock rights offering at ₱0.30 per share approved by the Parent Company's BOD on October 18, 2010, the number of shares covered by the Awards, specifically those for the fourth and fifth years of the option, increased by 33,409,662 Class "A" and 22,273,108 Class "B" shares. Accordingly, the average option price was adjusted to ₱0.3086 per share.

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

On September 15, 2014, the BOD approved an offer to shareholders, on record as at November 12, 2014, the right to subscribe to one (1) share of common stock for every 5.5 shares held on such record date at the price of ₱0.20 per share from the Parent Company's unissued capital stock. Proceeds from the offering were utilized for the settlement of debts as well as for the exploration programs covering the Victoria, Enargite, and Honeycomb areas.

On July 17, 2017, the BOD approved an offer to shareholders, on record as at November 6, 2017, the right to subscribe to one share of common stock for every 4.685 shares held on such record date at the price of ₱0.15 per share from the Parent Company's unissued capital stock. Proceeds from the offering were/will be utilized for the further exploration and development of the Copper-Gold project and settlement of debts and pension obligations. As at December 31, 2017, the Parent Company's proceeds from the said offering amounted to ₱118,425.

Further to the Parent Company's SRO last November 6, 2017, proceeds from the offering amounted to ₱1,633,420 as at January 15, 2018.

Subscription Receivable amounting to ₱802,299 pertaining to the uncollected balance from the offering as of December 31, 2017 were fully collected as at January 15, 2018.

On June 15, 2020, the BOD approved and recommend to shareholders for approval, the amendment of the Articles of Incorporation for the purpose of (1) increasing the authorized capital stock from ₱6.64 Billion to ₱12.00 Billion; and (2) removing the requirement in paragraph (b) that "The total number of shares "B" common stock will shall at any time be subscribed, issued and outstanding shall in no case exceed four-sixths (4/6) of the number of shares of class "A" and class "B" common stock subscribed, issued, and outstanding". On July 27, 2020, the Board decided that the plans for amendment of the Articles of Incorporation and increase in authorized capital stock will no longer be taken up at the annual meeting as it was not necessary.

The Parent Company had 27,752, 27,777 and 27,835 stockholders as at December 31, 2020, 2019 and 2018, respectively.

## 20. Non-controlling Interests (NCI)

NCI represent third parties' interests in FSGRI.

Financial information of subsidiary that has material NCI is provided below:

| | Principal Place of Business | **2020** | 2019 |
|---|---|---|---|
| FSGRI | Philippines | **40%** | 40% |

Equity attributable to material NCI:

| | 2020 | 2019 |
|---|---|---|
| FSGRI | **₱239,838** | ₱241,919 |

Net income and OCI attributable to material NCI:

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| FSGRI | | | |
| Net income | **(₱33)** | ₱27 | ₱1,759 |
| OCI | **(2,048)** | | 571 |

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

| | 2020 | 2019 |
|---|---|---|
| Operating expenses | **(₱459)** | (₱296) |
| Finance income (charge) | **15** | (441) |
| Other income | **381** | 975 |
| Income before income tax | **(63)** | 238 |
| Benefit from (provision for) income tax | **(20)** | (171) |
| Net income | **(83)** | 67 |
| Other comprehensive income | **–** | – |
| Total comprehensive income | **(₱83)** | ₱67 |
| Attributable to NCI | **(₱2,081)** | ₱27 |

Summarized statements of financial position as at December 31, 2020 and 2019 are as follows:

| | 2020 | 2019 |
|---|---|---|
| Current assets | **₱363,182** | ₱355,743 |
| Noncurrent assets | **6,862,646** | 6,804,612 |
| Current liabilities | **(186,467)** | (176,921) |
| Noncurrent liabilities | **(6,263,522)** | (6,202,391) |
| Total equity | **₱775,839** | ₱781,043 |

| Attributable to: | 2020 | 2019 |
|---|---|---|
| Equity holders of the Parent Company | **₱536,001** | ₱539,124 |
| NCI | **239,838** | 241,919 |

Summarized cash flow information for the years ended December 31, 2020 and 2019 are as follows:

| | 2020 | 2019 |
|---|---|---|
| Operating | **₱13,733** | (₱6,871) |
| Investing | **(60,842)** | (38,531) |
| Financing | **49,407** | 46,146 |
| Effect of exchange rate changes on cash | **15** | (26) |
| Net increase (decrease) in cash | **₱2,313** | ₱718 |

## 21. Loss Per Share

Basic loss per share is calculated by dividing the loss attributable to equity holders of the Parent Company by the weighted average number of common shares in issue during the year.

In computing for the diluted loss per share, the Parent Company considered the effect of any potentially dilutive stock options outstanding as at December 31, 2020 and 2019. There were no outstanding stock options as of December 31, 2020 and 2019.

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| Net loss attributable to equity holders of the Parent Company | **(₱750,998)** | (₱1,027,391) | (₱776,729) |
| Weighted average number of common shares for basic and diluted loss per share | **66,373,927** | 66,373,927 | 63,650,959 |
| Basic/Diluted loss per share | **(₱0.0113)** | (₱0.0155) | (₱0.0122) |

## 22. Cost of Sales

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| Consumables and supplies (Note 6) | **₱425,339** | ₱560,415 | ₱522,799 |
| Personnel costs (Note 25) | **424,796** | 467,780 | 408,927 |
| Depletion, depreciation and amortization | **419,371** | 818,341 | 695,075 |
| Utilities | **220,290** | 253,373 | 256,311 |
| Repairs and maintenance | **212,527** | 274,470 | 278,609 |
| Contractual services | **57,717** | 75,578 | 30,462 |
| Production tax | **57,341** | 81,563 | 84,512 |
| Professional fees | **22,697** | 33,077 | 13,953 |
| Taxes, duties and licenses | **15,020** | 14,748 | 14,124 |
| Freight and handling charges | **6,932** | 26,623 | 40,171 |
| Insurance expense | **2,703** | 12,384 | 10,961 |
| Provision for inventory obsolescence (Note 6) | **–** | 18,232 | – |
| Others | **42,853** | 63,294 | 69,342 |
| Total | **₱1,907,586** | ₱2,699,878 | ₱2,425,246 |

Depletion, depreciation and amortization includes amortization for intangible assets under "Other noncurrent assets" amounting to ₱1,920, ₱1,800 and ₱1,756 in December 31, 2020, 2019 and 2018, respectively.

## 23. Cost of Services

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| Consumables and supplies (Note 6) | **₱10,360** | ₱13,234 | ₱29,679 |
| Personnel costs (Note 25) | **7,974** | 4,638 | 32,778 |
| Depreciation and amortization | **6,233** | 3,989 | 59,769 |
| Professional fees | **2,512** | 217 | 1,260 |
| Taxes, duties and license fees | **2,132** | 1,923 | 3,740 |
| Utilities | **1,768** | 496 | 8,279 |
| Repairs and maintenance | **1,753** | 480 | 8,767 |
| Transportation and travel | **19** | 128 | 706 |
| Others | **184** | 234 | 4,711 |
| | **₱32,935** | ₱25,339 | ₱149,689 |

## 24. Operating Expenses

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| Personnel costs (Note 25) | **₱95,127** | ₱109,836 | ₱95,398 |
| Depreciation and amortization | **34,812** | 58,132 | 9,815 |
| Outside services | **20,161** | 52,425 | 48,609 |
| Professional fees | **8,828** | 10,680 | 12,078 |
| Transportation and travel | **8,445** | 8,139 | 7,594 |
| Taxes, duties and license fees | **5,687** | 19,994 | 21,636 |
| Security and janitorial fees | **5,604** | 5,674 | 5,365 |
| Rentals | **4,767** | 4,771 | 2,684 |
| Repairs and maintenance | **4,388** | 1,406 | 1,307 |
| Utilities | **4,339** | 4,086 | 4,568 |
| Insurance expense | **3,552** | 3,021 | 3,255 |
| Consultancy and directors' fees | **2,940** | 6,161 | 6,331 |
| Representation and entertainment | **2,125** | 4,500 | 1,529 |
| Consumables and supplies (Note 6) | **2,038** | 2,195 | 8,230 |
| Bank charges | **949** | 1,413 | 2,198 |
| Stockholders' meeting and expenses | **908** | 2,824 | 2,262 |
| Contribution and donation | **585** | 104 | 55 |
| Provision for expected credit losses on receivables (Note 5) | **–** | 4,146 | 86 |
| Others | **20,237** | 15,525 | 2,802 |
| | **₱225,492** | ₱315,032 | ₱235,802 |

## 25. Personnel Costs

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| Cost of sales (Note 22) | **₱424,796** | ₱467,780 | ₱408,927 |
| Cost of services (Note 23) | **7,974** | 4,638 | 32,778 |
| Operating expenses (Note 24) | **95,127** | 109,836 | 95,398 |
| | **₱527,897** | ₱582,254 | ₱537,103 |

Details of personnel costs follow:

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| Salaries and wages | ₱371,700 | ₱359,897 | ₱360,200 |
| Retirement benefits (Note 17) | 49,139 | 43,938 | 58,942 |
| Others | 107,058 | 178,419 | 117,961 |
| | ₱527,897 | ₱582,254 | ₱537,103 |

## 26. Supplemental Disclosure to Statements of Cash Flows

Noncash investing activities pertain to the following:

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| Increase (decrease) in: | | | |
| Liability for mine rehabilitation costs | ₱5,672 | ₱53,314 | (₱7,161) |
| FVOCI | (94,022) | (50,014) | 13,432 |
| Mine exploration costs | – | – | (272,604) |

Movements on the reconciliation of liabilities arising from financing activities are as follows:

**2020**

| | January 1, 2020 | Cash flows | Foreign exchange movement | Other | December 31, 2020 |
|---|---|---|---|---|---|
| Current interest-bearing loans and borrowings | ₱202,542 | (₱14,166) | (₱2,742) | ₱350 | ₱185,984 |
| Non-current interest-bearing loans and borrowings | – | (270) | – | 692 | 422 |
| Current lease liabilities | 7,714 | (10,096) | – | 7,976 | 5,594 |
| Noncurrent lease liabilities | 4,108 | – | – | (3,247) | 861 |
| Total liabilities from financing activities | ₱214,364 | (₱24,532) | (₱2,742) | ₱5,771 | ₱192,861 |

2019

| | January 1, 2019 | Cash flows | Foreign exchange movement | Adoption of PFRS 16 | Other | December 31, 2019 |
|---|---|---|---|---|---|---|
| Current interest-bearing loans and borrowings | ₱242,541 | (₱51,594) | (₱2,572) | ₱– | ₱14,167 | ₱202,542 |
| Non-current interest-bearing loans and borrowings | 14,167 | | – | – | (14,167) | – |
| Current lease liabilities | – | (9,659) | – | 8,668 | 5,099 | 4,108 |
| Noncurrent lease liabilities | – | | – | 11,822 | (4,108) | 7,714 |
| Total liabilities from financing activities | ₱256,708 | (₱61,253) | (₱2,572) | ₱20,490 | ₱991 | ₱214,364 |

2018

| | January 1, 2018 | Cash flows | Foreign exchange movement | Other | December 31, 2018 |
|---|---|---|---|---|---|
| Current interest-bearing loans and borrowings | ₱213,607 | (₱90,633) | ₱3,253 | ₱116,314 | ₱242,541 |
| Non-current interest-bearing loans and borrowings | 130,481 | | | (116,314) | 14,167 |
| Total liabilities from financing activities | ₱344,088 | (₱90,633) | ₱3,253 | ₱– | ₱256,708 |

## 27. Finance Costs

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| Interest cost on retirement liability - net (Note 17) | ₱51,656 | ₱77,555 | ₱83,724 |
| Interest expense: | | | |
| Short-term and long-term borrowings (Note 14) | 11,078 | 14,719 | 16,689 |
| Trust receipts (Note 13) | 11 | 1,274 | 1,411 |
| Accretion of interest on mine rehabilitation costs (Note 16) | 3,703 | 5,277 | 5,854 |
| Interest cost on lease liability (Note 30g) | 444 | 490 | – |
| Others | – | 63 | 53 |
| | ₱66,892 | ₱99,378 | ₱107,731 |

## 28. Other Income - net

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| Loss on sale of scrap inventories | (₱7,476) | ₱ | ₱1,768 |
| Provision for impairment of investment in associates | (7,359) | - | – |
| Gain (loss) on disposal of property, plant and equipment – net | 7,317 | 13,372 | (739) |
| Interest income | 102 | 2,324 | 274 |
| Gain due to retrenchment | – | 10,703 | - |
| Gain from insurance claim | – | 965 | |
| Discount | – | – | 9,629 |
| Miscellaneous income | 20,733 | 5,785 | 1,570 |
| | ₱13,317 | ₱33,149 | ₱12,502 |

## 29. Revenues

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| Revenue from contracts with customers: | | | |
| Sale of bullion | ₱223,896 | ₱435,365 | ₱429,463 |
| Sale of concentrate | 1,232,588 | 1,594,738 | 1,652,100 |
| Services | 17,757 | 33,750 | 46,767 |
| | 1,474,241 | 2,063,853 | 2,128,330 |
| Other revenues: | | | |
| Rent income (Note 30g) | 2,252 | 3,962 | 7,704 |
| Mark-to-market losses | (3,515) | (20,431) | (15,392) |
| | ₱1,472,978 | ₱2,047,384 | ₱2,120,642 |

*Sale of Bullion*

The Parent Company entered into RA with Heraeus Limited (Heraeus) in 2005 for the refining of the former's gold and silver bullion production. Each shipment of materials under the agreement will consist of no less than 20 kilograms of materials.

At settlement, the prices for all sales are as follows:

- Gold - the London Bullion Market Association PM fixing in US$
- Silver - the London Bullion Market Association fixing in US$

Heraeus shall settle the metal payables initially up to 98% of the provisional values less smelting and treatment charges while the remaining balance shall be paid after determining the final assayed gold and silver contents of refined materials for each shipment.

Smelting and refining charges include refining, transportation and insurance charges incurred by Heraeus. These charges are deducted from the amount receivable from Heraeus On January 1, 2008, the RA was renewed under the same terms. A further renewal was made on October 1, 2013, effective for two years. Heraeus confirmed purchase of gold and silver for the year 2015, also under the same and existing terms, in their letter dated April 1, 2015. During 2017, the refining agreement was renewed under the same terms of the previous year contract that expired on 2019. On October 1, 2019, the Parent Company renewed the refining agreement under the same terms.

