



THE WEALTH VAULT

A Product of Wealth Securities, Inc.

Company Update

Company Snapshot

Price (P)	1.65
Shares O/S (million)	43,326
Market Cap (P million)	74,434
52-week High (P)	1.82
Low (P)	0.36
12-mo Avg. Value T/O (P'm)	303.21
BV per share (P)	0.13

Financial Highlights

in P'million	2008A	2009A	2010I
Revenues	1,837	1,456	1,299
Operating profit	(384)	(233)	(380)
Pre-tax profit	(735)	(348)	(560)
Net income	(763)	(372)	(561)
EPS (P)	(0.02)	(0.01)	(0.01)
P/E (x)	N/A	N/A	N/A

A = Actual calendar/fiscal year results; C = Bloomberg consensus; I = Annualized interim results; E = Wealth Securities estimates

Price Performance

	1m	6m	12m
LC	+31.0%	+89.7%	+328.6%
PSEi	+0.3%	+0.6%	+1.4%

1-Year Price Chart



Source: Technistock

Corporate Announcement

Miguel A. Agarao

T: 634.5038 local 8164

E: miguel.agarao@wealthsec.com

Clients can access this report at
www.wealthsec.com.

LEPANTO CONSO. MINING CO. (LC/B) NOT RATED

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FSE – Brighter Than Expected

- **Gold Fields discloses exploration targets.** After trading last December 5, Gold Fields (GFI) reported on its growth projects, including the Far Southeast Project (FSE), which is the subject of an option agreement between Lepanto Consolidated Mining (LC) and a wholly-owned subsidiary of GFI. GFI is currently the advanced stages of an exploration program. So far, nearly half of the drilling program has been completed.
- **High quality gold-copper porphyry with significant upside potential.** These are the exact words that GFI used to describe the FSE deposit in its briefing. It is interesting to note that all the drill holes made confirm LC's estimate of the resource as well as the geological model made by GFI. Moreover, all the drills intersected areas of mineralization. In other words, the ore body began where it was expected, plus, the drills have not reached the end of the ore body even after drilling 200 meters below sea level. Not only do the results confirm LC's claim that the FSE deposit has a high grade core, but it also far surpasses GFI's previous estimates of the size of the ore body.
- **FSE exploration target is estimated to be 900M tons of resources with 52M ounces of gold equivalent.** Just to clarify this statement, it means that if the value of all the copper and gold contained in the deposit were divided by the gold price, it would be equal to the value of 52M tons of gold. While this estimate is still preliminary in nature and subject to change as the scoping study progresses, the average estimated grade of the 900M ton resource is so far pegged at 0.77 g/t gold and 0.54% copper. In Au equivalent terms, FSE would have a grade of 1.7 g/t Au. To put this in perspective, this means that the gold content of FSE is more than double that of Philex's Boyongan and Bayugo deposits COMBINED.
- **GFI releases sensitivity analysis for the first time.** Looking at GFI's previous presentations about the FSE deposit, one will notice that the last presentation was the most detailed yet. GFI had made significant progress to put together a sensitivity model of the size of the resource body depending on the cut-off grade used. Assuming a cut-off grade of 0.8 g/t Au is used, it would mean that they would only mine parts of the resource with a grade equal to or higher than 0.8 g/t Au. Thus, it would mean that the average grade of recovered material would be greater than the cut-off grade. Based on GFI's sensitivity analysis, it can mine as much as 25M tpa of resources (cut-off grade = 0.8 g/t Au) to as low as 4M tpa (cut-off grade = 3.0 g/t Au). Below we included our own cash cost sensitivity analysis of the impact of FSE on LC's bottomline once it is in full operations. Note that LC's share in FSE's net income is only 40%. In addition, even though it is likely that the grade of the recovered ore will be higher than the average grade stated, we used 0.77 g/t Au and 0.54% Cu as our base case. In line with that, we also used 25M tpa as our base case capacity target.

25M tons/year @ 0.77 g/t Au and 0.54% Cu	Cash cost/oz. Au		
in millions of PhP	700	850	1,000
Net income of FSE	34,615	32,239	29,864
Net income attributable to LC	13,846	12,896	11,945
EPS attributable to LC	0.32	0.30	0.28

- **Downside risk still present.** While GFI seems to be quite bullish regarding FSE, we would like to highlight some of the risks to the value of FSE which would then directly impact LC's share price:

 - JORC-compliant reserve estimate falls below GFI's current estimates
 - Gold and copper prices drop significantly from current levels
 - Delays in the start-up of the mine
 - Increased cost of mining

- **Upside surprise on the horizon.** While some of the factors above are double-edged swords, there are other catalysts that may serve to increase LC's share price should they actually come to pass.

 - JORC-compliant reserve estimate exceeds GFI's current estimates → if the JORC estimate coincides with their current estimate, FSE would be the 3rd largest gold-copper deposit in the world
 - Gold and copper prices rise significantly from current levels
 - Early start-up of the mine
 - Management assured us that there will be no more rights offerings or equity capital raising in the future since GFI will lend LC its 40% share of capex if it is unable to raise it on its own. This is one of the key concerns of investors and this has been put to rest.
 - **GFI, MVP or other interested parties buying into or increasing their share in LC → very significant catalyst IF IT HAPPENS**

- **Volatility still quite high.** The current uncertainty that is clouding the markets has led to excess volatility even for Philippine stocks. Therefore, we advise investors to be wary of the volatility that comes with holding a stock like LC. While the upside may still be significant, wild price swings will tend to characterize LC's price movement both to the upside and downside.

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