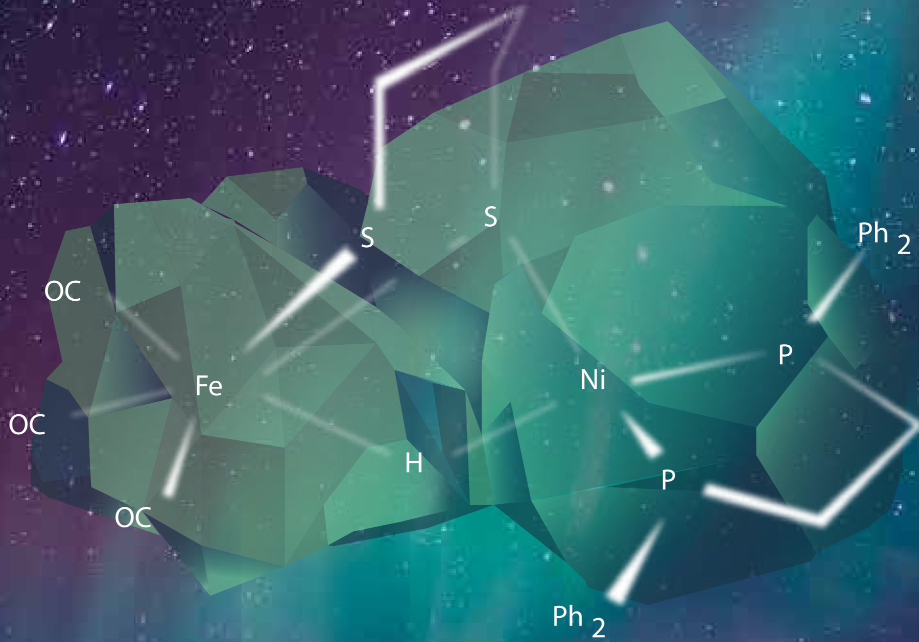
Global Ferronickel Holdings, Inc.



2016
ANNUAL
REPORT

ABOUT THE COVER

PROGRESSION

/prəˈɡrɛʃ(ə)n/
noun, the process of developing or moving gradually towards a more advanced state

We set things in motion. Not through push and shove that might throw the inexperienced off balance, but with constant strides that encourage one to join our cause — that of responsibly mining the earth's bounty for the valuable resources that hold our cities together and sustain our everyday lives.

In bold yet steady and calculated steps, we move forward.

MISSION

To deliver value by carrying out
our activities in an environmentally,
socially and financially responsible manner
for the benefit of the nation,
the communities where we operate,
our employees, customers and
other stakeholders

VISION

To be the leading Filipino company
engaged in the mining of metals and
related businesses

04
WHY NEW THINKING MEANS OPPORTUNITIES

Our Story
At a Glance

06
HOW OUR BOLD SPIRIT IS MAKING A BETTER WORLD

Joint Message from our Leaders
President's Report
Market Review and Outlook
Board of Directors and Management Team

32
HOW OUR MINDFUL ATTENTION IS HELPING US PERFORM

Financial Highlights
Financial Statements

OUR STORY

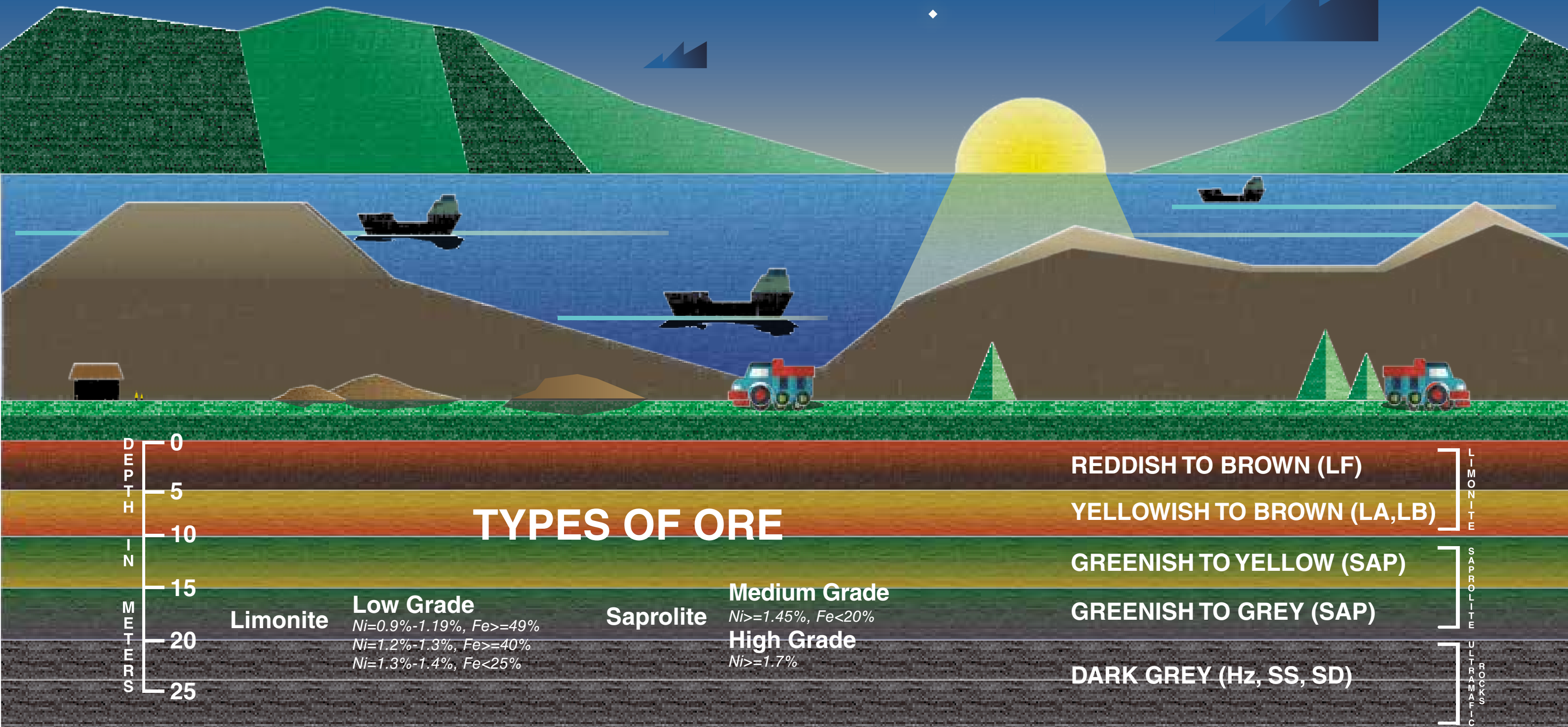
The world is moving away from the old mindset. Climate change discussions and shared value initiatives have presented a new paradigm for extractive industries to adopt. Securing and maintaining a social license to operate is no longer only about minimizing negative impacts. Societal expectations and environmental requirements at the global, national and host community level have grown vastly more complex and critical. At the same time, stakeholder relationships and partnerships have become an enduring priority.

In this new industry landscape, only the companies that can adapt the fastest will survive over time. This is a world with unprecedented challenges and opportunities, and in which FNI is uniquely positioned to thrive. With deep regional linkages and expertise as well as cost leadership, we stand to create value for our customers spanning large and well-established stainless steel producers to international trading companies and all the way to independent ferronickel smelters.

Our simple surface mining method allows for efficient processes and posts low operational risk. This, along with our flexible nickel ore supply, large mineral resources and reserves, high exploration potential and experienced management team, enables us to improve our position in the industry cost curve and ultimately optimizes revenues and profitability. Our established partnerships with multiple mining contractors also mean we can scale production with only minimal capital investment requirements. These fundamental strengths raise our overall competitiveness in a world that is changing at a pace we have never seen before.

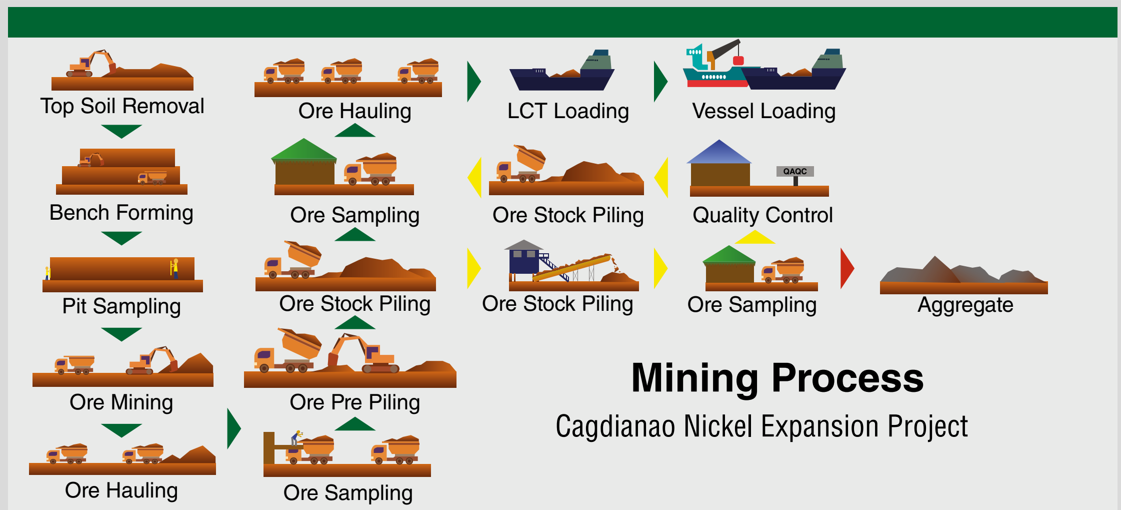
Above all, our commitment to responsible mining is the standard we hold ourselves to. As trusted agents of sustainable development, we continuously reinvent our ways of working to maximize our contribution to social progress and nation-building. From our earliest continuous efforts of creating more vibrant economy for our host communities to building well-functioning community infrastructure and introducing new and innovative environmental solutions, FNI has never stopped evolving **— and we never will.**

AT A GLANCE



WHAT IS SURFACE MINING?

Our lateritic nickel deposits in Cagdianao mine are near-surface, blanket-like layered deposits with minimal overburden and generally five to 30 meters thick. The soft nature of the topsoil and overburden allow us to conduct simple surface mining using trucks and excavators without drilling, blasting, the use of chemicals, or complex waste handling. Because our nickel deposits are shallow, we are able to progressively rehabilitate during the mining operation cycle.



Mineral Production Sharing Agreement	**MPSA No.** 007-92-X (dated January 13, 1992)	**Contract Area**	4,376 hectares Additional mine site of 843 hectares (covered by EPA-000101-XIII) adjacent to our existing mine site	**Mine Site**	Cagdianao Mine located in Sitio Kinalablaban Brgy. Cagdianao Claver, Surigao del Norte
Term	Valid until June 20, 2041	**Mining Method**	Surface mining	**Annual Maximum Production Volume**	5.0 million DMT or 7.7 million WMT
Business Model	**Mining Process:** From topsoil removal to LCT loading outsourced to contractors Quality, grade control, port management and other key processes are maintained in-house	**Distance**	Two to eight kilometers inland between the active mining blocks and the loading causeways	**Customers**	Large and well-established stainless steel producers International trading companies Independent ferronickel smelters
ISO Certification 	Scope of the audit and certification: Environmental Management System -Surigao mine site operations Management of Mining Operation of Nickeliferous Laterite Ore and Other Associated Minerals	**2016 Awards**	Presidential Mineral Industry Environmental Award Titanium Achievement for Surface Mining Operation Most Improved Safety Performance Best Surface Mine Supervisor	**Resources and Reserves**	**Resources:** **Measured and indicated:** 50.3 million DMT **Inferred:** 18.1 million DMT **Reserves:** 23 million DMT or 35.5 million WMT **Exploration method:** Stage-Approach Strategy

JOINT MESSAGE FROM OUR LEADERS

MINING A BETTER TOMORROW

Anniversaries are historic moments for looking back and looking beyond. For celebrating accomplishments, and reaffirming commitment. It is also an opportunity to set goals for the coming year and pursue them.

In 2016, we celebrated the 10th year anniversary of Cagdianao Nickel Expansion Project, the nickel ore mining operations of our subsidiary, Platinum Group Metals Corporation (PGMC). We have come a long way since 2006. In less than a decade since our first commercial shipment in 2007, our Cagdianao mine has set the world record of shipping one of the largest annual production volumes of 6 million wet metric tonnes (WMT) from a single laterite mining project. We have become the second largest nickel ore exporter in the Philippines, accounting for 11% of the country's nickel ore production in 2015, according to Mines and Geosciences Bureau (MGB). Thus far, we have delivered an aggregate of over 37 million WMT of nickel ore to our customers.

To carry on our growth commitment, we have acquired the right to explore an additional 843-hectare land that is adjacent to our Cagdianao mine. We believe that this acquisition presents an opportunity to enhance our nickel ore resources without requiring significant expenditures for mine infrastructure development.

But no year is without its challenges. In 2016, our industry was called to evolve its practices. Nickel prices at the London Metal Exchange (LME) slumped to a 13-year low in February and continued its weakness in the third quarter which brought the annual average price to drop significantly from 2015 and 2014 levels. Despite this headwind, we ended the year with P37.5 million net income and managed to return more than P3 million to shareholders through share buyback.

Our diligent implementation of tactical and strategic moves enabled us to remain profitable and maintain our position as a leading low cost producer. These include the careful review, enhancement and negotiation with our mining contractors, the decision to engage with multiple service providers and the insourcing of barging operations. Such measures drove our cash cost lower on a per unit basis as well as contributed to the strength of our balance sheet and allowed us to minimize the amount of capital tied up in fixed assets. It provided us greater flexibility and improved operational excellence and efficiencies while further reducing operational risks.

On the regulatory front, a number of environmental assessment processes came into effect. The first is the department order by the Department of Environment and Natural Resources (DENR) that requires mining contractors to secure ISO 14001 certification within one year from the date of the order. We were among the first

mining companies to receive the 2015 version of the ISO 14001 Environmental Management System certification. We pride ourselves on being aligned with this latest standard because it means that the tools we use to manage our environmental responsibilities are up to date with modern needs and global practices. The second is the comprehensive mine audit by a multi-sectoral team which found our policies and programs on environmental management and community development as adequate and compliant with laws and regulations. The third is the technical review of the mine audit result by representatives of different DENR agencies which did not find any violation in our mining operations. We were also conferred with esteemed Presidential Mineral Industry Environmental Awards in recognition of what is deemed exemplary achievements in protecting the environment.

For each of these events, we have risen above the challenges and we have grown stronger and more resilient. Our firm presence in this industry attests to our belief in the value and integrity of our craft. Our success is anchored on our solidarity and complemented by our commitment to community development. Because it is only by coming together as one that we can make the most of the opportunities ahead.

As we press on, we are confident that we will still be here 10 years from now and beyond, making the bonds among our stakeholders stronger and better than they are today. To this end, we would like to outline our five strategies that will help realize one big goal: a bigger, dynamic and high social impact enterprise. These are:

1. Complete the acquisition of Palawan mine site and commence production;
2. Develop and upgrade existing resources and reserves within Cagdianao deposit areas;
3. Strengthen and expand our customer base including more direct sales to smelters in China;
4. Evaluate and selectively pursue value-added opportunities such as acquiring or entering into mining agreements or joint ventures, as well as downstream processing / vertical integration; and
5. Diversify into other minerals such as chromite and other metals.

We want to recognize the support of our shareholders, our customers, our employees, our contractors and suppliers, the cooperation of the local communities where we operate, and the guidance of our fellow directors. We thank you for your commitment and trust in us. We are working hard to create a more valuable company for you and we truly believe that the best years are ahead of us.

JOSEPH C. SY
Chairman

DANTE R. BRAVO
President

PRESIDENT'S REPORT

From the coins, pans and electronics we bring into our homes that make daily tasks easier and life more fun, to the gears, bearings and stainless steel that improve safety and durability, nickel has addressed various human needs and enabled societal progress through the ages.

THRIVING UNDER INCREASED PRESSURES

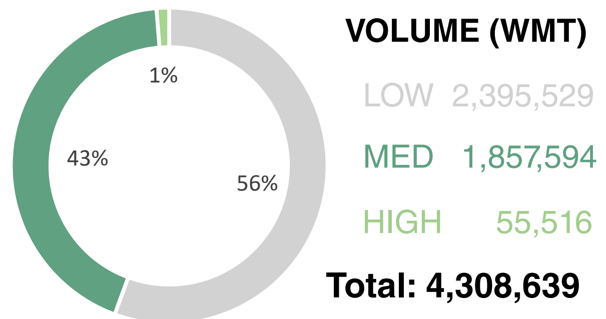
In 2016, global economic growth remained subdued mostly due to slower activity in advanced economies. New shocks such as Brexit—the U.K. vote in favor of leaving the European Union and geopolitical tensions in some countries in the Middle East along with speculations of a policy shift post-US election have weighed on expectations and global output growth. These trends, however, were cushioned as near-term concerns of a China slowdown has improved following a pickup in growth.

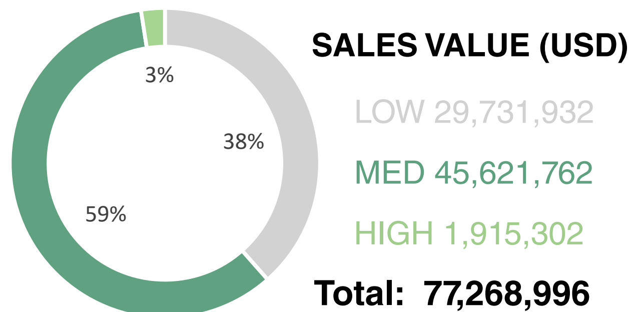
This muted economic backdrop and heightened policy uncertainties in many countries had a major impact on nickel ore prices which remained sluggish during the year (see page 21 for our Market Review).

In addition, adverse weather conditions in our Cagdianao mine have dragged down our shipment volume. Heavy rainfall during the peak months of the mining season—May to September slowed down our production and ship loading activities and required longer time to reduce moisture content of the ore. Total rainfall was nearly two times the measured data for the same period in 2015.

Even in the face of these challenges and despite revenue decrease of 42%, our underlying performance reflected our ability to thrive in a difficult market environment. Our main mining costs—contract hire and barging charges were down 30% and we remained profitable with net income of P37.5 million. Our various operational efficiencies and productivity improvements contributed to the strength of our balance sheet and allowed us to minimize the amount of capital tied up in fixed assets. At the end of 2016, our liquidity and solvency ratios remain healthy, with current ratio and debt-to-equity ratios improving to 1.52 and 0.44, respectively (see page 10 for our various productivity improvements).

ALIGNING SALES MIX FOR FUTURE TAKE OFF





Nickel price movements whether increases or decreases have a proportional effect on our revenues, although the relationship is not completely linear. With our flexible ore supply, we are able to manage price volatility by changing our product mix appropriately. For example, when nickel prices are low, we may sell more low grade ores (limonite)—defined as containing less than 1.4% nickel content. This material is most abundant in our Cagdianao mine, is closest to the surface and is the easiest to be mined. Conversely, when nickel prices are relatively high, we may sell larger quantities of medium to high grade ores (saprolite)—defined as containing 1.4% or more nickel to maximize revenues from high nickel content ore and achieve higher margins.

The softened prices we experienced in the first half of the year continued to a lesser extent in the third quarter. On the whole, average realized price decreased to US$17.93/WMT from US$26.69/WMT in 2015. Given this, we made a deliberate move to delay shipment of higher valued nickel ore inventories until prices improve.

Over the course of 2016, we shipped a total of 4.309 million wet metric tonnes (WMT) of nickel ore, down by 19%, compared to 5.352 million WMT in 2015. By shipment volume, the overall proportion shifted towards low grade ores from medium grade in the previous year. In particular, low grade nickel represented 56% by mass of total ore shipped followed by medium grade nickel products at 43% and high grade products at 1%. By sales value, medium grade ores continued to have the highest contribution to total sales. Specifically, medium grade nickel accounted for 59% of total sales followed by low grade nickel products at 38% and high grade products at 3%.

As we enter 2017, we have started to see early signs of recovery in nickel ore prices. We are confident that our strategic initiatives coupled with positive long term demand growth trends leave us well positioned to make progress in the coming years. Further details of the demand outlook for stainless steel in China and Other Asia as well as new uses of nickel in emerging technologies can be found in the Market Review (see page 21).

ENHANCING OVERSIGHT, REDUCING ASSET INTENSITY AND SAVING MONEY

Since we started our commercial operations in 2007, we have learned a lot about the areas we can influence and those we cannot. We have seen the benefit of driving change throughout the organization, and we believe there is further to go.

In 2016, we have undertaken various measures to remain profitable and maintain our position as a leading low cost nickel ore producer. At the start of the mining season, we have fully taken over the management and operations of the barging activities for our two causeways (in 2015, one was managed and operated by a contractor).

We have also commenced work to extend one of our two causeways by an additional 50 meters to enable simultaneous ore loading of up to 14 landing craft transports (LCT) at any given time. The investment we are making in this expansion minimizes delivery risk by reducing congestion on the causeway, improving efficiencies and increasing ship-loading capacity.

Another major initiative we embarked on during the year is the review and enhancement of the roles of mining contractors which helped us price new contracts more competitively. We increased our mining contractors to nine in 2016 from three in 2015 to give us greater flexibility, operational excellence and efficiencies.

These contractors are well-established in the Philippines and bring experience, manpower and expertise to conduct our operations in an efficient manner. Contractors perform majority of our mining activities ranging from clearing and topsoil removal to loading of ore into LCT. Their scope of work also includes other activities deemed necessary in support of the mine operations such as maintenance of in-pit road and mining bench, ore sorting and sun drying, as well as repair and maintenance of stockyard, causeway and waste dump.

But this is not to say that all activities are carried out by our service providers. Other fundamental activities remain our responsibility including quality and grade control, environment, health and safety, community relations, administration and human resources, mine planning and development, accounting and finance, equipment vehicle maintenance and barging operations.

By engaging multiple contractors rather than operating all aspects of mining operations ourselves, we have translated flexibility to tangible and differentiated capabilities. This has led to cost savings and reductions in overall capital outlay. Total contract costs—comprised of contract hire rates and barging costs dropped by approximately 30% per WMT in 2016. At the same time, capital expenditure for maintenance purposes declined by 22%.

30%

AVERAGE COST REDUCTION PER WMT IN 2016

22%

MAINTENANCE CAPEX REDUCTION IN 2016 TO $196 MILLION

As with any outsourcing engagement, strong direction from client is required to provide a common language among contractors. Therefore, we have defined and standardized metrics upon which to base performance improvement efforts. These standards also help us analyze any persistent issues and resolve them effectively.

Our standardized performance metrics for contractors

- **minimum production volume per day;**
- **stockpile inventory;**
- **volume of ore shipped;**
- **equipment efficiency;**
- **environment policies; and**
- **safety policies**

By keeping a tight watch on their performance, we are able to respond quickly when deviations occur. And by consistently doing so, we have encouraged competition, driven cost efficiencies and rewarded service providers with the best performance.

In sum, there has been great focus on costs. And we will maintain this momentum and study untapped areas where we see opportunities to be more efficient.

SUPPORTING BETTER ENVIRONMENTAL GOVERNANCE

Admittedly, companies in this sector have had a mixed record on environmental issues which is why we adopt a rigorous compliance policy to align our programs and activities with existing environmental laws.

"ISO 14001 is one way of saying responsible mining," former Department of Environment and Natural Resources (DENR) Secretary Gina Lopez said in her first press conference after the department was turned over to her by the former Secretary Ramon Paje on 1 July 2016.

On 13 July, Platinum Group Metals Corporation (PGMC), our operating arm, was among the first mining companies to receive International Organization for Standardization (ISO) 14001:2015 certification for Environmental Management System with no nonconformities. The certification was issued at the time of the audit by Intertek—a global company specializing in assurance, testing, inspection, and certification of products and services. ISO 14001 is the international standard that sets the requirements for an environmental management system which allows an organization to manage its environmental responsibilities continually in a systematic manner (see page 16 for our Environmental Management System (EMS) performance).

We also completed and passed the government mine audit conducted by a multi-sectoral team in August 2016, receiving high ratings for community development, and environmental compliance and management.

More importantly, we have made excellent progress in shaping a corporate culture that is supportive of proactive environmental strategies. In recognition of our sustainable initiatives, we were conferred with the Presidential Mineral Industry Environmental Award Titanium Achievement for Surface Mining Operation for what the selection committee considers to be exemplary practices in safety and health; environmental protection and rehabilitation; and community and social development and management. Established under Executive Order No. 399, the determination of the PMIEA awardees is a careful and competitive process that entails a separate evaluation and validation of the mining operations. It is regarded as the highest honor given to mining companies in the country with winners selected by an eight-member committee composed of key government leaders, and co-chaired by the DENR Secretary.

MAKING IT WORTHWHILE FOR ALL

2016
CONTRIBUTIONS

P79,170,470	P197,879,009	P34,723,096	P49,103,752	P102,331,577
Excise Tax on Minerals	Royalties (Mineral Reservation)	IP Royalty Share	Social Development and Management Program	Environment Protection and Enhancement Program

At FNI, we recognize that the value of the minerals below ground can only be realized if there is trust and goodwill above ground.

With this in mind, we have adopted a shared value perspective which reminds us that societal good can fuel business performance. We believe that improving the available skills, protecting the environment, keeping our operations safe and supporting the communities where we operate not only ensure the sustainability of our operations but also secure the future of our firm.