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

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

At settlement, the prices for all sales are as follows, following the month after shipment:
- Gold - the London Bullion Market Association AM and PM monthly average fixing in US$
- Silver - the London Bullion Market Association monthly average fixing in US$
- Copper - the London Metal Exchange monthly average settlement prices in US$

Smelting and refining charges in 2020, 2019, and 2018 related to sale of bullion and concentrates amounted to ₱36,183, ₱168,879 and ₱152,756, respectively.

## 30. Commitments, Agreements, Contingent Liabilities and Other Matters

(a) The Parent Company's BOD approved its execution of an Option and Shareholders' Agreement ("Agreement") with Gold Fields Switzerland Holding AG ("GFS"), a wholly owned subsidiary of Gold Fields Limited, in relation to the development and operation of the Far Southeast Project.

The Agreement grants GFS an option to subscribe to new shares of stock of FSGRI representing a 20% interest in FSGRI within 18 months from the execution of the Agreement or 10 days from the issuance of a Financial or Technical Assistance Agreement (FTAA) over the Project area, whichever comes later. If the option is exercised by GFS, the Parent Company's interest in FSGRI will be reduced from 60% to 40%.

The Parent Company was paid a non-refundable option fee of US$10 million. The option requires GFS to sole-fund pre-development expenses including exploration and a feasibility study of the Project and contribute US$110 million into FSGRI. GFS must also contribute its proportionate share of the development cost at which point GFS will receive its 20% interest in FSGRI.

Advances from GFS to FSGRI are mainly for funding of its ongoing exploration activities. As at December 31, 2020 and 2019, the advances amounted to ₱6,131,772 and ₱6,074,657, respectively. These advances will be converted to equity upon Gold Field's exercise of the Option in accordance with the Agreement.

(b) In an agreement entered into with Philippine Associated Smelting & Refining Corporation (PASAR) on April 21, 1983, the Parent Company committed to deliver to PASAR and PASAR committed to take in a minimum quantity of its calcine production from its roaster plant in accordance with the pricing and payment terms defined in the agreement. The agreement is for an indefinite period unless otherwise terminated or cancelled pursuant to agreed terms or by the parties' mutual consent. In 1998, the agreement was suspended for an indefinite period in view of the temporary cessation of the Parent Company's roaster plant operations.

(c) On March 3, 1990, FSGRI entered into a MPSA with the Philippine Government through the Department of Environment and Natural Resources (DENR) and the Parent Company pursuant to Executive Order No. 279. Under the terms of the agreement, FSGRI shall pay the Philippine Government a production share of 2% on gross mining revenues and 10% on net mining revenues payable within thirty (30) days at the end of each financial reporting year and such will commence upon the start of FSGRI's commercial operations. The said government shares have been effectively revised by Republic Act. No. 7942 or the Philippine Mining Act, Sec. 84 of which states that the excise tax on mineral products provided under Sec. 151 of the National Internal Revenue Code shall be the government share under the MPSA.

The initial term of this agreement shall be twenty-five contract years from the effective date, subject to termination as provided in the agreement, and renewable for another period of twenty-five years upon such terms and conditions as may be mutually agreed upon by the parties or as may be provided for by law.

In November 2011, pursuant to the Agreement with GFS, the Parent Company filed a letter of intent with the Mine and Geosciences Bureau to convert portions of MPSA No. 01-90-CAR, MPSA No. 151-2000-CAR and APSA No. 096 with an aggregate area of 424.3477 hectares into an FTAA.

On August 13, 2013, the BOD resolved to renew MPSA No. 001-90 that will be expiring in March 2015. FSGRI joined LCMC in its application for the renewal of the MPSA without prejudice to FSGRI's pending application for conversion to FTAA. The assignment documents whereby the two (2) parties exchanged properties, with FSGRI obtaining about 304.08 hectares of the MPSA and the Parent Company getting the balance remain pending with the DENR.

The Parent Company and co-contractor FSGRI (the "Applicants") filed a joint application for the renewal (the "Application") of MPSA 001-90-CAR with the Mines and Geosciences Bureau-Cordillera Administrative Region (MGB-CAR) on June 4, 2014. In a letter dated August 20, 2014, the MGB-CAR informed the applicants that they had substantially complied with the requirements for the renewal of the said MPSA and that the Application will be indorsed to the National Commission on Indigenous Peoples (NCIP) for appropriate action. The Applicants replied that the imposition of new requirements such as the Free and Prior Informed

Consent or the endorsement of the Application to the NCIP impairs the contractors' vested rights under the MPSA, the Mining Act (MA) and the Constitution, including, but not limited to, the contractors' right under Section 32 of the MA to a renewal of the MPSA "under the same terms and conditions." Since, despite good faith efforts of the Applicants, the matter had remained unresolved as of mid-February 2015, a month prior to the expiry of the initial term of the MPSA, the Applicants initiated Arbitration proceedings against the Republic of the Philippines, represented by the DENR, pursuant to Sections 12.1 and 12.2 of the MPSA. Pursuant to the Republic Act (Rep. Act) No. 876, Arbitration Act, Rep. Act No. 9285, the Alternative Dispute Resolution (ADR) Act of 2004, and the Special ADR Rules, the applicants filed with the Regional Trial Court a Petition for Interim Measures of Protection whereby their prayed for the issuance of a writ of Preliminary Injunction against the DENR, MGB and the NCIP to be assured of uninterrupted operations during the pendency of the Arbitration.

In December 2015, the Applicants obtained the Arbitral Tribunal's Final Award upholding their position. Specifically, the Final Award confirmed that the Free and Prior Informed Consent and Certification Precondition requirements under the Indigenous Peoples' Rights' Act may not be validly imposed as requirements for the renewal of the MPSA, and the latter should be renewed under the same terms and conditions, without prejudice to changes mutually agreed upon by the parties. In a decision dated April 30, 2018, the Court of Appeals upheld the Final Award of the Arbitral Tribunal. The Republic of the Philippines filed a Petition for Review with the Supreme Court which remains pending.

Under a memorandum of agreement entered into on October 18, 1991 by FSGRI and the Parent Company among residents of various barangays of Mankayan, Benguet, the municipal government of Mankayan, the Benguet provincial government, the DENR, FSGRI and the Parent Company (collectively as "Group"), among other things, are mandated to abide by certain commitments to the barangays as contained in the said agreement in return for the continued implementation of the Far Southeast Project. The agreement likewise provides that: (1) the implementation of the project is subject to the conditions imposed or may be imposed by the DENR specifically on certain environmental concerns; and the residents shall not hinder the implementation of the project and shall assist the Group and the DENR in the peaceful solution of conflicts relative to the Group's operations.

In April 1998, the Parent Company entered into a separate memorandum of agreement with the Office of Municipal Mayor and Sangguniang Bayan of Mankayan, DENR and MGB. Under the agreement, the Parent Company is mandated to establish and maintain a Monitoring Trust Fund and MRF amounting to ₱50 and ₱5,000, respectively. The funds are to be used for physical and social rehabilitation, reforestation and restoration of areas and communities affected by mining activities and for pollution control, slope stabilization and integrated community development. The rehabilitation fund to be maintained by the Parent Company in a mutually acceptable bank, subject to annual review of MRF committee, is payable in four (4) equal quarterly payments of ₱1,250 up to March 1999. As at December 31, 2019 and 2018, the rehabilitation fund of ₱5,000, which does not meet the features provided under Philippine Interpretation IFRIC 5, *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*, is presented under "Other noncurrent assets" account in the consolidated statements of financial position.

(e) The Parent Company is either a defendant or co-defendant in certain civil, labor and administrative cases which are now pending before the courts and other governmental bodies. In the opinion of management and the Parent Company's legal counsel, any adverse decision on these cases would not materially affect the Parent Company's financial position as at December 31, 2020 and 2019, and results of operations for the years ended December 31, 2020, 2019 and 2018.

(f) The Parent Company filed a petition with the Panel of Arbitrators of the MGB-Cordillera Autonomous Region (CAR), Baguio City for the cancellation of the mining claims of the Gaffneys after discovering that the Gaffneys' 6 patentable mining claims were floating claims in violation of Section (Sec.) 28 of the Philippine Bill of 1902, hence void ab initio. However, the Panel of Arbitrators, relying on a 1991 decision of the 1st Division of the Supreme Court (SC) ("Poe Mining Association vs. Garcia", 202 SCRA 222) which has already been discarded and overruled by the SC En Banc in the 1997 case "Itogon-Suyoc Mines, Inc. vs. DENR Secretary, et al." (which states that "the requirement that a mining claim must have valid tie points, i.e., must be described with reference to a permanent object, cannot be dispensed with and non-compliance therewith renders the mining claims null and void) erroneously sustained the validity of the mining claims of the Gaffneys. The Panel further entertained the monetary counterclaim of the Gaffneys and awarded them damages notwithstanding that it has no jurisdiction whatsoever over money claims. This is clear in Sec. 77 of the Philippine Mining Act and in the case of "Jorge Gonzales and the Panel of Arbitrators vs. Climax Arimco Mining Corp., et al.", G.R. No. 161957, where the SC, reiterating its ruling in "Philex Mining Corp. vs. Zaldivia", 150 PHIL 547 (1972), stated that contractual violations such as fraud, misrepresentation, non-payment of royalties, compensation, validity of contracts and the like, are judicial questions that only the courts, not the Panel of Arbitrators, could hear and decide. The Parent Company appealed this ruling to the Mines Adjudication Board which affirmed the decision of the Panel of Arbitrators in June 2011 but ordered the MGB Central Offices to review and determine the reasonable amounts of monetary awards to which the Gaffneys are entitled. Both parties filed motions for reconsideration. Acting on the said motions, the MAB affirmed its decision in respect of the validity of the mining claims, but reversed itself on the monetary awards, stating that monetary claims can only be determined through a competent court. Both parties appealed, the Parent Company in respect of the validity of the Gaffneys' mining claims and the Gaffneys in respect of the jurisdiction of the Panel of Arbitrators over their monetary claims. The Gaffneys' appeal was dismissed by the Court of Appeals and they have filed a motion for reconsideration. The Parent Company's appeal was granted by the Court of Appeals, declaring as null and void the mining claims of the Gaffneys, which ruling has been affirmed with finality by the Supreme Court.

(g) The Parent Company leases lands where its roasting plant and central warehouse is constructed. Lease agreement for the roasting plant, which expired in April 2016, was extended to another term of six years while the other lease agreement covering the Parent Company's warehouse will extend until February 2022. FSGRI has lease contracts for office space and building. Leases of the properties have lease terms of three years.

The following amounts recognized in statement of comprehensive income:

| | 2020 | 2019 |
|---|---|---|
| Depreciation expense of right-of-use assets included in property, plant and equipment | **₱9,411** | ₱3,754 |
| Interest expense on lease liabilities | **678** | 490 |
| Expenses relating to short-term leases (included in cost of sales) | **1,259** | 2,058 |
| Expenses relating to short-term leases (included in operating expenses) | **3,572** | 2,803 |
| | **₱14,920** | ₱9,105 |

The rollforward analysis of lease liabilities follows:

| | 2020 | 2019 |
|---|---|---|
| At January 1 | ₱11,822 | ₱20,490 |
| Addition | 4,051 | 991 |
| Interest expense | 678 | 991 |
| Payments of: | | |
| Interest | (678) | (991) |
| Principal portion | (9,418) | (8,668) |
| As at December 31 | 6,455 | 11,822 |
| Current portion of lease liabilities | 5,594 | 7,714 |
| Noncurrent portion of lease liabilities | ₱861 | ₱4,108 |

Interest expense amounting to ₱234 and ₱501 were capitalized as part of mine exploration costs in 2020 and 2019, respectively.

Shown below is the maturity analysis of the undiscounted lease payments for the period ended December 31, 2020:

| | 2020 |
|---|---|
| Within one year | ₱5,826 |
| More than one year to two years | 873 |

The Parent Company leases out some of its properties which include land, a warehouse, guesthouses and other facilities to various entities. Rental income for 2020, 2019 and 2018 amounted to ₱2,252, ₱3,962 and ₱7,704, respectively (see Note 29). Lease term of the rent agreements are valid for one year and are renewable at the discretion of both the contracting parties.

(h) As at December 31, 2020 and 2019, the Parent Company has no unused credit lines with various banks. These facilities can be availed of through short-term and long-term loans, opening of import letters of credit and outright purchase of negotiable bills.

(i) In an execution sale held on December 12, 2001, DDCP acquired a 40% interest in the Guinaoang Project of Crescent Mining and Development Corporation (Crescent) which is covered by MPSA No. 057-096-CAR. The execution sale was done in connection with the case filed by DDCP before the RTC-Makati City against Pacific Falcon Resources Corporation (Pacific Falcon) for the payment of drilling services rendered at the Guinaoang Project amounting to US$307,187. Per records of the MGB and the Joint Venture Agreement between Crescent and Pacific Falcon (formerly known as Trans Asian Resources Ltd.), Pacific Falcon has a 40% interest in the subject MPSA. DDCP had the pertinent certificate of sale registered with the MGB and requested the MGB for approval of the transfer to DDCP of Pacific Falcon's 40% interest in MPSA No. 057-096-CAR. The MGB having refused to effect, such transfer DDCP, filed a motion with the RTC of Makati praying that an Order be issued directing the MGB and the DENR to amend the MPSA of Crescent to reflect DDCP's 40% interest therein, which the RTC granted, subject to the pertinent provisions of mining law and its Implementing Rules and Regulations ("IRR"). The DENR filed a petition for review of the said Order with the Court of Appeals but the same was dismissed for lack of merit. On the other hand, Crescent filed a Petition for Review with the Court of Appeals, claiming that the Decision of the RTC dated 23 April 2001 could no longer be executed because it was barred by prescription. The CA granted the petition. DDCP elevated the matter to the Supreme Court where it is pending resolution.

(j) SEC Transitional Relief in PAS 39

The SEC, in its Notice (the Notice) dated November 30, 2006 pursuant to Resolution No. 493, provided transitional relief allowing certain commodity derivative contracts of mining companies be "grandfathered" and exempted from the fair value requirements of PAS 39.

The said exemption will apply only if the following requirements are met:

1. Commodity derivative contracts entered into and effective prior to January 1, 2005;
2. Commodity derivative contracts with original maturity of more than one (1) year; and
3. Commodity derivative contracts that would have qualified under PAS 39 hedge accounting rules had these been applied at inception of such contracts.

The Parent Company notified SEC that it is availing of the exemption from compliance with PAS 39 pursuant to the Notice on its letter to SEC dated December 19, 2006.

Had the Parent Company qualified and was not exempted from PAS 39, retained earnings will be reduced and liabilities will be increased as at January 1, 2005 by ₱1,280,000.

