108142018003237

SECURITIES AND EXCHANGE COMMISSION

SECBuilding,EDSA,Greenhills,MandaluyongCity,MetroManila,Philippines
Tel:(632) 726-0931 to 39 Fax:(632) 725-5293 Email: mis@sec.gov.ph

Barcode Page
The following document has been received:

Receiving Officer/Encoder : Buen Jose Mose - COS
Receiving Branch : SEC Head Office
Receipt Date and Time : August 14, 2018 03:13:33 PM
Received From : Head Office

Company Representative

Doc Source

Company Information

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

Document Information

Document ID	108142018003237
Document Type	17-Q (FORM 11-Q:QUARTERLY REPORT/FS)
Document Code	17-Q
Period Covered	June 30, 2018
No. of Days Late	0
Department	CFD
Remarks	

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

12 31

Month Day

Fiscal Year

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 Amount of Borrowings

Total no. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

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

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended: **June 30, 2018**

2. Commission identification number: **101** 3. BIR Tax Identification No.: **000-160-247**

4. Exact name of issuer as specified in its charter:

LEPANTO CONSOLIDATED MINING COMPANY

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

6. Industry Classification Code: [ ] (SEC Use Only)

7. Address of issuer's principal office:

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 13, 2018
Signature	:	**ODETTE A. JAVIER**
Title	:	Vice President/Assistant Corporate Secretary
Date	:	August 13, 2018

LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES
STATEMENT OF INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 2018

(With Comparative Figures for 2017)
(Amounts In Thousand , Except Loss Per Share)

	FOR THE SECOND QUARTER		FOR SIX MONTHS ENDED JUNE 30	
	2018	2017	2018	2017
REVENUES				
Sale of metals	P 523,761	P 303,135	P 948,539	P 652,359
Service fees and other operating income	205	22,227	874	48,579
	523,966	325,362	949,413	700,938
COSTS AND EXPENSES				
Mining, milling, smelting, refining and and other related charges; administrative expenses; depreciation, amortization and depletion; and other charges	(671,570)	(537,833)	(1,307,225)	(1,066,190)
LOSS FROM OPERATIONS	(147,604)	(212,471)	(357,812)	(365,252)
FINANCE COST, net	(5,779)	(5,847)	(9,082)	(10,828)
FOREIGN EXCHANGE GAINS (LOSS) - net	(402)	(4,385)	1,869	(5,743)
OTHER INCOME, net	4,677	6,385	10,204	2,856
SHARE IN NET LOSSES OF ASSOCIATES	(291)	(257)	(5,994)	(734)
LOSS BEFORE INCOME TAX	(149,399)	(216,575)	(360,815)	(379,701)
PROVISION FOR (BENEFIT FROM) INCOME TAX				
CURRENT	488	33	720	74
DEFERRED	15,741	(30)	15,739	(62)
	16,229	3	16,459	12
NET LOSS	P (165,628)	P (216,578)	P (377,274)	P (379,713)
Attributable to:				
Stockholders of the parent company	(165,564)	(216,547)	P (377,175)	P (386,625)
Non-controlling interests	(64)	(31)	(99)	6,912
Net Loss	P (165,628)	P (216,578)	P (377,274)	P (379,713)
LOSS PER SHARE attributable to stockholders of the parent company				
Basic & Diluted	(0.00249)	(0.00422)	(0.00568)	(0.00753)
	(-P165,564,093 / 66,375,758,097 shares)	(-P216,547,366 / 51,355,248,170 shares)	(-(P377,174,974) / 66,375,758,097 shares)	(-P386,626,127 / 51,355,248,170 shares)

ANNEX "B"