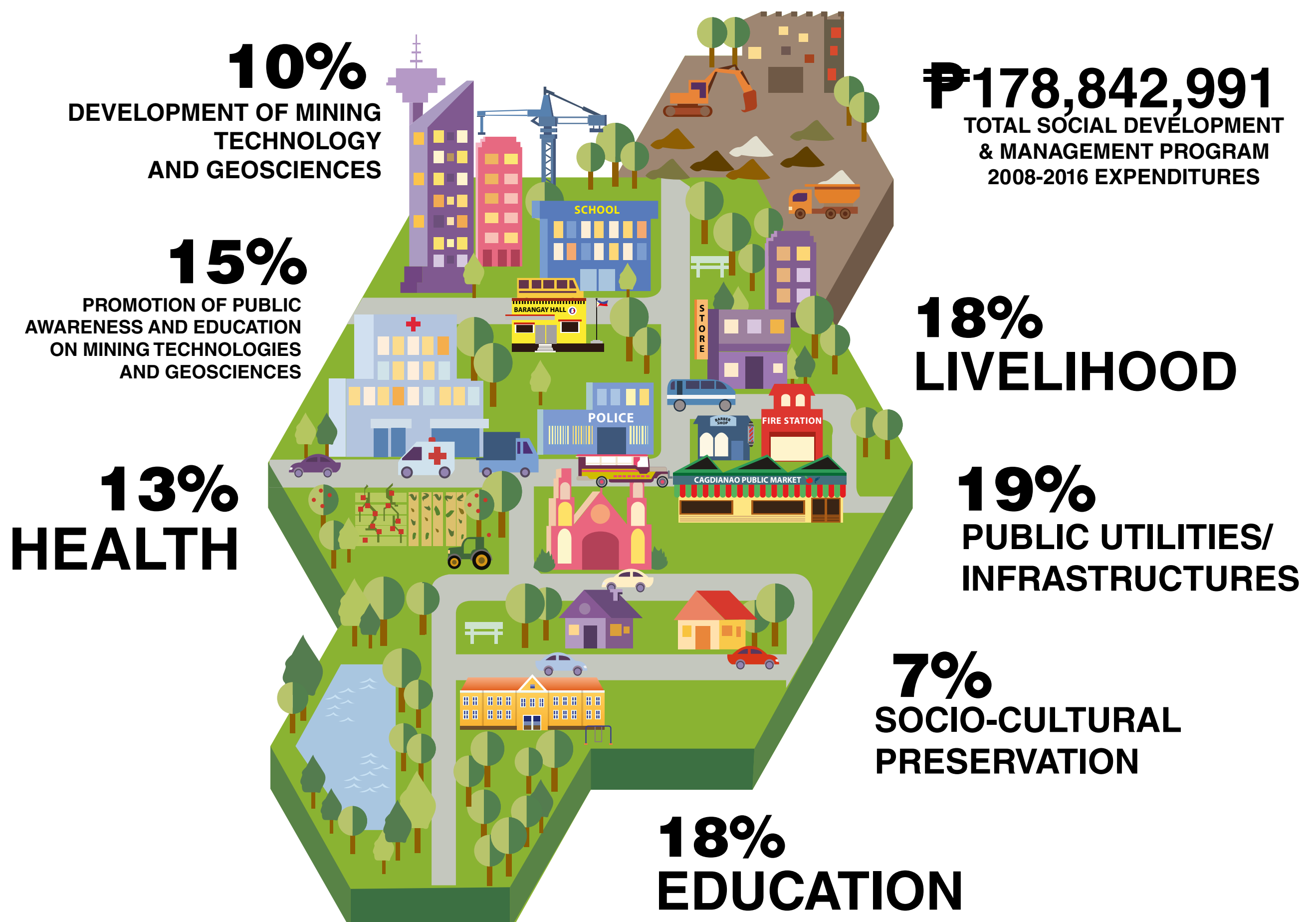
Host community

Ten years ago, in 2006, Caraga was reported second on the list of Filipino families living below defined food threshold. More broadly, poverty incidence in the region was among the highest in the country at 52.6% of the region's total population according to the National Statistics Office.

Within the province, some 1,200 residents of Cagdianao had little to no access to healthcare and education and had long relied on wood cutting as their primary source of income.

This is where a responsible mining company creates positive impact in the development. By purchasing local goods and services, we have created jobs and promoted skills, generated incomes and options, built human capital and physical infrastructure, strengthened domestic and international economic linkages, and aided in the formalization of the local economy. Each of these contributions has multiplier effects on development and expansion of economic opportunities.

Today, poverty incidence in Caraga region is down to 30.8%, with Surigao del Norte province even lower at 26.7%. The once-sleepy barangays of Cagdianao and Hayanggabon now host more than 6,500 residents based on the 2015 Census of Population. They are also home to at least 498 flourishing local businesses—152 sari-sari stores, 50 prepaid loading services, 49 boarding houses and many other enterprises that are helping owners multiply their household incomes.



Recognizing the need to couple these social ventures with projects that will improve earning capacity of the local populace, we have partnered with Technical Education and Skills Development Authority (TESDA) for skills development training. In total, 336 individuals have received specialized training courses such as hydraulic excavation, backhoe operation, dump truck driving and automotive mechanic. These eligible programs prepare each apprentice for gainful employment, thereby expanding their livelihood opportunities (about 70% of those who completed their respective training are hired by our contractors).

And because we see the local youth as future engineers and managers of our company and business partners who will share our drive to improve sustainability and develop other sectors of the local economy, we are convinced that investing in their future through scholarships and student financial assistance programs makes a strong business case. To date, we have reached a total of 220 college scholars who we hope will boost productivity and domestic human capital as they join the working population. Of the total recipients of our financial assistance program, 50% are currently enrolled and another 10% have joined us after graduation.

Another major project of our Social Development and Management Program (SDMP) during the year was building institutional capacity where we sought to strengthen industry associations and market intermediaries. By assembling the necessary resources and capabilities, the Hayanggabon Community Multi-Purpose Cooperative (HACOMUCO) has succeeded in providing its members access to personal loans such as salary loans and business loans for the operations of a tailoring shop, a *sari-sari* store and a *carinderia* to name a few. At the end of 2016, HACOMUCO is supported by 166 active members.

But perhaps our biggest contribution to the Surigao province is the jobs we have made available for the local population to foster more equitable and inclusive growth. In the 2016 mining season, we have provided direct and indirect employment to at least 4,000 individuals, with nearly 85% of the workforce belonging to the local community in Claver.

Indigenous People (IP)

As a mining company operating in ancestral domains, we have obligations to protect the rights of the concerned indigenous peoples—the Mamanwa and Manobo tribes. These obligations are in addition to the social development programs we fulfill for members of the general populations of our host and neighboring communities.

Royalty payments to indigenous cultural communities (ICC) promote their socio-economic well-being. These payments are managed by the ICCs in accordance with their own community rules and policies. It enables the ICCs to seize opportunities for its tribe members whose population in Claver, Surigao del Norte is estimated to be at 661—382 live in Urbiztondo and 279 in Taganito based on 2015 National Commission on Indigenous Peoples (NCIP) data.

Other benefits stated in our Memorandum of Agreement (MOA) include health services and medicines, scholarship program, delivery of transportation such as ambulance, cargo truck, motorcycles and computers.

In April, we handed over a cargo truck and 12 single motorcycle units to the tribal chief of Mamanwa communities from Taganito and Urbiztondo together with tribal council and members. These vehicles support the IPs with additional service units for school and community activities and serve as immediate rescue vehicles in emergency situations.

"Ang PGMC *ang kadahilanan upang magkaroon kami ng* TRABAHO *dito sa aming lugar kung kayat kamiy nagkaroon ng tsansa na* MAANGAT *ang aming buhay at mapadala ang aming mga anak sa* ESKWELA *at* KOLIHIYO*, na dating di namin kayang gawin nung wala pa ang* PGMC *sa aming lugar."*

-Manobo Indigenous People

National and Local Government

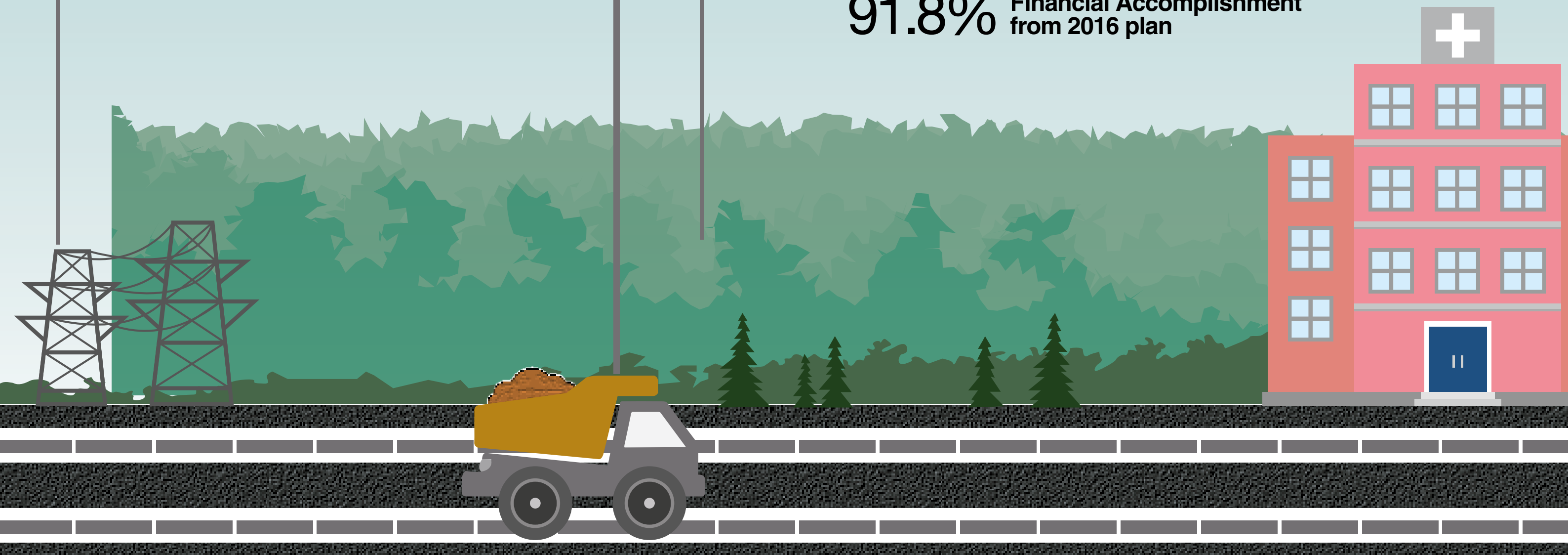
For the third consecutive year, we have embraced another global standard—the Extractive Industries Transparency Initiative (EITI) whose requirements promote an open and accountable management of a country's natural resources. The EITI Standard ensures transparency across the value chain ranging from how the rights are issued, to how the resources are monetized and how they benefit the citizens and the economy. Countries implementing the EITI disclose information on licenses, contracts, production, tax payments, and other key elements around resource extraction. As of June 2016, the EITI has 31 compliant and 20 candidate countries, with over 90 of the leading oil, gas and mining companies supporting the initiative. The EITI has also won the support of over 90 global investment institutions that collectively manage US$19 trillion. More information about our participation can be found in the 3rd Country Report of the Philippine Extractive Industries Transparency Initiative (PH-EITI).

OUR ENVIRONMENTAL MANAGEMENT SYSTEMS PERFORMANCE 2016

2,102,121 liters
Fuel Consumption
5.5% Reduction (L/manhour) from 2015

₱102,331,577
Annual Environmental Protection and Enhancement Program (AEPEP) Expenses
91.8% Financial Accomplishment from 2016 plan

1,028,013 kWh
Electricity Consumption
10.2% Reduction from 2015



"Any effort exerted for the protection of the environment is not a wasted effort."
- Dante R. Bravo

105% Water Protection Accomplishment

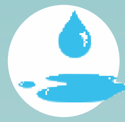
114% Mining Forest and Greening Program

Air Management 119%

Coastal Resource Management Accomplishment 116%

Environmental Protection and Enhancement Program Accomplishment (2007-2016)

₱718,877,168

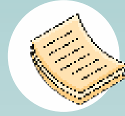


167,895 cubic meters
Water Consumption

96.3% for dust control-water spraying
3.7% for office, staff house, other areas and facilities

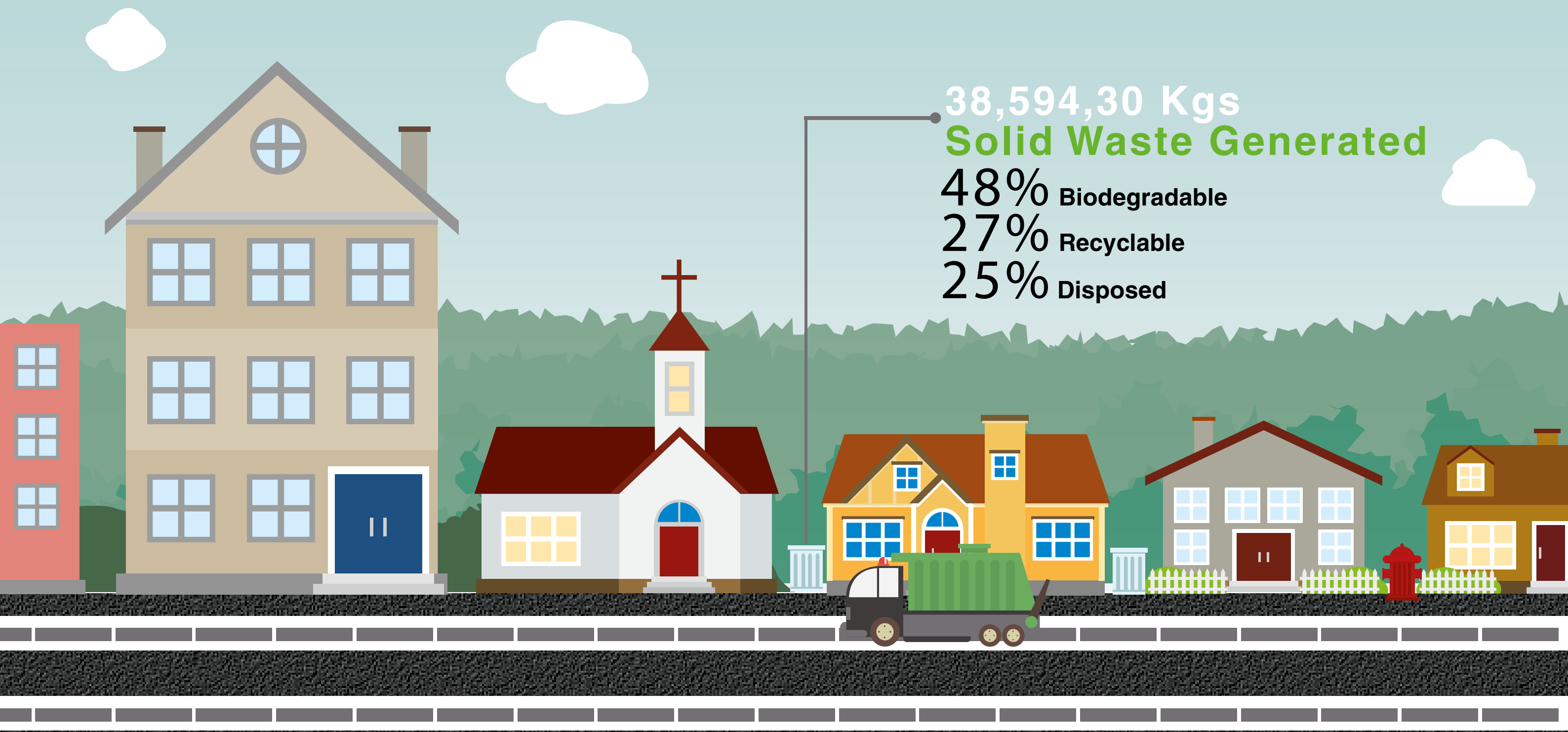
59,832 Liters Used Oil Generated

66.8% sold to accredited transporter
33.2% stored at Hazardous Waste Facility



1,296 Reams (3,538.08 kgs)
Paper Consumption

63.9% office paper waste collected and sold/stored



Environment

Earlier sections of this report have discussed what we believe are elements of responsible mining practices which include benefit-sharing with affected communities, preservation of culturally significant areas and revenue payments to governments. In this portion, we would like to report our progress toward health and safety provisions and environmental impact.

Long before we initiated operations in Claver, Surigao del Norte, the locals have referred to the nearby bay—Hinadkaban Bay—as "the Red Bay." According to the baseline environmental conditions in 2003, we found that the rusty-red coloration of the coastal water is a natural phenomenon that had been occurring in the area for decades as a result of the high iron oxide content of the laterites from uplands. In consideration of this baseline data, we have welcomed more stringent requirements to protect the water bodies.

Looking back, we are immensely proud of the environmental solutions we have put in place in the last 10 years. We have reforested more than 652.8 hectares and rehabilitated 33.1 hectares of mined-out areas. And we have constructed 45 series of settling ponds and 30 check dams as part of our sediment control structures which the DENR Mine Audit Team found adequate and appropriate. Moreover, our management system for ISO 14001:2015 was affirmed to be fully effective and no nonconformities issued.

For our Annual Environmental Protection and Enhancement Program (AEPEP), we continue to pay attention to our six major commitments which covers land, water, waste management, adopt-a-river, environmental monitoring and research and training.

Beginning August, we have institutionalized a monthly departmental tree planting activity in response to the growing challenge of forest conservation and protection. At least 50 indigenous and fast growing tree seedlings are planted to the barren and unproductive areas within the mine site every month. Then, our environment workers from the Mine Rehabilitation Section would provide care and maintenance to the newly planted trees to increase chances of good survival. In five months since the campaign started, we have planted almost 27,500 Acacia and Agoho trees covering a total of eight hectares of revegetated areas and mobilizing at least 12 departments.

Presidential Mineral Industry Environmental Award Titanium Achievement for Surface Mining Operation

Employees

To match our growth aspirations, we need people with winning mindset and a culture of excellence. But to successfully compete for talent in today's economy, we must fulfill our responsibilities to our employees. The events of the past year have only reinforced how critical employee development is to our success.

Most Improved Safety Performance

We have launched our Performance Planning and Evaluation program (PPE) where managers and employees work together to plan, monitor and review performance and developmental plans. The regular conversations between managers and employees build a performance culture that is shaped around experiences, feedback and individual development plans. We now have the infrastructure we needed to groom talent and align employee incentives and compensation with company level performance, both of which are key to our long-term survival.

Best Surface Mine Supervisor

Similarly, we have designed a strategic reward system to create a link between our long-term business results and long-term rewards for key individuals in the organization. On 20 May, our Board of Directors approved the employee stock option plan (ESOP) covering up to 1,054,915,344 common shares (or 351,638,448 post-share consolidation). The eligibility to the plan is based on the employee's position and responsibilities, the nature and value of his/her services and accomplishments, as well as present and potential contribution to the long-term success of the company. On 29 June, stockholders representing at least two-thirds of our outstanding capital stock gave their approval. The grant date of the ESOP has been approved by the company's compensation committee in 2017.

On the operations front, our commitment to health and safety has been evident in the past years until today where we have achieved zero lost time related accidents. This is the third year in a row that we achieved this major milestone in mine safety.

Our dedication to a safe workplace has not gone unnoticed. We were adjudged the winner in the Most Improved Safety Performance Category in 2016. We recorded the highest percentage improvement as determined by comparing the average combined lost time injury frequency-severity rate of the last four fiscal years with that of the current fiscal year. Likewise, we were awarded the Best Surface Mine Supervisor. Our site engineer Royvel Jumalo received the title for supervising 10,581,170 total man hours worked without lost time accident. The 2016 Presidential Mineral Industry Environmental Awards were given during the 63rd Annual National Mine Safety and Environment Conference in November.

REINVESTING IN THE BUSINESS THROUGH FOCUSED MINERAL EXPLORATION

Underpinned by qualified and experienced drilling services contractors, our exploration program follows a "Stage Approach-Strategy" where the results of the precedent activity will determine whether to proceed to the next activity. The basis of which is the verification of prospective laterite areas through geological mapping where occurrence and thickness of the laterite profile can be assessed and ascertained. This way, each drill hole is on the prospective laterite, ensuring that no drill hole is wasted and budget is kept at the effective minimum.

Our latest detailed exploration program started in 2015 aimed at upgrading the previously defined nickel laterite resource and to identify additional resources at the project. Drilling in areas with active operations such as Cagdianao 2 and 4 have been prioritized. By 3rd quarter of 2016, exploration at Cagdianao 3 deposit also commenced.

As at 30 June 2016, our mineral resources (measured and indicated) were estimated at 50.3 million dry metric tons (DMT) from the deposit areas currently being explored. Moreover, based on our recent phased exploration, a total of 18.1 million DMT of new inferred resources have been identified including medium and high grade nickel ore. With additional drilling, these resources may be upgraded into indicated or measured mineral resources.

Taking into account the economic, legal and technical factors, total mineral reserves were estimated at 23 million DMT or 35.5 million WMT. Overall, we believe our mineral resource and ore reserve inventory will increase over time in line with our continuous exploration program.

Statement of Mineral Resources for Total Nickel as of 30 June 2016 (Measured and Indicated)

Material Type	Deposit	PMRC Classification	Quantity (Tonnes)	Ni %	Fe%	Co%	Dry Bulk Density
Combined	CAGA4 (as of 30 June 2016)	Measured	10,456,000	1.1	43.8	0.1	1.0
		Indicated	8,042,000	1.3	21.9	0.1	1.1
		Subtotal	**18,498,000**	**1.2**	**34.3**	**0.1**	**1.1**
	CAGA2 (as of 30 June 2016)	Measured	8,354,000	1.2	26.9	0.1	1.3
		Indicated	5,393,000	1.1	22.3	0.1	1.3
		Subtotal	**13,747,000**	**1.2**	**25.1**	**0.1**	**1.3**
	CAGA1 (unmined)*	Measured	4,349,000	0.9	45.3	0.1	1.2
		Indicated	3,470,000	1.0	28.5	0.1	1.2
		Subtotal	**7,819,000**	**1.0**	**37.9**	**0.1**	**1.2**
	CAGA3 (unmined)*	Measured	3,199,000	1.1	44.9	0.1	1.1
		Indicated	3,986,000	1.3	19.2	0.1	1.1
		Subtotal	**7,185,000**	**1.2**	**30.6**	**0.1**	**1.1**
	CAGA5 (unmined)*	Measured	1,409,000	1.0	46.0	0.1	1.2
		Indicated	1,656,000	1.0	23.5	0.1	1.2
		Subtotal	**3,065,000**	**1.0**	**33.8**	**0.1**	**1.2**
	Total	Measured	27,767,000	1.1	39.2	0.1	1.2
		Indicated	22,547,000	1.2	22.6	0.1	1.2
		Total	**50,314,000**	**1.1**	**31.8**	**0.1**	**1.2**

Notes:
1. The PGMC Statement of Mineral Resources has been generated under the supervision of Mr. Edgardo G. Garcia who is an independent Consulting Geologist and a Registered Member of the Geological Society of the Philippines and Australian Institute of Mining and Metallurgy. He has sufficient experience that is relevant to the style of mineralization and type of deposit under consideration and to the activity that he has undertaken to qualify as a Competent Person as defined in the PMRC and JORC Codes.
2. All Mineral Resources figures reported in the table above represent estimates at 30 June 2016. Mineral Resource estimates are not precise calculations, being dependent on the interpretation of limited information on the location, shape, continuity of the mineralization and the availability of sampling results. The totals contained in the above table have been rounded to reflect the relative uncertainty of the estimate and thus may cause some computational variances.
3. Mineral Resources are reported in accordance with the Philippine Mineral Reporting Code (PMRC 2007 Edition) which was adopted from JORC.
4. The PGMC Statement of Mineral Resources includes all estimates for all explored deposits of the PGMC- CAGA Nickel Project, namely: CAGA-1 to CAGA-5. However, estimates* for CAGA-1, CAGA-3 and CAGA-5 remain the same as reported on 31 May 2014 as no additional exploration/drilling and mining operations have been under-taken since then.

Statement of Ore Reserves of CAGA1 to CAGA5

Classification	Proven			Probable			Total		
Material	WMT	Ni	Fe	WMT	Ni	Fe	WMT	Ni	Fe
LGHF	11,795,000	0.9	49.3	2,305,000	0.9	49.3	14,100,000	0.9	49.3
LGMF	3,007,000	1.2	46.5	515,000	1.2	46.3	3,522,000	1.2	46.4
LGLF	2,158,000	1.3	16.9	4,471,000	1.3	14.0	6,629,000	1.3	15.0
MGMF	860,000	1.4	42.9	114,000	1.4	42.7	974,000	1.4	42.8
MGLF	2,450,000	1.5	12.2	4,225,000	1.5	13.4	6,675,000	1.5	13.0
HG	1,067,000	1.8	14.0	2,532,000	1.8	13.3	3,599,000	1.8	13.5
Total	21,338,000	1.1	39.4	14,161,000	1.4	20.9	35,500,000	1.2	32.0

...AND STEADILY RETURNING CASH TO OUR SHAREHOLDERS

We recognize that it is our responsibility to look at all possible alternatives to enhance value for our shareholders whether it is for acquisition, organic development or in the form of dividends or share buybacks.

On 29 June, our Board of Directors has approved a share buyback program which covers up to 10% of our outstanding shares or 567 million shares (post-share consolidation) for a period of three years.

We have also received approval of the Securities and Exchange Commission (SEC) to the increase our authorized capital stock to P12,555,020,001.30 divided into 11,957,161,906 common shares with a par value of P1.05 per share. This exercise effectively reduced our total issued and outstanding shares to a level more appropriate to the industry.

Since commencing the share repurchase program on 25 July, we have steadily returned cash to our shareholders through the purchase of 6,333,333 shares (post-share consolidation) as at end-2016.