(k) Reclassification adjustments

1. The Parent Company and its subsidiary, SI, reclassified the revaluation increment in land account with the balance amounting to ₱511,504 to retained earnings. The revaluation increment pertains to the remaining balance of the deemed cost adjustment on land which arose when the Group transitioned to PFRS in 2005.

   As at December 31, 2020 and 2019, the balance of retained earnings which will not be available for dividend distribution, includes the remaining balance of the deemed cost adjustment amounting to ₱471,529.

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

3. There were some reclassifications made in December 31, 2018 balances to facilitate proper classification and conform to the December 31, 2019 consolidated financial statements presentation.

(l) EO No. 79

On July 12, 2012, EO No. 79 was released to lay out the framework for the implementation of mining reforms in the Philippines. The policy highlights several issues that includes area of coverage of mining, small-scale mining, creation of a council, transparency and accountability and reconciling the roles of the national government and local government units. Management believes that EO 79 has no major impact on its current operations since the mine is covered by an existing MPSA with the government. Section 1 of EO No. 79, provides that mining contracts approved before the effectivity of the EO shall continue to be valid, binding, and enforceable so long as they strictly comply with existing laws, rules and regulations and the terms and conditions of their grant.

On March 7, 2013, the MGB has recommended with the DENR the lifting of DENR Memorandum Order No. 2011-01 on the suspension of acceptance of all types of mining applications. Effective March 18, 2013, MGB has started accepting mining applications for Exploration Permits (EPs) and Financial or Technical Assistance Agreement (FTAA) pursuant to DENR Administrative Order (DAO) No. 2013-11.

(m) The Parent Company initiated in 2005 a case for the declaration of nullity of forward gold contracts with Rothschild to sell 97,476 ounces of gold on the ground that they are considered as wagering transactions under Philippine law. In a decision dated February 5, 2018, the Regional Trial Court ("RTC") of Makati City ruled in favor of Lepanto, declaring the subject contracts null and void. Defendant Rothschild has filed an appeal with the Court of Appeals.

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

(o) Continuing COVID-19 pandemic
In a move to contain the COVID-19 outbreak, on March 16, 2020, the Office of the President of the Philippines issued Proclamation No. 929, declaring a State of Calamity throughout the Philippines for a period of six (6) months and imposed an enhanced community quarantine throughout the island of Luzon until April 12, 2020 which was subsequently extended until May 15, 2020. On May 12, 2020, this was further extended into a modified enhanced community quarantine, wherein certain implementing rules have been relaxed.

The community quarantine classification was subsequently extended or changed as follows:

| Classification | Effectivity |
|---|---|
| General community quarantine | June 1 – August 1, 2020 |
| Modified enhance community quarantine | August 2 – 18, 2020 |
| General community quarantine | August 19, 2020 - March 28, 2021 |
| Enhanced community quarantine | March 29, 2021 - April 11, 2021 |
| Modified enhanced community quarantine | April 12, 2021 - May 14, 2021 |
| General community quarantine with heightened restrictions | May 15, 2021 - May 31, 2021 |

The Group assessed that the said events do not materially impact its financial position and performance as of and for the year ended December 31, 2020. Considering the evolving nature of this outbreak, the Company will continue to monitor the situation.

## 31. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise cash and cash equivalents and interest-bearing borrowings. The main purpose of the Group's financial instruments is to fund the Group's operations. The Group has other financial instruments such as receivables, AFS financial assets and trade and other payables, which arise directly from operations. The main risks arising from the use of financial instruments are credit risk, foreign exchange risk, interest rate risk, equity price risk and liquidity risk.

The Group's BOD reviews and approves the policies for managing each of these risks and they are summarized below.

Credit Risk

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

All gold exports when priced are practically settled on cash basis. The Parent Company's existing contracts with gold refineries allow for advances of 98% of payable metals paid in two working days from pricing. Full settlement is normally received within three working days. For copper concentrates, Parent Company's existing contracts with smelters allow for advances of 95% of payable metals paid within two to five working days from pricing. Full settlement, however, takes three to six months.

The Parent Company enters into marketing contracts only with refineries and smelters of established international repute. Since the Parent Company became a primary gold and copper concentrates producer, it has entered into exclusive marketing contracts with Heraeus for gold and Cliveden Trading AG and Louis Dreyfus Company Metals Suisse SA for copper concentrates.

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

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

The table below shows the gross maximum exposure to credit risk without consideration to collaterals or other credit enhancements for the components of the consolidated statements of financial position as at December 31, 2020 and 2019.

| | 2020 | 2019 |
|---|---|---|
| Cash in banks (Note 4) | **₱27,367** | ₱56,505 |
| Trade receivables (Note 5) | **68,898** | 53,970 |
| Nontrade receivables (Note 5) | **26,670** | 33,412 |
| MRF under other noncurrent assets | **3,937** | 5,169 |
| Financial assets designated at FVOCI (Note 10) | | |
| Quoted instruments | **26,194** | 31,652 |
| Unquoted instruments | **41,721** | 130,285 |
| | **₱194,787** | ₱310,993 |

Credit Quality and Aging Analysis of Financial Assets
The credit quality and aging analysis of the Group's financial assets as at December 31, 2020 and 2019 are summarized in the tables below.

As at December 31, 2020 and 2019, the following tables provide credit information on the Group's financial assets:

| 2020 | Neither Past Due Nor Impaired | Past Due But Not Impaired (30-180 days) | Past Due and Individually Impaired | Total |
|---|---|---|---|---|
| **Cash in banks (Note 4)** | **₱27,367** | **₱–** | **₱–** | **₱27,367** |
| **Trade receivables (Note 5)** | **32,490** | **17,967** | **18,441** | **68,898** |
| **Nontrade receivables (Note 5)** | **13,023** | **13,133** | **514** | **26,670** |
| **MRF** | **3,937** | **–** | **–** | **3,937** |
| **Financial assets designated at FVOCI (Note 10)** | | | | |
| **Quoted** | **26,194** | **–** | **–** | **26,194** |
| **Unquoted** | **41,721** | **–** | **–** | **41,721** |
| **Total** | **₱144,732** | **₱31,100** | **₱18,955** | **₱194,787** |

| 2019 | Neither Past Due Nor Impaired | Past Due But Not Impaired (30-180 days) | Past Due and Individually Impaired | Total |
|---|---|---|---|---|
| Cash in banks (Note 4) | ₱56,505 | ₱– | ₱– | ₱56,505 |
| Trade receivables (Note 5) | 15,330 | 19,827 | 18,813 | 53,970 |
| Nontrade receivables (Note 5) | 15,159 | 18,110 | 143 | 33,412 |
| MRF | 5,169 | – | – | 5,169 |
| Financial assets designated at FVOCI (Note 10) | | | | |
| Quoted | 31,652 | – | – | 31,652 |
| Unquoted | 130,285 | – | | 130,285 |
| Total | ₱254,100 | ₱37,937 | ₱18,956 | ₱310,993 |

Accordingly, the Group has assessed the credit quality of the following financial assets that are neither past due nor impaired:

- Cash in banks are assessed as high grade since the related amounts are deposited with the country's reputable banks duly approved by BOD.
- The carrying amount of MRF approximate their fair values since they are restricted cash with bank. MRF earns interest based on prevailing market rates repriced monthly. Cash with banks and other noncurrent assets are considerec high-grade since these are deposited in reputable banks.
- Trade receivables, which pertain mainly to receivables from sale of ore, are assessed as high-grade. These are assessed based on past collection experience of full settlement within three days after invoice date with no history of default.
- Nontrade receivables, which pertains to receivables from subcontractors and other third parties are assessed as high-grade since these have high probability of collection.
- Quoted equity shares are assessed as substandard grade due to the low performance of shares in the local stock market.
- Unquoted equity instruments are assessed as high grade as investees are engaged in lone copper smelter that operates in an industry which has potential growth, deluxe hotels and reputable non-life insurance companies in the country.

The above high-grade credit quality financial assets pertain to financial assets with insignificant risk of default based on historical experience. Substandard grade credit quality financial assets pertain to financial assets with more than insignificant risk of default based on historical experience and/or counterparty credit standing.

*Aging analysis of past due but not impaired financial assets per class*
As of December 31, 2020, the aging analysis of past due but not impaired receivables presented per class, follow (amounts in thousands):

| | Past Due but Not Impaired | | | | |
|---|---|---|---|---|---|
| | Within 30 days | 31 to 60 days | 61 to 90 days | Over 90 Days | Total |
| **December 31, 2020** | | | | | |
| **Trade receivables** | ₱2,196 | ₱283 | ₱131 | ₱15,357 | ₱17,967 |

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

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

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

Market Risk
Market risk is the risk of loss to future earnings, to fair values or to future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in foreign currency exchange rates.

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

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

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

The Group's US$ denominated monetary assets and liabilities as at December 31, 2020 and 2019 follow:

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | **Original Currency** | **Peso Equivalent** | Original Currency | Peso Equivalent |
| Assets | | | | |
| Cash | **US$99** | **₱4,739** | US$407 | ₱20,610 |
| Trade receivables | **968** | **46,486** | 595 | 30,131 |
| | **US$1,067** | **₱51,225** | US$1,002 | ₱50,741 |
| Liabilities | | | | |
| Trade payables and accrued expenses | **US$2,831** | **₱135,953** | US$2,821 | ₱142,855 |
| Borrowings | **1,050** | **50,413** | 1,050 | 53,172 |
| | **US$3,881** | **₱186,366** | US$3,871 | ₱196,027 |
| Net assets (liabilities) | **(US$2,814)** | **(₱135,141)** | (US$2,869) | (₱145,286) |

As at December 31, 2020 and 2019, the exchange rate of the Philippine Peso to the US$ is ₱48.02 and ₱50.64, respectively to US$1.

The sensitivity to a reasonably possible change in the US$ exchange rate, with all other variables held constant, of the Group's income before income tax as of December 31, 2020 and 2019 is as follows:

| | 2020 | | 2019 | |
|---|---|---|---|---|
| Currency | **Change in foreign exchange rate** | **Sensitivity of Pretax Income** | Change in foreign exchange rate | Sensitivity of Pretax Income |
| US$ | **₱0.32** | **(₱901)** | ₱0.38 | (₱1,090) |
| | **(₱0.11)** | **₱310** | (₱0.52) | ₱1,492 |

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

Liquidity Risk

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

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

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

The table below summarizes the maturity profile of the Group's financial liabilities which is based on contractual undiscounted payments and financial assets which are used to manage the liquidity risk as at December 31, 2020 and 2019:

| **2020** | **On demand** | **Less than three months** | **Three to six months** | **More than six to 12 months** | **More than one to two years** | **More than two years** | **Total** |
|---|---|---|---|---|---|---|---|
| **Financial Assets:** | | | | | | | |
| **Cash in banks (Note 4)** | **₱27,367** | **₱–** | **₱–** | **₱** | **₱–** | **₱–** | **₱27,367** |
| **Trade receivables (Note 5)** | **32,490** | **2,196** | **283** | **131** | **15,357** | **18,441** | **68,898** |
| **MRF** | **3,937** | **–** | | | | **–** | **3,937** |
| **Nontrade receivables (Note 5)** | **13,023** | | **–** | **–** | **13,133** | **514** | **26,670** |
| **Financial assets designated at FVOCI (Note 10)** | **67,915** | **–** | | **–** | **–** | **–** | **67,915** |
| **Total** | **144,732** | **2,196** | **283** | **131** | **28,490** | **18,955** | **194,787** |
| **Financial Liabilities:** | | | | | | | |
| **Trade and other payables (Note 13)*** | **(2,203,498)** | **(375)** | **(572)** | **(3,894)** | **(989)** | **(19,770)** | **(2,229,098)** |
| **Borrowings (Note 14)** | **(185,984)** | | **–** | **–** | **(422)** | **–** | **(186,406)** |
| **Total** | **(2,389,482)** | **(375)** | **(572)** | **(3,894)** | **(1,411)** | **(19,770)** | **(2,415,504)** |
| | **(₱2,244,750)** | **₱1,821** | **(₱289)** | **(₱3,763)** | **₱27,079** | **(₱815)** | **(₱2,220,717)** |

***Excluding payable to regulatory authorities***

| 2019 | On demand | Less than three months | Three to six months | More than six to 12 months | More than one to two years | More than two years | Total |
|---|---|---|---|---|---|---|---|
| Financial Assets: | | | | | | | |
| Cash in banks (Note 4) | ₱56,505 | ₱– | ₱– | ₱– | ₱– | ₱ | ₱56,505 |
| Trade receivables (Note 5) | 596 | 22,375 | 91 | 90 | 11,506 | 18,812 | 53,970 |
| MRF | 5,169 | – | – | – | | | 5,169 |
| Nontrade receivables (Note 5) | 11,905 | 3,256 | | | 18,108 | 143 | 33,412 |
| Financial assets designated at FVOCI (Note 10) | 161,937 | – | – | – | | | 161,937 |
| Total | 236,112 | 26,131 | 91 | 90 | 29,614 | 18,955 | 310,993 |
| Financial Liabilities: | | | | | | | |
| Trade and other payables (Note 13)* | (1,509,705) | (241,341) | (127) | (7) | (935) | (741) | (1,752,856) |
| Borrowings (Note 14) | (67,325) | (121,050) | (14,167) | – | | | (202,542) |
| Total | (1,577,030) | (362,391) | (14,294) | (7) | (935) | (741) | (1,955,398) |
| | (₱1,340,918) | (₱336,260) | (₱14,203) | ₱83 | ₱28,679 | ₱18,214 | (₱1,644,405) |

**Excluding payable to regulatory authorities*

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

Fair Values

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

*Cash in Banks, Trade Receivables, Nontrade Receivables and Trade and Other Payables*

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

*Financial Assets Designated at FVOCI*

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

*Borrowings*
The outstanding short-term borrowings and long-term borrowings as at December 31, 2020 and 2019 bear floating rates that are repriced monthly and quarterly.

The fair value of the interest-bearing long-term debt in 2020 and 2019 is based on the discounted value of future cash flows using the applicable rates for the similar types of loans.