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

	JUNE 30 2018	*DECEMBER 31 2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalent	P 60,491	P 268,575
Receivables, net	235,942	88,973
Inventories, net	564,764	536,844
Advances to suppliers and contractors	216,435	154,816
Other current assets	775,187	711,488
Total current assets	1,852,819	1,760,695
NON-CURRENT ASSETS		
Property, plant and equipment, net	7,345,212	7,423,203
Available-for-sale financial assets	197,931	197,931
Investments and advances in associates	583,234	567,912
Mine exploration cost	6,853,959	6,620,301
Deferred income tax assets	362,277	378,020
Other noncurrent assets	145,927	78,379
Total non-current assets	15,488,540	15,265,747
Total assets	P 17,341,359	P 17,026,442
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Trade and other payables	P 1,199,356	P 1,236,417
Short-term borrowings	229,216	213,607
Unclaimed dividends	26,694	26,695
Income tax payable	720	271
Total current liabilities	1,455,986	1,476,990
NON-CURRENT LIABILITIES		
Advances from Far Southeast Services Limited	6,003,859	5,982,829
Long-term borrowings	66,384	130,481
Liability for mine rehabilitation cost	104,188	102,690
Retirement benefit obligations	1,485,901	1,533,431
Deferred income tax liabilities	217,121	217,125
Stock subscriptions payable	11,443	11,443
Deposit for future stock subscriptions	69,200	69,200
Total non-current liabilities	7,958,096	8,047,199
Total liabilities	9,414,082	9,524,189
EQUITY		
Capital stock	6,635,685	5,833,386
Additional paid-in capital	5,077,033	5,077,033
Re-measurement loss on retirement plan	(297,053)	(297,053)
Cumulative changes in fair values of AFS investments	47,856	47,856
Deficit	(3,775,707)	(3,398,532)
	7,687,814	7,262,691
Non-controlling interests	239,463	239,562
Total equity	7,927,277	7,502,253
Total liabilites and equity	P 17,341,359	P 17,026,442

*- **AUDITED**

LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2018

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

	FOR THE QUARTER ENDED ENDED JUNE 30		FOR SIX MONTHS ENDED JUNE 30	
	2018	2017	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES				
Loss before tax	P (149,399)	F (216,575)	P (360,815)	F (379,701)
Adjustments for:				
Depreciation and depletion	215,668	187,641	403,819	366,970
Equity in net losses of affiliated companies	291	257	688	735
Foreign exchange losses (income), net	699	(1,358)	551	-
Provision for retirement benefit cost	1,111	1,263	2,112	2,531
Loss on sale of asset	-	-	-	-
Interest income	(88)	(54)	(201)	(101)
Interest expense	5,779	5,847	9,082	10,828
Provision for income tax	(16,229)	(3)	(16,459)	(12)
Operating income (loss) before changes in working ca	57,831	(22,982)	38,778	1,250
Decrease (Increase) in:				
Receivables and advances to suppliers	(121,089)	(26,325)	(224,598)	(118,361)
Inventories and PPE	93,007	(84,174)	159,674	(81,626)
Prepayments and other assets	(54,242)	(66,719)	(131,248)	(85,910)
Increase (Decrease) in:				
Accounts payable and accrued expenses	105,164	405,033	(36,652)	(108,809)
Liability for mine rehabilitation cost	749	749	1,498	1,498
Deferred income tax liability, net	15,742	(30)	15,739	(62)
Cash generated from (used in) operations	97,161	205,552	(176,809)	(392,020)
Retirement benefits paid	(21,679)	(19,487)	(49,642)	(48,919)
Interest received	88	54	201	101
Net cash provided by (used in) operating activities	75,570	186,120	(226,250)	(440,838)
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of property and equipment	(265,745)	(160,712)	(513,422)	(295,942)
Unrecovered exploration costs and other assets	(117,011)	(77,629)	(233,658)	(85,016)
Net cash used in investing activities	(382,756)	(238,341)	(747,079)	########
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from:				
Borrowings	6,737	9,168	21,030	35,279
Payments of:				
Borrowings	(27,870)	(27,019)	(48,488)	305,610
Interest	(4,747)	(6,030)	(9,595)	(11,823)
Capital and other reserves	-	(2,512)	802,299	499,988
Net cash provided by (used in) financing activities	(25,880)	(26,393)	765,246	1,884,816
NET INCREASE (DECREASE) IN CASH	(333,064)	(78,614)	(208,083)	7,258
Beginning of period	393,556	172,106	268,575	86,234
CASH AT END OF THE PERIOD	P 60,491	F 93,492	P 60,491	F 93,492

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

	JUNE 30 2018	JUNE 30 2017
Authorized - P 6.64 billion		
Share capital at par value	P 6,637,393	P 5,135,525
Subscribed capital (net of subscriptions receivable)	(1,707)	334,181
Share premium	5,077,033	4,501,219
Cumulative changes in fair values of AFS investments	47,856	38,665
Re-measurement loss on retirement plan	(297,053)	(416,988)
Retained earnings		
Beginning balance	(3,398,532)	(2,469,268)
Net loss for the period	(377,175)	(386,625)
	(3,775,707)	(2,855,893)
EQUITY ATTRIBUTABLE TO THE STOCKHOLDERS OF THE PARENT COMPANY	7,687,815	6,736,708
NON-CONTROLLING INTERESTS	239,463	257,236
	P 7,927,277	P 6,993,944

LEPANTO CONSOLIDATED MINING COMPANY

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

Note 1 - General information

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

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

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

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

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

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

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

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

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

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

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

MPSA No. 001-90-CAR was jointly executed by the Company and subsidiary Far Southeast Gold Resources, Inc. (FSGRI) on March 3, 1990 with the Philippine Government, through the Department of Environment and Natural Resources. The MPSA has a term of 25 years, renewable for another term not exceeding 25 years under the same terms and conditions. The Company and FSGRI filed an application for its renewal on June 4, 2014. The application for renewal of the mining rights are still pending approval as at December 31, 2017 and 2016.