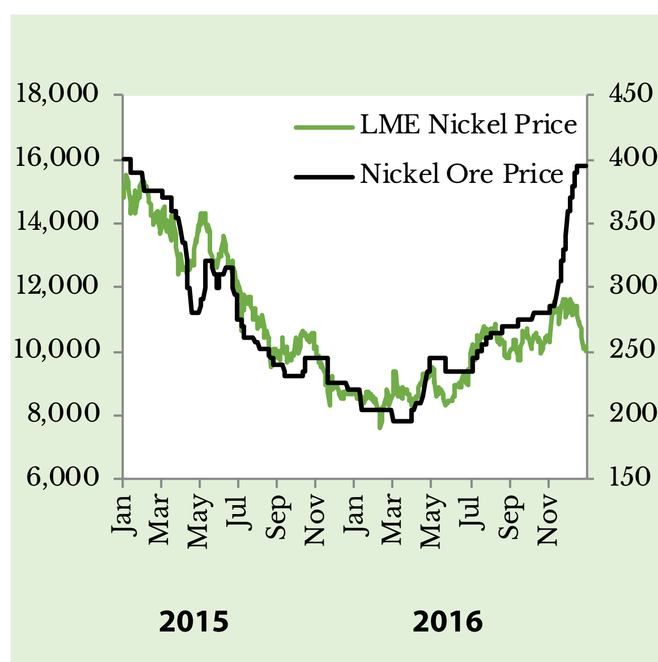
It is this deep commitment combined with growth ambitions that make a very exciting investment proposition. We are confident that our progress will continue to deliver tangible shareholder value in the years to come.

MARKET REVIEW AND OUTLOOK

DEPRESSED PRICES BUILD SOLID FOUNDATION FOR TAKE OFF

2016 saw significantly volatile nickel prices. On the London Metal Exchange (LME), cash price for 99.8%-pure nickel plunged to a 13-year low of US$7,561.50 per metric ton on 11 February before rebounding by 32% to close the year at US$9,964. Daily prices averaged US$9,606 in 2016, down by 19% from 2015. Likewise, prices of widely followed three-month contracts slid to US$7,595 on 11 February but since recovered to US$10,020 at the end of December. Annual average price dropped to US$9,648, considerably lower by 19% and 43% from 2015 and 2014 levels, respectively.

The Shanghai Metals Market (SMM) mirrored a similar trend albeit less pronounced, suggesting that physical nickel market in China has been more resilient to the decline in the futures market at the LME and is now trading at a premium. Annual average price of medium-grade ores containing 1.4% to 1.6% nickel decreased by only 12% to RMB255 in 2016—fairly tighter than the LME.



Source: Bloomberg

Annual Average Price	2016	2015
LME spot	$9,606	$11,835
Change (%)	-19%	-30%
LME 3-month contracts	$9,648	$11,877
Change (%)	-19%	-30%
SMM	RMB255	RMB290
Change (%)	-12%	-34%

Source: Bloomberg

Market analysts attribute the sharp price movements to several key factors such as high global inventory, stimulus program in China, and supply dynamics arising from government policies in Indonesia and the Philippines. Stocks of nickel metal in LME warehouses were at record level of 470,000 tons in June 2015. By end-December 2016, inventories eased to about 371,000 tons, 16% less than the ending stocks of 441,000 tons in 2015. In China, government stimulus measures directed toward the construction sector has provided some support to prices. In 2016, stainless steel output has expanded by 15.7% on a yearly basis to an all-time high of 24.9 million tons according to Stainless Steel Council of China Special Steel Enterprises Association. In the Philippines, order of mine suspensions to at least 14 nickel mining companies triggered a momentary rally in prices, as it spurred concerns over possible tightening in the supply of key raw material for nickel pig iron (NPI) production in China. The affected mines represent over 50% of the Philippines' annual nickel output and around 10% of world supply. In Indonesia, production of refined nickel has accelerated as processing facilities became operational during the year. The country emerged as the largest supplier of ferronickel to China, accounting for 71% of ferronickel imports in 2016. Starting January 2017, Indonesia conditionally allowed the export of low-grade unprocessed nickel ore, bauxite and concentrates of other minerals. The new rules include broad changes to domestic processing and refining activities, permit extensions, export taxes as well as ownership divestment requirements.

LARGE ADDRESSABLE MARKETS THAT CREATE LONG-TERM DEMAND

Looking ahead to 2017, we believe prices have already reached the bottom as we expect continued drawdown in ore stocks in China to prompt price increases to ultimately balance the markets. World Bank forecasts nickel prices to climb to US$11,000 per metric ton from US$9,595, with further upside in 2018. More importantly, we are convinced that the urbanization story in Asia remains intact—about two-thirds of Asia's population will be in urban areas by 2050 according to United Nations. This should support stronger demand growth for industrial-focused commodities such as nickel.

Based on a recent study by Asian Development Bank (ADB), its 45 developing member countries in Asia and the Pacific led by China will need to invest a total of US$26 trillion or US$1.7 trillion annually from 2016 to 2030 for infrastructure, equivalent to 5.9% of projected GDP. Of the total investment needs, power (generation, distribution, and transmission) and transportation (roads, railways, airports, and seaports) are viewed as top priorities, accounting for 56% and 32%, respectively. With approximately two-thirds of global primary nickel going into stainless steel, which can be used in a wide range of infrastructure applications such as energy supply, bridges, harbors, airports, and water and sewage, there is reason to believe that demand remains robust.

Rapid technological advances could also boost growth in non-stainless consumption. Increasingly, nickel is being sought for development of key parts of battery systems that power electric vehicles, cooling systems in nuclear power plants, electronics, as well as transport and emergency power supply. Although the development and eventual adoption of these technologies are at different speeds, we believe that nickel producers are poised to benefit from this added nontraditional end-user demand.

BOARD OF DIRECTORS

Joseph C. Sy
Chairman

He became Chairman of the Company and PGMC on August 6, 2015 and August 10, 2015, respectively. He served as President of PGMC and the Company in 2011 and on August 29, 2014, respectively. He is also a Director of Ipilan Nickel Corporation, the Treasurer of the Philippine Nickel Industry Association, Inc. (PNIA) and the Director of Mining for the Philippine Chamber of Commerce and Industry (PCCI). He has more than 14 years of experience in managing companies engaged in mining and mineral exploration and development. He studied Bachelor of Science in Management at Far Eastern University Manila.

David Chua
Vice Chairman

He is the owner and Chairman of Summit Investment Partners Limited Group (SIP) whose principal activity is to invest its proprietary capital in companies with growth potential and which require additional capital to fund their expansion. He is also the Chairman of Travellers International Hotel Group, Inc. He was the President of Genting Hong Kong Limited from 2007 to 2014 and previously held key management positions in various international securities companies in Malaysia, Singapore and Hong Kong. He graduated with a Bachelor of Arts in Political Science & Economics from Carleton University Canada in 1985.

Dante R. Bravo
President

He became President of the Company and PGMC on August 6, 2015 and August 10, 2015, respectively. He held various key positions in PGMC, namely: Corporate Secretary, Chief Financial Officer and Executive Vice President from 2011 to 2014. He has more than 10 years of corporate management experience. Mr. Bravo served as Senior Associate and Director at SGV & Co.; Professor of Law at San Beda College; Lecturer for the Mandatory Continuing Legal Education Program of the Supreme Court; and Chief Political Affairs Officer of Congressman Narciso R. Bravo Jr. He is a Certified Public Accountant. He completed a Bachelor of Laws from San Beda College and a Bachelor of Accountancy from University of Santo Tomas. He placed 10th in the 2001 Philippine Bar Examinations.

Mary Belle D. Bituin
Chief Financial Officer and Treasurer

She became a Director of the Company on October 22, 2014, and Treasurer and CFO in January 2015. She was Vice President for Business Transformation at Globe Telecom, Inc. where she has worked since 1998; an International Auditor for International Audits at the Cooperative for Assistance and Relief Everywhere (CARE) in Atlanta, USA; and a Senior Auditor at SGV & Co. She is a Certified Public Accountant. She completed a Bachelor of Science in Business Administration, major in Accounting, from Philippine School of Business Administration, Manila in 1988.

Roberto C. Amores
Independent Director

He became a Director of the Company on March 17, 2015. Mr. Amores has more than 30 years of corporate management experience. He is the Director-in-Charge for Agriculture at the Philippine Chamber of Commerce & Industry, a member of the Technical Advisory Group for Agribusiness Office of Sec. Arthur C. Yap in the Department of Agriculture, President of the Philippine Food Processors and Exporters Organization, Inc. and a Council Member and Trustee of the Export Development Council – DTI. He completed a Bachelor of Arts degree from the University of Philippines in 1976.

Dennis Allan T. Ang
Director

He became a Director of the Company on August 10, 2015. He is the Founder and President of Engagement, Inc., Founder of Full Metro Gear Corp and the Corporate Secretary of Maxima Machineries Inc. He occupied several key positions in Asian Institute of Management from 2001 to 2006. He completed a Bachelor of Science in Management Information Systems from Ateneo de Manila University in 1997 and a Master in Business Administration from Asian Institute of Management in 2001.

Francis C. Chua
Director

He became a Director of the Company on October 22, 2014. He is the Chairman of the Board of Negros Navigation/2Go and a Board of Director/Governor of the Philippine Stock Exchange. He is also the Founding Chairman of the International Chamber of Commerce Philippines (ICCP), Chairman Emeritus of the Philippine Chamber of Commerce and Industry Inc. (PCCI), Chairman Emeritus of the Employers Confederation of the Philippines (ECOP), Honorary President of the Federation of Filipino Chinese Chambers of Commerce and Industry Inc. (FCCCII) and he is the Honorary Consulate General of the Republic of Peru in Manila. He also served as Special Envoy on Trade and Investments on China. He completed a Bachelor of Science in Industrial Engineering from the University of the Philippines in 1972 and received doctorate degrees in Humanities and Business Technology from the Central Luzon State University and the Eulogio Amang Rodriguez Institute of Science and Technology, respectively.

Luis N. Yu, Jr.
Director

He is the Chairman Emeritus of 8990 Holdings, Inc. He was voted 2016 Entrepreneur of the Year by the Cebu Chamber of Commerce and Industry (CCCI). He graduated with a degree of AB Social Science from Velez College, Cebu City in 1974 and received his Master degree in Business Management at the Asian Institute of Management in 1977.

Gu Zhi Fang
Director

She became a Director of the Company on October 22, 2014. She has also been a Director and General Manager of Jiangsu Lianhua Paper Ltd., Wujiang, Jiangsu Province, China. She completed a degree in International Trade from Suzhou University in 1992.

Edgardo G. Lacson
Independent Director

He is the President of MIS Maritime Corporation, Safe Seas Shipping Agency, Marine Industrial Supply Corporation and EML Realty. He is also the Managing Director of Link Edge, Chairman of Metrostore Corporation and Chairman of Beacon Environmental Management Services. He also sits as a Trustee of Home Development Mutual Fund (HDMF) and a Director of Puregold Price Club, Inc. He is the President of the Employers Confederation of the Philippines (ECOP), a Member of the Board of Trustees of De La Salle University and an Honorary Chairman of the Philippine Chamber of Commerce and Industry (PCCI). He graduated with a degree of Bachelor of Science in Commerce (BSC), Major in Accounting from De La Salle College in 1965.

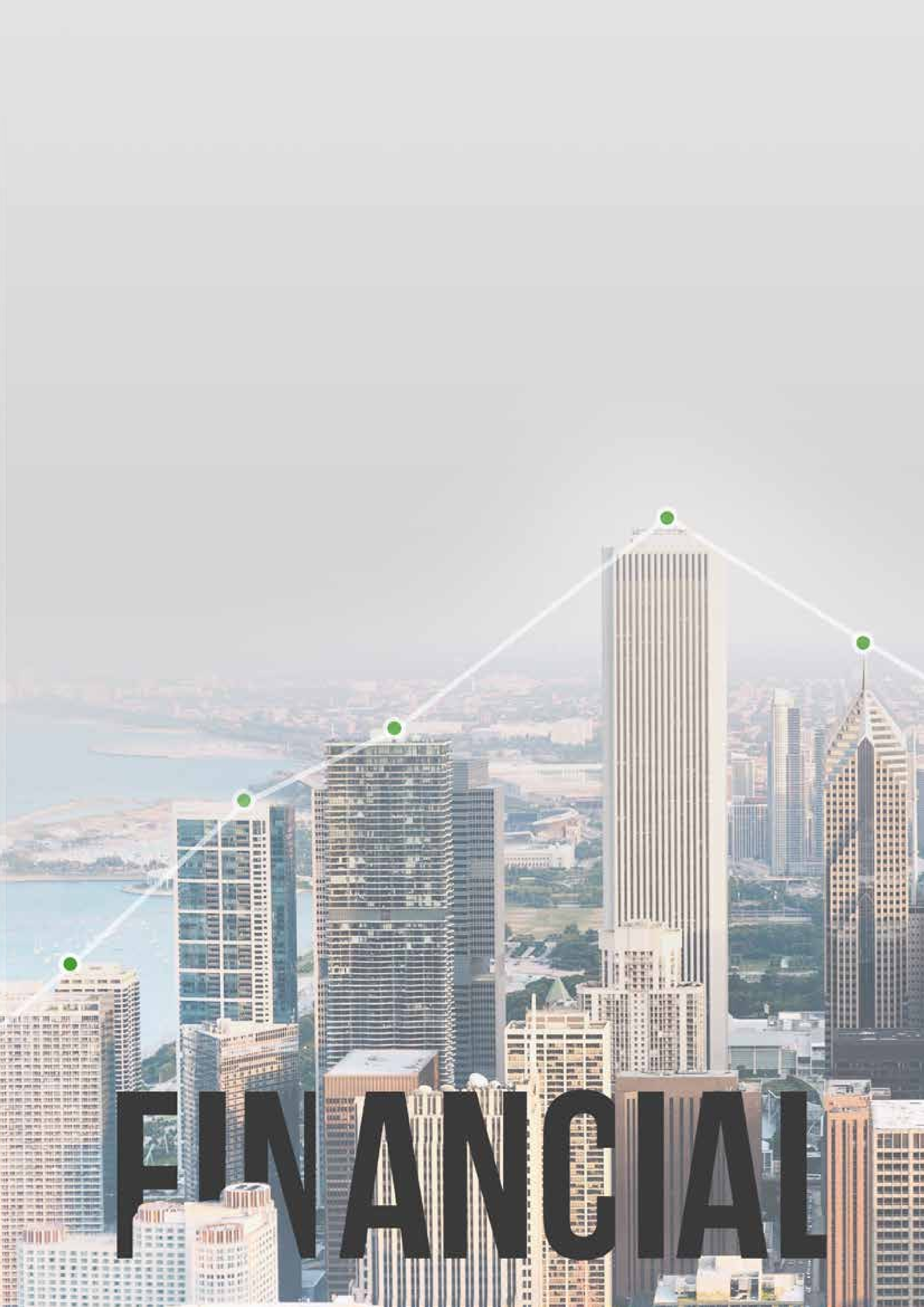
MANAGEMENT TEAM

Dante R. Bravo
President

Mary Belle D. Bituin
Chief Financial Officer

Noel B. Lazaro
SVP for Legal and Regulatory Affairs

Eveart Grace Pomarin-Claro
Assistant Corporate Secretary
Carlo A. Matilac
SVP for Operations
Rachelle C. Paunlagui
Investor Relations Head

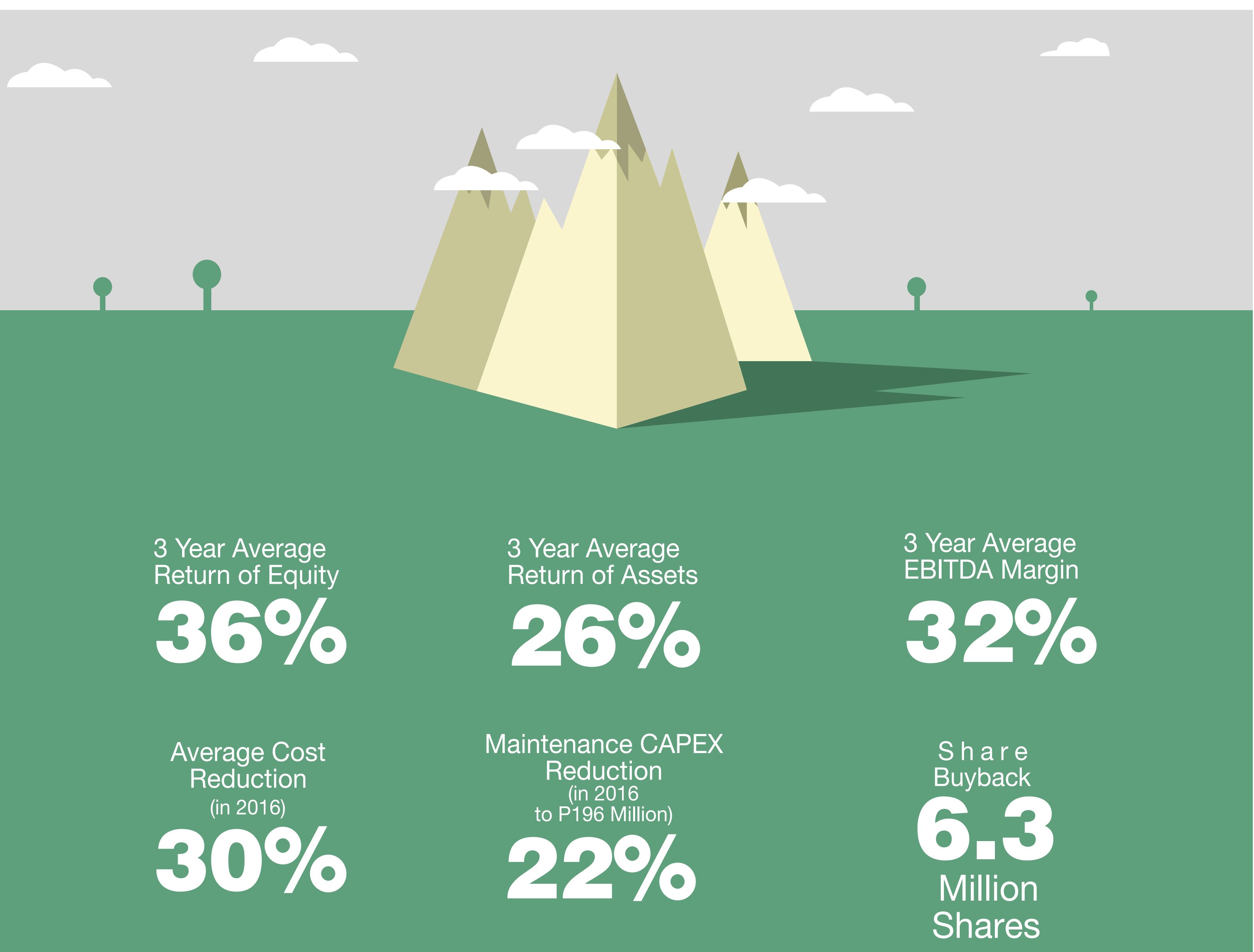

FINANCIAL

HIGHLIGHTS

Financial Highlights

	2016	2015	2014*
Volume ('000 WMT)	4,308.6	5,351.8	4,193.4
Average realized price (US$/WMT)	17.9	26.7	48.7
(in PHP millions, except per share amounts and ratios)			
Sale of ore	3,773.7	6,533.2	9,047.5
Operating income	210.9	1,256.0	4,931.2
Net income	37.5	1,111.8	4,817.0
Earnings per share	0.01	0.22	0.97
Current ratio	1.52	1.50	1.53
Debt-to-equity ratio	0.44	0.39	0.41

Six months ended December 31, 2014



SGV
Building a better working world

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BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
Global Ferronickel Holdings, Inc. and Subsidiaries
7th Floor, Corporate Business Centre
151 Paseo de Roxas corner Arnaiz Street
Makati City

Opinion

We have audited the consolidated financial statements of Global Ferronickel Holdings, Inc. and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended December 31, 2016 and 2015 and six months ended December 31, 2014 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, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2016 and 2015 and six months ended December 31, 2014 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.

Estimation of Ore Reserves

The estimation of ore reserves involves significant management estimates and assumptions. Reserves are key inputs to depletion, amortization and decommissioning provisions. The Group's mining properties and mining rights amounting to ₱756.1 million and ₱264.9 million, respectively, as at December 31, 2016 are amortized using the units-of-production method, as discussed in Notes 8 and 10 to the consolidated financial statements. On June 30, 2016, the total ore estimates pertaining to the mining properties and to the mining rights were changed based on the latest technical report resulting in lower depletion rate (see Note 3). This matter is significant to our audit because the estimation of the mineable ore reserves for projects located in Cagdianao, Claver, Surigao del Norte for the remaining life of the mines requires significant estimation from the management.

Audit Response

We obtained an understanding of management's processes in the estimation of mineable ore reserves. We evaluated the competence, capabilities and objectivity of the management's specialist. We reviewed the specialist's report and obtained an understanding of the nature, scope and objectives of their work, and the basis of the estimates including any changes in the reserves during the year. In addition, we tested the reserves estimates applied to the relevant areas of the consolidated financial statements including depletion, amortization and decommissioning provisions.

Recoverability of Mine Exploration Costs

The mine exploration costs amounting to ₱223.8 million as at December 31, 2016 represents the expenditures incurred by the Group for the Cagdianao areas, which are still under exploration. The ability of the Group to recover its mine exploration costs would depend on the commercial viability of the reserves. The substantial amount of this account, the level of additions during the year and the significant management judgement required in assessing whether there is any indication that the mine exploration costs may be impaired are key audit matters in our audit. See Notes 3 and 12 to the consolidated financial statements.

Audit Response

We obtained an understanding of the Group's capitalization policy and tested whether the policy has been applied consistently. We obtained management's assessment on whether there is any indication that mine exploration costs may be impaired and reviewed relevant updates on the current status of the Cagdianao areas under exploration and future management plans. We reviewed contracts and agreements, and the budget for exploration costs. We obtained and reviewed the licenses, permits and correspondence with regulatory agencies of each exploration project to determine that the period, for which the Group has the right to explore in the specific area, has not expired and will not expire in the near future.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Securities and Exchange Commission (SEC) Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2016, 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, 2016 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.

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 Jaime F. del Rosario.

SYCIP GORRES VELAYO & CO.

Jaime F. del Rosario
Partner
CPA Certificate No. 56915
SEC Accreditation No. 0076-AR-4 (Company A),
May 1, 2016, valid until May 1, 2019
Tax Identification No. 102-096-009
BIR Accreditation No. 08-001998-72-2015,
March 24, 2015, valid until March 23, 2018
PTR No. 5908689, January 3, 2017, Makati City

April 3, 2017

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BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY SCHEDULE

The Board of Directors and Stockholders
Global Ferronickel Holdings, Inc. and Subsidiaries
7th Floor, Corporate Business Centre
151 Paseo de Roxas corner Arnaiz Street
Makati City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Global Ferronickel Holdings, Inc. and Subsidiaries (formerly Southeast Asia Cement Holdings, Inc; the Group) as at December 31, 2016 and 2015 and for the years ended December 31, 2016 and 2015 and six months ended December 31, 2014 and have issued our report thereon dated April 3, 2017. Our audits were made for the purpose of forming an opinion on the basic 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 Group's management. These schedules are presented for purposes of complying with the Securities Regulation Code Rule 68, as amended (2011), 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 basic consolidated financial statements and, in our opinion, fairly state in all material respects, the information required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Jaime F. del Rosario
Partner
CPA Certificate No. 56915
SEC Accreditation No. 0076-AR-4 (Company A),
May 1, 2016, valid until May 1, 2019
Tax Identification No. 102-096-009
BIR Accreditation No. 08-001998-72-2015,
March 24, 2015, valid until March 23, 2018
PTR No. 5908689, January 3, 2017, Makati City

April 3, 2017

GLOBAL FERRONICKEL HOLDINGS, INC. AND SUBSIDIARIES
(Formerly Southeast Asia Cement Holdings, Inc. and Subsidiaries)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Amounts in Thousands)

	December 31	
	2016	2015
ASSETS		
Current Assets		
Cash (Note 4)	**₱551,942**	₱502,876
Trade and other receivables (Note 5)	**847,175**	700,770
Advances to related parties (Note 30)	**1,614,084**	1,639,231
Current portion of finance lease receivable (Note 18)	**72,282**	167,949
Inventories - at cost (Note 6)	**275,983**	643,783
Prepayments and other current assets (Note 7)	**22,247**	15,477
Total Current Assets	**3,383,713**	3,670,086
Noncurrent Assets		
Property and equipment (Note 8)	**2,111,973**	2,048,979
Deposits for future acquisition (Note 30)	**2,217,354**	1,651,247
Mining rights (Note 10)	**264,888**	301,605
Investment property (Note 11)	**319,865**	319,865
Mine exploration costs (Note 12)	**223,807**	140,790
Finance lease receivable - net of current portion (Note 18)	**160,670**	319,593
Deferred tax assets - net (Note 31)	**58,310**	97,785
Investment in an associate (Note 9)	**116**	–
Other noncurrent assets (Note 13)	**685,998**	535,063
Total Noncurrent Assets	**6,042,981**	5,414,927
TOTAL ASSETS	**₱9,426,694**	₱9,085,013
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Note 14)	**₱548,229**	₱812,948
Current portion of bank loans (Note 15)	**998,695**	987,350
Amounts owed to related parties (Note 30)	**666,481**	624,211
Current portion of finance lease liabilities (Note 18)	**2,416**	14,994
Income tax payable	**11,926**	1,063
Total Current Liabilities	**2,227,747**	2,440,566
Noncurrent Liabilities		
Bank loans - net of current portion (Note 15)	**713**	7,234
Provision for mine rehabilitation and decommissioning (Note 16)	**67,123**	58,259
Retirement obligation (Note 17)	**47,882**	39,985
Finance lease liabilities - net of current portion (Note 18)	**3,137**	–
Other noncurrent liabilities (Note 19)	**533,533**	1,095
Total Noncurrent Liabilities	**652,388**	106,573
Total Liabilities	**2,880,135**	2,547,139
Equity		
Capital stock (Note 20)	**6,113,475**	6,113,455
Remeasurement gain on retirement obligation (Note 17)	**5,342**	2,277
Cumulative translation adjustment	**(14,106)**	–
Retained earnings (Note 20)	**459,654**	422,160
Treasury stock (Note 20)	**(17,806)**	(18)
Total Equity	**6,546,559**	6,537,874
TOTAL LIABILITIES AND EQUITY	**₱9,426,694**	₱9,085,013

See accompanying Notes to Consolidated Financial Statements.