The Group uses the following hierarchy for determining and disclosing the fair value by valuation technique:

- Quoted prices in active markets for identical asset or liability (Level 1);
- Those involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and
- Those inputs for asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The fair value hierarchy of the financial assets and liabilities as at December 31 of each year is presented as follows:

| **2020** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| **Financial assets designated at FVOCI** | **₱26,194** | **₱–** | **₱41,721** | **₱67,915** |
| **Borrowings** | **–** | **(186,406)** | **–** | **(186,406)** |
| | **₱26,194** | **(₱186,406)** | **₱43,342** | **(₱118,491)** |

| 2019 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Financial assets designated at FVOCI | ₱31,652 | ₱– | ₱130,285 | ₱161,937 |
| Borrowings | – | (202,542) | – | (202,542) |
| | ₱31,652 | (₱202,542) | ₱130,285 | (₱40,605) |

There were no transfers between levels of fair value measurement as at December 31, 2020 and 2019.

## 32. Capital Management

The primary objective of the Group's capital management is to ensure that the Group maintains positive cash balance in order to support their businesses, pay existing obligations and maximize shareholder value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may obtain additional advances from stockholders or issue new shares. No changes were made in the objectives, policies or processes during the year ended December 31, 2020 and 2019. The Group monitors capital using the consolidated financial statements. The Group has complied with all externally imposed capital requirements in 2020 and 2019.

As at December 31, 2020 and 2019, the Group's capital, which is composed of common shares and additional paid-in capital, amounted to ₱11,712,718.

## 33. Segment Information

The primary segment reporting format is determined to be business segments as the Group's risks and rates of return are affected predominantly by differences in the products and services produced. The operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. The Group derives revenue from the following main operating business segments:

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

Service
This segment derives its income from drilling, hauling and sawmilling services to its related and outside parties.

Others
This segment is engaged in the trading, manufacturing, investing and insurance broker activities of the Group.

Transfer prices between business segments are set on an arm's-length basis in a manner similar to transactions with third parties. Segment revenue, segment expense and segment result include transfers between business segments. Those transfers are eliminated in consolidation.

The Group operates and generates revenue principally in the Philippines. Thus, geographical segmentation is not required.

The following tables present certain information regarding the Group's operating business segments:

| 2020 | Mining | Service | Others | Elimination | Consolidated |
|---|---|---|---|---|---|
| Revenue from external customers: | | | | | |
| Sale of metals - net | ₱1,460,353 | ₱– | ₱– | ₱– | ₱1,460,353 |
| Others | 2,252 | 4,168 | 6,205 | – | 12,625 |
| Inter-segment revenue | 2,274 | 36,227 | 15,657 | (54,158) | – |
| Segment revenue | 1,464,879 | 40,395 | 21,862 | (54,158) | 1,472,978 |
| Cost and operating expenses | (2,135,365) | (63,270) | (26,982) | 59,604 | (2,166,013) |
| Share in operating results of associates | – | – | – | (1,875) | (1,875) |
| Income (loss) before income tax | (670,486) | (22,875) | (5,120) | 3,571 | (694,910) |
| Finance cost, net of other income | (52,322) | 14,573 | (14,506) | (486) | (52,741) |
| Provision for (benefit from) income tax | 17,102 | (20,781) | 354 | – | (3,325) |
| Net income (loss) | (₱705,706) | (₱29,083) | (₱19,272) | ₱3,031 | (₱750,976) |
| Segment assets | ₱16,354,006 | ₱266,392 | ₱691,280 | (₱901,269) | ₱16,410,409 |
| Investments in and advances to associates | 966,273 | – | 95,905 | (504,331) | 557,847 |
| Segment liabilities | (10,562,647) | (216,081) | (258,244) | 412,746 | (10,624,276) |
| Depreciation | 460,416 | 24,004 | 4,562 | – | 488,982 |
| Capital expenditures: | | | | | |
| Tangible fixed assets | 6,206,211 | 29,760 | 371,044 | 49,539 | 6,656,554 |
| Intangible assets | 1,702 | – | – | – | 1,702 |
| Cash flows arising from (used in): | | | | | |
| Operating activities | 13,833 | (8,712) | 3,251 | 257,129 | 265,501 |
| Investing activities | (60,804) | 6,581 | 851 | (272,045) | (325,417) |
| Financing activities | 49,233 | 685 | 146 | (18,427) | 31,637 |

| 2019 | Mining | Service | Others | Elimination | Consolidated |
|---|---|---|---|---|---|
| Revenue from external customers: | | | | | |
| Sale of metals - net | ₱2,038,979 | ₱– | ₱ | ₱– | ₱2,038,979 |
| Others | 3,961 | | 4,444 | – | 8,405 |
| Inter-segment revenue | 2,274 | 12,944 | 32,665 | (47,883) | – |
| Segment revenue | 2,045,214 | 12,944 | 37,109 | (47,883) | 2,047,384 |
| Cost and operating expenses | (2,955,320) | (102,731) | (34,458) | 55,260 | (3,040,249) |
| Share in operating results of associates | | | – | (2,972) | (2,972) |
| Income (loss) before income tax | (913,106) | (89,787) | 2,651 | 4,405 | (995,837) |
| Finance cost, net of other income | (79,441) | 26,251 | 1,938 | (9,651) | (60,903) |
| Provision for (benefit from) income tax | 14,776 | 16,045 | (1,445) | – | 29,376 |
| Net income (loss) | (₱977,771) | (₱47,491) | ₱3,144 | (₱5,246) | (₱1,027,364) |
| Segment assets | ₱16,351,157 | ₱330,728 | ₱796,842 | (₱923,148) | ₱16,555,579 |
| Investments in and advances to associates | 963,454 | – | 110,499 | (509,697) | 564,256 |
| Segment liabilities | (9,649,120) | (252,726) | (252,076) | 433,688 | (9,720,234) |
| Depreciation | 853,874 | 42,839 | 5,665 | – | 902,378 |
| Capital expenditures: | | | | | |
| Tangible fixed assets | 6,382,788 | 53,368 | 375,124 | 47,389 | 6,858,669 |
| Intangible assets | 3,622 | – | – | | 3,622 |
| Cash flows arising from (used in): | | | | | |
| Operating activities | 144,060 | (79,607) | (7,642) | 61,109 | 117,920 |
| Investing activities | (181,394) | 30,910 | 7,792 | (16,510) | (159,202) |
| Financing activities | (20,481) | (10,524) | 225 | 12,293 | (18,487) |

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

**34. Events after the Reporting Period**

CREATE Act
President Rodrigo Duterte signed into law on March 26, 2021 the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act to attract more investments and maintain fiscal prudence and stability in the Philippines. Republic Act (RA) 11534 or the CREATE Act introduces reforms to the corporate income tax and incentives systems. It takes effect 15 days after its complete publication in the Official Gazette or in a newspaper of general circulation or April 11, 2021.

The following are the key changes to the Philippine tax law pursuant to the CREATE Act which have an impact on the Parent Company:

- Effective July 1, 2020, RCIT rate is reduced from 30% to 25% for domestic and resident foreign corporations. For domestic corporations with net taxable income not exceeding Php5 million and with total assets not exceeding Php100 million (excluding land on which the business entity's office, plant and equipment are situated) during the taxable year, the RCIT rate is reduced to 20%.
- MCIT rate reduced from 2% to 1% of gross income effective July 1, 2020 to June 30, 2023.

As clarified by the Philippine Financial Reporting Standards Council in its Philippine Interpretations Committee Q&A No. 2020-07, the CREATE Act was not considered substantively enacted as of December 31, 2020 even though some of the provisions have retroactive effect to July 1, 2020. The passage of the CREATE Act into law on March 26, 2011 is considered as a non-adjusting subsequent event. Accordingly, current and deferred taxes as of and for the year ended December 31, 2020 continued to be computed and measured using the applicable income tax rates as of December 31, 2020 (i.e., 30% RCIT / 2% MCIT) for financial reporting purposes.

Applying the provisions of the CREATE Act, the Parent Company would have been subjected to lower regular corporate income tax rate of 25% effective July 1, 2020.

- This does not have an impact on the current income tax for the year ended December 31, 2020 as the Group is in gross loss and net loss position hence no current income tax.
- This will result in lower deferred tax assets and liabilities as of December 31, 2020 by ₱8,635 and ₱303, respectively, and provision for deferred tax for the year then ended by ₱123. These reductions will be recognized in the 2021 financial statements.

Executive Order (EO) No. 130
On April 14, 2021, President Rodrigo Duterte issued EO No. 130 lifting the moratorium on mineral agreements under Section 4 of President Benigno Aquino's EO No. 79 issued in 2012.

**INDEPENDENT AUDITOR'S REPORT ON COMPONENTS OF FINANCIAL SOUNDNESS INDICATORS**

The Stockholders and Board of Directors
Lepanto Consolidated Mining Company
21st Floor, Lepanto Building
Paseo de Roxas, Makati City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Lepanto Consolidated Mining Company and Subsidiaries as at December 31, 2020 and 2019 and for each of the three years in the period ended December 31, 2020, and have issued our report thereon dated June 7, 2021. Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The Supplementary Schedule of Financial Soundness Indicators, including their definitions, formulas, calculation, and their appropriateness or usefulness to the intended users, are the responsibility of the Company's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRSs) and may not be comparable to similarly titled measures presented by other companies. This schedule is presented for the purpose of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission, and is not a required part of the basic financial statements prepared in accordance with PFRS. The components of these financial soundness indicators have been traced to the Group's consolidated financial statements as at December 31, 2020 and 2019 and for each of the three years in the period ended December 31, 2020 and no material exceptions were noted.

SYCIP GORRES VELAYO & CO.

Eleanore A. Layug

Eleanore A. Layug
Partner
CPA Certificate No. 0100794
SEC Accreditation No. 1250-AR-2 (Group A),
February 28, 2019, valid until February 27, 2022
Tax Identification No. 163-069-453
BIR Accreditation No. 08-001998-097-2020,
November 27, 2020, valid until November 26, 2023
PTR No. 8534308, January 4, 2021, Makati City

June 7, 2021

SGV
Building a better working world

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ey.com/ph

BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

**INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULE**

The Stockholders and Board of Directors
Lepanto Consolidated Mining Company
21st Floor, Lepanto Building
Paseo de Roxas, Makati City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Lepanto Consolidated Mining Company and Subsidiaries as at December 31, 2020 and 2019, and for each of the three years in the period ended December 31, 2020, included in this Form 17-A, and have issued our report thereon dated June 7, 2021. Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with the Revised Securities Regulation Code Rule 68, and are not part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, fairly state, in all material respects, the financial information required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Eleanore A. Layug
Eleanore A. Layug
Partner
CPA Certificate No. 0100794
SEC Accreditation No. 1250-AR-2 (Group A),
February 28, 2019, valid until February 27, 2022
Tax Identification No. 163-069-453
BIR Accreditation No. 08-001998-097-2020,
November 27, 2020, valid until November 26, 2023
PTR No. 8534308, January 4, 2021, Makati City

June 7, 2021

**SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS**
As of December 31, 2020

**LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES**
21st Floor, Lepanto Building, Paseo de Roxas, Makati City

| | Formula | 2020 | 2019 |
|---|---|---|---|
| **Profitability Ratios:** | | | |
| Return on assets | Net Loss / Total Assets | **(4.58%)** | (6.21%) |
| Return on equity | Net Loss / Total Equity | **(12.98%)** | (15.03%) |
| Gross profit margin | Gross Profit / Net Revenues | **(31.74%)** | (33.11%) |
| Net profit margin | Net Loss / Revenues | **(50.98%)** | (50.18%) |
| **Liquidity and Solvency Ratios:** | | | |
| Current ratio | Current Assets / Current Liabilities | **0.74:1** | 0.92:1 |
| Quick ratio | Current Assets – Inventories – Other Current Assets / Current Liabilities | **0.16:1** | 0.19:1 |
| Solvency ratio | Net Loss / Total Liabilities | **(0.07:1)** | (0.11:1) |
| **Financial Leverage Ratios:** | | | |
| Asset to equity ratio | Total Assets / Total Equity | **2.84** | 2.42 |
| Debt to equity ratio | Total Liabilities / Total Equity | **1.84** | 1.42 |
| Interest coverage ratio | Earnings Before Interest and Taxes (EBIT) / Finance Costs | **0.08** | 0.09 |

**INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES**
**DECEMBER 31, 2020**

**LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES**
21st Floor, Lepanto Building, Paseo de Roxas, Makati City

**SCHEDULE I**
**RECONCILIATION OF RETAINED EARNINGS**
**AVAILABLE FOR DIVIDEND DECLARATION**
As of December 31, 2020
(Amounts in thousands)

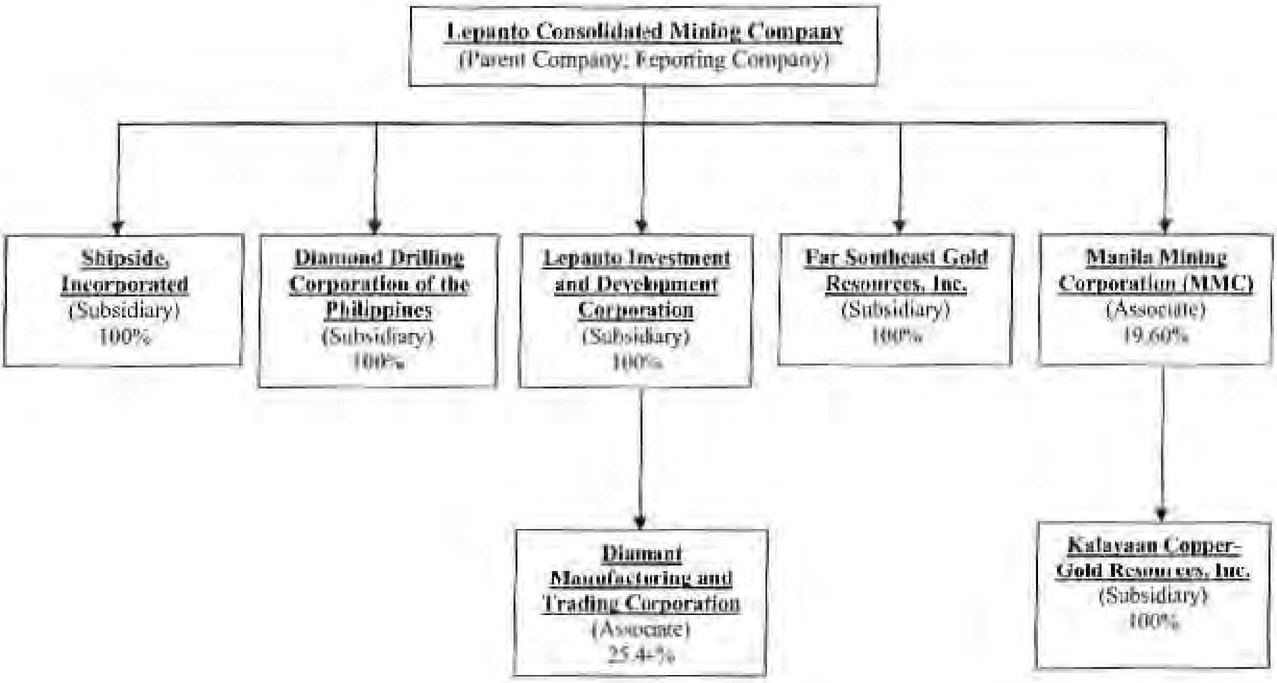
**LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES**
21st Floor, Lepanto Building, Paseo de Roxas, Makati City

| | | |
|---|---|---|
| Unappropriated Retained Earnings, as adjusted to available for dividend distribution, beginning of the year | | (P5,801,631) |
| **Add: Net loss actually earned/realized during the period** | | |
| Net loss during the period closed to Retained Earnings | (705,622) | |
| Less: **Non-actual/unrealized income net of tax** | | |
| Equity in net income of associate/joint venture | – | |
| Unrealized foreign exchange gain – (after tax) except those attributable to cash and cash equivalents) | (2,446) | |
| Unrealized actuarial gain | – | |
| Fair value adjustment (mark-to-market gains) | – | |
| Fair value adjustment of investment property resulting to gain | – | |
| Adjustment due to deviation from PFRS - gain | – | |
| Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under PFRS | – | |
| Subtotal | (2,446) | |
| Add: Non-actual losses | | |
| Depreciation on revaluation increment (after tax) | – | |
| Adjustment due to deviation from PFRS - loss | – | |
| Loss on fair value adjustment of investment property (after tax) | – | |
| Subtotal | | |
| **Net loss actually incurred during the period** | | (708,068) |
| Add (Less): | | |
| Dividend declarations during the period | – | |
| Appropriations of retained earnings during the period | – | |
| Reversals of appropriations | – | |
| Effects of prior period adjustments | – | |
| Treasury shares | | |
| Subtotal | | |
| **TOTAL RETAINED EARNINGS, END AVAILABLE FOR DIVIDEND** | | P– |