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

	06/30/2018	12/31/2017
Cash on hand	**2,315**	3,169
Cash in banks	**58,175**	265,405
	60,491	268,575

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

Note 4 – Receivables

	06/30/2018	12/31/2017
Trade	**190,439**	34,528
Nontrade	**53,882**	64,451
Advances to officers and employees	**6,355**	4,727
	250,676	103,706
Less: Allowance for impairment losses	**14,734**	14,734
	235,942	88,973

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

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

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

Note 5 – Inventories

	06/30/2018	12/31/2017
Parts and supplies	**513,318**	465,389
Mine Products	**51,446**	71,455
	564,764	536,844

Parts and supplies include materials and supplies stored in Metro Manila, Bulacan, Mankayan, and Leyte. The increase in the amount of P40.5 million represents restocking of imported materials for use in operations.

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

Note 6 – Advances to suppliers and contractors

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

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

Note 7 – Other current assets

	06/30/2018	12/31/2017
Input VAT	**709,038**	676,624
Deferred costs	**(727)**	1,232
Prepayments	**63,186**	32,178
Others	**3,688**	1,454
	775,186	711,488

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

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

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

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

Note 8 – Trade and other payables

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

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

- Trade payables include import and local purchases of equipment and inventories such as various parts and supplies used in the operations of the Group. These are non-interest bearing and are normally settled on sixty (60) days' terms.
- Accrued expenses and other liabilities are noninterest-bearing and are normally settled on a 30 to sixty (60) days' term. These include other operating expenses that are payable to various suppliers and contractors.
- Trust receipts refer to arrangements of the Group with banks related to its importations of inventories and various equipment which are interest bearing and have an average term of ninety (90) to one hundred twenty (120) days.
- Employee related expenses include unclaimed wages, accrued vacation and sick leave and accrued payroll. These are non-interest bearing and are payable in thirty (30) days' term.
- Unclaimed dividends pertain to unpaid cash dividends declared by the Parent Company to its stockholders. These are non-interest bearing and are payable upon demand of the payee.

- Payable to regulatory agencies include withholding taxes and other government contributions related to employees of the Group. These are non-interest bearing and are normally remitted within ten (10) days from the close of each month.
- Accrued utilities pertain to unpaid billings for power, communication, light and water charges. These are non-interest bearing and are normally settled within thirty (30) to ninety (90) days.
- Accrued production taxes pertain to excise taxes on metal sales. These are non-interest bearing and are settled within fifteen (15) days after the end of each quarter.

Note 9 - Business Segments

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

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

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

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

Insurance activities – This segment derives its revenues from premiums from short duration insurance contracts, which are recognized over a period of the contracts using the 24^{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 2^{nd} quarter of the year 2018 and 2017 are as follow:

Mining activities

	2018 (in thousands)	2017 (in thousands)
CURRENT ASSET	1,683,670	1,600,657
NON-CURRENT ASSET	15,234,206	14,587,815
CURRENT LIABILITES	1,449,757	1,484,486
NON-CURRENT LIABILITIES	7,900,072	7,856,481
GROSS INCOME	948,539	652,359
NET INCOME / (LOSS)	(408,301)	(361,024)

Investment activities

	2018 (in thousands)	2017 (in thousands)
CURRENT ASSET	286	146
NON-CURRENT ASSET	205,716	205,678
CURRENT LIABILITES	89,470	89,098
NON-CURRENT LIABILITIES	18,763	18,763
GROSS INCOME	-	-
NET INCOME / (LOSS)	(34)	(68)

Hauling and Leasing Activities

	2018 (in thousands)	2017 (in thousands)
CURRENT ASSET	326	156
NON-CURRENT ASSET	205,716	205,678
CURRENT LIABILITES	89,655	89,156
NON-CURRENT LIABILITIES	18,763	18,763
GROSS INCOME	-	-
NET INCOME / (LOSS)	(179)	(117)

Drilling Activities

	2018 (in thousands)	2017 (in thousands)
CURRENT ASSET	233,843	394,174
NON-CURRENT ASSET	135,627	149,656
CURRENT LIABILITES	201,782	405,023
NON-CURRENT LIABILITIES	33,668	42,128
GROSS INCOME	117,471	145,560
NET INCOME / (LOSS)	35,529	(17,240)