GLOBAL FERRONICKEL HOLDINGS, INC. AND SUBSIDIARIES
(Formerly Southeast Asia Cement Holdings, Inc. and Subsidiaries)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in Thousands, Except Earnings per Share)

	Years Ended December 31		Six Months Ended December 31
	2016	2015	2014
SALE OF NICKEL ORE (Note 34)	**₱3,773,669**	₱6,533,218	₱9,047,476
COST OF SALES (Note 22)	**2,308,220**	3,509,917	2,463,831
GROSS PROFIT	**1,465,449**	3,023,301	6,583,645
OPERATING EXPENSES			
Excise taxes and royalties (Note 23)	**503,275**	972,546	1,351,555
General and administrative (Note 24)	**460,914**	628,271	237,316
Shipping and distribution (Note 25)	**290,405**	166,472	63,749
	1,254,594	1,767,289	1,652,620
FINANCE COSTS (Note 28)	**(67,696)**	(88,891)	(73,323)
FINANCE INCOME (Notes 4 and 18)	**6,505**	9,431	3,465
SHARE IN NET LOSS OF AN ASSOCIATE (Note 9)	**(184)**	–	–
OTHER CHARGES - net (Note 29)	**(32,373)**	(115,500)	(77,424)
INCOME BEFORE INCOME TAX	**117,107**	1,061,052	4,783,743
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 31)			
Current	**35,406**	4,081	6,673
Deferred	**44,207**	(54,779)	(39,977)
	79,613	(50,698)	(33,304)
NET INCOME	**37,494**	1,111,750	4,817,047
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX			
Items that may be reclassified to profit or loss in subsequent periods:			
Currency translation adjustment - net of tax effect	**(14,106)**	–	–
Valuation loss on available-for-sale (AFS) financial assets (Note 13)	**–**	(506)	(337)
	(14,106)	(506)	(337)
Item that will not be reclassified to profit or loss in subsequent periods:			
Remeasurement gain (loss) on retirement obligation - net of tax effect (Note 17)	**3,065**	600	(4,357)
	(11,041)	94	(4,694)
TOTAL COMPREHENSIVE INCOME	**₱26,453**	₱1,111,844	₱4,812,353
Net Income Attributable To:			
Equity holders of the Parent Company	**₱37,494**	₱1,111,750	₱4,809,681
Non-controlling interest (NCI)	**–**	–	7,366
	₱37,494	₱1,111,750	₱4,817,047
Total Comprehensive Income Attributable To:			
Equity holders of the Parent Company	**₱26,453**	₱1,111,844	₱4,804,995
NCI	**–**	–	7,358
	₱26,453	₱1,111,844	₱4,812,353
Basic/Diluted Earnings Per Share (EPS) on Net Income Attributable to Equity Holders of the Parent Company (Note 21)	**₱0.01**	₱0.22	₱0.97

See accompanying Notes to Consolidated Financial Statements.

GLOBAL FERRONICKEL HOLDINGS, INC. AND SUBSIDIARIES
(Formerly Southeast Asia Cement Holdings, Inc. and Subsidiaries)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015 AND SIX MONTHS ENDED DECEMBER 31, 2014
(Amounts in Thousands)

	Equity Attributable to Equity Holders of the Parent Company										
	Capital Stock (Note 20)	Additional Paid-in Capital (APIC; Note 20)	Treasury Stock (Note 20)	Valuation Gain (Loss) on AFS Financial Assets	Remeasure-ment Gain (Loss) on Retirement Obligation	Equity Reserve (Note 20)	Cumulative Translation Adjustment	Retained Earnings (Deficit; Note 20)	Total	NCI	**Total Equity**
Balances at June 30, 2014	₱2,451,372	₱127,171	(₱18)	₱842	₱6,025	(₱1,878,341)	₱–	₱964,764	₱1,671,815	₱1,678	₱1,673,493
Net income for the period	–	–	–	–	–	–	–	4,809,681	4,809,681	7,366	4,817,047
Other comprehensive loss for the period - net of tax	–	–	–	(336)	(4,350)	–	–	–	(4,686)	(8)	(4,694)
Total comprehensive income (loss) for the period	–	–	–	(336)	(4,350)	–	–	4,809,681	4,804,995	7,358	4,812,353
Issuance of shares through Share Swap, As restated (Notes 1 and 2)	3,662,083	1,695,121	–	–	–	(5,357,204)	–	–	–	–	–
Assumption and cancellation of GFHI receivables	–	–	–	–	–	(2,589,722)	–	–	(2,589,722)	–	(2,589,722)
Effect of acquisition of net assets of the accounting acquire	–	–	–	–	–	2,605,460	–	–	2,605,460	–	2,605,460
Application of APIC and retained earnings to equity reserve	–	(1,822,292)	–	–	–	7,210,807	–	(5,388,515)	–	–	–
Issuance of shares by Platinum Group Metals Corporation (PGMC)	–	–	–	–	–	9,000	–	–	9,000	–	9,000
Dividend declaration	–	–	–	–	–	–	–	(1,082,896)	(1,082,896)	(1,658)	(1,084,554)
Balances at December 31, 2014, As restated (Note 2)	6,113,455	–	(18)	506	1,675	–	–	(696,966)	5,418,652	7,378	5,426,030
Net income for the year	–	–	–	–	–	–	–	1,111,750	1,111,750	–	1,111,750
Other comprehensive income - net of tax	–	–	–	–	600	–	–	–	600	–	600
Unrealized gains transferred from equity to consolidated statements of comprehensive income	–	–	–	(506)	–	–	–	–	(506)	–	(506)
Total comprehensive income (loss)	–	–	–	(506)	600	–	–	1,111,750	1,111,844	–	1,111,844
Dilution of NCI (Note 1)	–	–	–	–	2	–	–	7,376	7,378	(7,378)	–
Balances at December 31, 2015	6,113,455	–	(18)	–	2,277	–	–	422,160	6,537,874	–	6,537,874
Net income for the year	–	–	–	–	–	–	–	37,494	37,494	–	37,494
Other comprehensive income (loss) - net of tax	–	–	–	–	3,065	–	(14,106)	–	(11,041)	–	(11,041)
Total comprehensive income (loss)	–	–	–	–	3,065	–	(14,106)	37,494	26,453	–	26,453
Issuance of common stock (Note 20)	20	–	–	–	–	–	–	–	20	–	20
Purchase of treasury shares (Note 20)	–	–	(17,788)	–	–	–	–	–	(17,788)	–	(17,788)
Balances at December 31, 2016	₱6,113,475	₱–	(₱17,806)	₱–	₱5,342	₱–	(₱14,106)	₱459,654	₱6,546,559	₱–	₱6,546,559

See accompanying Notes to Consolidated Financial Statements.

GLOBAL FERRONICKEL HOLDINGS, INC. AND SUBSIDIARIES
(Formerly Southeast Asia Cement Holdings, Inc. and Subsidiaries)

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands)

	Years Ended December 31		Six Months Ended December 31
	2016	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱117,107**	₱1,061,052	₱4,783,743
Adjustments for:			
Depreciation, depletion and amortization (Note 27)	**388,108**	594,483	92,683
Interest expense (Note 28)	**60,387**	75,716	55,348
Unrealized foreign exchange gains (loss) – net	**36,296**	(3,040)	3,041
Loss (gain) on disposals of property and equipment (Notes 8 and 29)	**24,282**	6,327	(91)
Net change in retirement obligation (Note 17)	**10,123**	9,278	(624)
Loss on acquisition of a subsidiary (Note 29)	**7,356**	–	–
Interest income (Notes 4 and 18)	**(6,505)**	(9,431)	(3,465)
Impairment loss on AFS financial assets (Notes 13 and 29)	**1,433**	2,445	–
Accretion interest on provision for mine rehabilitation and decommissioning (Notes 16 and 28)	**1,401**	1,117	549
Loss on modification of finance lease receivable (Notes 18 and 29)	**1,037**	86,885	–
Levelization of rental expense	**409**	743	34
Share in net loss of an associate (Note 9)	**184**	–	–
Amortization of discount on bank loans (Note 28)	**–**	2,068	6,650
Operating income before changes in working capital	**641,618**	1,827,643	4,937,868
Decrease (increase) in:			
Trade and other receivables	**(77,810)**	(403,448)	563,990
Inventories - at cost	**367,800**	(397,741)	51,065
Prepayments and other current assets	**6,811**	39,868	(187,487)
Decrease in trade and other payables	**(259,389)**	(210,403)	(1,997,001)
Net cash generated from operations	**679,030**	855,919	3,368,435
Interest paid	**(51,811)**	(73,848)	(58,304)
Income taxes paid	**(24,543)**	(7,119)	(2,855)
Interest received	**1,270**	1,202	1,045
Net cash flows from operating activities	**603,946**	776,154	3,308,321
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to:			
Property and equipment (Notes 8 and 38)	**(270,341)**	(31,146)	(86,198)
Mine exploration costs (Note 12)	**(83,017)**	(131)	–
Decrease (increase) in:			
Advances to related parties	**(15,708)**	(1,499,565)	(2,003,156)
Deposits for future acquisition (Notes 30 and 38)	**–**	(23,055)	–
Other noncurrent assets	**(152,361)**	(41,629)	(34,481)
Repurchase of shares (Note 20)	**(17,789)**	–	–
Cash inflow from acquisition of net assets of a subsidiary	**5,364**	–	–
Proceeds from sale of property and equipment (Note 8)	**2,543**	–	–
Proceeds from insurance of property and equipment	**–**	1,582	227
Cash inflow from acquisition of net assets of accounting acquiree (Parent Company)	**–**	–	20,322
Net cash flows used in investing activities	**(531,309)**	(1,593,944)	(2,103,286)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments of bank loans	**(875,038)**	(1,989,598)	(1,074,621)
Proceeds from:			
Availments of bank loans	**832,396**	2,339,014	302,935
Issuance of capital stock	**20**	–	9,000
Increase (decrease) in:			
Finance lease liabilities	**(20,269)**	(26,451)	(19,597)
Amounts owed to related parties	**19,586**	279,918	24,710
Other noncurrent liabilities	**–**	–	(350)
Net cash flows from (used in) financing activities	**(43,305)**	602,883	(757,923)
NET INCREASE (DECREASE) IN CASH	**29,332**	(214,907)	447,112
EFFECT OF EXCHANGE RATE CHANGES ON CASH (Note 29)	**19,734**	25,914	11,593
CASH AT BEGINNING OF YEAR	**502,876**	691,869	233,164
CASH AT END OF YEAR	**₱551,942**	₱502,876	691,869

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

Global Ferronickel Holdings, Inc. (formerly Southeast Asia Cement Holdings, Inc; GFHI; Parent Company) is a corporation listed in the Philippine Stock Exchange (PSE). It was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on May 3, 1994. The principal activities of the Parent Company are to invest in, purchase or otherwise acquire and own, hold, use, sell, assign, transfer, mortgage, pledge, exchange, or otherwise dispose of real and personal property of every kind and description, including shares of stock, and other securities or obligations of any corporation.

The registered principal office address of the Parent Company is at 7th floor, Corporate Business Centre, 151 Paseo De Roxas corner Arnaiz Street, Makati City.

As at June 30, 2014, the Parent Company is 74.80%, 10.17% and 4.85% owned by IHoldings, Inc., Kwantlen Development Corp. and Januarius Resources Realty Corp. (collectively the IHoldings Group), respectively.

On July 9, 2014, IHoldings Group entered into a Share Purchase Agreement, as amended on September 4, 2014, with Huatai Investment Holding Pty. Ltd. (HIHPL), Regulus Best Nickel Holdings, Inc., Bellatrix Star, Inc., Alpha Centauri Fortune Group, Inc. (ACFGI), Antares Nickel Capital, Inc. (ANCI), Blue Eagle Elite Ventures, Inc., Ultimate Horizon Capital, Inc., Sohoton Energy, Inc., Great South Group Ventures, Inc., Red Lion Fortune Group, Inc., and three (3) individuals (collectively the Thirteen Stockholders) pursuant to which IHoldings Group will sell to the Thirteen Stockholders 6,291,132,047 common shares of the Parent Company (the Subject Shares), comprising the entirety of their respective shareholdings and representing 89.82% of the total issued and outstanding capital stock of the Parent Company.

On September 5, 2014, as a requirement under the Securities Regulation Code (SRC), the Thirteen Stockholders have launched a mandatory tender offer to acquire the shares of the minority stockholders holding 712,781,634 common shares of the Parent Company and filed a Tender Offer Report with the SEC and PSE. The Tender Offer period lapsed on October 10, 2014 where 204,264 common shares were tendered to the Thirteen Stockholders (the Tendered Shares). After the lapse of the tender offer period, the Thirteen Stockholders completed the purchase of the Subject Shares in accordance with the Share Purchase Agreement. The Subject and Tendered Shares were crossed through the PSE on October 15, 2014.

On September 10, 2014 and October 22, 2014, the Board of Directors (BOD) and stockholders of the Parent Company, respectively, approved the following amendments to the Articles of Incorporation (AOI) and By-laws:

- Change in the Parent Company's name from Southeast Asia Cement Holdings, Inc. to Global Ferronickel Holdings, Inc.;
- Change in the registered and principal address from Room 1104, Liberty Center Building, 104 H.V. dela Costa corner Leviste Streets, Salcedo Village, Makati City to 7th floor, Corporate Business Centre, 151 Paseo de Roxas corner Arnaiz Street, Makati City;
- Increase in the number of directors from nine (9) to ten (10) members;
- Increase in the authorized capital stock of the Parent Company from ₱2,555.0 million divided into 7,300,000,000 common shares with a par value of ₱0.35 per share to ₱12,555.0 million divided into 35,871,428,572 common shares with a par value of ₱0.35 per share; and
- Change in the reporting period from June 30 to December 31.

The amendments to the AOI and By-laws of the Parent Company were approved by the SEC on December 22, 2014.

Moreover, the BOD and stockholders of the Parent Company also approved the following transactions on September 10, 2014 and October 22, 2014, respectively:

- The acquisition of the 99.85% outstanding shares of PGMC through issuance of 10,463,093,371 common shares, coming from the increase in authorized capital stock, to the stockholders of PGMC selling and/or exchanging their shares in PGMC to the Parent Company; and
- The follow-on offering and listing of shares with the PSE which includes the 10,463,093,371 common shares issued to the stockholders of PGMC.

On August 22, 2016 and October 3, 2016, the BOD and stockholders of the Parent Company, respectively, approved the following resolutions:

- Reverse stock split of the Parent Company's common stock at a ratio 1-for-3;
- Amendment of the AOI to reflect an increase in the par value per share and a corresponding decrease in the total number of shares or a reverse stock split, whereby in effect, the authorized capital stock of the Parent Company is increased from ₱12,555,000,000 divided into 35,871,428,572 common shares with par value of ₱0.35 per share to ₱12,555,020,001 divided into 11,957,161,906 common shares with a par value of ₱1.05 per share, or an increase of ₱20,001; and
- Amendment of the By-laws to include notice of regular or special meeting of the Board by electronic mail and attendance to board meetings by means of telephone, electronic, or other suitable electronic communication facilities, including telephone conference, videoconference, or the internet or any combination of those methods.

On November 7, 2016, the SEC approved the Parent Company's increase in the authorized capital stock and the amendments of the AOI and By-laws.

The Parent Company and PGMC Share-for-Share Swap (Share Swap) Transaction
On October 23, 2014, the Parent Company executed a Deed of Exchange for a Share Swap with the Thirteen Stockholders of PGMC. Parent Company will issue 10,463,093,371 common shares to the Thirteen Stockholders in exchange for the 99.85% outstanding shares of PGMC and cancel the ₱2,591.9 million receivables of Parent Company assumed by the Thirteen Stockholders from IHoldings Group pursuant to the Share Purchase Agreement dated July 9, 2014, as amended on September 4, 2014. The total par value of the 10,463,093,371 common shares to be issued by the Parent Company to the Thirteen Stockholders amounted to ₱3,662.1 million.

The shares issued by the Parent Company to the Thirteen Stockholders of PGMC came from the increase in authorized capital stock. The increase in the authorized capital stock was approved by the SEC on December 22, 2014.

Memorandum of Agreements (MOA)
On November 27, 2014, the Parent Company entered into two (2) MOAs with the following:

- GHGC Metallic Ore Resources, Inc. (GMORI) and eight (8) individuals for the purchase of 126,500,000 common shares or one hundred percent (100%) interest of Ferrochrome Resources, Inc. (FRI; formerly Golden Harvest Global Corporation) for United States Dollar (US$)30.0 million or its Philippine Peso (₱) equivalent.
- Giantlead Prestige, Inc., ACFGI, ANCI, HIHPL and an individual (the Sellers) for the purchase of 500,000 common shares and 6,250,000,000 preferred shares or one hundred percent (100%) interest of Southeast Palawan Nickel Ventures, Inc. (SPNVI) for US$50.0 million or its Philippine Peso equivalent.

The acquisition of FRI and SPNVI shares are still subject to the fulfillment of the pre-conditions as indicated in the MOA including the need to conduct a due diligence examination of FRI and SPNVI. The MOA shall expire upon the lapse of six (6) months from the date of execution of the MOA, unless extended by the parties under a written agreement.

On February 26, 2016, the BOI issued to PGMC the certification granting the renewal of PGMC's VAT zero-rated status. The certification is valid from February 9 up to December 31, 2016 unless sooner revoked by the BOI Governing Board.

On March 16, 2015, the Parent Company's BOD approved the termination of the MOA with GMORI and eight (8) individuals for the acquisition of one hundred percent (100%) interest of FRI due to the non-fullfillment of the conditions in the MOA.

On August 6, 2015, the members of the BOD of the Parent Company approved the following:

- Pursuant to the MOA dated November 27, 2014 executed between the Parent Company and the Sellers, for the sale of 500,000 common shares and 6,250,000,000 preferred shares or one hundred percent (100%) interest of SPNVI for the purchase price of US$50.0 million or its Philippine Peso equivalent, the Parent Company shall execute a Contract to Sell to acquire the aforementioned shares with the understanding that the payment of the purchase price shall be made by the Parent Company either after the conduct of the follow-on offering to the general public and for which a permit to sell has been secured from the SEC or whenever the Parent Company has generated sufficient funds to pay the purchase price from its operations or the conduct of other fund raising activities; and
- To allow SPNVI to complete the permitting processes of its mineral property covered by Mineral Production Sharing Agreement (MPSA) No. 017-93-IV granted by the Philippine Government to Celestial Nickel Mining Exploration Corporation (CNMEC) on September 19, 1993, as amended on April 10, 2000, the Parent Company shall subscribe to the remaining unissued and unsubscribed shares of SPNVI consisting of 300,000 common shares with a par value of ₱1.00 per share and 3,750,000,000 preferred shares with a par value of ₱0.01 per share, for a total subscription price of ₱37.8 million.

The approval of the stockholders to authorize this transaction was secured during the Corporation's Special Stockholders' Meeting held on February 26, 2015.

<u>The Subsidiaries</u>
PGMC
PGMC was registered with the SEC on February 10, 1983. PGMC is a 99.98%-owned subsidiary of the Parent Company and is primarily engaged in the exploration, mining and exporting nickel ore located in the municipality of Claver, Surigao del Norte.

Registration with the Board of Investments (BOI)
On November 16, 2007, PGMC was registered with the BOI as a new producer of beneficiated nickel ore on a non-pioneer status on its Surigao registered nickel project (see Note 35).

PGMC has been certified by BOI as a qualified enterprise for the purpose of value-added tax (VAT) zero-rating of its transactions pursuant to the terms and conditions set forth by the BOI.

On February 26, 2016, the BOI issued to PGMC the certification granting the renewal of PGMC's VAT zero-rated status. The certification is valid from February 9 up to December 31, 2016 unless sooner revoked by the BOI Governing Board.

Increase in Authorized Capital Stock
In March 2015, PGMC applied for an increase in authorized capital stock, from ₱715.4 million, consisting of 12,522,318,274 shares, to ₱1,515.4 million, consisting of 92,522,318,274 shares by increasing the

number of Class A common shares by 80,000,000,000 shares. The increase was approved by the Philippine SEC on May 19, 2015.

On April 22, 2015, the Parent Company subscribed for an additional 20,000,000,000 Class A common shares with a par value of ₱0.01 amounting to a total of ₱200.0 million and paid a total amount of ₱50.0 million out of the subscribed shares. There was no additional subscription of shares from the increase in authorized capital stock of PGMC by the NCI which resulted to its dilution. As a result, the Parent Company's percentage of ownership to PGMC increased from 99.89% to 99.98%.

Surigao Integrated Resources Corporation (SIRC)
SIRC is a 99.98%-owned subsidiary of the Parent Company through PGMC and was registered with the SEC on July 16, 1999. Its primary purposes are to engage in the exploration and processing of minerals, petroleum and other mineral oils, to enter into financial and technical assistance agreements for the large scale exploration, development and utilization of mineral resources or otherwise engage in mining activities or enter into agreements as may be allowed by law.

SIRC is the holder of MPSA No. 007-92-X located in Cagdianao, Claver, Surigao del Norte. On November 16, 2015, SIRC applied for the renewal of its MPSA and was approved for another twenty-five (25) year term on June 21, 2016. The renewed MPSA is valid until June 20, 2041.

On June 2, 2015, the Philippine SEC approved the increase in authorized capital stock of SIRC from ₱10.0 million divided into 15,000 common shares with a par value of ₱100 to ₱100.0 million divided into 915,000 common shares with a par value of ₱100. PGMC subscribed for an additional 225,000 common shares amounting to ₱22.5 million of which forty-two percent (42%) have been paid.

On June 15, 2016, SIRC and Cagdianao Lateritic Nickel Mining, Inc. (CLNMI) executed a Deed of Assignment wherein CLNMI has agreed to assign all of its rights, titles and interests on its Exploration Permit (EP) and mineral property. CLNMI has a pending application for EP with Application No. EPA-000101-XIII filed with the Mines and Geosciences Bureau (MGB) covering an area of about 927.9 hectares located at Cagdianao, Claver, Surigao del Norte. The Deed of Assignment was approved by the MGB on June 27, 2016.

PGMC-CNEP Shipping Services Corp. (PCSSC)
PCSSC is a 99.98%-owned subsidiary of the Parent Company through PGMC and was registered with the SEC on June 4, 2013. Its primary purpose is to conduct and carry on the business of inter-island shipping, including chartering, hiring, leasing, or otherwise acquiring tug and barge, self-propelled barges or landing craft transport (LCT) or other ships or vessels, together with equipment, appurtenances and furniture therefor; and to employ the same in the conveyance and carriage of ores, minerals, goods, wares and merchandise of every kind and description.

PGMC International Limited (PIL)
On July 22, 2015, PIL, a 99.98%-owned subsidiary of the Parent Company through PGMC, was incorporated under the Companies Ordinance of Hong Kong. It was established to facilitate relations with Chinese customers, to promote marketing, to collect accounts, to avail of offshore banking services such as loans, credit/discounting lines and other financing arrangements, and to do other services for PGMC (see Note 30a).

PGMC, SIRC, PCSSC and PIL are hereinafter collectively referred to as PGMC Group. PGMC Group's registered address is the same as that of the Parent Company except for PIL which is registered at Unit 4101-02, 41/F, Office Tower, Convention Plaza, 1 Harbour Road Wanchai, Hongkong.

Authorization for Issue
The accompanying consolidated financial statements of GFHI and Subsidiaries (the Group) as at December 31, 2016 and 2015 and for the years ended December 31, 2016 and 2015 and the six months ended December 31, 2014 were authorized for issue by the BOD on April 3, 2017.

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

Basis of Preparation

The accompanying consolidated financial statements have been prepared on a historical cost basis, except for quoted AFS financial assets, which are carried at fair value. The consolidated financial statements are presented in Philippine peso, which is the Group's presentation currency under the Philippine Financial Reporting Standards (PFRS). Based on the economic substance of the underlying circumstances relevant to the Group, the functional currencies of the Parent Company and its subsidiaries is Philippine peso, except for PIL whose functional currency is Hong Kong Dollar (HK$). All values are rounded to the nearest thousand (₱000), except number of shares, per share data and as indicated.

Acquisition of PGMC Group

As discussed in Note 1, the Parent Company and the Thirteen Stockholders of PGMC entered into a Share Swap that resulted to the Parent Company owning 99.85% of PGMC.

The transaction is an asset acquisition because GFHI does not meet the definition of a business. PGMC was deemed to be the accounting acquirer for accounting purposes accounted for under the reverse acquisition method following the guidance provided by the standard. In a reverse acquisition, the legal parent, GFHI is identified as the acquiree for accounting purposes because based on the substance of the transaction, the legal subsidiary PGMC is adjudged to be the entity that gained control over the legal parent. Accordingly, the consolidated financial statements of GFHI have been prepared as a continuation of the financial statements of PGMC Group. PGMC has accounted for the acquisition of GFHI on December 22, 2014, which was the date when PGMC acquired or gained control over GFHI.