*+Amount is zero since the reconciliation results to a deficit*

**SCHEDULE II**
**MAP OF THE RELATIONSHIPS OF THE COMPANIES WITHIN THE GROUP**
As of December 31, 2020

**LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES**
21st Floor, Lepanto Building, Paseo de Roxas, Makati City



**SCHEDULE III**
**SUPPLEMENTARY SCHEDULES REQUIRED BY ANNEX 68-J**
As of December 31, 2020

**LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES**
21st Floor, Lepanto Building, Paseo de Roxas, Makati City

**SCHEDULE A: FINANCIAL ASSETS**

| Name of issuing entity and association of each issue | Number of shares or principal amounts of bonds and notes | Amounts shown in the Statement of Financial Position (figures in thousands) | Income received and accrued |
|---|---|---|---|
| **Financial asset designated at FVOCI:** | | | |
| Philippine Associated Smelting & Refining Corp. | 37,407,798 | 37,408 | – |
| Manila Peninsula Hotel | 1,304,632 | 3,955 | – |
| Philippine Fire and Marine Insurance Corp. | 330,613 | | – |
| Crown Fruits | 20,000 | | – |
| Alabang Country Club Inc. | 1 | 4,702 | – |
| Canlubang Golf & Country Club Inc. | 1 | 1,400 | – |
| Club Filipino | 1 | 250 | – |
| Makati (Sports) Club Inc. | 1 | 700 | – |
| Manila Polo Club | 1 | 19,000 | – |
| PHILAM Properties Corp. | 1 | 500 | – |

**SCHEDULE III**
**SUPPLEMENTARY SCHEDULES REQUIRED BY ANNEX 68-J**
As of December 31, 2020

**LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES**
21st Floor, Lepanto Building, Paseo de Roxas, Makati City

**SCHEDULE B: AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)**

| Name and Designation of Debtor | Balance at Beginning period | Additions | Amounts Collected | Amounts Written off | Current | Not Current | Balance at end of period |
|---|---|---|---|---|---|---|---|

NOT APPLICABLE

**SCHEDULE III**
**SUPPLEMENTARY SCHEDULES REQUIRED BY ANNEX 68-J**
As of December 31, 2020

**LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES**
21st Floor, Lepanto Building, Paseo de Roxas, Makati City

**SCHEDULE C: AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATED FINANCIAL STATEMENTS**

| Name and Designation of Debtor | Balance at Beginning of period | Additions | Amounts Collected / Settled | Amounts Written off | Current | Not Current | Balance at end period |
|---|---|---|---|---|---|---|---|
| DDCP | ₱144,694,794 | ₱– | ₱14,762,886 | ₱– | ₱129,931,908 | ₱– | ₱129,931,908 |
| FSGRI | 92,796,322 | 2,029,008 | – | – | 94,825,330 | – | 94,825,330 |
| LIDC | 89,721,313 | 146,000 | | | 89,867,313 | – | 89,867,313 |

**SCHEDULE III**
**SUPPLEMENTARY SCHEDULES REQUIRED BY ANNEX 68-J**
As of December 31, 2020

**LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES**
21st Floor, Lepanto Building, Paseo de Roxas, Makati City

**<u>SCHEDULE D</u>: LONG TERM DEBT**

| Title of Issue and type of obligation | Amount authorized by Indenture | Amount shown under the caption "Current Portion of long-term borrowings" in related balance sheet | Amount shown under the caption "Long-term borrowings- net of current portion" in related balance sheet |
|---|---|---|---|
| Statham Capital Corporation - *Gold Delivery Agreement* | US$1,000,000 | ₱48,023,000 | ₱- |
| PBCOM USD Loan | US$49,830 | ₱2,392,986 | ₱- |
| UCPB Peso Loan | ₱320,000,000 | ₱135,217,621 | ₱ |
| PBCOM Peso Loan | ₱4,041,719 | ₱- | ₱- |
| AUB Peso Loan | ₱1,041,898 | ₱350,446 | ₱422,274 |

**SCHEDULE III**
**SUPPLEMENTARY SCHEDULES REQUIRED BY ANNEX 68-J**
As of December 31, 2020

**LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES**
21st Floor, Lepanto Building, Paseo de Roxas, Makati City

**SCHEDULE E: INDEBTEDNESS TO RELATED PARTIES (LONG-TERM LOANS FROM RELATED COMPANIES)**

| Name of Related Party | Balance at beginning of period | Balance at end of period |
|---|---|---|
| | NOT APPLICABLE | |

**SCHEDULE III**
**SUPPLEMENTARY SCHEDULES REQUIRED BY ANNEX 68-J**
As of December 31, 2020

**LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES**
21st Floor, Lepanto Building, Paseo de Roxas, Makati City

**SCHEDULE F: GUARANTEES OF SECURITIES OF OTHER ISSUES**

| Name of issuing entity of securities guaranteed by the company for which this statement is filed | Title of issue of each class of securities guaranteed | Total amount guaranteed and outstanding | Amount owed by person for which statement is filed | Nature of guarantee |
|---|---|---|---|---|

NOT APPLICABLE

**SCHEDULE III**
**SUPPLEMENTARY SCHEDULES REQUIRED BY ANNEX 68-J**
As of December 31, 2020

**LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES**
21st Floor, Lepanto Building, Paseo de Roxas, Makati City

## SCHEDULE G: CAPITAL STOCK

The Parent Company's authorized share capital is P6.64 billion divided into 66.4 billion shares at ₱0.10 par value each, consisting of 39.8 billion Class "A" and 26.6 billion Class "B" common shares. As at December 31, 2020, total shares issued and outstanding is 66,373,926,649 held by 27,777 shareholders.

| Title of Issue | Number of shares authorized | Number of shares issued and outstanding as shown under related balance sheet caption | Number of shares reserved for options, warrants, conversions and other rights | No of shares held by: Related parties | Directors and Officers | Others |
|---|---|---|---|---|---|---|
| Common Stock | | | | | | |
| Class A | 39,840,000,000 | 39,821,417,656 | – | 30,920 | 1,318,408,331 | 38,502,978,405 |
| Class B | 26,560,000,000 | 26,552,508,993 | – | 783,523 | 263,765,314 | 26,287,960,156 |

# COVER SHEET

101

S.E.C. Registration Number

LEPANTO CONSOLIDATED MINING CO

(Company's Full Name)

21ST FLOOR LEPANTO BUILDING

8747 PASEO DE ROXAS

MAKATI CITY

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

ODETTE A. JAVIER

Contact Person

815-9447

Company Telephone Number

| 1 2 | 3 1 |
|---|---|
| Month | Day |

Fiscal Year

FORM TYPE

17-Q

FORM TYPE

3rd Monday of April

| | |
|---|---|
| Month | Day |

Annual Meeting

---

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total no. of Stockholders

Total Amount of Borrowings

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

S T A M P S

Remarks = please use **black ink** for scanning purposes

## SECURITIES AND EXCHANGE COMMISSION

## SEC FORM 17-Q

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

1. For the quarterly period ended: **March 31, 2021**

2. Commission identification number: **101** 3. BIR Tax Identification No.: **000-160-247**

4. Exact name of issuer as specified in its charter:

**LEPANTO CONSOLIDATED MINING COMPANY**

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

6. Industry Classification Code: [ ] (SEC Use Only)

7. Address of issuer's principal office:

**21st Floor, Lepanto Building**
**8747 Paseo de Roxas, Makati City, Philippines**

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

**(632) – 815-9447**

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

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

| Title of each Class | Number of shares of common stock outstanding: |
|---|---|
| **Class "A"** | **39,822,869,196** |
| **Class "B"** | **26,552,888,901** |

Amount of Debt Outstanding: **Please refer to the attached Balance Sheet (Annex "B")**

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

Yes [x] No [ ]

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

**Philippine Stock Exchange** **Classes "A' and "B"**

12. Indicate by check mark whether the registrant:

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

Yes [**x**]          No [ ]

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

Yes [ ]          No [**x**]

## PART I- FINANCIAL INFORMATION

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

## PART II- OTHER INFORMATION (None)

## SIGNATURES

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

| | | |
|---|---|---|
| Issuer | : | **LEPANTO CONSOLIDATED MINING COMPANY** |
| Signature | : | **RAMON T. DIOKNO** |
| Title | : | Chief Finance Officer |
| Date | : | May 31, 2021 |
| Signature | : | **ODETTE A. JAVIER** |
| Title | : | Vice President/Assistant Corporate Secretary |
| Date | : | May 31, 2021 |

**LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES**
**STATEMENT OF INCOME**
**FOR THE THREE MONTHS ENDED MARCH 31, 2021**
(With Comparative Figures for 2020)
(In Thousand , Except Loss Per Share)

| | FOR THE FIRST QUARTER | | | |
|---|---|---|---|---|
| | | 2021 | | 2020 |
| **REVENUES** | | | | |
| Sale of metals | P | 405,938 | | 422,202 |
| Service fees and other operating income | | 1,617 | | 29,541 |
| | | 407,555 | | 451,743 |
| **COSTS AND EXPENSES** | | | | |
| Mining, milling, roasting, smelting, refining and and other related charges; administrative expenses; depreciation, amortization and depletion; and other charges | | (473,210) | | (663,133) |
| **INCOME (LOSS) FROM OPERATIONS** | | (65,655) | | (211,390) |
| **FINANCE COST, net** | | (2,838) | | (2,613) |
| **FOREIGN EXCHANGE GAINS (LOSS), net** | | 1,257 | | (207) |
| **OTHER INCOME (CHARGES), net** | | 4,056 | | 4,985 |
| **SHARE IN NET EARNINGS (LOSSES) OF ASSOCIATES** | | (1,933) | | (2,157) |
| **INCOME (LOSS) BEFORE INCOME TAX** | | (65,113) | | (211,382) |
| **PROVISION FOR (BENEFIT FROM) INCOME TAX** | | | | |
| CURRENT | | (1,695) | | 8,774 |
| DEFERRED | | (252) | | (5,760) |
| | | (1,947) | | 3,014 |
| **NET INCOME (LOSS)** | P | (63,166) | P | (214,396) |
| **Attributable to:** | | | | |
| Stockholders of the parent company | | (63,113) | | (214,349) |
| Non-controlling interests | | (53) | | (47) |
| **Net Income / (Loss)** | P | (63,166) | P | (214,396) |
| **EARNINGS (LOSS) PER SHARE** attributable to stockholders of the parent company | | | | |
| Basic & Diluted | | (0.000951) | | (0.003229) |

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

| | | MARCH 31 2021 | | *DECEMBER 31 2020 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **CURRENT ASSETS** | | | | |
| Cash and cash equivalent | P | 60,580 | P | 31,446 |
| Receivables, net | | 82,070 | | 79,438 |
| Contract asset | | - | | - |
| Inventories, net | | 525,041 | | 550,965 |
| Advances to suppliers and contractors | | 316,157 | | 298,659 |
| Other current assets | | 879,054 | | 879,374 |
| **Total current assets** | | 1,862,902 | | 1,839,882 |
| **NON-CURRENT ASSETS** | | | | |
| Property, plant and equipment | | 6,599,965 | | 6,650,419 |
| Available-for-sale financial assets | | 67,915 | | 67,915 |
| Investments and advances in associates | | 551,654 | | 557,847 |
| Mine exploration cost | | 6,843,761 | | 6,827,286 |
| Deferred income tax assets | | 374,891 | | 374,891 |
| Other noncurrent assets | | 89,178 | | 92,170 |
| **Total non-current assets** | | 14,527,364 | | 14,570,527 |
| **TOTAL ASSETS** | P | 16,390,266 | P | 16,410,409 |
| **LIABILITIES AND EQUITY** | | | | |
| **CURRENT LIABILITIES** | | | | |
| Trade and other payables | P | 2,332,963 | P | 2,280,406 |
| Short-term borrowings | | 185,900 | | 185,984 |
| Unclaimed dividends | | 26,693 | | 26,693 |
| Income tax payable | | 49 | | 7 |
| **Total current liabilities** | | 2,545,605 | | 2,493,091 |
| **NON-CURRENT LIABILITIES** | | | | |
| Advances from Far Southeast Services Limited | | 6,155,026 | | 6,131,772 |
| Long-term borrowings | | 422 | | 422 |
| Lease Liability | | 861 | | 861 |
| Liability for mine rehabilitation cost | | 169,824 | | 169,349 |
| Retirement benefit obligations | | 1,521,494 | | 1,547,663 |
| Deferred income tax liabilities | | 211,666 | | 211,917 |
| Stock subscriptions payable | | - | | - |
| Deposit for future stock subscriptions | | 69,200 | | 69,200 |
| **Total non-current liabilities** | | 8,128,493 | | 8,131,185 |
| **TOTAL LIABILITIES** | | 10,674,098 | | 10,624,276 |
| **EQUITY** | | | | |
| Capital stock | | 6,635,685 | | 6,635,685 |
| Additional paid-in capital | | 5,077,033 | | 5,077,033 |
| Re-measurement loss on retirement plan | | (206,924) | | (206,924) |
| Cumulative changes in fair values of AFS investments | | (42,192) | | (35,390) |
| Deficit | | (5,987,217) | | (5,924,109) |
| | | 5,476,385 | | 5,546,295 |
| **Non-controlling interests** | | 239,784 | | 239,838 |
| **Total equity** | | 5,716,169 | | 5,786,133 |
| **TOTAL LIABILITIES AND EQUITY** | P | 16,390,267 | P | 16,410,409 |