Manufacturing and Trading Activities

	2018 (in thousands)	2017 (in thousands)
CURRENT ASSET	-	39,921
NON-CURRENT ASSET	-	4,161
CURRENT LIABILITES	-	24,190
NON-CURRENT LIABILITIES	-	7,319
GROSS INCOME	-	16,087
NET INCOME / (LOSS)	-	706

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, 2018

CUSTOMERS	*CURRENT*	*OVER 30 DAYS*	*OVER 60 DAYS*	*TOTAL*
HERAEUS LTD.	50,252,003	-	-	50,252,003
LOUIS DREYFUS COMPANY	98,761,274			98,761,274
CLIVEDEN TRADING	3,241,277			3,241,277
	152,254,553	-	-	152,254,553

MANAGEMENT's DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULT OF OPERATIONS

As of June 30, 2018

Consolidated revenues for the second quarter of 2018 amounted to P524.0 million compared with P325.4 million in 2017. Net loss decreased to P165.6 million versus P216.6 million the previous year.

For the first half of the year, consolidated revenues improved to P949.4 million versus P700.9 million in the same period last year. Net loss totaled P377.3 million compared with P379.7 million in 2017.

Mining Operations

April – June 2018 versus April – June 2017

Copper-gold concentrate produced from the rehabilitated copper flotation plant totaled 2,166 dry metric tons (DMT) containing 5,336 oz. of gold; 19,708 oz. of silver; and 716,892 lbs. of copper. There were no copper operations in the second quarter of last year. Of the copper-gold concentrate produced, 277 DMT remained in inventory with an estimated value of around P51.4 million.

Combined with the dore production of 2,193 oz. of gold and 3,384 oz. of silver, total gold production amounted to 7,529 oz. versus 4,761 oz. last year; and total silver production was 23,092 oz. versus 5,959 oz. last year. Metal sales went up by P220.7 million to P523.8 million due largely to copper-gold concentrate production. Consequently, net loss decreased to P183.4 million compared with last year's P215.5 million.

Gold price averaged US$1,332.45/oz. versus US$1,257.36/oz. while silver price averaged US$16.77/oz. versus US$16.86/oz. the preceding year. The P/US$ exchange rate averaged P51.44/US$1 compared with P49.86/US$1 last year.

Cost and expenses increased by 38% to P704.3 million from P509.4 million last year as the tonnage mined increased by 74,033 tonnes and tonnage milled increased to 138,960 tonnes from 54,790 tonnes in 2017. Mining cost went up from P140.2 million to P226.9 million; milling cost increased by P51 million to P102.6 million.

Production tax went up by 288% to P23.5 million due to higher metal revenue and increase in tax rate from 2% to 4%. Depletion and depreciation increased by P29.2 million to P196.2 million. Concentrate handling and hauling cost increased to P17.6 million.

Finance cost was unchanged at P5.8 million. Dollar-denominated transactions resulted in a foreign exchange loss of P0.4 million this year compared with a loss of P4.4 million the previous year. Other income increased by P0.9 million mainly arising from rental income.

January – June 2018 versus January – June 2017

A total of 4,711 DMT copper-gold concentrate containing 1,364,024 lbs. of copper, 9,194 ounces of gold and 37,494 ounces of silver was produced in 2018. There were no copper-gold concentrate produced as of June 2017.

Combined with the dore production of 3,372 oz. of gold and 3,875 oz. of silver, total gold production amounted to 12,566 oz. versus 10,322 oz. last year; and total silver production was 41,369 oz. versus 14,149 oz. last year.

Metal sales went up by P296.2 million to P948.5 million due mainly to copper-gold concentrate production. Net loss increased by P47.8 million to P408.1 million compared with last year's P360.3 million.

Gold price averaged US$1,307.58/oz. versus US$1,242.10/oz. while silver price averaged US$16.60/oz. versus US$17.39/oz. the previous year. The P/US$ exchange rate averaged P51.44/US$1 compared with P49.95/US$1 last year.

Cost and expenses increased by 36% to P1,354.7 million from P998.2 million last year due largely to the higher tonnage milled and the resumption of the copper flotation circuit. Mining cost went up by P141.0 million to P429.4 million; milling cost by P90.3 million; and depletion cost by P42.2 million to P296.1 million. Concentrate handling and hauling cost increased by P31.1 million to P36.2 million.

Overhead went up by 5% to P196.7 million from P187.4 million on account of higher cost of lime consumption (P4.5 million) and handling, freight and delivery of materials supplies (P5.0 million). Production tax increased by 204% to P39.7 million due to higher revenue and the increase in the tax rate to 4%.