The Share Swap transaction was a transaction between entities under common control since at acquisition date on December 22, 2014, GFHI and PGMC are under the common control of the Thirteen Stockholders.

The comparative June 30, 2014 information presented in the consolidated statements of changes in equity is that of PGMC Group, not originally presented in the previous financial statements of the legal parent (the Parent Company - accounting acquiree) and is also retroactively adjusted to reflect the legal capital (i.e., the number and type of "Capital stock" issued, "APIC" and "Treasury stock") of GFHI. The adjustment, which is the difference between the capital structure of PGMC Group and GFHI, is recognized as part of the "Equity reserve" in the consolidated statements of financial position. Refer to Note 20 for the movements in the "Equity reserve" account.

Because the accompanying consolidated financial statements represent a continuation of the financial statements of PGMC Group, except for its capital structure, the consolidation reflects:

a. The consolidated assets and liabilities of PGMC Group (legal subsidiary/accounting acquirer) recognized and measured at their pre-combination carrying amounts and not at fair value, and the assets and liabilities of GFHI (legal parent/accounting acquiree) were recognized and measured at acquisition cost;
b. The retained earnings of PGMC Group for full period together with the post-combination results of GFHI from December 22, 2014, the date when GFHI was acquired by PGMC;
c. The total equity that shows the combined equity of PGMC Group and GFHI. However, the legal capital of PGMC Group will be eliminated as the legal capital that will be reflected would be that of GFHI (legal parent);
d. Any difference between the consideration transferred by GFHI and the legal capital of PGMC Group that is eliminated is reflected as "Equity reserve"; and
e. The consolidated statements of comprehensive income for the years ended December 31, 2016 and 2015 and the six months ended December 31, 2014 reflect that of the PGMC Group for the full period. The six months ended December 31 2014 includes the post- combination results of GFHI (e.g. for the period from December 22, 2014 to December 31, 2014).

Reverse acquisition applies only to the consolidated financial statements. The Parent Company financial statements will continue to represent GFHI as a stand-alone entity as at December 31, 2016 and 2015.

Basis of Consolidation
The consolidated financial statements as at December 31, 2016 and 2015 include the following:

Subsidiaries	Principal Place of Business	Principal Activities	Effective ownership
PGMC	Philippines	Mining	99.98%
SIRC[1]	Philippines	Mining	99.98%
PCSSC[1]	Philippines	Services	99.98%
PIL[1]	Hong Kong	Marketing, Trading and Services	99.98%

(1) Indirect ownership through PGMC

The consolidated financial statements include the accounts of the Parent Company and its subsidiaries after eliminating significant intercompany balances and transactions. The financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company, except SIRC, using uniform and consistent accounting policies. When necessary, adjustments are made to the stand-alone financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

Subsidiaries are entities over which the Parent Company has control. The Parent Company controls an investee if, and only if, the Parent Company has:

- 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.

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Parent Company has less than a majority of the voting or similar rights of an investee, the Parent Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Parent Company's voting rights and potential voting rights

The Parent Company 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 Parent Company obtains control over the subsidiary and ceases when the Parent Company loses 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 Parent Company gains control until the date the Parent Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Parent Company and to the NCI, even if this results in the NCI having a deficit balance.

NCI represents interest in a subsidiary that is not owned, directly or indirectly, by the Parent Company.

NCI represents the portion of profit or loss and the net assets not held by the Group. Transactions with NCI are accounted for using the entity concept method, whereby the difference between the consideration and the book value of the share in the net assets acquired is recognized as an equity transaction.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Parent Company 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 recorded in equity;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained;
- Recognizes any surplus or deficit in the profit or loss; and
- Reclassifies the Parent Company's share of components previously recognized in the consolidated statement of comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Parent Company had directly disposed of the related assets or liabilities.

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.

Statement of Compliance

The accompanying consolidated financial statements of the Group have been prepared in compliance with PFRS. PFRS includes statements named PFRS, Philippine Accounting Standards (PAS), and Standard Interpretation Committee (SIC)/Philippine Interpretation based on International Financial Reporting Interpretations Committee (IFRIC), which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by SEC, including SEC pronouncements.

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except that the Group has adopted the following new accounting pronouncements starting January 1, 2016. Adoption of these pronouncements did not have any significant impact on the Group's financial position or performance unless otherwise indicated.

- Amendments to PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interest in Other Entities* and PAS 28, *Investments in Associates and Joint Ventures* - *Investment Entities: Applying the Consolidation Exception*
- Amendments to PFRS 11, *Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations*
- PFRS 14, *Regulatory Deferral Accounts*
- Amendments to PAS 1, *Presentation of Financial Statements* - *Disclosure Initiative*
- Amendments to PAS 16, *Property, Plant and Equipment* and PAS 38, *Intangible Assets*, *- Clarification of Acceptable Methods of Depreciation and Amortization*
- Amendments to PAS 16 and PAS 41, *Agriculture: Bearer Plants*
- Amendments to PAS 27, *Separate Financial Statements* - *Equity Method in Separate Financial Statements*

Annual Improvements to PFRSs (2012-2014 cycle)

- Amendment to PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations - Changes in Methods of Disposal*
- Amendment to PFRS 7, *Financial Instruments: Disclosures - Servicing Contracts*
- Amendment to PFRS 7, *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
- Amendment to PAS 19, *Employee Benefits – Discount Rate: Regional Market Issue*

- Amendment to PAS 34, *Interim Financial Reporting - Disclosure of information "Elsewhere in the interim financial report"*

Standards 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, 2017

- Amendment to PFRS 12, *Clarification of the Scope of the Standard* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)
  The amendments clarify that the disclosure requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale. The amendments do not have any impact on the Group's financial position and results of operation. The Group will include the required disclosures in its 2017 consolidated financial statements.

- Amendments to PAS 7, *Statement of Cash Flows*, *Disclosure Initiative*
  The amendments to PAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendments, entities are not required to provide comparative information for preceding periods. Early application of the amendments is permitted. Application of amendments will result in additional disclosures in the 2017 consolidated financial statements of the Group.

- Amendments to PAS 12, *Income Taxes*, *Recognition of Deferred Tax Assets for Unrealized Losses*
  The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

  Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. Early application of the amendments is permitted.

Effective beginning on or after January 1, 2018

- Amendments to PFRS 2, *Share-based Payment*, *Classification and Measurement of Share-based Payment Transactions*
  The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and if other criteria are met. Early application of the amendments is permitted.

- Amendments to PFRS 4, *Insurance Contracts*, *Applying PFRS 9, Financial Instruments, with PFRS 4*
  The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the forthcoming insurance contracts standard. They allow entities to choose between the overlay approach and the deferral approach to deal with the transitional challenges. The overlay approach gives all entities that issue insurance contracts the option to recognize in OCI, rather than profit or loss, the volatility that could arise when PFRS 9 is applied before the new insurance contracts standard is issued. On the other hand, the deferral approach gives entities whose activities are predominantly connected with insurance an optional temporary exemption from applying PFRS 9 until the earlier of application of the forthcoming insurance contracts standard or January 1, 2021. The overlay approach and the deferral approach will only be available to an entity if it has not previously applied PFRS 9. The amendments are not applicable to the Group since none of the entities within the Group have activities that are predominantly connected with insurance or issue insurance contracts.

- PFRS 15, *Revenue from Contracts with Customers*
  PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018. The Group is currently assessing the impact of adopting this standard.

- PFRS 9, *Financial Instruments*
  PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

  The adoption of PFRS 9 will have an effect on the classification and measurement of the Group’s financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Group’s financial liabilities. The adoption will also have an effect on the Group’s application of hedge accounting and on the amount of its credit losses. The Group is currently assessing the impact of adopting this standard.

- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)
  The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss (FVPL). They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate’s or joint venture’s interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first

becomes a parent. The amendments should be applied retrospectively, with earlier application permitted.

- Amendments to PAS 40, *Investment Property*, *Transfers of Investment Property*
  The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.

- IFRIC 22, *Foreign Currency Transactions and Advance Consideration*
  The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The interpretation may be applied on a fully retrospective basis. Entities may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

Effective beginning on or after January 1, 2019

- PFRS 16, *Leases*
  Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, *Leases*. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

  The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value. Entities may early adopt PFRS 16 but only if they have also adopted PFRS 15. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs. The Group is currently assessing the impact of adopting PFRS 16.

Deferred effectivity

- Amendments to PFRS 10 and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
  The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, the Financial Reporting Standards Council postponed the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

Summary of Significant Accounting Policies

Presentation of Consolidated Financial Statements
The Group has elected to present all items of recognized income and expense in single consolidated statement of comprehensive income.

Cash
Cash represents cash on hand and with banks.

Financial Instruments
A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial Assets
Initial Recognition and Measurement
The Group determines the classification of its financial instruments at initial recognition and, where allowed and appropriate, re-evaluates this designation at each end of the reporting period.

All financial instruments are recognized initially at fair value. Directly attributable transaction costs are included in the initial measurement of all financial instruments, except for financial instruments measured at FVPL.

Financial assets within the scope of PAS 39 are classified in the following categories: financial asset at FVPL, loans and receivables, AFS financial assets, held-to-maturity (HTM) investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market.

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).

The Group's financial assets are in the nature of loans and receivables and AFS financial assets. As at December 31, 2016 and 2015, there were no financial assets at FVPL, HTM investments or as derivatives designated as hedging instruments in an effective hedge.

Subsequent Measurement
Loans and Receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as "Financial assets held for trading", designated as "AFS financial assets" or "Financial assets designated at FVPL". After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest rate (EIR) method, less allowance for impairment losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortization is included in "Finance income" in the consolidated statement of comprehensive income. Any losses arising from impairment are recognized in "General and administrative expenses" in the consolidated statement of comprehensive income. Gains and losses are recognized in the consolidated statement of comprehensive income when the loans are derecognized or impaired as well as through the amortization process.

Loans and receivables are included in current assets if maturity is within twelve (12) months from the end of the reporting period or within the Group's operating cycle, whichever is longer. Otherwise, these are classified as noncurrent assets.

As at December 31, 2016 and 2015, the Group's loans and receivables include cash, trade and other receivables and advances to related parties (see Notes 4, 5 and 30).

AFS Financial Assets
AFS financial assets are those which are designated as such or do not qualify to be classified as designated as at FVPL, HTM investments, or loans and receivables.

Financial assets may be designated at initial recognition as AFS financial assets if they are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. The Group's AFS financial assets include equity investments. After initial measurement, AFS financial assets are subsequently measured at fair value with unrealized gains or losses recognized as "Valuation gain (loss) on AFS financial assets" in the OCI until the investment is derecognized, at which time the cumulative gain or loss is recognized in "Other income (charges)" or determined to be impaired, at which time the cumulative loss is reclassified to the consolidated statement of comprehensive income in "Other income (charges)" and removed from "Valuation gain (loss) on AFS financial assets". Interest earned whilst holding AFS financial assets is reported as part of "Finance income" using the EIR method.

The Group evaluates whether the ability and intention to sell its AFS financial assets in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if the management has the ability and intention to hold the assets for foreseeable future or until maturity.

As at December 31, 2016 and 2015, the Group's AFS financial assets consist of quoted equity instruments (see Note 13).

Derecognition
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

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

Where the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. 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. 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.

Impairment of Financial Assets
The Group assesses at each end of the reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one (1) or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and

that loss event has an effect on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Loans and Receivables
For financial assets carried at amortized cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

Interest income continues to be recognized based on the original EIR of the asset. The interest income is recorded as part of "Finance income" in the consolidated statement of comprehensive income. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statement of comprehensive income. Loans and receivables, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance amount. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

AFS Financial Assets
For AFS financial assets, the Group assesses at each end of the reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired.

In the case of equity investments classified as AFS financial assets, this would include a significant or prolonged decline in the fair value of the investments below its cost. "Significant" is to be evaluated against the original cost of the investment and "Prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized as OCI is removed from equity and recognized in "Other income (charges)" in the consolidated statement of comprehensive income.

Impairment losses on equity investments are not reversed through the profit or loss; while increases in fair value after impairment are recognized directly in equity through the consolidated statement of comprehensive income.

Financial Liabilities

Initial Recognition and Measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at FVPL, loans and borrowings, trade and other 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 payables, net of directly attributable transaction costs.

All financial liabilities are recognised initially at fair value and, in the case of interest-bearing loans and borrowings and trade and other payables, net of directly attributable transaction costs.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as "Other income (charges)". Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax.

The Group's financial liabilities are in the nature of loans and borrowings and trade and other payables. As at December 31, 2016 and 2015, the Group has no financial liabilities at FVPL or as derivatives designated as hedging instruments in an effective hedge.

Subsequent Measurement

Loans and Borrowings and Trade and Other Payables

After initial recognition, interest-bearing loans and borrowings and trade and other payables are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in the consolidated statement of comprehensive income 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 in "Finance costs" in the consolidated statement of comprehensive income.

Loans and borrowings, trade and other payables are included under current liabilities if it will be settled within twelve (12) months after the end of the reporting period. Otherwise, these are classified as noncurrent liabilities.

As at December 31, 2016 and 2015, the Group's loans and borrowings and trade and other payables include trade and other payables (excluding statutory payables), payable to Brooks Nickel Ventures, Inc. (BNVI) and previous stockholders of CNMEC which are under other noncurrent liabilities, bank loans, and amounts owed to related parties (see Notes 14, 15, and 30).

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired.

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 of a financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed is recognized in the consolidated statement of comprehensive income.

Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to set-off the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities 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

The Group measures financial instruments, such as AFS financial assets, at fair value at each reporting period. Also, from time to time, the fair values of non-financial assets and liabilities are required to be determined. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 33.

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 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 market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits 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 and for which sufficient 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 consolidated financial statements 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) prices in active markets for identical assets or liabilities
- Level 2 - Other techniques for which all inputs which have significant effect on the recorded fair value are observable, either directly or indirectly
- Level 3 - Techniques which use inputs that have a significant effect on the recorded fair value that are not based on unobservable market data

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 each end of the reporting period.

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

Inventories

Inventories are valued at the lower of cost or net realizable value (NRV). Cost is determined by the moving average production cost during the year for nickel ore inventories exceeding a determined cut-off grade and moving average method for materials and supplies. The NRV of nickel ore inventories is

the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. The NRV of materials and supplies is the current replacement cost. In determining NRV, the Group considers any adjustment necessary for obsolescence.

Prepayments and Other Current and Noncurrent Assets
Prepayments and other current assets are composed of prepaid rent, prepaid taxes and licenses, and prepaid insurance and others. Other noncurrent assets are composed of restricted cash, input VAT, advances to suppliers, mine rehabilitation fund (MRF) and others. These are classified as current when it is probable to be realized or consumed within one (1) year from the end of the reporting period. Otherwise, these are classified as noncurrent assets.

Input VAT
Input VAT represents VAT imposed on the Group by its suppliers and contractors for the acquisition of goods and services required under Philippine taxation laws and regulations, net of output tax liabilities, if any, which may be 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.

Input VAT on capitalized assets subject to amortization and any excess which may be utilized against output VAT, if any, beyond twelve (12) months from the end of the reporting period or will be claimed for refund or as tax credits with the Court of Tax Appeals are presented as part of “Other noncurrent assets” in the consolidated statement of financial position. Input VAT is stated at its estimated NRV.

Deposits for Future Acquisition
This pertains to advances made to related parties converted into deposits for future acquisition of ownership of shares with the intention of applying the same as payment for future acquisition of stock. This is shown as part of noncurrent assets in the consolidated statement of financial position.

Property and Equipment
Property and equipment, except land, is stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and depletion and accumulated impairment in value. Such cost includes the cost of replacing part of such property and equipment when that cost is incurred if the recognition criteria are met. Likewise, when significant parts of equipment are required to be repaired at intervals, the Group depreciates them separately based on their specific useful lives. Likewise, when each major inspection is performed, its cost is recognized in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied. Land is carried at cost less any impairment in value. All other repairs and maintenance are recognized in profit or loss as incurred.

Construction in-progress (CIP), included in property and equipment, is stated at cost. CIP is not depreciated until such time the relevant assets are completed and become available for use.

Depreciation of property and equipment, excluding mining properties, are computed on a straight-line basis over the following estimated useful lives of the respective assets:

Category	Number of Years
Building and land improvements	25
Machineries and other equipment	5-10
Furniture and fixtures, and equipment and supplies	2-5
Roads and bridges	5-10

Leasehold improvements included under “Building and land improvements” are amortized over the term of the lease or the estimated useful life of five (5) to ten (10) years, whichever is shorter.

Mining properties, included in property and equipment, consist of mine development costs and capitalized costs of mine rehabilitation and decommissioning, and other development costs necessary to prepare the area for operations.

Mine development costs consist of capitalized costs previously carried under "Mine exploration costs", which are transferred to mining properties under "Property and equipment" upon start of commercial operations. The net carrying amount of mine development costs, including the capitalized cost of mine rehabilitation and decommissioning, is depleted using the unit-of-production (UOP) method based on the estimated economically recoverable ore reserves to which they relate or are written off if the property is abandoned.

Depreciation and depletion of property and equipment, except land, begins when it becomes available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management, or in case of mining properties, from start of commercial operations upon extraction of ore reserves. Depreciation and depletion ceases when the assets are fully depreciated or depleted, or at the earlier of the date that the item is classified as held for sale (or included in the disposal group that is classified as held for sale) in accordance with PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, and the date the item is derecognized.

The estimated recoverable reserves, estimated useful lives and depreciation and depletion methods are reviewed periodically to ensure that the estimated recoverable reserves, residual values, if any, periods and methods of depreciation and depletion are consistent with the expected pattern of economic benefits from items of property and equipment. The residual values is reviewed and adjusted, if appropriate, at each end of the reporting period. If there is an indication that there has been a significant change in depreciation and depletion rate, useful life, mineral reserve estimates or residual value of an asset, the depreciation and depletion of that asset is revised prospectively to reflect the new expectations.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of comprehensive income in the year the asset is derecognized.

The residual values and useful lives of property and equipment are reviewed at each financial year and adjusted prospectively, if appropriate. Fully depreciated assets are retained in the accounts until they are no longer in use and no further depreciation is charged to current operations.

Investment in an Associate

An associate is an entity over which the Parent Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. The considerations made in determining significant influence or joint controls are similar to those necessary to determine control over subsidiaries.

The Parent Company's investment in its associate are accounted for using the equity method.

Under the equity method, the investment in an associate is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Parent Company's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment individually.

The consolidated statement of comprehensive income reflects the Parent Company's share of the results of operations of the associate. Any change in OCI of those investees is presented as part of the Parent Company's OCI. In addition, when there has been a change recognized directly in the equity of the associate, the Parent Company recognizes its share of any changes, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between the Parent Company and the associate are eliminated to the extent of the interest in the associate.

The aggregate of the Parent Company's share of profit or loss of an associate is shown on the face of the consolidated statement of comprehensive income outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate. If the Parent Company's

share of losses of an associate equals or exceeds its interest in the associate, the Parent Company discontinues recognizing its share of further losses.

The financial statement of the associate is prepared for the same reporting period as the Parent Company. When necessary, adjustments are made to bring the accounting policies in line with those of the Parent Company.

Mining Rights
Mining rights refer to the right of the Group as the holder of the MPSA located in Cagdianao, Claver, Surigao del Norte acquired through the assignment of MPSA from Case Mining Development Corporation (CMDC) to the Group under the Deed of Assignment. It also includes initial deferred exploration costs incurred by the Group relative to the exploration works on the mining properties.

Mining rights with finite useful life is stated at cost less amortization and accumulated impairment in value. Impairment assessments are made if events or changes of circumstances indicate that the carrying value of the assets may not be recoverable.

The net carrying amount of mining rights of the Group is amortized using the UOP method based on the estimated economically recoverable reserves to which they relate or are written off if the properties covered by the mining rights are abandoned.

Investment Property
Investment property is measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment property is carried at cost less any accumulated impairment.

Investment property is derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the consolidated statement of comprehensive income in the period of derecognition.

Mine Exploration Costs
Pre-license costs 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 reserved is established. Upon the start of commercial operations, such costs are transferred to property and equipment. If no mineable ore body is discovered, capitalized acquisition costs are expensed in the period in which it is determined that the mineral property has no future economic value.

Impairment of Non-Financial Assets
Property and Equipment, Mining Rights, Investment Property, Prepayments and Other Current and Noncurrent Assets and Investment in an Associate
The Group assesses, at each end of the reporting period, whether there is an indication that an asset may be impaired. 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 and where the carrying amount of an asset exceeds its recoverable amount, the asset cash generating unit (CGU) is written down to its recoverable amount. An asset’s recoverable amount is the higher of an asset’s or CGU’s fair value less costs to sell and its value-in-use (VIU) and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. The fair value less cost to sell is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participant at the measurement date less the costs of disposal, while VIU is the present value of estimated future cash

flows expected to arise from the continuing use of the asset and from its disposal at the end of its useful life. Where 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. Impairment losses are recognized in “General and administrative expenses” in the consolidated statement of comprehensive income.

Recovery of impairment losses recognized in prior years is recorded when there is an indication that the impairment losses recognized for the asset no longer exist or have decreased. The recovery is recorded in the consolidated statement of comprehensive income. However, the increased carrying amount of an asset due to a recovery of an impairment loss is recognized to the extent it does not exceed the carrying amount that would have been determined (net of depreciation, depletion and amortization) had no impairment loss been recognized for that asset in prior years.

After application of the equity method for investment in an associate, the Parent Company determines whether it is necessary to recognize an additional impairment loss of the Parent Company’s investment in an associate. The Parent Company determines at the end of the reporting period whether there is any objective evidence that the investment in an associate is impaired. If this is the case, the Parent Company calculates the amount of impairment as being the difference between the fair value 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 to sell and VIU.

Upon loss of significant influence over the associate, the Parent Company measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

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, at the end of the reporting period in which this is determined. Mine exploration costs are reassessed on a regular basis and these costs are carried forward provided that at least one (1) of the following conditions is met:

- The period for which the entity has the right to explore in the specific area has not expired during the period or will not expire in the near future, and is expected to be renewed;
- 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 in the area of interest have 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 for the future.

Provisions
General
Provisions are recognized when the Group has a present obligation (legal or 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. Provisions are reviewed at each end of the reporting period and adjusted to reflect the current best estimate. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, 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 “Finance costs” in the consolidated statement of comprehensive income.

Provision for Mine Rehabilitation and Decommissioning
The Group records the present value of estimated costs of legal and constructive obligations required to restore operating locations in the period in which the obligation is incurred. The nature of these

restoration activities includes dismantling and demolition of infrastructures, removal of residual materials and remediation of disturbed areas. The obligation generally arises when the asset is installed or the ground/environment is disturbed at the production location. When the liability is initially recognized, the present value of the estimated cost is capitalized by increasing the carrying amount of the related mining assets. 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 "Finance costs" in the consolidated statement of comprehensive income. Additional disturbances or changes in rehabilitation costs will be recognized as additions or charges to the corresponding assets and provision for mine rehabilitation and decommissioning when they occur.

Decrease in provision for mine rehabilitation and decommissioning that exceeds the carrying amount of the corresponding rehabilitation asset is recognized immediately in the consolidated statement of comprehensive income.

Where rehabilitation is conducted systematically over the life of the operation, rather than at the time of closure, provision is made for the estimated outstanding continuous rehabilitation work at each end of the reporting period and the cost is charged to the consolidated statement of comprehensive income.

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.

MRF committed for use in satisfying environmental obligations are included under "Other noncurrent assets" in the consolidated statement of financial position.

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 profit or loss for the year in accordance with PFRS.

Capital Stock

Common shares are classified as equity.

Preferred shares are classified as equity if these are non-redeemable, or redeemable only at the Group's option, and any dividends are discretionary. Dividends thereon are recognized as distributions within equity upon approval by the Group's BOD. Preferred shares are classified as a liability if it is redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary.

Subscribed capital stock is reported in equity less the related subscription receivable not collectible currently.

Incremental costs directly attributable to the issue of new shares or options are shown 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.

Treasury Stock

Treasury stock is recorded at cost and is presented as a deduction from equity. Any consideration paid or received in connection with treasury stock is recognized directly in equity.

When the shares are retired, the capital stock account is reduced by its par value. The excess of cost over par value upon retirement is debited to the following accounts in the order given: (1) APIC to the extent of the specific or average APIC when the shares are issued, and (2) retained earnings. When

shares are sold, the treasury stock account is credited and reduced by the weighted average cost of the shares sold. The excess of any consideration over the cost is credited to APIC.

Transaction costs incurred such as registration and other regulatory fees, amounts paid to legal, accounting and other professional advisers, printing costs and stamp duties (net of any related income tax benefit) in relation to the issuing or acquiring the treasury shares are accounted for as reduction from equity, which is disclosed separately.

Retained Earnings and Dividends
Retained earnings represent the cumulative balance of periodic net income or loss, dividend declarations, prior period adjustments, effect of changes in accounting policy and other capital adjustments.

Dividend distribution to the Group's stockholders is recognized as a liability and deducted from retained earnings when they are approved by the Group's BOD. Dividends for the year that are approved after the end of the reporting period are dealt with as an event after the end of the reporting period.

Equity Reserve
Equity reserve represents the residual amount recognized in the consolidated financial statements to reflect the equity of the legal subsidiary (accounting acquirer) before the business combination, which was accounted for as a reverse acquisition. However, the equity structure (i.e., the number and type of equity instruments issued) still reflects the equity structure of the legal parent (accounting acquiree), including the equity instruments issued by the legal parent to effect the combination.

NCI
NCI represent the portion of profit or loss and the net assets in subsidiaries, not held by the Parent Company and are presented separately in the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from the equity attributable to the equity holders of the Parent Company.