*- **A U D I T E D**

# LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES
# CONSOLIDATED STATEMENTS OF CASH FLOWS
# FOR THE THREE MONTHS ENDED MARCH 31

(With Comparative Figures for 2019)

(Amounts in Thousand Pesos)

| | | MARCH 2021 | | MARCH 2020 |
|---|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Income/ (Loss) before tax | P | (65,113) | P | (211,382) |
| Adjustments for: | | | | |
| Depreciation and depletion | | 203,128 | | 147,596 |
| Equity in net losses (income) of affiliated companies | | 59 | | 417 |
| Foreign exchange losses (income), net | | (1,257) | | 207 |
| Provision for retirement benefit cost | | 973 | | 973 |
| Loss on sale of asset | | (0) | | (0) |
| Interest income | | (5) | | (15) |
| Interest expense | | 2,838 | | 2,613 |
| Provision for income tax | | 1,947 | | (3,014) |
| Operating income before working capital changes | | 142,569 | | (62,605) |
| Decrease (Increase) in: | | | | |
| Receivables and advances to suppliers | | (21,880) | | (142,856) |
| Inventories and PPE | | (72,797) | | (45,124) |
| Prepayments and other assets | | 3,312 | | (1,400) |
| Increase (Decrease) in: | | | | |
| Accounts payable and accrued expenses | | 51,090 | | 294,996 |
| Liability for mine rehabilitation cost | | 475 | | 1,910 |
| Deferred income tax liability, net | | (251) | | (211) |
| Cash generated (used) from operations | | 102,518 | | 44,709 |
| Retirement benefits paid | | (27,318) | | (17,719) |
| Interest received | | 5 | | 15 |
| Income tax recovered (paid) | | - | | - |
| Net cash provided by (used in) operating activities | | 75,205 | | 27,005 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Investments, net | | (6,802) | | (320) |
| Acquisition of property and equipment | | (53,953) | | (45,059) |
| Exploration costs and other assets | | (16,475) | | (17,434) |
| Net cash used in investing activities | | (77,230) | | (62,814) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | |
| Proceeds from: | | | | |
| Borrowings | | 23,254 | | 17,148 |
| Disposal of Assets | | - | | - |
| Payments of: | | | | |
| Borrowings | | (84) | | (13,167) |
| Interest | | (69) | | (848) |
| Capital and other reserves | | (1) | | (1) |
| Net cash provided by financing activities | | 23,100 | | 3,132 |
| NET INCREASE (DECREASE) IN CASH | | 21,075 | | (32,677) |
| Beginning of period | | 31,446 | | 62,623 |
| CASH AT END OF THE PERIOD | P | 52,521 | P | 29,946 |

# LEPANTO CONSOLIDATED MINING COMPANY
## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
## FOR THE PERIOD ENDED MARCH 31, 2021 & 2020
**(Amounts in thousands)**

| | MARCH 31 2021 | MARCH 31 2020 |
|---|---|---|
| Authorized - P 6.64 billion | | |
| Share capital at par value | P 6,637,393 | P 6,637,393 |
| Subscribed capital (net of subscriptions receivable) | (1,707) | (1,707) |
| Share premium | 5,077,033 | 5,077,033 |
| Cumulative changes in fair values of AFS investments | (42,192) | 58,283 |
| Re-measurement loss on retirement plan | (206,924) | (4,728) |
| Retained earnings | | |
| Beginning balance | (5,924,106) | (5,173,166) |
| Net Loss for the period | (63,113) | (214,349) |
| | (5,987,219) | (5,387,515) |
| **EQUITY ATTRIBUTABLE TO THE STOCKHOLDERS OF THE PARENT COMPANY** | 5,476,384 | 6,378,759 |
| **NON-CONTROLLING INTERESTS** | 239,784 | 241,825 |
| | **P 5,716,168** | **P 6,620,584** |

ANNEX "E"

**LEPANTO CONSOLIDATED MINING COMPANY**

NOTES TO FINANCIAL STATEMENTS
AS OF MARCH 31, 2021 and DECEMBER 31, 2020

## Note 1 - General information

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

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

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

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

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

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

On November 21, 2006, the Parent Company was registered with the BOI under Executive Order No. 226 as new export producer of copper-gold concentrate on a non-pioneer status for its copper-gold flotation project located also in Mankayan, Benguet, Philippines. This registration entitles the Company to ITH for four (4) years, which can be further extended for another three (3) years subject to compliance with certain conditions, and duty-free importation of equipment, spare parts and accessories for five (5) years. The copper-gold flotation operations were suspended in 2009 in view of the sharp decline in copper prices, of which the BOI was notified. In August 2017, the Company notified the BOI that it will resume copper-gold flotation operations in the fourth quarter of 2017.

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

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

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

MPSA No. 001-90-CAR was jointly executed by the Company and subsidiary Far Southeast Gold Resources, Inc. (FSGRI) on March 3, 1990 with the Philippine Government, through the Department of Environment and Natural Resources. The MPSA has a term of 25 years, renewable for another term not exceeding 25 years under the same terms and conditions. The Company and FSGRI filed an application for its renewal on June 4, 2014. The application for renewal of the mining rights are still in pending approval as at December 31, 2020.

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

## Note 2 – Compliance with Generally Accepted Accounting Principles

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

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

## Note 3 – Cash and Cash Equivalents

| | 03/31/2021 | 12/31/2020 |
|---|---|---|
| Cash on hand | 7,605 | 4,079 |
| Cash in banks | 52,975 | 27,367 |
| | 60,580 | 31,446 |

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

**Note 4 – Receivables**

| | 03/31/2021 | 12/31/2020 |
|---|---|---|
| Trade | 68,392 | 53,608 |
| Nontrade | 29,203 | 41,529 |
| Advances to officers and employees | 3,121 | 2,607 |
| | 100,715 | 97,744 |
| Less: Allowance for impairment losses | (18,645) | (18,645) |
| | 82,070 | 79,099 |

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

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

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

**Note 5 – Inventories**

| | 03/31/2021 | 12/31/2020 |
|---|---|---|
| Parts and supplies | 521,586 | 547,510 |
| Mine Products | 3,455 | 3,455 |
| | 525,041 | 550,965 |

Parts and supplies include materials and supplies stored in Metro Manila, Bulacan, Mankayan, and Leyte. The decrease in the amount of P25.92 million represents withdrawals of stocks used in operations.

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

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

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

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

**Note 7 – Other current assets**

| | 03/31/2021 | 12/31/2020 |
|---|---|---|
| Input VAT | 779,438 | 776,498 |
| Deferred costs | 2,841 | 10,190 |
| Prepayments | 88,853 | 89,941 |
| Others | 7,922 | 2,745 |
| | 879,054 | 879,374 |

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

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

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

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

**Note 8 – Trade and other payables**

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

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

- Trade payables include import and local purchases of equipment and inventories such as various parts and supplies used in the operations of the Group. These are non-interest bearing and are normally settled on sixty (60) days' terms.
- Accrued expenses and other liabilities are noninterest-bearing and are normally settled on a 30 to sixty (60) days' term. These include other operating expenses that are payable to various suppliers and contractors.
- Trust receipts refer to arrangements of the Group with banks related to its importations of inventories and various equipment which are interest bearing and have an average term of ninety (90) to one hundred twenty (120) days.
- Employee related expenses include unclaimed wages, accrued vacation and sick leave and accrued payroll. These are non-interest bearing and are payable in thirty (30) days' term.
- Unclaimed dividends pertain to unpaid cash dividends declared by the Parent Company to its stockholders. These are non-interest bearing and are payable upon demand of the payee.
- Payable to regulatory agencies include withholding taxes and other government contributions related to employees of the Group. These are non-interest bearing and are normally remitted within ten (10) days from the close of each month.

- Accrued utilities pertain to unpaid billings for power, communication, light and water charges. These are non-interest bearing and are normally settled within thirty (30) to ninety (90) days.
- Accrued production taxes pertain to excise taxes on metal sales. These are non-interest bearing and are settled within fifteen (15) days after the end of each quarter.

## Note 9 - Business Segments

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

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

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

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

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

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

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

The assets, liabilities and results of the business segments of the LCMC Group for the 1st quarter of the year 2021 and 2020 are as follow:

**Mining activities**

| | 2021 (in thousands) | 2020 (in thousands) |
|---|---|---|
| CURRENT ASSET | 1,848,882 | 1,994,166 |
| NON-CURRENT ASSET | 14,501,416 | 14,461,275 |
| CURRENT LIABILITES | 2,709,095 | 2,467,504 |
| NON-CURRENT LIABILITIES | 8,077,558 | 7,677,913 |
| GROSS INCOME | 405,938 | 422,086 |
| NET INCOME / (LOSS) | (54,665) | (219,013) |

**Investment activities**

| | 2021 (in thousands) | 2020 (in thousands) |
|---|---|---|
| CURRENT ASSET | 313 | 236 |
| NON-CURRENT ASSET | 186,557 | 206,112 |
| CURRENT LIABILITES | 90,219 | 89,910 |
| NON-CURRENT LIABILITIES | 18,763 | 18,763 |
| GROSS INCOME | - | - |
| NET INCOME / (LOSS) | (80) | (54) |

**Hauling and Leasing Activities**

| | 2021 (in thousands) | 2020 (in thousands) |
|---|---|---|
| CURRENT ASSET | 189,511 | 192,643 |
| NON-CURRENT ASSET | 398,331 | 405,727 |
| CURRENT LIABILITES | 14,483 | 16,967 |
| NON-CURRENT LIABILITIES | 137,588 | 134,113 |
| GROSS INCOME | 5,225 | 8,142 |
| NET INCOME / (LOSS) | (1,278) | 256 |

**Drilling Activities**

| | 2021 (in thousands) | 2020 (in thousands) |
|---|---|---|
| CURRENT ASSET | 225,903 | 266,003 |
| NON-CURRENT ASSET | 34,587 | 70,042 |
| CURRENT LIABILITES | 198,242 | 231,318 |
| NON-CURRENT LIABILITIES | 17,146 | 20,154 |
| GROSS INCOME | - | 28,944 |
| NET INCOME / (LOSS) | (5,209) | 6,571 |

## Note 10 – Seasonality

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

LEPANTO CONSOLIDATED MINING CO.

## *AGING OF ACCOUNTS RECEIVABLE - TRADE*

AS OF MARCH 31, 2021

| *CUSTOMERS* | *CURRENT* | *OVER 30 DAYS* | *OVER 60 DAYS* | *TOTAL* |
|---|---|---|---|---|
| **HERAEUS LTD.** | 55,931,588 | - | - | 55,931,588 |
| **LOUIS DREYFUS COMPANY** | - | | | - |
| **CLIVEDEN TRADING** | - | | | - |
| | - | - | - | - |
| | 55,931,588 | - | - | 55,931,588 |

# MANAGEMENT's DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULT OF OPERATIONS

As of March 31, 2021

Consolidated revenues for the first quarter of 2021 amounted to P407.6 million compared with P451.7 million in 2020. Consolidated net loss decreased to P63.2 million versus P214.4 million the previous year.

**Mining Operations**

Metal production in the form of bullion consisted of 4,503 oz of gold and 23,084 oz of silver. Until March 2020 when copper operations were suspended, metal production in the form of dore and gold-copper concentrate totaled 4,633 oz. of gold; 11,358 oz. of silver; and 618,442 lbs. of copper. Thus, metal revenue this year went down from P422.2 million to P405.94 million.

Gold price averaged US$1,778.96/oz. versus US$1,559.43/oz. last year, while silver price averaged US$26.18/oz. versus US$17.44/oz. Copper price averaged US$2.71/lb last year. The P/US$ exchange rate averaged P48.29/US$1 compared with P50.82/US$1 last year.

Largely due to the suspension of copper operations, total cost and expenses decreased by 28% to P465.5 million from P643.8 million as the tonnes broken decreased by 56,355 tonnes to 111,776 tonnes, translating to a 29% reduction in mining cost. Accordingly, milling tonnage decreased to 104,628 tonnes from 150,090 tonnes in 2020, and milling cost from P97.8 million to P83.2 million; depletion and depreciation from P121.4 million to P103.4 million; and overhead and administrative costs from P137.9 million to P105 million.

## BALANCE SHEET MOVEMENTS

Cash and cash equivalents increased by P30.6 million due mainly to timing of disbursements for operational and capital spending. Receivables increased by P2.6 million representing the unpaid portion of a dore shipment. The increase in advances to suppliers and contractors of P17.5 million represent outstanding deliverables from various suppliers.

Deficit increased by P63.1 million representing the net loss from operations during the period.

## CAPITAL EXPENDITURES

Capital expenditures for the quarter totaled P68.1 million, of which P23.7 million went to exploration; P31.9 million to machinery and equipment; P10.2 million to mine development; and, P2.3 million to maintenance of tailings storage facility 5A.

## OUTLOOK FOR THE YEAR

Lepanto is presently focusing on gold dore production from its Victoria and Teresa deposits. Exploration drilling continues, targeting extensions of the said deposits. Meantime, the carbon-in-pulp plant is undergoing rehabilitation to improve gold and silver recoveries and increase production. There are no plans for any significant changes in the number of employees or purchase/sale of any plant or significant equipment. Raising of capital may be resorted to support operations, further exploration (including of copper areas), and development.

## SUBSIDIARIES

The key performance indicator used for the subsidiaries is net income for the three months ended March 2021 versus the same period the previous year.

Diamond Drilling Corporation of the Philippines reported a net loss of P5.2 million this year versus P6.6 million net income last year. Lepanto Investment and Development Corporation reported a net loss of P79.9 thousand compared with last year's net loss of P53.7 thousand. Shipside, Incorporated registered a net loss of P1.3 million against last year's net income of P.26 million.