Finance cost dropped from P10.8 million to P9.1 million as short-term loans were partly settled in the current year. Payment of dollar-denominated loans resulted in a foreign exchange gain of P1.9 million compared with a loss of P5.7 million the previous period. Other income increased to P5.1 million from P2.1 million arising from rental income.

BALANCE SHEET MOVEMENTS

June 30, 2018 versus December 31, 2017

Cash and cash equivalents decreased by P208.1 million on account of capital expenditures and exploration. Receivables increased by P147.0 million representing the unpaid portion of a copper-gold concentrate shipment. Inventories and advances to suppliers went up by 5.2% and 39.8%, respectively, due to increased materials and supplies requirements for operations. Other current assets increased by 9% or P63.7 million due mainly to the increase in Input Value-Added-Tax and prepaid expenses.

The increase in other noncurrent assets of P67.5 million was due mainly to deferred charges awaiting final recording.

Short-term borrowings increased by P15.6 million and long-term borrowings decreased by P64.1 million due to the reclassification to short-term loans. Income tax payable increased by 166% in relation to income earned by a subsidiary.

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

Deficit increased by P377.2 million due to net loss from January to June 2018 operations.

CAPITAL EXPENDITURES

Capital expenditures for the quarter totaled P287.7 million, of which P117 million went to exploration; P115.5 million to machinery and equipment; P53.3 million to mine development; and, P1.9 million to maintenance of tailings storage facility 5A.

For the first semester, total capital expenditures amounted to P542.7 million; of which P233.6 million went to exploration; P175.3 million to machinery and equipment; P129.6 million to mine development; and P4.2 million to maintenance of tailings storage facility 5A.

OUTLOOK FOR THE YEAR

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

The exploration program is currently refocused on ore delineation drilling, the next logical step to gain further confidence in the resource and increase ore reserves. Development of the Copper-Gold Project will continue this year with a view to ramping milling tonnage up to 1,350 metric tonnes per day by 2019.

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

SUBSIDIARIES

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

Diamond Drilling Corporation of the Philippines reported a net income of P35.5 million compared with P17.2 million net loss last year. Lepanto Investment and Development Corporation reported a net loss of P179.2 thousand compared with last year's net loss of P117 thousand. Shipside, Incorporated registered a net income of P1.7 million against last year's net loss of P1.3 million.

* - <u>KEY PERFORMANCE INDICATORS-LCMC</u>

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

LEPANTO CONSOLIDATED MINING COMPANY
Impact of Current Global Financial Condition

Credit Risk

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

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

The Parent Company enters into marketing contracts only with refineries and smelters of established international repute. Since the Parent Company became a primary gold and copper concentrates producer, it has entered into exclusive marketing contracts with Heraeus for gold and Trafigura Beheer BV and Shanghang County Jinshan Trading Co., Ltd. for copper concentrates.
The Group has a significant concentration of credit risk in relation to its trade receivables from Heraeus. Such risk is managed by securing the specific approval of the BOD before entering into contracts with refineries and by assessing the creditworthiness of such refineries.

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

There is no significant exposure to credit risk.

Market Risk

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

Foreign Exchange Risk

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

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

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

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

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

Interest Rate Risk

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

Liquidity Risk

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

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of advances from related parties. The Group considers its available funds and its liquidity in managing its long-term financial requirements. For its short-term funding, the Group's policy is to ensure that there are sufficient capital inflows to match repayments of short-term debt.
As part of its liquidity risk management, the Group regularly evaluates its projected and actual cash flows. It also continuously assesses conditions in the financial markets for opportunities to pursue fund raising activities, in case any requirements arise. Fund raising activities may include bank loans and capital market issues. Accordingly, its loan maturity profile is regularly reviewed to ensure availability of funding through an adequate amount of credit facilities with financial institutions.

Fair Values

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

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

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

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

ANNEX "I"

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

	2ND QUARTER JUNE 2018	YEAR ENDED DECEMBER 2017
Profitability Ratios:		
Return on assets	-2.18%	-5.57%
Return on equity	-4.76%	-12.64%
Gross profit margin	-26.11%	-34.32%
Net profit margin	-39.74%	-58.51%
Liquidity and Solvency Ratios:		
Current ratio	1.27:1	1.19:1
Quick ratio	0.35:1	0.35:1
Solvency ratio	-0.04:1	-0.10:1
Financial Leverage Ratios:		
Asset to equity ratio	2.19:1	2.27:1
Debt to equity ratio	1.19:1	1.27:1
Interest coverage ratio	38.73:1	8.32:1