Reverse Acquisition
Consolidated financial statements prepared following a reverse acquisition are issued under the name of the legal parent (accounting acquiree) but described in the notes as a continuation of the financial statements of the legal subsidiary (accounting acquirer), with one adjustment, which is to adjust retroactively the accounting acquirer's legal capital to reflect the legal capital of the accounting acquiree. That adjustment is required to reflect the capital of the legal parent (the accounting acquiree). Comparative information presented in those consolidated financial statements also is retroactively adjusted to reflect the legal capital of the legal parent (accounting acquiree).

Asset Acquisition
The transfers of shares from PIL to PGMC constitutes an asset acquisition as they do not pertain to an integrated set of activities and assets that is capable of being conducted and managed to generate output and for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or to the shareholders.

EPS
Basic EPS is computed by dividing earnings applicable to common equity holders of the Parent Company by the weighted average number of common shares outstanding, after giving retroactive effect for any stock dividends, stock splits or reverse stock splits during the year.

Diluted EPS amounts are calculated by dividing the net income attributable to common 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, excluding treasury shares.

Since the Parent Company has no potential dilutive common shares, basic and diluted EPS are stated at the same amount.

Segment Reporting
For purposes of management reporting, the Group is organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit. The Group has two geographical segments and derives its revenues from domestic and foreign operations. The business and geographical segments are the bases upon which the Group reports its primary segment information. Financial information on segment reporting is presented in Note 40 to the consolidated financial statements.

Revenue Recognition
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when payments are being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as a principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements.

The following specific recognition criteria must also be met before revenue is recognized:

Sale of Nickel Ore
Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, which coincides with the completion of loading of the ores onto the buyer's vessel and date of the bill of lading issued by the buyer's shipping agent. Under the terms of supply agreements with customers, the Group issues a provisional invoice for the entire volume of ore loaded to customer's vessel. Final invoice is made thereafter upon customer's outturn of ore delivered and submission of their final assay report. Adjustment is accordingly made against the final invoice with respect to provisional collections received by the Group to determine amounts still owing from customers.

Interest Income
Interest income is recognized as the interest accrues (using the EIR that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

Other Income
Revenue is recognized in the consolidated statement of comprehensive income as they are earned.

Cost and Expenses Recognition
Cost and expenses are decreases in economic benefits during the period in the form of outflows or decreases in assets or incurrences of liabilities that result in decrease in retained earnings or increase in deficit. Cost and expenses are recognized in the consolidated statement of comprehensive income in the period these are incurred.

Cost of Sales
Cost of sales is incurred in the normal course of business and is recognized when incurred. They comprise mainly of contract hire, personnel costs, depreciation, depletion, and amortization, fuel, operation overhead and others, which are provided in the period when the goods are delivered.

Operating Expenses
Operating expenses consist of costs associated with the development and execution of shipping and distribution activities, excise taxes and royalties due to government and other third parties and expenses incurred in the direction and general administration of day-to-day operations of the Group. These are generally recognized when the expense arises.

Leases

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 and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

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 Leases

Operating leases represent those leases under which substantially all risks and rewards of ownership of the leased assets remains with the lessors. Noncancellable operating lease payments are recognized under "Cost of sales and general and administrative expenses" in the consolidated statement of comprehensive income on a straight-line basis over the lease term.

Finance Leases

Finance leases, which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and the reduction of the lease liability so as to achieve a constant periodic rate of interest on the remaining balance of the liability. Lease receivables are based on the present value of contractual cash flows discounted at market adjusted rates. "Finance income" and "Finance costs" are reflected in the consolidated statement of comprehensive income.

Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership of the asset by the end of the lease term.

Retirement Benefits Costs

The Group has an unfunded, noncontributory, defined benefits retirement plan. The net defined benefit 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. This method reflects service rendered by employees to the date of valuation and incorporates assumptions concerning the employees' projected salaries.

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as "Retirement benefits costs" under "Personnel costs" under "Cost of sales" and "General and administrative expenses" in the consolidated statement of comprehensive income.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit 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 benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as "Finance costs" or "Finance income" in the consolidated statement of comprehensive income.

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 benefit 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 retained in OCI which is presented as "Remeasurement gain (loss) on retirement obligation" under equity.

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

The standard requires an entity to recognize short-term employee benefits when an employee has rendered services in exchange of those benefits.

Foreign Currency Transactions

Transactions in foreign currencies are initially recorded in the prevailing functional currency exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated at the closing functional currency rate of exchange at the end of the reporting period. Nonmonetary items that are measured in terms of historical cost in foreign currency are translated using the exchange rates as at the dates of the initial transactions. All differences are taken to the consolidated statement of comprehensive income.

The financial statements of the foreign consolidated subsidiary are translated at closing exchange rates with respect to the consolidated statement of financial position, and at the average exchange rates for the year with respect to the consolidated statement of comprehensive income. Resulting translation differences are included in equity (under "Cumulative translation adjustment"). Upon disposal of the foreign subsidiary, accumulated exchange differences are recognized in the profit or loss as a component of the gain or loss on disposal.

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 income tax rates and income tax laws used to compute the amount are those that have been enacted or substantively enacted at the end of the reporting period.

Deferred Tax

Deferred tax is provided using balance sheet method on 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 at the end of the reporting period.

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

- Where the deferred tax liability arises from the initial recognition of goodwill or 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 income nor taxable income or loss; and
- In respect of taxable temporary differences associated with investments in foreign subsidiaries and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled 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, and the carryforward benefits of unused tax credits from excess minimum corporate income tax (MCIT) over regular corporate income tax and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient future taxable income will be available against which the deductible temporary differences and carryforward benefits 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 income nor taxable income or loss; and
- In respect of deductible temporary differences associated with investments in foreign subsidiaries 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 income will be available against which the temporary differences can be utilized.

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

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

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

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in OCI or directly in equity.

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 are disclosed when an inflow of economic benefits is probable.

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

3. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements in accordance with PFRS requires the Group to make judgment, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the judgments and assumptions used in arriving at the estimates to change. The effects of any change in 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. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Assessing Production Start Date

The Group assesses the stage of each mine development project to determine when a mine moves into the production stage. The criteria used to assess the start date of a mine are determined based on the unique nature of each mine development project. The Group considers various relevant criteria to assess when the mine is substantially complete, ready for its intended use and moves into the production phase.

Some of the criteria include, but are not limited to the following:

- The level of capital expenditure compared to construction or development cost estimates;
- Completion of a reasonable period of testing of the property and equipment;
- Ability to produce ore in saleable form; and
- Ability to sustain ongoing production of ore.

When a mine development project moves into the production stage, the capitalization of certain mine construction or development costs ceases and costs are either regarded as inventory or expensed, except for capitalizable costs related to mining asset additions or improvements or mineable reserve development. It is also at this point that depreciation or depletion commences.

Determining Functional Currency

Based on the economic substance of the underlying circumstances relevant to the Group, the functional currency of the Group, except PIL, has been determined to be the Philippine peso. The functional currency of PIL has been determined to be the HK$. The Philippine peso and the HK$ are the currencies that most faithfully represents the economic substance of the Group's underlying transactions, events and conditions.

Assessing Existence of Significant Influence

In assessing whether significant influence still exists, the Parent Company considered not only its percentage ownership but other factors such as the board seat representations it has in the associate's governing body and its interchange of managerial personnel with the associate, among others.

As at December 31, 2016, the Parent Company assessed that it has significant influence over SPNVI and has accounted for the investment as an associate (see Note 9).

Estimates and Assumptions

The key estimates and assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period are discussed below.

Estimating Ore Reserves

Ore reserves are estimates of the amount of ore that can be economically and legally extracted from the Group's mining properties. The Group estimates its ore reserves based on information compiled by appropriately qualified persons relating to the geological data on the size, depth and shape of the ore body, and requires complex geological judgments to interpret the data. The estimation of recoverable reserves is based upon factors such as estimates of foreign exchange rates, commodity prices, future capital requirements, and production costs along with geological assumptions and judgments made in estimating the size and grade of the ore body. Changes in the reserve or resource estimates may affect the carrying value of mine exploration costs, property and equipment, provision for mine rehabilitation and decommissioning, recognition of deferred tax assets, and depreciation and depletion charges. Any change in the reserve estimates as a result of latest available information is accounted for prospectively.

In 2015, total ore estimate pertaining to Cagdianao Areas (CAGA) 1, 2, 3, 4 and 5 was changed from 119.5 million wet metric ton (WMT) of ore resources to 37.3 million WMT of ore reserves based on the latest Joint Ore Reserves Committee (JORC) Report received in February 2015. Total ore reserves estimate pertaining to the operating CAGA 2 and 4 was changed from 86.0 million WMT of ore resources to 20.3 million WMT of ore reserves which will have an impact on the remaining life of the Group's mining properties classified under "Property and equipment" and "Mining rights."

The Group received the latest Philippine Mining Reporting Code Competent Person's (PMRC-CP) Technical Report for CAGAs 1 to 5 of the Cagdianao mining property which reported a measured and indicated ore resources of 50.3 million dry metric ton (DMT) and an additional inferred ore resources of 18.1 million DMT as at June 30, 2016. The Group's proven and probable ore reserves are at 35.5 million WMT as at June 30, 2016, as estimated in accordance with the PMRC-CP Technical Report dated September 15, 2016.

Effective July 1, 2016, there was a change in the ore reserves estimates used in calculating the depletion rate used for the depletion of mining properties and mining rights. The change was based on the latest PMRC-CP Technical Report dated September 15, 2016 with an indicated ore reserves estimate of 25.6 million WMT for operating CAGAs 2 and 4 out of the total indicated ore reserve of 35.5 million WMT for CAGAs 1 to 5 as at June 30, 2016. For the period January 1 to June 30, 2016 and for the year ended December 31, 2015, the rates used was based on the latest JORC Report received from Runge Pincock Minarco in February 2015 with an indicated ore reserves estimate of 20.3 million WMT for CAGAs 2 and 4 out of the total indicated ore reserve of 37.3 million WMT for CAGAs 1 to 5 (see Notes 8 and 10).

The change in estimates during the year resulted to lower depletion of mining properties and amortization of mining rights amounting to ₱90.4 million and ₱4.4 million, respectively.

Estimating Allowance for Impairment Losses on Trade and Other Receivables and Advances to Related Parties

The provision for impairment losses on trade and other receivables and advances to related parties is based on the Group's assessment of the collectibility of payments from customers, contractors, related parties and others. This assessment requires judgment regarding the outcome of disputes and the ability of each of the debtors to pay the amounts owed to the Group. The Group assesses individually the receivable based on factors that affect the collectibility of the receivables, such as the length of the relationship of the Group with the debtor, the historical payment behavior, a review of the age and status of its receivable, the probability of insolvency of the counterparty, as well as its significant financial difficulties.

In addition to specific allowance against individually significant loans and receivables, the Group also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective allowance is based on any deterioration in the Group's assessment of the accounts since their inception. The Group's assessments take into consideration factors such as any deterioration in country risk, industry, and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows. The Group used specific impairment on its loans and receivables. The Group did not assess its loans and receivables for collective impairment due to the few counterparties which can be specifically identified.

Trade and other receivables amounted to ₱847.2 million and ₱700.8 million as at December 31, 2016 and 2015, respectively (see Note 5).

Allowance for impairment losses on trade and other receivables amounted to ₱17.4 million as at December 31, 2016 and 2015. There were no impairment losses recognized for the years ended December 31, 2016 and 2015 and the six months ended December 31, 2014 (see Note 5).

Advances to related parties amounted to ₱1,614.1 million and ₱1,639.2 million as at December 31, 2016 and 2015, respectively. There were no allowance for impairment losses on advances to related parties as at December 31, 2016 and 2015 (see Note 30).

Estimating Allowance for Impairment Losses on Prepayments and Other Current Assets and Other Noncurrent Assets
The Group provides allowance for impairment losses on prepayments and other current assets and other noncurrent assets when they can no longer be realized. The amounts and timing of recorded expenses for any period would differ if the Group made different judgments or utilized different estimates. An increase in allowance for impairment losses would increase recorded expenses and decrease prepayments and other current assets and other noncurrent assets.

As at December 31, 2016 and 2015, the carrying value of prepayments and other current assets amounted to ₱22.2 million and ₱15.5 million, respectively (see Note 7).

The carrying values of other noncurrent assets, excluding restricted cash and MRF, amounted to ₱362.6 million and ₱358.4 million as at December 31, 2016 and 2015, respectively. Allowance for impairment losses on input VAT amounted to ₱19.5 million as at December 31, 2016 and 2015 (see Note 13).

Assessing Recoverability of Mining Rights and Mine Exploration Costs
The application of the Group's accounting policy for mining rights and mine exploration costs requires judgment in determining whether it is likely that future economic benefits are certain, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after mining rights and mine exploration costs are capitalized, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalized is written-off in the consolidated statement of comprehensive income in the period when the new information becomes available. An impairment loss is recognized when the carrying value of these assets do not exceed their fair value.

The Group has no provision for impairment loss on mining rights and mine exploration costs for the years ended December 31, 2016 and 2015 and six months ended December 31, 2014.

As at December 31, 2016 and 2015, the carrying values of mining rights amounted to ₱264.9 million and ₱301.6 million, respectively (see Note 10).

As at December 31, 2016 and 2015, mine exploration costs amounted to ₱223.8 million and ₱140.8 million, respectively (see Note 12).

Assessing Recoverability of Deferred Tax Assets
The Group reviews the carrying amounts of deferred tax assets at each end of the reporting period and reduces deferred tax assets to the extent that it is probable that sufficient future taxable income will be available against which these can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of sufficient future taxable income together with future tax planning strategies.

The Group has net deferred tax assets amounting to ₱58.3 million and ₱97.8 million as at December 31, 2016 and 2015, respectively. The Group has NOLCO amounting to ₱214.4 million, ₱613.1 million and ₱425.8 million as at December 31, 2016 and 2015 and six months ended December 31, 2014, respectively. The Group has excess MCIT amounting to ₱2.8 million, ₱2.3 million and ₱1.2 million as at December 31, 2016 and 2015 and six months ended December 31, 2014, respectively. Deferred tax asset on NOLCO amounting to nil and ₱43.5 million was recognized as at December 31, 2016 and 2015, respectively. Deferred tax asset on excess MCIT amounting to ₱2.8 million and ₱2.0 million was recognized as at December 31, 2016 and 2015, respectively (see Note 31).

Estimating Impairment Losses on AFS Financial Assets
The Group follows the guidance of PAS 39 in determining when an AFS financial asset is other-than-temporarily impaired. The determination of what is significant or prolonged requires judgment. The Group treats "Significant" generally as twenty percent (20%) or more and "Prolonged" as greater than six (6) months. Also, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance and operational and financing cash flow.

In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities. The fair value of AFS financial assets amounted to ₱4.5 million and ₱5.9 million as at December 31, 2016 and 2015, respectively. Impairment loss recognized amounted to ₱1.4 million, ₱2.4 million and nil for the years ended December 31, 2016 and 2015 and six months ended December 31, 2014, respectively (see Notes 13 and 29).

Estimating Provision for Mine Rehabilitation and Decommissioning
The Group assesses its provision for mine rehabilitation and decommissioning annually. Significant estimates and assumptions are made in determining the provision for mine rehabilitation and decommissioning as there are numerous factors that will affect the provision. These factors include estimates of the extent and costs of rehabilitation activities, technological changes, regulatory changes, cost increases, and changes in discount rates. In addition, the expected timing of expenditure can also change, for example in response to changes in mineral reserves or production rates. Those uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision at end of the reporting period represents management's best estimate of the present value of the future rehabilitation costs required. Changes to estimated future costs are recognized in the consolidated statement of financial position by adjusting the rehabilitation asset and liability.

Provision for mine rehabilitation and decommissioning pertains to the estimated decommissioning costs to be incurred in the future on the mined-out areas of the Group. The Group makes full provision for the future cost of rehabilitating mine sites and related production facilities on a discounted basis on the development of mines or installation of those facilities. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual rehabilitation costs will ultimately depend upon future market prices for the necessary decommissioning works required which will reflect market conditions at the relevant time. Furthermore, the timing of rehabilitation is likely to depend on when the mine ceases to produce at economically viable rates. This, in turn, will depend upon future ore prices, which are inherently uncertain.

Provision for mine rehabilitation and decommissioning amounted to ₱67.1 million and ₱58.3 million as at December 31, 2016 and 2015, respectively (see Note 16).

Determining Fair Values of Financial Instruments
Where the fair values of financial assets and liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using internal valuation techniques using generally accepted market valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimates are used in establishing fair values. These estimates may include considerations of liquidity, volatility and correlation.

Any change in the fair value of financial assets and financial liabilities would directly affect net income (see Note 33).

Estimating Contingencies
The Group evaluates legal and administrative proceedings to which it is involved based on analysis of potential results. Management and its legal counsels do not believe that any current proceedings will have material adverse effects on its financial position and results of operations. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of strategies relating to these proceedings (see Note 36).

4. Cash

	2016	2015
Cash on hand	**₱897**	₱614
Cash with banks	**551,045**	502,262
	₱551,942	₱502,876

Cash with banks earn interest at the respective bank deposit rates. Interest income earned on cash with banks amounted to ₱1.3 million, ₱1.2 million and ₱1.1 million for the years ended December 31, 2016 and 2015 and six months ended December 31, 2014, respectively.

The Group has US$-denominated cash with banks amounting to US$9.1 million and US$8.5 million as at December 31, 2016 and 2015, respectively, and HK$-denominated cash with banks amounting to HK$1.9 million and nil as at December 31, 2016 and 2015, respectively (see Note 32).

5. Trade and Other Receivables

	2016	2015
Trade	**₱725,912**	₱704,056
Advances to:		
Contractors	**117,078**	2,203
Officers, employees and others	**21,544**	11,870
	864,534	718,129
Less allowance for impairment losses	**17,359**	17,359
	₱847,175	₱700,770

Trade receivables arising from shipment of nickel ore are noninterest-bearing and are generally collectible within thirty (30) to ninety (90) days. The Group has US$-denominated trade receivables as at December 31, 2016 and 2015 amounting to US$16.5 million and US$15.3 million, respectively, and HK$-denominated trade receivables as at December 31, 2016 and 2015 amounting to US$1.2 million and nil, respectively (see Note 32).

Advances to contractors are advanced payment for contract hire fee. These advances will be offset against the contract hire billings upon completion of future ore loading to vessel shipments by the contractors.

The Group provides cash advances to its officers and employees for various business related expenses incurred which are subject for liquidation. Other advances include advances to third party companies which are collectible upon demand.

6. Inventories - at cost

	2016	2015
Beneficiated nickel ore	**₱196,092**	₱574,726
Materials and supplies	**79,891**	69,057
	₱275,983	₱643,783

The amount of inventoriable cost charged to cost of sales in the consolidated statements of comprehensive income amounted to ₱1,548.4 million, ₱2,388.9 million and ₱1,921.5 million for the years ended December 31, 2016 and 2015 and six months ended December 31, 2014, respectively (see Note 22).

Materials and supplies consist of tires, spare parts, and fuel and lubricants which were valued at cost.

7. Prepayments and Other Current Assets

	2016	2015
Prepaid rent (see Note 34)	**₱14,143**	₱463
Prepaid taxes and licenses	**4,708**	9,899
Prepaid insurance and others	**3,396**	5,115
	₱22,247	₱15,477

Prepaid rent represents advance payments made for the rent of the Group's registered office address.

Prepaid taxes and licenses represent advance payments made to MGB and Bureau of Internal Revenue (BIR) necessary for the processing of shipments. These are expected to be realized within twelve (12) months after the end of reporting period.

Prepaid insurance and others pertain to advance payments for the insurance of the Group's property and equipment and payments to Philhealth Care, Inc. for the Group's healthcare fund. These are expected to be realized within twelve (12) months after the end of reporting period.

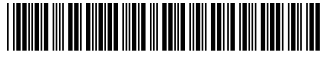
8. Property and Equipment

December 31, 2016

	Land	Building and Land Improvements	Machineries and Other Equipment	Furniture and Fixtures	Equipment and Supplies	Mining Properties	Roads and Bridges	CIP	Total
Cost:									
Beginning balances	**₱10,435**	**₱53,992**	**₱758,319**	**₱7,468**	**₱4,855**	**₱1,393,187**	**₱595,612**	**₱18,247**	**₱2,842,115**
Additions	**–**	**1,607**	**181,757**	**4,142**	**632**	**5,788**	**237,177**	**2,474**	**433,577**
Disposals	**–**	**–**	**(36,372)**	**–**	**(174)**	**–**	**–**	**–**	**(36,546)**
Currency translation adjustment	**–**	**–**	**1,085**	**201**	**–**	**–**	**–**	**–**	**1,286**
Adjustment to capitalized cost of mine rehabilitation (see Note 16)	**–**	**–**	**–**	**–**	**–**	**7,463**	**–**	**–**	**7,463**
Ending balances	**10,435**	**55,599**	**904,789**	**11,811**	**5,313**	**1,406,438**	**832,789**	**20,721**	**3,247,895**
Accumulated depreciation and depletion:									
Beginning balances	**–**	**19,011**	**185,015**	**5,456**	**2,525**	**480,454**	**100,675**	**–**	**793,136**
Depreciation and depletion (see Note 27)	**–**	**6,219**	**134,813**	**1,858**	**905**	**169,902**	**38,720**	**–**	**352,417**
Disposals	**–**	**–**	**(9,602)**	**–**	**(119)**	**–**	**–**	**–**	**(9,721)**
Currency translation adjustment	**–**	**–**	**75**	**15**	**–**	**–**	**–**	**–**	**90**
Ending balances	**–**	**25,230**	**310,301**	**7,329**	**3,311**	**650,356**	**139,395**	**–**	**1,135,922**
Net book values	**₱10,435**	**₱30,369**	**₱594,488**	**₱4,482**	**₱2,002**	**₱756,082**	**₱693,394**	**₱20,721**	**₱2,111,973**

December 31, 2015

	Land	Building and Land Improvements	Machineries and Other Equipment	Furniture and Fixtures	Equipment and Supplies	Mining Properties	Roads and Bridges	CIP	Total
Cost:									
Beginning balances	₱10,435	₱46,014	₱543,482	₱6,844	₱4,134	₱1,396,257	₱592,545	₱16,104	₱2,615,815
Additions	–	7,978	237,539	702	643	–	3,067	2,143	252,072
Adjustment to capitalized cost of mine rehabilitation (see Note 16)	–	–	–	–	–	(3,070)	–	–	(3,070)
Disposals	–	–	(22,702)	–	–	–	–	–	(22,702)
Reclassifications	–	–	–	(78)	78	–	–	–	–
Ending balances	10,435	53,992	758,319	7,468	4,855	1,393,187	595,612	18,247	2,842,115
Accumulated depreciation and depletion:									
Beginning balances	–	13,400	102,081	4,532	1,742	119,893	68,274	–	309,922
Depreciation and depletion (see Note 27)	–	5,611	99,309	924	783	360,561	32,401	–	499,589
Disposals	–	–	(16,375)	–	–	–	–	–	(16,375)
Ending balances	–	19,011	185,015	5,456	2,525	480,454	100,675	–	793,136
Net book values	₱10,435	₱34,981	₱573,304	₱2,012	₱2,330	₱912,733	₱494,937	₱18,247	₱2,048,979



On February 26, 2015, the Group engaged JL Earthmoving Corporation (JLEC) as an additional mining contractor in CAGA 2 whereby some assets returned by FVC to the Group were transferred to JLEC. On March 7, 2015, the Group and FVC executed a First Addendum to the Mining Contract modifying the area where FVC undertake their mining operations and that some equipment originally transferred to them be reverted to the Group. Net book value of the assets transferred as result of the addendum and new mining contract entered into with FVC and JLEC, respectively, amounted to a total of ₱648.3 million. Assets amounting to ₱208.1 million were returned to and retained by the Group were recorded as part of "Machineries and other equipment" under "Property and equipment" (see Note 18).

Part of the returned assets are damaged equipment due to accident with a book value amounting to ₱2.9 million. The Group received proceeds from insurance amounting to ₱1.6 million and a loss amounting to ₱1.0 million was recognized as part of the total loss on modification of finance lease receivable amounting to ₱86.9 million (see Notes 18 and 29).

In 2016, the Group ended its mining contract with FVC due to mutual agreement which resulted to the return of previously leased mining equipment, amounting to ₱138.3 million, recorded under "Machineries and other equipment". This also resulted in the derecognition of finance lease receivable amounting to ₱180.7 million and recognition of loss on modification of finance lease amounting to ₱1.0 million (see Note 29).

The Group disposed various assets under "Machineries and equipment" and "Equipment and supplies" with cash proceeds amounting to ₱2.5 million and nil as at December 31, 2016 and 2015, respectively, and recorded a loss amounting to ₱24.3 million, ₱6.3 million and ₱0.1 million as at December 31, 2016 and 2015 and for the six months ended December 31, 2014, respectively (see Note 29).

As a result of the acquisition of PIL on January 21, 2016, the Group's property and equipment increased by ₱16.5 million and ₱3.1 million presented as additions to "Machineries and other equipment" and "Furniture and fixtures", respectively.

The rates used by the Group in computing depletion were ₱31.71 per WMT for the period July 1 to December 31, 2016; ₱60.48 per WMT for the period January 1 to June 30, 2016 and for the year ended December 31, 2015; and ₱15.57 per WMT for the six months ended December 31, 2014.

The CIP balance in the books of the Group pertains to the construction of roads, fences and improvements in the mine site. The estimated completion of the CIP is ninety-nine percent (99%) and ninety-five percent (95%) as at December 31, 2016 and 2015, respectively.