## * - KEY PERFORMANCE INDICATORS-LCMC

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

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

## Credit Risk

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

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

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

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

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

There is no significant exposure to credit risk.

## Market Risk

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

## Foreign Exchange Risk

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

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

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

Foreign currency-denominated liabilities of Parent Company totaled US$2.8 million at the end of first quarter this year. Same amount was revalued at the start of the year based on an exchange rate of P50.64/US$. No revaluation of said liabilities during the current year. Foreign exchange gain or losses due to the movement of the Philippine peso vis a vis the US$ are recognized at year-end on outstanding US$ denominated assets and liabilities. The gain/(loss) on Philippine peso appreciation/(depreciation) against the dollar as a result of settlement of liabilities is reflected as foreign exchange gain/(loss) in the financial statements.

As of the end of the quarter, Far Southeast Gold Resources, Inc., a 60%-owned subsidiary, had total foreign currency-denominated liabilities of US$145.9 million. Said foreign currency liabilities are converted to Philippine peso at the time of their incurrence. No revaluation of said liabilities is done on account of the appreciation/depreciation of the Philippine peso; hence, no foreign exchange gain/loss is recognized for the quarter ended. Settlement of these obligations will be at their recorded value based on the agreement with the creditor/investor.

**Interest Rate Risk**

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

**Liquidity Risk**

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

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

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

**Fair Values**

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

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

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

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

**LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES**
**FINANCIAL RATIOS**
**PURSUANT TO SRC RULE 68, AS AMENDED**
**MARCH 31, 2021**
**(With Comparative Annual Figures for 2020)**

| | AS OF 1ST QUARTER MARCH 2021 | YEAR ENDED DECEMBER 2020 |
|---|---|---|
| Profitability Ratios: | | |
| Return on assets | -0.39% | -4.58% |
| Return on equity | -1.11% | -12.98% |
| Gross profit margin | -4.72% | -31.74% |
| Net profit margin | -15.50% | -50.98% |
| Liquidity and Solvency Ratios: | | |
| Current ratio | 0.73:1 | 0.74:1 |
| Quick ratio | 0.18:1 | 0.16:1 |
| Solvency ratio | -0.01:1 | -0.07:1 |
| Financial Leverage Ratios: | | |
| Asset to equity ratio | 2.87:1 | 2.84:1 |
| Debt to equity ratio | 1.87:1 | 1.84:1 |
| Interest coverage ratio | 22.94:1 | 11.18:1 |

# COVER SHEET

1 0 1

S.E.C. Registration Number

LEPANTO CONSOLIDATED MINING CO

(Company's Full Name)

21ST FLOOR LEPANTO BUILDING

8747 PASEO DE ROXAS

MAKATI CITY

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

ODETTE A. JAVIER

Contact Person

815-9447

Company Telephone Number

FORM TYPE

3rd Monday of April

1 2 3 1

Month Day

Fiscal Year

1 7 - Q

FORM TYPE

Month Day

Annual Meeting

---

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total no. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

S T A M P S

Remarks = please use **black ink** for scanning purposes

## SECURITIES AND EXCHANGE COMMISSION

## SEC FORM 17-Q

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

1. For the quarterly period ended: **June 30, 2021**

2. Commission identification number: **101**    3. BIR Tax Identification No.: **000-160-247**

4. Exact name of issuer as specified in its charter:

**LEPANTO CONSOLIDATED MINING COMPANY**

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

6. Industry Classification Code: [    ] (SEC Use Only)

7. Address of issuer's principal office:

**21st Floor, Lepanto Building**
**8747 Paseo de Roxas, Makati City, Philippines**

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

**(632) – 815-9447**

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

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

| Title of each Class | Number of shares of common stock outstanding: |
|---|---|
| **Class "A"** | **39,822,869,196** |
| **Class "B"** | **26,552,888,901** |

Amount of Debt Outstanding: **Please refer to the attached Balance Sheet (Annex "B")**

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

Yes **[x]**    No [ ]

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

**Philippine Stock Exchange**    **Classes "A' and "B"**

12. Indicate by check mark whether the registrant:

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

Yes **[x]**    No [ ]

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

Yes [ ]    No **[x]**

## PART I- FINANCIAL INFORMATION

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

## PART II- OTHER INFORMATION (None)

## SIGNATURES

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

| | | |
|---|---|---|
| Issuer | : | **LEPANTO CONSOLIDATED MINING COMPANY** |
| Signature | : | **RAMON T. DIOKNO** |
| Title | : | Chief Finance Officer |
| Date | : | August 23, 2021 |
| Signature | : | **ODETTE A. JAVIER** |
| Title | : | Vice President/Assistant Corporate Secretary |
| Date | : | August 23, 2021 |

**LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES**
**STATEMENTS OF INCOME**
**FOR THE QUARTERS AND PERIODS ENDED JUNE 30, 2021 AND 2020**
(With Comparative Figures for 2020)
(Amounts In Thousand , Except Loss Per Share)

| | FOR SECOND QUARTER ENDED JUNE 30 | | | | FOR SIX MONTHS ENDED JUNE 30 | | | |
|---|---|---|---|---|---|---|---|---|
| | | 2021 | | 2020 | | 2021 | | 2020 |
| **REVENUES** | | | | | | | | |
| Sale of metals | P | 382,278 | | 260,791 | P | 788,216 | P | 682,993 |
| Service fees and other operating income | | 7,248 | | 13,063 | | 8,865 | | 42,604 |
| | | 389,526 | | 273,854 | | 797,081 | | 725,597 |
| **COSTS AND EXPENSES** | | | | | | | | |
| Mining, milling, roasting, smelting, refining and and other related charges; administrative expenses; depreciation, amortization and depletion; and other charges | | (501,306) | | (520,032) | | (974,516) | | (1,183,165) |
| **INCOME (LOSS) FROM OPERATIONS** | | (111,780) | | (246,178) | | (177,435) | | (457,568) |
| **FINANCE COST, net** | | (2,776) | | (2,772) | | (5,614) | | (5,385) |
| **FOREIGN EXCHANGE GAINS (LOSS), net** | | 625 | | (762) | | 1,882 | | (969) |
| **OTHER INCOME (CHARGES), net** | | 12,057 | | 1,886 | | 16,113 | | 6,871 |
| **SHARE IN NET EARNINGS (LOSSES) OF ASSOCIATES** | | (118) | | 2,157 | | (2,051) | | - |
| **INCOME (LOSS) BEFORE INCOME TAX** | | (101,992) | | (245,669) | | (167,105) | | (457,051) |
| **PROVISION FOR (BENEFIT FROM) INCOME TAX** | | | | | | | | |
| CURRENT | | (1,657) | | (6,770) | | (3,352) | | 2,004 |
| DEFERRED | | (219) | | 3,696 | | (471) | | (2,064) |
| | | (1,876) | | (3,074) | | (3,823) | | (60) |
| **NET INCOME (LOSS)** | P | (100,116) | P | (242,595) | P | (163,282) | P | (456,991) |
| **Attributable to:** | | | | | | | | |
| Stockholders of the parent company | | (100,076) | | (242,548) | P | (163,189) | P | (456,897) |
| Non-controlling interests | | (40) | | (47) | | (93) | | (94) |
| **Net Income / (Loss)** | P | (100,116) | P | (242,595) | P | (163,282) | P | (456,991) |
| **EARNINGS (LOSS) PER SHARE** attributable to stockholders of the parent company | | | | | | | | |
| Basic & Diluted | | (0.001508) | | (0.006883) | | (0.002459) | | (0.006883) |

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

| | | JUNE 30 2021 | | *DECEMBER 31 2020 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **CURRENT ASSETS** | | | | |
| Cash and cash equivalent | P | 120,889 | P | 31,446 |
| Receivables, net | | 92,622 | | 79,438 |
| Contract asset | | - | | - |
| Inventories, net | | 561,926 | | 550,965 |
| Advances to suppliers and contractors | | 396,855 | | 298,659 |
| Other current assets | | 926,742 | | 879,374 |
| **Total current assets** | | 2,099,034 | | 1,839,882 |
| **NON-CURRENT ASSETS** | | | | |
| Property, plant and equipment | | 6,566,000 | | 6,650,419 |
| Available-for-sale financial assets | | 67,915 | | 67,915 |
| Investments and advances in associates | | 538,779 | | 557,847 |
| Mine exploration cost | | 6,862,885 | | 6,827,286 |
| Deferred income tax assets | | 374,891 | | 374,891 |
| Other noncurrent assets | | 90,261 | | 92,170 |
| **Total non-current assets** | | 14,500,731 | | 14,570,528 |
| **TOTAL ASSETS** | P | 16,599,765 | P | 16,410,410 |
| **LIABILITIES AND EQUITY** | | | | |
| **CURRENT LIABILITIES** | | | | |
| Trade and other payables | P | 2,651,979 | P | 2,280,406 |
| Short-term borrowings | | 185,900 | | 185,984 |
| Unclaimed dividends | | 26,693 | | 26,693 |
| Income tax payable | | 47 | | 7 |
| **Total current liabilities** | | 2,864,619 | | 2,493,091 |
| **NON-CURRENT LIABILITIES** | | | | |
| Advances from Far Southeast Services Limited | | 6,167,360 | | 6,131,772 |
| Long-term borrowings | | (833) | | 422 |
| Lease Liability | | 861 | | 861 |
| Liability for mine rehabilitation cost | | 170,945 | | 169,349 |
| Retirement benefit obligations | | 1,493,315 | | 1,547,663 |
| Deferred income tax liabilities | | 211,446 | | 211,917 |
| Stock subscriptions payable | | - | | - |
| Deposit for future stock subscriptions | | 69,200 | | 69,200 |
| **Total non-current liabilities** | | 8,112,294 | | 8,131,185 |
| **TOTAL LIABILITIES** | | 10,976,913 | | 10,624,276 |
| **EQUITY** | | | | |
| Capital stock | | 6,635,687 | | 6,635,685 |
| Additional paid-in capital | | 5,077,033 | | 5,077,033 |
| Re-measurement loss on retirement plan | | (206,924) | | (206,924) |
| Cumulative changes in fair values of AFS investments | | (35,390) | | (35,390) |
| Deficit | | (6,087,298) | | (5,924,109) |
| | | 5,383,108 | | 5,546,295 |
| **Non-controlling interests** | | 239,744 | | 239,838 |
| **Total equity** | | 5,622,852 | | 5,786,133 |
| **TOTAL LIABILITIES AND EQUITY** | P | 16,599,765 | P | 16,410,409 |

*- **A U D I T E D**

# LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF CASH FLOWS
## FOR THE SIX MONTHS ENDED JUNE 30, 2021

(With Comparative Figures for 2020)
(Amounts in Thousand Pesos)

| | JUNE 2021 | JUNE 2020 | FOR SIX MONTHS ENDED JUNE 30 2021 | FOR SIX MONTHS ENDED JUNE 30 2020 |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Income/ (Loss) before tax | P (101,992) | P (245,669) | P (167,105) | P (457,051) |
| Adjustments for: | | | | |
| Depreciation and depletion | 5,667 | 13,013 | 208,795 | 160,609 |
| Equity in net losses (income) of affiliated companies | 118 | (417) | 177 | - |
| Foreign exchange losses (income), net | (625) | 762 | (1,882) | 969 |
| Provision for retirement benefit cost | - | - | 973 | 973 |
| Loss on sale of asset | (0) | - | (0) | (0) |
| Interest income | (7) | (17) | (12) | (32) |
| Interest expense | 2,776 | 2,772 | 5,614 | 5,385 |
| Provision for income tax | 1,876 | 3,074 | 3,823 | 60 |
| Operating income before working capital changes | (92,187) | (226,482) | 50,382 | (289,087) |
| Decrease (Increase) in: | | | | |
| Receivables and advances to suppliers | (91,430) | (68,805) | (105,251) | (211,661) |
| Inventories and PPE | 68,957 | 116,371 | (3,840) | 71,247 |
| Prepayments and other assets | (48,771) | 41,167 | (45,459) | 39,767 |
| Increase (Decrease) in: | | | | |
| Accounts payable and accrued expenses | 316,895 | 186,040 | 367,985 | 481,036 |
| Liability for mine rehabilitation cost | 1,121 | 159 | 1,596 | 2,069 |
| Deferred income tax liability, net | (220) | (234) | (471) | (445) |
| Cash generated (used) from operations | 154,365 | 48,217 | 264,943 | 92,926 |
| Retirement benefits paid | (29,017) | (8,080) | (56,335) | (25,799) |
| Interest received | 7 | 17 | 12 | 32 |
| Income tax recovered (paid) | - | - | - | - |
| Net cash provided by (used in) operating activities | 125,356 | 40,153 | 208,620 | 67,158 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Investments, net | 20,577 | 320 | 13,775 | (0) |
| Acquisition of property and equipment | (77,544) | (38,393) | (131,497) | (83,452) |
| Exploration costs and other assets | (19,124) | (20,584) | (35,599) | (38,018) |
| Net cash used in investing activities | (76,091) | (58,657) | (153,321) | (121,471) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | |
| Proceeds from: | | | | |
| Borrowings | 12,334 | 13,570 | 35,588 | 30,718 |
| Disposal of Assets | - | - | - | - |
| Payments of: | | | | |
| Borrowings | (1,255) | (78) | (1,339) | (13,245) |
| Interest | (37) | (46) | (106) | (894) |
| Capital and other reserves | 2 | - | 1 | (1) |
| Net cash provided by financing activities | 11,044 | 13,446 | 34,144 | 16,578 |
| NET INCREASE (DECREASE) IN CASH | 60,309 | (5,058) | 89,443 | (37,735) |
| Beginning of period | 31,446 | 62,623 | 31,446 | 62,623 |
| CASH AT END OF THE PERIOD | P 91,755 | P 57,566 | P 120,889 | P 24,888 |

# LEPANTO CONSOLIDATED MINING COMPANY
# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
# FOR THE PERIOD ENDED JUNE 30, 2021 & 2020
**(Amounts in thousands)**

| | JUNE 30 2021 | JUNE 30 2020 |
|---|---|---|
| Authorized - P 6.64 billion | | |
| Share capital at par value | P 6,637,393 | P 6,637,393 |
| Subscribed capital (net of subscriptions receivable) | (1,707) | (1,707) |
| Share premium | 5,077,033 | 5,077,033 |
| Cumulative changes in fair values of AFS investments | (35,390) | 58,283 |
| Re-measurement loss on retirement plan | (206,924) | (4,728) |
| Retained earnings | | |
| Beginning balance | (5,924,109) | (5,173,166) |
| Net Loss for the period | (163,189) | (214,349) |
| | (6,087,298) | (5,387,515) |
| **EQUITY ATTRIBUTABLE TO THE STOCKHOLDERS OF THE PARENT COMPANY** | 5,383,107 | 6,378,759 |
| **NON-CONTROLLING INTERESTS** | 239,744 | 241,825 |
| | **P 5,622,851** | **P 6,620,584** |

ANNEX “E”

**LEPANTO CONSOLIDATED MINING COMPANY**

NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2021 and DECEMBER 31, 2020

## Note 1 - General information

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

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

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

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

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

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

On November 21, 2006, the Parent Company was registered with the BOI under Executive Order No. 226 as new export producer of copper-gold concentrate on a non-pioneer status for its copper-gold flotation project located also in Mankayan, Benguet, Philippines. This registration entitles the Company to ITH for four (4) years, which can be further extended for another three (3) years subject to compliance with certain conditions, and duty-free importation of equipment, spare parts and accessories for five (5) years. The copper-gold flotation operations were suspended in 2009 in view of the sharp decline in copper prices, of which the BOI was notified. In August 2017, the Company notified the BOI that it will resume copper-gold flotation operations in the fourth quarter of 2017.