The gross carrying amount of fully depreciated property and equipment that is still in use by the Group amounted to ₱61.9 million and ₱33.7 million as at December 31, 2016 and 2015, respectively.

9. **Investment in an Associate**

On September 1, 2016, the Parent Company entered into a Deed of Assignment with SPNVI, a related party, wherein the Parent Company assigned, transferred and conveyed in favor of SPNVI ₱0.3 million of its advances as payment for the subscription to the 300,000 unissued common shares out of 800,000 common shares of SPNVI with a par value of ₱1.00 per share (see Note 30).

As a result of the above Deed of Assignment, the Parent Company acquired 37.5% of the common shares with voting rights and 0.47% of total shares. The Group assessed that it has a significant influence over SPNVI since it directly holds more than twenty percent (20%) of the voting power of SPNVI.

For the period ended December 31, 2016, SPNVI's net loss amounted to ₱39.1 million. The Group's share in net loss of SPNVI amounted to ₱0.2 million for the period ended December 31, 2016.

SPNVI was registered with the SEC, primarily to engage to prospect, explore, locate, acquire, hold, work, develop, lease, operate and exploit mineral lands for nickel, chromite, copper, manganese, magnesite, silver, gold, and other precious and non-precious metals; to acquire and dispose of mining claims and rights, and to conduct and carry on the business of preparing, milling, concentrating, smelting, treating or preparing for market, and to market, sell at wholesale, exchange or otherwise deal in nickel, chromite, copper, manganese, magnesite, silver, gold and other mineral products.

10. Mining Rights

Mining rights refer to the rights of the Group as the holder of MPSA No. 007-92-X located in Cagdianao, Claver, Surigao del Norte acquired through the assignment of MPSA from CMDC to SIRC, a subsidiary, under the Deed of Assignment executed on March 3, 2004. Pursuant to the Deed of Assignment, CMDC transferred to SIRC all its rights, interest and obligations relating to the MPSA.

As at December 31, 2016 and 2015, the carrying value of mining rights amounted to ₱264.9 million and ₱301.6 million, respectively. Accumulated amortization of mining rights amounted to ₱131.6 million, ₱94.9 million and nil as at December 31, 2016 and 2015 and the six months ended December 31, 2014, respectively. Amortization expense pertaining to the mining rights amounted to ₱36.7 million, ₱94.9 million and nil for the years ended December 31, 2016 and 2015 and the six months ended December 31, 2014, respectively.

The rates used by the Group in computing amortization were ₱8.9 per WMT for the period July 1 to December 31, 2016; ₱9.59 per WMT for the period January 1 to June 30, 2016 and for the year ended December 31, 2015; and ₱3.32 per WMT for the six months ended December 31, 2014.

There were no provision for impairment losses on mining rights recognized for the years ended December 31, 2016 and 2015 and the six months ended December 31, 2014.

11. Investment Property

Portal Holdings, Inc. (PHI)
In June 2012, the Group acquired a parcel of land (Aseana Property) from PHI amounting to ₱319.9 million located in Paranaque. The land was held for capital appreciation. As at December 31, 2016 and 2015, related borrowings amounting to nil and ₱40.0 million, respectively, are presented as "Bank loans" (see Note 15). The bank loan related to the purchase of the Aseana Property was fully paid on January 29, 2016.

Total investment property amounted to ₱319.9 million as at December 31, 2016 and 2015. The fair value of investment property amounted to ₱367.0 million as at December 31, 2016 and 2015 (see Note 33). The latest appraisal report is dated June 19, 2014.

There was no income earned from the investment property for the years ended December 31, 2016 and 2015 and the six months ended December 31, 2014. Interest expense related to bank loan and real property tax incurred related to the investment property for the years ended December 31, 2016 and 2015 and the six months ended December 31, 2014 amounted to ₱2.3 million, ₱4.2 million and ₱5.4 million, respectively.

12. Mine Exploration Costs

	2016	2015
Beginning balance	**₱140,790**	₱140,659
Exploration expenditures incurred	**83,017**	131
Ending balance	**₱223,807**	₱140,790

The Group operates the Cagdianao mineral tenements by virtue of the twenty-five (25)-year Operating Agreement executed by and between the PGMC and SIRC (see Note 34).

CAGAs 1, 3, and 5 are under exploration activities. The Group is yet to conduct its exploration activities for CAGAs 6 and 7.

In 2016, the Group incurred ₱83.0 million for the deferred exploration activities of the Cagdianao Nickel Expansion Project in CAGAs 1 and 3.

13. Other Noncurrent Assets

	2016	2015
Restricted cash	**₱249,059**	₱114,583
Advances to suppliers	**171,873**	174,572
Input VAT	**165,499**	153,407
MRF	**74,299**	62,117
AFS financial assets	**4,470**	5,903
Others	**20,798**	24,481
	₱685,998	₱535,063

Restricted Cash
Restricted cash include Debt Service Reserve Account (DSRA) with the following banks which will be utilized for application against the Group's outstanding loans for principal, interest and fees (see Note 15):

	2016	2015
Taiwan Cooperative Bank (TCB)	**₱249,059**	₱95,161
Bank of China (BOC)	**–**	19,422
	₱249,059	₱114,583

The Group has US$-denominated restricted cash as at December 31, 2016 and 2015 amounting to US$5.0 million and US$2.4 million, respectively.

Advances to Suppliers
Advances to suppliers pertain to deposits on Group's purchase of goods and services from various suppliers.

Input VAT
Input VAT represents the VAT paid on purchases of applicable goods and services, net of output tax liabilities, if any, which may be recovered as tax credit against future tax liability of the Group upon approval by the Philippine BIR and/or the Philippine Bureau of Customs. Allowance for impairment losses on input VAT amounted to ₱19.5 million as at December 31, 2016 and 2015.

MRF
Pursuant to Section 181 of the Implementing Rules and Regulations of the Republic Act (RA) No. 7492, better known as the *Philippine Mining Act of 1995*, mining companies have to maintain an MRF deposit

with any government bank. The Group has a deposit for MRF at the Development Bank of the Philippines - Surigao City Branch. The funds are to be used for physical and social rehabilitation, reforestation and restoration of areas and communities affected by mining activities, for pollution control and integrated community development. The funds earned interest based on the prevailing market rate.

AFS Financial Assets
As at December 31, 2016 and 2015, the Group holds 4,216,100 shares of stock of Oriental Peninsula Resources Group, Inc. (OPRGI), a publicly listed company in the Philippines. There was no disposal of shares for the years ended December 31, 2016 and 2015. The fair value of the quoted equity instrument is based on the exit market price as at December 31, 2016 and 2015.
Movements in fair value of quoted equity instrument follow:

	2016	2015
Beginning balance	**₱5,903**	₱8,854
Impairment loss on AFS financial assets (see Note 29)	**(1,433)**	(2,445)
Unrealized gains transferred from equity to consolidated statements of comprehensive income	**–**	(506)
Ending balance	**₱4,470**	₱5,903

There was no dividend income earned from the quoted equity instrument for the years ended December 31, 2016 and 2015 and the six months ended December 31, 2014.

Impairment loss recognized amounted to ₱1.4 million, ₱2.4 million and nil for the years ended December 31, 2016 and 2015 and the six months ended December 31, 2014, respectively, as a result of a significant and prolonged decline in the fair value of the shares held by the Group (see Note 29).

Others
Others represent claim for business tax refund related to the Parent Company.

The Group has the following interest income:

	Years Ended December 31		Six Months Ended December 31
	2016	2015	2014
Interest income on:			
MRF	**₱470**	₱345	₱106
DSRA	**27**	88	88
Total	**₱497**	₱433	₱194

14. Trade and Other Payables

	2016	2015
Trade	**₱262,040**	₱383,033
Accrued expenses and taxes	**115,071**	141,684
Advances from customers	**92,682**	223,779
Nontrade	**49,623**	43,108
Dividends payable	**20,287**	20,287
Interest payables	**8,526**	1,057
	₱548,229	₱812,948

Trade
Trade payables are noninterest-bearing and generally settled within thirty (30) days. Trade payables relate to payables to suppliers and relate to transactions in the ordinary course of business.

Accrued Expenses and Taxes
Details of the accrued expenses and taxes are summarized below:

	2016	2015
Excise taxes and royalties payable	**₱74,762**	₱96,808
Business and other taxes	**25,083**	32,976
Provision for Social Development and Management Program (SDMP) and Indigenous Cultural Communities (ICC)	**6,197**	3,604
Accrued professional fees	**5,400**	3,842
Government dues	**1,509**	1,511
Accrued payroll	**1,022**	295
Others	**1,098**	2,648
	₱115,071	141,684

Excise Taxes and Royalties Payable
Excise taxes and royalty are payable immediately upon receipt from Department of Environment and Natural Resources (DENR)-MGB of the Order of Payment and before every shipment of beneficiated nickel ores. Royalty fees to claim owners are noninterest-bearing and are payable on demand and/or generally settled within thirty (30) days' term.

Business and Other Taxes
Business and other taxes pertain to government dues relating to withholding taxes.

Provision for SDMP and ICC
Mining companies are mandated to establish a provision for SDMP and ICC that would enhance the quality of life and ultimately develop a progressive and self-reliant host and neighboring communities. The program includes community development projects and activities such as establishment, construction, and maintenance of infrastructures including schools, hospitals, roads, and the like; establishment of livelihood industries; and programs on education and health. The Group is required to allot annually a minimum of one and a half percent (1.5%) of the operating costs based on the Administrative Order No. 2010-13 issued by the DENR.

Accrued Professional Fees
Acccrued professional fees pertains to the accrual related to the audit fees of the Group.

Government Dues
Government dues consist of employer contributions normally payable fifteen (15) to thirty (30) days after the end of each month.

Accrued Payroll and Other Payables
Accrued payroll and other payables are noninterest-bearing and are payable on demand and/or normally settled within thirty (30) days' term. Other payables substantially consist of outside services and purchases of supplies which are usual in the business operations of the Group.

Advances from Customers
Advances from customers refer to amount received from customers before a service has been provided or before goods have been shipped. Advances from customers are settled by deducting the payments from collections based on the schedule of shipments.

Nontrade
Nontrade payables are normally settled within thirty (30) to ninety (90)-day term. This account includes purchases of machineries and equipment. Interest expense related to interest-bearing nontrade payables amounted to nil, nil and ₱11.1 million for the years ended December 31, 2016 and 2015 and the six months ended December 31, 2014, respectively (see Note 28).

Dividends Payable
On May 22, 2013, the BOD of the Parent Company approved the declaration of cash dividends in the amount of ₱1.656 per outstanding common share or ₱10,500.0 million to stockholders of record as at June 5, 2013, payable on June 12, 2013. In 2014, cash dividends declared and paid to certain shareholders on May 22, 2013 amounting to ₱20.3 million were returned as stale checks and presented as cash dividends payable as at December 31, 2016 and 2015 and will be reissued to such investors subsequent to year-end.

Interest Payables
Interest payables arise from bank loans and finance lease obligations of the Group (see Notes 15 and 18).

The Group has US$-denominated trade and other payables amounting to US$2.8 million and US$6.0 million as at December 31, 2016 and 2015, respectively, and HK$-denominated trade and other payables amounting to HK$9.2 million as at December 31, 2016 (see Note 32).

15. **Bank Loans**

	2016	2015
TCB	**₱994,400**	₱941,200
Banco de Oro (BDO)	**5,008**	53,001
Unionbank of the Philippines (UnionBank)	**–**	215
EastWest Bank (EastWest)	**–**	168
	999,408	994,584
Less current portion:		
TCB	**994,400**	941,200
BDO	**4,295**	45,767
UnionBank	**–**	215
EastWest	**–**	168
Current portion	**998,695**	987,350
Noncurrent portion	**₱713**	₱7,234

TCB
On April 17, 2016, the Group was granted by TCB a loan facility in the amount of US$20.0 million or ₱941.2 million for general corporate purposes, with a maturity date of one (1) year from the date of initial borrowing or date of borrowing, in case of there is more than one (1) borrowing.

The interest shall be payable quarterly in arrears. The interest rate for the loan is the aggregate of the reference rate plus spread of three point seventy five percent (3.75%) per annum. The reference rate is the applicable London Interbank Offered Rate (LIBOR) displayed on the Bloomberg and Reuters' page for the three (3)-month yield as of approximately 11:15 am on the interest rate setting date. In the event that the LIBOR will be replaced by a new benchmark as determined by the Banker's Association of the Philippines or the Banko Sentral ng Pilipinas, the new benchmark may be adopted as the new reference rate upon mutual agreement of the parties.

The other conditions of the agreement follow:

a. The Group shall maintain a waterfall account with TCB wherein all amounts collected by TCB from the buyers of nickel ore shall be deposited.
b. The security is of two (2) kinds and shall amount to an aggregate value, in any combination, at least equal or twice (2x) the amount or equivalent to US$40.0 million as follows:
   i. Accounts receivables from the PGMC's customer.
   ii. Import letters of credit (LC) issued in favor of PGMC by its customers and clients.
   iii. Demand Deposit Account which shall be opened and set-up by the collateral provider or pledger acceptable to TCB.
   iv. Guarantee issued by any individual, juridical person or any combination thereof acceptable to TCB.
c. TCB is irrevocably appointed as the collecting agent for the account receivables from the Group's export orders of nickel ore and as a collecting and advising bank for the import LC opened by the buyers of the nickel ore of the Group. The amount collected shall be deposited in the waterfall account of the Group.
d. If the Group fails to make payment when due of any sum (whether at the stated maturity, by acceleration or otherwise), the Group shall pay penalty on such past due and unpaid amount/s at the rate of eighteen percent (18%) per annum, in addition to the interest rate from due date until the date of payment in full. The penalty shall be payable from time to time and upon demand by the bank.
e. A DSRA shall be opened by the Group which shall have in deposit an amount of US$5.0 million. The amount in said account maybe reduced proportionately as the Group pays the principal and its interest by express agreement of the parties.

Interest expense related to TCB loan amounted to ₱52.2 million, ₱35.1 million and ₱6.6 million for the years ended December 31, 2016 and 2015 and the six months ended December 31, 2014, respectively (see Note 28).

Amortization of discount on bank loan related to TCB loan amounted to nil, ₱0.6 million and ₱2.0 million for the years ended December 31, 2016 and 2015 and the six months ended December 31, 2014, respectively (see Note 28).

The terms of the loan are complied by the Group as at December 31, 2016 and 2015, the Group's relevant reporting period.

BDO

On February 14, 2013, the Group obtained a long-term loan amounting to ₱240.0 million from BDO to finance seventy-five percent (75%) of the purchase price of Aseana property located at Brgy. Tambo, Paranaque City. The loan is payable in six (6) semi-annual payments every August and February with an interest of five and a half percent (5.5%) subject to monthly repricing based on the prevailing market rate of interest. The agreement is secured by a real estate mortgage over the Aseana property amounting to ₱319.9 million and other conditions as follow (see Note 11):

a. The Group will not make or permit any material change in the character of its business from that being carried on at the date of agreement, or engage in any business operation or activity other than those for which it is presently authorized by law or corporate charter.
b. The Group will not permit any material change in ownership or control of its business or its capital stock or in the composition of its top level management.
c. The Group will not permit any indebtedness to be secured by or benefit from any lien is at the same time extended equally and ratably to secure the payment of principal, interest and other sums payable.
d. The Group will not declare or pay dividends to its stockholders or partners (other than dividends payable solely in shares of its capital stock) or retain, retire, purchase or otherwise acquire any class of its capital stock, or make any other capital or other asset distribution to its stockholders or partners upon the occurrence of an event of default.

e. The Group will not sell, lease, transfer or otherwise dispose of all or substantially all of its properties and assets, divest any of its existing investments therein or consolidate or merge (except where it is the surviving entity) with any other person or acquire all or substantially all of the properties or assets of any other person.
f. The Group will not extend loans, advances or subsidies to any corporation, partnership, firm or entity owned by the Group or in which it may have equity, other than advances in the ordinary course of business.
g. The Group will not extend loans or advances to any of its directors, officers, stockholders, or partners, except duly approved employee benefit loans.
h. The Group will not incur any long-term loan or increase its borrowings or reavail of existing facilities with other banks or financial institutions, except for working capital requirement.
i. The Group will not act as guarantor or surety or otherwise be directly or indirectly or contingently liable for any obligation of any person unless in the ordinary course of business

As at December 31, 2016 and 2015, the outstanding balance of the loan amounted to nil and ₱40.0 million, respectively.

In May 2015, the Group was granted an additional US$10.0 million on top of its existing US$10.0 million credit line for working capital purposes granted by BDO in May 2014. As at December 31, 2016 and 2015, the outstanding balance of the loan amounted to nil.

The Group entered into several service vehicle loans with BDO with a three (3)-year term at an interest rate ranging from seven percent (7%) to nine percent (9%) per annum. The remaining service vehicle loans of the Group with BDO amounted to ₱11.2 million and ₱13.0 million as at December 31, 2016 and 2015, respectively.

Interest expense related to BDO loan amounted to ₱4.6 million, ₱13.4 million and ₱7.1 million for the year ended December 31, 2016 and 2015 and the six months ended December 31, 2014, respectively (see Note 28).

The terms of the loan are complied by the Group as at December 31, 2016 and 2015.

<u>UnionBank and EastWest</u>
The Group entered into several service vehicle loans with UnionBank and EastWest. The loans are payable within three (3) years at an interest rate ranging from twelve percent (12%) to fourteen percent (14%) per annum. As at December 31, 2016 and 2015, the outstanding balance of the loan amounted to nil and ₱0.2 million, respectively.

Interest expense related to the service vehicle loans amounted to to ₱0.4 million, ₱0.6 million and ₱0.3 million for the years ended December 31, 2016 and 2015 and the six months ended December 31, 2014, respectively (see Note 28).

<u>Amsterdam Trade Bank (ATB) and Phil Export-Import Credit Agency (PhilEXIM)</u>
On July 3, 2015 and June 30, 2015, the PhilEXIM and ATB loan were fully paid, respectively.

Interest expense related to ATB loan amounted to nil, ₱13.7 million and ₱18.5 million for the years ended December 31, 2016 and 2015 and the six months ended December 31, 2014, respectively (see Note 28).

Interest expense related to PhilEXIM loan amounted to nil, ₱2.0 million and ₱3.8 million for the years ended December 31, 2016 and 2015 and the six months ended December 31, 2014, respectively (see Note 28).

Amortization of discount on bank loans amounted to nil, ₱1.4 million and ₱3.3 million for the years ended December 31, 2016 and 2015 and the six months ended December 31, 2014, respectively (see Note 28).

BOC
Availed loans in 2015 with BOC were fully paid and no availments were made during the year, hence the facility has no outstanding balance as at December 31, 2016 and 2015.

Interest expense amounted to nil, ₱2.0 million and ₱0.4 million for the years ended December 31, 2016 and 2015 and the six months ended December 31, 2014, respectively (see Note 28).

16. Provision for Mine Rehabilitation and Decommissioning

	2016	2015
Beginning balance	**₱58,259**	₱60,212
Accretion interest (see Note 28)	**1,401**	1,117
Effect of change in estimate (see Note 8)	**7,463**	(3,070)
Ending balance	**₱67,123**	₱58,259

As at December 31, 2016 and 2015, the Group adjusted its provision for mine rehabilitation and decommissioning to reflect the current discount rates which resulted to a change in estimate amounting to ₱7.5 million and ₱3.1 million, respectively (see Note 8).

17. Retirement Obligation

The Group has an unfunded, non-contributory defined benefit retirement plan covering substantially all of its regular employees. The Group does not have an established retirement plan and only conforms to the minimum regulatory benefit under the RA 7641, *Retirement Pay Law*, which is of the defined benefit type and provides a retirement benefit equal to twenty-two and a half (22.5) days' pay for every year of credit service. The regulatory benefit is paid in lump sum upon retirement. There was no plan termination, curtailment or settlement as at December 31, 2016 and 2015.

The latest actuarial valuation report of the retirement plan is as at December 31, 2016.

The following tables summarize the components of retirement benefits costs recognized in the consolidated statements of comprehensive income and the unfunded status and amounts recognized in the consolidated statements of financial position and other information about the plan.

The details of retirement benefits costs are as follows:

	Years Ended December 31		Six Months Ended December 31
	2016	2015	2014
Retirement benefits costs (see Note 26)	**₱10,383**	₱9,368	₱3,195
Interest cost on retirement obligation (see Note 28)	**2,152**	1,463	641
	₱12,535	₱10,831	₱3,836

The Group has one hundred fifty-nine (159) regular employees, three(3) employees on probationary and project status and three hundred nine (309) employees on a fixed term as at December 31, 2016 and ninety-five (95) regular employees, eight (8) employees on probationary and project status and two hundred eighty (280) employees on a fixed term as at December 31, 2015.

The movements in present value of the retirement obligation are as follows:

	2016	2015
Beginning balance	**₱39,985**	₱30,101
Retirement benefits costs	**10,383**	9,368
Interest cost on retirement obligation	**2,152**	1,463
Remeasurement loss (gain) arising from:		
Financial assumptions	**(3,858)**	(3,746)
Experience adjustments	**(520)**	2,889
Benefits paid	**(260)**	(90)
Ending balance	**₱47,882**	₱39,985

The Group does not have any plan assets as at December 31, 2016 and 2015.

The cost of defined retirement benefits plan, as well as the present value of the retirement obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions.

The principal assumptions used in determining retirement obligation for the defined retirement plan are shown below:

	Years Ended December 31		Six Months Ended December 31
	2016	2015	2014
Discount rate	**5.86%**	5.38%	4.86%
Salary increase rate	**10.00%**	10.00%	10.00%
Turnover rate	**7.5% at age 19 decreasing to 0% at age 45**	7.5% at age 19 decreasing to 0% at age 45	7.5% at age 19 decreasing to 0% at age 45

The sensitivity analyses below have been determined based on reasonably possible changes of each significant assumption on the defined retirement benefits obligation at the end of the reporting period, assuming all other assumptions were held constant:

	Increase (decrease)	**2016**	2015
Discount rate	+100 basis points	**(₱6,883)**	(₱6,115)
	-100 basis points	**8,516**	7,612
Salary increase rate	+100 basis points	**₱7,601**	₱6,773
	-100 basis points	**(6,352)**	(5,633)

The Group does not expect to contribute to the defined benefit pension plan in 2017. The Group does not have a Trustee Bank, and does not currently employ any asset-liability matching.

Shown below is the maturity analysis of the undiscounted benefit payments as at December 31, 2016 and 2015:

	2016	2015
Less than one (1) year	**₱2,619**	₱1,615
More than one (1) year to five (5) years	**3,919**	3,202
More than five (5) years to ten (10) years	**38,620**	5,636
	₱45,158	₱10,453

The average duration of the defined retirement benefits obligation as at December 31, 2016 and 2015 is 19.3 years and 21.2 years, respectively.

18. **Finance Lease**

Finance Lease Receivable

On March 7, 2014, the Group entered into a service contract agreement with FVC that resulted into a finance lease of the Group's transportation and handling equipment which was formerly part of the "Machineries and other equipment" category under "Property and equipment" (see Note 8).

Finance lease receivable as at December 31, 2016 and 2015 consists of:

	2016		2015	
	Minimum lease payments	**Present value of minimum lease payments**	Minimum lease payments	Present value of minimum lease payments
Within one (1) year	**₱77,214**	**₱72,282**	₱173,214	₱167,949
After one (1) year but not more than five (5) years	**166,154**	**160,670**	326,755	319,593
Total minimum lease payments	**243,368**	**232,952**	499,969	487,542
Less amount representing finance charge	**10,416**	**–**	12,427	–
Present value of minimum lease payments	**₱232,952**	**₱232,952**	₱487,542	₱487,542

In 2015, an addendum to the mining contract with FVC was executed which resulted to FVC returning some assets to the Group amounting to ₱519.4 million. Subsequently, the Group entered into another mining contract with JLEC to operate part of the CAGA 2 area and to lease the property and equipment returned by FVC amounting to ₱648.3 million (see Note 8) which resulted to a loss amounting to ₱86.9 million (see Note 29). The remaining ₱208.1 million reverted by FVC to the Group are included as part of total additions (see Note 8).

Derived interest income related to finance lease amounted to ₱5.2 million, ₱8.2 million and ₱2.4 million for the years ended December 31, 2016 and 2015 and the six months ended December 31, 2014, respectively.

Finance Lease Liabilities

In 2013, the Group entered into Master Finance Lease Agreement with the Caterpillar Financial Services Philippines, Inc. (CFSPI) and SBM Leasing Inc. (SBML) on its various equipment. In the lease contract with CFSPI, the Group has determined that the lease transfers substantially all the risks and rewards incidental to the ownership of the contractor's equipment at the end of the lease term. At the inception of the lease, the Group has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the period the option becomes exercisable. In the lease contract with SBML, the present value of all minimum lease payment amounts to at least substantially the fair value of the leased asset at the inception of the lease.

In 2016, the Group entered into finance lease agreements with BDO Leasing and Finance, Inc. (BLFI) amounting to ₱3.5 million. These are included as part of "Machineries and other equipment" category under "Property and equipment" as at December 31, 2016.

Future annual minimum lease payments under the lease agreements, together with the present value of the minimum lease payments as at December 31, 2016 and 2015 are as follows:

	2016		2015	
	Minimum lease payments	**Present value of minimum lease payments**	Minimum lease payments	Present value of minimum lease payments
Within one (1) year	**₱2,886**	**₱2,416**	₱15,850	₱14,994
After one (1) year but not more than five (5) years	**3,274**	**3,137**	–	–
Total minimum lease payments	**6,160**	**5,553**	15,850	14,994
Less amount representing finance charge	**607**	**–**	856	–
Present value of minimum lease payments	**₱5,553**	**₱5,553**	₱14,994	₱14,994

Interest expense related to finance lease amounted to ₱1.0 million, ₱3.1 million and ₱4.0 million for the years ended December 31, 2016 and 2015 and the six months ended December 31, 2014, respectively, is reported under "Finance costs" (see Note 28).