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

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

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

MPSA No. 001-90-CAR was jointly executed by the Company and subsidiary Far Southeast Gold Resources, Inc. (FSGRI) on March 3, 1990 with the Philippine Government, through the Department of Environment and Natural Resources. The MPSA has a term of 25 years, renewable for another term not exceeding 25 years under the same terms and conditions. The Company and FSGRI filed an application for its renewal on June 4, 2014. The application for renewal of the mining rights are still in pending approval as at December 31, 2020.

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

## Note 2 – Compliance with Generally Accepted Accounting Principles

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

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

## Note 3 – Cash and Cash Equivalents

| | 06/30/2021 | 12/31/2020 |
|---|---|---|
| Cash on hand | 4,836 | 4,079 |
| Cash in banks | 116,053 | 27,367 |
| | 120,889 | 31,446 |

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

**Note 4 – Receivables**

| | 06/30/2021 | 12/31/2020 |
|---|---|---|
| Trade | 61,019 | 53,608 |
| Nontrade | 47,286 | 41,529 |
| Advances to officers and employees | 2,961 | 2,607 |
| | 111,266 | 97,744 |
| Less: Allowance for impairment losses | (18,645) | (18,645) |
| | 92,622 | 79,099 |

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

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

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

**Note 5 – Inventories**

| | 06/30/2021 | 12/31/2020 |
|---|---|---|
| Parts and supplies | 561,926 | 547,510 |
| Mine Products | 0 | 3,455 |
| | 561,926 | 550,965 |

Parts and supplies include materials and supplies stored in Metro Manila, Bulacan, Mankayan, and Leyte. The decrease in the amount of P14.42 million represents withdrawals of stocks used in operations.

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

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

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

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

## Note 7 – Other current assets

| | 06/30/2021 | 12/31/2020 |
|---|---|---|
| Input VAT | 786,491 | 776,498 |
| Deferred costs | 2,042 | 10,190 |
| Prepayments | 136,481 | 89,941 |
| Others | 2,613 | 2,745 |
| | 927,626 | 879,374 |

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

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

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

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

## Note 8 – Trade and other payables

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

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

- Trade payables include import and local purchases of equipment and inventories such as various parts and supplies used in the operations of the Group. These are non-interest bearing and are normally settled on sixty (60) days' terms.
- Accrued expenses and other liabilities are noninterest-bearing and are normally settled on a 30 to sixty (60) days' term. These include other operating expenses that are payable to various suppliers and contractors.
- Trust receipts refer to arrangements of the Group with banks related to its importations of inventories and various equipment which are interest bearing and have an average term of ninety (90) to one hundred twenty (120) days.
- Employee related expenses include unclaimed wages, accrued vacation and sick leave and accrued payroll. These are non-interest bearing and are payable in thirty (30) days' term.
- Unclaimed dividends pertain to unpaid cash dividends declared by the Parent Company to its stockholders. These are non-interest bearing and are payable upon demand of the payee.
- Payable to regulatory agencies include withholding taxes and other government contributions related to employees of the Group. These are non-interest bearing and are normally remitted within ten (10) days from the close of each month.

- Accrued utilities pertain to unpaid billings for power, communication, light and water charges. These are non-interest bearing and are normally settled within thirty (30) to ninety (90) days.
- Accrued production taxes pertain to excise taxes on metal sales. These are non-interest bearing and are settled within fifteen (15) days after the end of each quarter.

## Note 9 - Business Segments

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

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

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

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

Insurance activities – This segment derives its revenues from premiums from short duration insurance contracts, which are recognized over a period of the contracts using the $24^{th}$ month method.

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

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

The assets, liabilities and results of the business segments of the LCMC Group for the 2nd quarter of the year 2021 and 2020 are as follow:

**Mining activities**

| | 2021 (in thousands) | 2020 (in thousands) |
|---|---|---|
| CURRENT ASSET | 2,041,000 | 1,994,166 |
| NON-CURRENT ASSET | 14,497,909 | 14,461,275 |
| CURRENT LIABILITES | 3,018,827 | 2,467,504 |
| NON-CURRENT LIABILITIES | 8,060,740 | 7,677,913 |
| GROSS INCOME | 788,216 | 422,086 |
| NET INCOME / (LOSS) | (158,968) | (219,013) |

**Investment activities**

| | 2021 (in thousands) | 2020 (in thousands) |
|---|---|---|
| CURRENT ASSET | 20,464 | 236 |
| NON-CURRENT ASSET | 90,800 | 206,112 |
| CURRENT LIABILITES | 90,301 | 89,910 |
| NON-CURRENT LIABILITIES | 18,763 | 18,763 |
| GROSS INCOME | - | - |
| NET INCOME / (LOSS) | 6,213 | (54) |

**Hauling and Leasing Activities**

| | 2021 (in thousands) | 2020 (in thousands) |
|---|---|---|
| CURRENT ASSET | 218,769 | 192,643 |
| NON-CURRENT ASSET | 390,339 | 405,727 |
| CURRENT LIABILITES | 34,621 | 16,967 |
| NON-CURRENT LIABILITIES | 138,207 | 134,113 |
| GROSS INCOME | 10,559 | 8,142 |
| NET INCOME / (LOSS) | (572) | 256 |

**Drilling Activities**

| | 2021 (in thousands) | 2020 (in thousands) |
|---|---|---|
| CURRENT ASSET | 222,988 | 266,003 |
| NON-CURRENT ASSET | 29,936 | 70,042 |
| CURRENT LIABILITES | 193,370 | 231,318 |
| NON-CURRENT LIABILITIES | 17,146 | 20,154 |
| GROSS INCOME | 10,581 | 28,944 |
| NET INCOME / (LOSS) | (7,904) | 6,571 |

## Note 10 – Seasonality

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

LEPANTO CONSOLIDATED MINING CO.

## *AGING OF ACCOUNTS RECEIVABLE - TRADE*

AS OF JUNE 30, 2021

| ***C U S T O M E R S*** | ***CURRENT*** | ***OVER 30 DAYS*** | ***OVER 60 DAYS*** | ***TOTAL*** |
|---|---|---|---|---|
| **HERAEUS LTD.** | 47,161,214 | - | - | 47,161,214 |
| **LOUIS DREYFUS COMPANY** | - | | | - |
| **OPEN MINERAL AG** | 1,397,506 | | | 1,397,506 |
| | - | - | - | - |
| | 48,558,719 | - | - | 48,558,719 |

**MANAGEMENT’s DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULT OF OPERATIONS**

As of June 30, 2021

Consolidated revenues for the second quarter of 2021 amounted to P389.5 million compared with P273.9 million in 2020. Consolidated net loss decreased to P100.1 million versus P242.6 million the previous year.

For the first half of 2021, combined revenues reached P797.1 million compared with P725.6 million for the same period in 2020. Consolidated net loss significantly decreased to P163.3 million, better than last year’s loss of P457.0 million.

**Mining Operations**

April – June 2021 versus April – June 2020

Dore production contained 4,146 ounces of gold and 11,016 ounces of silver versus last year’s 3,228 ounces and 9,375 ounces, respectively.

Metal sales went up by P121.5 million to P382.3 million because of the higher production and better metal prices. Net loss totaled P104.2 million compared with last year’s P210.0 million.

Gold price averaged US$1,815.5 versus US$1,737.3/oz while silver price averaged US$26.54/oz. versus US$17.37/oz. the preceding year. The P/US$ exchange rate averaged P48.17/US$1 compared with P50.40/US$1 last year.

Tonnage milled increased by 15,810 tonnes to 113,572 tonnes as last year’s production was affected by the prolonged lockdown. Milling cost went down from P83.3 million to P81.9 million; depletion and depreciation increased by a total of P 5.0 million to P102.8 million on account of the higher production and the acquisition of additional equipment, respectively.

January – June 2021 versus January – June 2020

Metal production in the form of dore consisted of 8,649 oz of gold and 34,100 oz of silver. Last year’s metal production included gold copper concentrates (suspended in March 2020) and totaled 7,861 oz. of gold; 20,733 oz. of silver; and 618,442 lbs. of copper.

The higher production and metal prices caused metal revenue to increase from P682.99 million to P788.22 million; and combined with the lower costs, contributed to the 65% decrease in net loss from P454.6 million to P158.7 million.

Gold price averaged US$1,796.56/oz. versus US$1,630.64/oz. last year, while silver price averaged US$26.30/oz. versus US$17.41/oz. Copper price averaged US$2.71/lb last year. The P/US$ exchange rate averaged P48.23/US$1 compared with P50.66/US$1 last year.

Largely due to the suspension of copper operations, total cost and expenses decreased by 14% to P951.5 million from P1,105.4 million on account of: 56,375 tonne-drop in the tonnes broken causing an 11% reduction in mining cost; decrease of milling tonnage to 195,884 tonnes from 222,496 tonnes and of milling cost from P181.21 million to P165.16 million; reduction in depletion and depreciation from P219.2 million to P206.2 million; and overhead and administrative costs from P257.7 million to P213.9 million.

## BALANCE SHEET MOVEMENTS

June 30, 2021 versus December 31, 2020

Cash and cash equivalents increased by P89.4 million due mainly to timing of disbursements for operational and capital spending. Receivables increased by P13.2 million representing the unpaid portion of a dore shipment. The increase in advances to suppliers and contractors of P98.2 million represent outstanding deliverables from various suppliers. Other current assets increased by P47.4 million resulting from unamortized operating development expenses.

Trade and other payables increased by P371.6 million due to mine development, mill upgrade and exploration expenditures.

Deficit increased by P163.2 million representing the net loss from operations during the period.

## CAPITAL EXPENDITURES

Capital expenditures for the quarter totaled P96.7 million, of which P35.6 million went to exploration; P53.1 million to machinery and equipment; P3.8 million to mine development; and P4.1 million to maintenance of tailings storage facility 5A.

For the first semester, total capital expenditures amounted to P164.8 million; of which P59.3 million went to exploration; P85.0 million to machinery and equipment; P14.0 million to mine development; and P6.4 million to maintenance of tailings storage facility 5A.

## OUTLOOK FOR THE YEAR

Lepanto is presently focusing on gold dore production from its Victoria and Teresa deposits. Exploration drilling is concentrated on targeting extensions of the said deposits. Meantime, the mill plant and CIP are undergoing rehabilitation to improve gold and silver recoveries and increase throughput. There are no plans for any significant changes in the number of employees or purchase of significant equipment. Raising of capital may be resorted to support operations, further exploration (including of copper areas), and development.

## SUBSIDIARIES

The key performance indicator used for the subsidiaries is net income for the six months ended June 2021 versus the same period the previous year.

Diamond Drilling Corporation of the Philippines reported a net loss of P7.9 million this year versus P6.6 million net income last year. Lepanto Investment and Development Corporation reported a net income of P6.2 million compared with last year's net loss of P53.7 thousand. Shipside, Incorporated registered a net loss of P572 thousand against last year's net income of P0.26 million.

* - **KEY PERFORMANCE INDICATORS-LCMC**

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

ANNEX “H”

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

## Credit Risk

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

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

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

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

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

There is no significant exposure to credit risk.

## Market Risk

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

## Foreign Exchange Risk

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

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

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

Foreign currency-denominated liabilities of Parent Company totaled US$1.02 million at the end of second quarter this year. This amount was revalued at the start of the year based on an exchange rate of P48.023/US$. No revaluation of said liabilities during the current year. Foreign exchange gain or losses due to the movement of the Philippine peso vis a vis the US$ are recognized at year-end on outstanding US$ denominated assets and liabilities. The gain/(loss) on Philippine peso appreciation/(depreciation) against the dollar as a result of settlement of liabilities is reflected as foreign exchange gain/(loss) in the financial statements.

As of the end of the quarter, Far Southeast Gold Resources, Inc., a 60%-owned subsidiary, had total foreign currency-denominated liabilities of US$145.4 million. Said foreign currency liabilities are converted to Philippine peso at the time of their incurrence. No revaluation of said liabilities is done on account of the appreciation/depreciation of the Philippine peso; hence, no foreign exchange gain/loss is recognized for the quarter ended. Settlement of these obligations will be at their recorded value based on the agreement with the creditor/investor.

**Interest Rate Risk**

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

**Liquidity Risk**

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

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

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

**Fair Values**

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

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

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

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

ANNEX "I" WP

**LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES**
**FINANCIAL RATIOS**
**PURSUANT TO SRC RULE 68, AS AMENDED**
**JUNE 30, 2021**
**(With Comparative Annual Figures for 2020)**

| | AS OF 2ND QUARTER JUNE 2021 | YEAR ENDED DECEMBER 2020 |
|---|---|---|
| Profitability Ratios: | | |
| Return on assets | -0.98% | -4.58% |
| Return on equity | -2.90% | -12.98% |
| Gross profit margin | -10.84% | -31.74% |
| Net profit margin | -20.49% | -50.98% |
| Liquidity and Solvency Ratios: | | |
| Current ratio | 0.73:1 | 0.74:1 |
| Quick ratio | 0.21:1 | 0.16:1 |
| Solvency ratio | -0.01:1 | -0.07:1 |
| Financial Leverage Ratios: | | |
| Asset to equity ratio | 2.95:1 | 2.84:1 |
| Debt to equity ratio | 1.95:1 | 1.84:1 |
| Interest coverage ratio | 29.77:1 | 11.18:1 |