19. Other Noncurrent Liabilities

	2016	2015
Previous stockholders of CNMEC	**₱366,463**	₱–
BNVI	**165,566**	–
Others	**1,504**	1,095
	₱533,533	₱1,095

In 2016, the Parent Company, SPNVI and the stockholders of SPNVI executed a Deed of Assignment wherein SPNVI assigned its payable to BNVI and to the previous stockholders of CNMEC to the Parent Company amounting to ₱532.0 million (see Note 30).

20. Equity

Capital Stock

As at December 31, 2016 and 2015, the capital structure of the Parent Company follows:

	2016	2015
Par value	**₱1.05**	₱0.35
Authorized shares	**11,957,161,906**	35,871,428,572
Total authorized capital stock	**₱12,555,020,001**	₱12,555,000,000
Issued shares	**5,822,357,151**	17,467,014,310
Total capital stock (amounts in thousand)	**₱6,113,475**	₱6,113,455

The Parent Company has only one class of common shares. The common shares do not carry any right to fixed income.

Increase in Authorized Capital Stock

As discussed in Note 1, the BOD and stockholders of the Parent Company approved a capital restructuring through a reverse stock split. In relation to this, the Parent Company applied for an increase in its authorized capital stock which was approved by the SEC on November 7, 2016. Out of the increase in capital stock, an individual stockholder subscribed a total of ₱20,000 divided into 19,048 common shares at a par value of ₱1.05.

In 2014, the Parent Company applied for an increase in its authorized capital stock from ₱2,555.0 million divided into 7,300,000,000 common shares with a par value of ₱0.35 per share to ₱12,555.0 million divided into 35,871,428,572 common shares with a par value of ₱0.35 per share. The increase in the authorized capital stock as well as the issuance of the 10,463,093,371 common shares to the Thirteen Stockholders in accordance with the Share Swap transaction was approved by the SEC on December 22, 2014 (see Note 1).

All issued shares of GFHI, except for the newly issued 10,463,093,371 common shares to the Thirteen Stockholders, are listed in the PSE. The following table summarizes the track record of registrations of securities under the SRC.

Transaction	Subscribers	Registration Date	Issue/Offer Price	Number of Shares
Initial registration	Various	October 1994	₱1.50	5,000,000,000
Additional registration	Various	September 1996	–	1,150,000,000
Exempt from registration	Various	December 1998	–	305,810,000
Exempt from registration	Two individuals	June 2013	0.35	554,000,000
				7,009,810,000

APIC
Below is the summary of the movements of the “APIC” account:

Balance at June 30, 2014	₱127,171
Issuance of shares through Share Swap (see Note 1); As restated	1,695,121
Application of APIC to equity reserve	(1,822,292)
Balance at December 31, 2014, As restated (see Note 2)	₱–

There was no transaction in 2016 and 2015 resulting to additional recognition of APIC.

Treasury Stock
The Parent Company has 6,335,752 shares (after the reverse stock split) amounting to ₱17.8 million and 7,258 shares (before the reverse stock split) amounting to ₱18.4 thousand in treasury stock as at December 31, 2016 and 2015, respectively.

As at December 31, 2016, the Parent Company purchased a total of 6,333,333 common shares (after the reverse stock split) at an average price of ₱2.81 per share. The estimated number of shares for re-purchase, approved and authorized by the BOD on June 29, 2016 is up to ten percent (10%) of the total outstanding shares of the Parent Company.

Retained Earnings
The Group has retained earnings amounting to ₱459.7 million and ₱422.2 million as at December 31, 2016 and 2015, respectively.

On June 15, 2014, PGMC’s BOD approved the declaration of cash dividends in the amount of ₱1,411.7 million and property dividends of ₱3,657.4 million to stockholders of record as at June 15, 2014. On September 1, 2014, PGMC’s BOD amended its initial dividend declaration dated June 15, 2014 by declaring cash dividends in the amount of ₱5,069.1 million out of its unrestricted retained earnings. Out of the total dividends declared, ₱4,309.0 million pertains to 16% participating, non-cumulative, preferred stockholders at ₱0.07 per share and the remaining ₱760.1 million pertains to common stockholders at ₱0.06 per share. On December 29, 2014, PGMC settled its cash dividends payable amounting to ₱5,069.1 million declared on June 15, 2014 to stockholders of record as at June 15, 2014. The dividends payable was offset against the cash advances to stockholders classified under “Advances to related parties”.

On July 15, 2014, PGMC’s BOD approved the declaration of cash dividends amounting to ₱1,084.6 million at ₱0.09 per share. The dividends were settled on August 29, 2014.

Equity Reserve
As at July 1, 2013, as a result of the reverse acquisition, the "Equity reserve" account represents the difference between the legal capital (i.e., the number and type of "Capital stock" issued, "APIC" and "Treasury stock") of the legal acquirer (GFHI) and accounting acquirer (PGMC). Subsequent to July 1, 2013 up to the date of the Share Swap transaction, the movements of the equity accounts of PGMC Group are adjusted to "Equity reserve".

Below is the summary of the movements of the "Equity reserve" account:

Legal capital of PGMC (Accounting acquirer):	
Capital stock, net of NCI of ₱191	₱700,184
Legal capital of GFHI (legal acquirer):	
Capital stock	(2,257,472)
APIC	(127,171)
Issuance of stock by GFHI	(193,900)
Treasury stock	18
Balance as at June 30, 2013	(1,878,341)
Movement	–
Balance as at June 30, 2014	(1,878,341)
Issuance of stock by GFHI through Share Swap	(5,357,204)
Assumption and cancellation of GFHI receivables	(2,589,722)
Acquisition of net assets of the accounting acquiree (GFHI)	2,605,460
Application of equity reserve to APIC and retained earnings	7,210,807
Issuance of stock by PGMC	9,000
Balance as at December 31, 2014, as restated	₱–

Employee Stock Option Plan (ESOP)
On June 29, 2016, the BOD and stockholders of the Parent Company approved the ESOP and buyback program. The grant date of the ESOP is still subject to the determination and approval by the Parent Company's compensation committee.

21. EPS

The following reflects the income and share data used in the basic and diluted EPS computations:

	Years Ended December 31		Six Months Ended December 31
	2016	2015	2014
Net income attributable to equity holders of the Parent Company (amounts in thousands)	**₱37,494**	₱1,111,750	₱4,809,681
Number of shares:			
Weighted average number of common shares outstanding	**4,960,166,752**	4,960,166,752	4,960,166,752
Effect of buyback	**860,519,095**	–	–
Adjusted weighted average number of common shares outstanding	**5,820,685,847**	4,960,166,752	4,960,166,752
Basic/Diluted EPS	**₱0.01**	₱0.22	₱0.97

The number of shares presented for the years ended December 31, 2016 and 2015 and six months ended December 31, 2014 is based on the shares calculated after the reverse stock split (see Note 20).

As at December 31, 2016 and 2015, there is no potentially dilutive common shares.

22. **Cost of Sales**

	Years Ended December 31		Six Months Ended December 31
	2016	2015	2014
Contract hire (see Notes 6 and 34)	**₱1,548,355**	₱2,388,897	₱1,921,467
Depreciation, depletion and amortization (see Notes 8, 10, 27)	**370,407**	579,482	86,889
Personnel costs (see Note 26)	**153,762**	125,806	50,378
Community relations	**47,162**	45,003	10,996
Environmental protection cost	**41,685**	56,394	82,148
Rentals (see Note 34)	**35,208**	70,807	42,009
Assaying and laboratory	**23,432**	25,393	28,149
Manning services	**20,772**	19,984	8,642
Operation overhead	**15,752**	7,993	44,582
Repairs and maintenance	**11,752**	11,452	4,307
Fuel, oil and lubricants	**10,950**	151,474	170,388
Other charges	**28,983**	27,232	13,876
	₱2,308,220	₱3,509,917	₱2,463,831

Contract hire pertains to services offered by the contractors related to the mining operating activities of the Group. These services include, but not limited to, ore extraction and beneficiation, hauling and equipment rental.

Other charges include, but not limited to, insurance, repairs and maintenance, power and utilities, health and safety expenses in the mine site, manning expenses, agency fees, license fees and taxes, materials, supplies and spare parts, service fees, Philippine port authority usage fees and dry docking.

23. **Excise Taxes and Royalties**

	Years Ended December 31		Six Months Ended December 31
	2016	2015	2014
Royalties to:			
Claim-owners (see Note 34)	**₱204,290**	₱449,053	₱631,610
Government	**183,197**	326,634	447,932
ICC	**42,510**	66,195	92,809
Excise taxes	**73,278**	130,664	179,204
	₱503,275	₱972,546	₱1,351,555

The Group is paying to CMDC and ICC royalty fees of three percent (3%) to seven percent (7%) of gross receipts and minimum of one percent (1%) of the gross output from the mining operations, respectively.

The Group, in accordance with DENR Administrative Order No. 96-40, Series 1996, on the Revised Implementing Rules and Regulations of RA No. 7942, is required to pay to the Philippine Government the following:

- A royalty tax of five percent (5%) of the market value of the gross output of the minerals/mineral products extracted or produced from its Surigao mines to DENR-MGB; and
- An excise tax of two percent (2%) of the market value of the gross output of the minerals/mineral products extracted or produced from its Surigao mines to the BIR.

As at December 31, 2016 and 2015, excise taxes and royalties payable amounted to ₱74.8 million and ₱96.8 million, respectively (see Note 14).

24. General and Administrative

	Years Ended December 31		Six Months Ended December 31
	2016	2015	2014
Personnel costs (see Note 26)	**₱189,332**	₱159,459	₱56,924
Consultancy fees	**65,285**	160,780	19,837
Taxes and licenses	**47,938**	48,386	48,812
Outside services	**26,614**	38,124	18,592
Rentals (see Note 34)	**25,133**	7,402	2,800
Marketing and entertainment	**22,157**	72,926	32,334
Travel and transportation	**19,925**	37,088	18,557
Depreciation (see Note 27)	**17,701**	15,001	5,794
Repairs and maintenance	**11,142**	6,987	5,725
Communication	**5,295**	5,771	2,501
Fuel, oil and lubricants	**4,287**	4,935	11,006
Office supplies	**4,135**	6,389	3,351
Membership and subscription	**2,438**	2,042	509
Insurance	**2,084**	1,887	1,519
Power and utilities	**1,477**	1,347	630
Trainings, seminars and meetings	**565**	1,194	158
SEC and listing fees	**560**	28,401	–
Other charges	**14,846**	30,152	8,267
	₱460,914	₱628,271	₱237,316

Other charges pertain to various expenses such as communication, fuel and oil, mailing and postage charges, insurance and bonds, power and utilities, membership and subscription dues and trainings and seminars.

25. Shipping and Distribution

	Years Ended December 31		Six Months Ended December 31
	2016	2015	2014
Barging charges	**₱238,151**	₱121,872	₱63,704
Stevedoring charges and shipping expenses	**35,137**	29,627	–
Fuel, oil and lubricants	**17,082**	14,885	45
Government fees	**35**	88	–
	₱290,405	₱166,472	₱63,749

Barging charges pertain to expenses incurred from services provided by PCSSC (see Note 30d) and other shipping companies to transport nickel ore.

26. **Personnel Costs**

	Years Ended December 31		Six Months Ended December 31
	2016	2015	2014
Salaries and wages	**₱299,889**	₱239,459	₱94,301
Retirement benefits costs (see Note 17)	**10,383**	9,368	3,195
Other employee benefits	**32,822**	36,438	9,806
	₱343,094	₱285,265	₱107,302

Other employee benefits are composed of various benefits given to employees that are individually immaterial.

The personnel costs were distributed as follows:

	Years Ended December 31		Six Months Ended December 31
	2016	2015	2014
Cost of sales (see Note 22)	**₱153,762**	₱125,806	₱50,378
General and administrative (see Note 24)	**189,332**	159,459	56,924
	₱343,094	₱285,265	₱107,302

27. **Depreciation, Depletion and Amortization**

	Years Ended December 31		Six Months Ended December 31
	2016	2015	2014
Cost of sales (see Notes 8 and 22)	**₱370,407**	₱579,482	₱86,889
General and administrative (see Notes 8 and 24)	**17,701**	15,001	5,794
	₱388,108	₱594,483	₱92,683

28. **Finance Costs**

	Years Ended December 31		Six Months Ended December 31
	2016	2015	2014
Interest expense (see Notes 14, 15, 17, 18 and 29)	**₱60,387**	₱75,716	₱55,348
Bank charges	**5,908**	9,990	10,776
Accretion interest on provision for mine rehabilitation and decommissioning (see Note 16)	**1,401**	1,117	549
Amortization of discount on bank loans (see Notes 15 and 30)	**–**	2,068	6,650
	₱67,696	₱88,891	₱73,323

29. **Other Charges** – net

	Years Ended December 31		Six Months Ended December 31
	2016	2015	2014
Gain (loss) on disposals of property and equipment (see Note 8)	**(₱24,282)**	(₱6,327)	₱91
Loss on acquisition of a subsidiary (see Note 30a)	**(7,356)**	–	–
Impairment loss on AFS financial assets (see Note 13)	**(1,433)**	(2,445)	–
Foreign exchange gains (losses) - net	**1,276**	(19,843)	(77,631)
Loss on modification of finance lease receivable (see Notes 8 and 18)	**(1,037)**	(86,885)	–
Others	**459**	–	116
	(32,373)	(₱115,500)	(₱77,424)

Breakdown of the net foreign exchange gains (losses) follows:

	Years Ended December 31		Six Months Ended December 31
	2016	2015	2014
Net realized foreign exchange gains (losses)	**(₱48,299)**	(₱27,863)	₱46,168
Unrealized foreign exchange gains (losses) on:			
Cash	**19,734**	25,914	11,593
Trade and other receivables	**27,018**	14,196	(1,988)
Advances to related parties	–	–	(3,895)
Other noncurrent assets	**7**	2,506	1,986
Trade and other payables	**58,853**	(3,136)	(72,856)
Bank loans	**(55,841)**	(31,396)	(48,692)
Amounts owed to related parties	**(196)**	(64)	(9,947)
	₱1,276	(₱19,843)	(₱77,631)

30. **Related Party Disclosures**

Related party relationship exists 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 relationship also exists between and/or among entities, which are under common control with the reporting enterprises and its key management personnel, directors or its stockholders.

Set out on the next page are the Group's transactions with related parties in 2016, 2015 and 2014, including the corresponding assets and liabilities arising from the said transactions as at December 31, 2016 and 2015. In considering each related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

Category	Amount/ Volume	Advances to related parties	Amounts owed torelated parties	Terms	Conditions
Stockholders					
2016	**₱106,816**	**₱1,506,995**	**₱50,000**	On demand; noninterest-bearing; collectible or payable in cash	Unsecured; no guarantee;
2015	₱1,290,832	₱1,538,677	₱50,000		
Affiliates with common officers, directors and stockholders					
2016	**1,018,720**	**101,035**	**389,917**	On demand; noninterest-bearing; collectible or payable in cash	Unsecured; no guarantee;
2015	146,350	94,500	347,647		
Other related party					
GMORI					
2016	**–**	**6,054**	**226,564**	On demand; noninterest-bearing; collectible or payable in cash	Unsecured; no guarantee;
2015	–	6,054	226,564		
Total		**₱1,614,084**	**₱666,481**		
Total		₱1,639,231	₱624,211		

Intercompany transactions below are eliminated in the consolidated financial statements.

Category	Amount/ Volume	Trade and other payables	Barging charges	Sale of nickel ore	Trade and other receivables	Advances to related parties	Amounts owed to related parties	Terms	Conditions
Subsidiaries									
PGMC									
2016	**₱118,514**	**₱–**	**₱–**	**₱–**	**₱–**	**₱3,316,843**	**₱–**	On demand; noninterest-bearing; collectible in cash	Unsecured; no guarantee
2015	₱134,055	₱–	₱–	₱–	₱–	3,205,656	₱–		
PCSSC									
2016	**417,370**	**87,184**	**95,019**	**–**	**–**	**–**	**–**	On demand; noninterest-bearing; collectible in cash	Unsecured; no guarantee
2015	311,282	64,323	89,594	–	–	–	–		
SIRC									
2016	**–**	**–**	**–**	**–**	**–**	**–**	**6,810**	On demand; noninterest-bearing; payable in cash	Unsecured; no guarantee
2015	2,427	–	–	–	–	–	8,466		
PIL									
2016	**845,710**	**–**	**–**	**530,161**	**35,264**	**280,285**	**–**	On demand; noninterest-bearing; collectible in cash	Unsecured; no guarantee
2015	–	–	–	–	–	–	–		
Total		**₱87,184**	**₱95,019**	**₱530,161**	**₱35,264**	**₱3,597,128**	**₱6,810**		
Total		₱64,323	₱89,594	₱–	₱–	₱3,205,656	₱8,466		

The summary of significant transactions and account balances with related parties are as follows:

a. On January 21, 2016, the Parent Company acquired PIL through the purchase of its 10,000 shares at HK$1.0 par value amounting to HK$10.0 thousand or ₱61.0 thousand. The transaction was considered by the Parent Company as an asset acquisition. The assets and liabilities of PIL consist mostly of financial instruments with a net liability amounting to ₱7.3 million. A loss on acquisition amounting to ₱7.4 million was recognized based on the difference between the consideration paid and the fair values of the assets acquired and liabilities assumed. The cash deposit made in 2015 amounting to US$0.5 million or ₱23.1 million was reclassified from "Deposits for future acquisition" to "Advances to related parties" in 2016.

   For the year ended December 31, 2016, PIL entered into several ore supply sales agreement with PGMC for the purchase of nickel ore amounting to ₱530.2 million.

b. The Parent Company, PGMC and the stockholders of SPNVI executed various Deed of Assignments wherein PGMC assigned all the rights, title, and interest for the cash advances made by PGMC to SPNVI, amounting to ₱1,628.1 million as at December 31, 2015 to the Parent Company.

   In 2016, the Parent Company, PGMC, SPNVI and the stockholders of SPNVI executed another Deed of Assignments wherein SPNVI assigned its payable to BNVI, payable to the previous stockholders of CNMEC and the remaining payable to stockholders of SPNVI, to the Parent Company amounting to ₱589.2 million.

   As at December 31, 2016 and 2015, these advances amounted to ₱2,217.4 million and ₱1,628.1 million, respectively. A portion of these advances will form part of the purchase price for the acquisition of SPNVI pursuant to the Contract to Sell executed on August 6, 2015 (see Note 1) and are recorded under "Deposits for future acquisition".

   On September 1, 2016, the Parent Company and SPNVI executed a Deed of Assignment wherein the Parent Company assigned all its rights, titles and interests on its advances in favor of SPNVI amounting to ₱0.3 million as payment for the unissued shares of SPNVI and are recorded under "Investment in an associate" (see Note 9).

c. In 2013, FRI availed a loan facility from BOC amounting to US$5.0 million. On August 3, 2013, PGMC and FRI executed a Deed of Assignment wherein FRI agreed to assign its rights, titles, interest, and benefits in the loan facility. The loan facility was actually utilized by PGMC. Accordingly, PGMC hereby assumes payment of the loan facility, its interest, charges and fees, and all other obligations stipulated in the loan agreement in which FRI was obliged to perform or comply. The loan was fully paid in 2015.

   Interest expense amounted to nil, ₱4.3 million and ₱2.9 million for the years ended December 31, 2016 and 2015 and the six months ended December 31, 2014, respectively. Amortization of the discount on the loan amounted to nil, ₱0.1 million and ₱1.3 million for the years ended December 31, 2016 and 2015 and the six months ended December 31, 2014, respectively (see Note 28).

d. In the first quarter of 2016, PGMC entered into a Time Charter Agreement with PCSSC for the use of five (5) LCTs at ₱2.6 million each per month. This Agreement covers a period of seven (7) months on/about April 1, 2016 to October 31, 2016, subject to renewal upon mutual agreement of the parties. The charter hire fee incurred amounted to ₱95.0 million, ₱89.6 million and ₱50.0 million for the years ended December 31, 2016 and 2015 and the six months ended December 31, 2014, respectively.

e. On August 31, 2014 and December 29, 2014, the Group settled its dividends payables amounting to ₱975.9 million and ₱4,561.2 million, net of withholding tax, declared on July 15, 2014 and June 15, 2014, respectively. The dividends payables were offset against the cash advances to stockholders classified under “Advances to related parties”.

f. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any director (whether executive or otherwise) of the Group.

   Compensation of the key management personnel of the Group amounted to ₱44.1 million, ₱39.3 million and ₱20.8 million for the years ended December 31, 2016 and 2015 and six months ended Decembet 31, 2014, respectively.

31. Income Taxes

The current provision for income tax represents MCIT for the years ended December 31, 2016 and 2015 and the six months ended December 31, 2014. Effective November 2007, the Group was entitled to ITH as one of the incentives granted by the BOI as a non-pioneer enterprise (see Note 35). The Group’s ITH incentive expired on November 15, 2015.

The reconciliation between income before income tax computed at the statutory income tax rate and the provision for (benefit from) income tax at the effective income tax rates as shown in the consolidated statements of comprehensive income follow:

	Years Ended December 31		Six Months Ended December 31
	2016	2015	2014
Income tax computed at statutory income tax rate	**₱38,711**	₱378,975	₱1,435,123
Add (deduct) tax effects of:			
Change in unrecognized deferred tax assets on NOLCO and excess MCIT	**36,006**	32,752	20,701
Nondeductible expenses:			
Marketing and entertainment	**5,491**	19,300	41,349
Loss on modification of finance lease receivable	**311**	26,066	–
Interest	**134**	720	2,117
Donation	**–**	–	120
Deficiency taxes	**–**	–	1,789
Others	**825**	2,808	–
Nontaxable interest income	**(1,570)**	(619)	(2,338)
Interest income already subjected to final tax	**(360)**	(354)	(313)
Expiration of deferred tax assets on NOLCO and excess MCIT	**65**	41,331	–
Operating income subjected to ITH	**–**	(551,677)	(1,531,852)
	₱79,613	(₱50,698)	(₱33,304)

The components of the Group's net deferred tax assets follow:

	2016	2015
Deferred tax assets:		
Provision for mine rehabilitation and decommissioning	**₱20,137**	₱17,478
Retirement obligation recognized in profit or loss	**16,653**	12,971
Accrued taxes	**11,969**	11,969
Unrealized foreign exchange losses - net	**7,793**	14,891
Cumulative translation adjustment recognized directly in OCI	**6,045**	–
Allowance for impairment losses on trade and other receivables	**5,208**	5,208
Excess MCIT	**2,787**	1,966
Rent payable	**452**	329
NOLCO	**–**	43,491
	71,044	108,303
Deferred tax liabilities:		
Undepleted asset retirement obligation	**10,446**	9,543
Retirement obligation recognized directly in OCI	**2,288**	975
	12,734	10,518
Deferred tax assets - net	**₱58,310**	₱97,785

The Group has the following recognized and unrecognized NOLCO and excess MCIT that can be claimed as deduction from sufficient future taxable income and income tax due, respectively:

Year Incurred	Year of Expiration	NOLCO	MCIT
December 31, 2016	December 31, 2019	₱119,837	₱886
December 31, 2015	December 31, 2018	94,529	1,575
December 31, 2014	December 31, 2017	–	326
		₱214,366	₱2,787

	Year Ended December 31		Six Months Ended December 31
NOLCO	**2016**	2015	2014
Beginning balance	**₱613,126**	₱425,840	₱357,209
Additions	**119,837**	428,648	68,631
Application	**(144,970)**	–	–
Expiration	**–**	(241,362)	–
NOLCO incurred during the ITH period	**(373,627)**	–	–
Ending balance	**₱214,366**	₱613,126	₱425,840

	Year Ended December 31		Six Months Ended December 31
MCIT	**2016**	2015	2014
Beginning balance	**₱2,262**	₱1,218	₱1,482
Addition	**886**	1,575	326
Expiration	**(361)**	(531)	(590)
Ending balance	**₱2,787**	₱2,262	₱1,218

As at December 31, 2016 and 2015, the Group has recognized deferred tax assets on NOLCO amounting to nil and ₱43.5 million as a result of the expiration of its ITH incentive. Deferred tax assets on NOLCO amounting to ₱112.4 million were not recognized since these NOLCO came from activities subjected to ITH incentive.

As at December 31, 2014, there were no deferred tax assets recognized for NOLCO and MCIT as it is not probable that sufficient future taxable income will be available against which the benefits of the deferred tax assets can be utilized. Recognized deferred tax assets in 2014 pertain to the NOLCO of PCSSC since the Subsidiary is expecting that sufficient future taxable income will be available and its benefits can be utilized.

The Group has availed of the itemized deductions method in claiming its deductions for the years ended December 31, 2016 and 2015 and the six months ended December 31, 2014.

32. Financial Risk Management Objectives and Policies and Capital Management

The Group's financial instruments consist mainly of cash, advances to related parties, AFS financial assets and bank loans. The main purpose of these financial instruments is to raise funds and maintain continuity of funding and financial flexibility for the Group. The Group has other financial assets and liabilities such as trade and other receivables, trade and other payables and amounts owed to related parties, which arise directly from its operations.

The main risks arising from the Group's financial instruments are market, credit and liquidity risk. The BOD and Management review and agree on the policies for managing each of these risks which are summarized below.

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, interest rates and equity prices.

Foreign Exchange Risk
Foreign exchange risk is the risk to earnings arising from changes in foreign exchange rates.

The Group has transactional currency exposures. The Group's exposure to foreign currency risk pertains to US$-denominated and HK$-denominated financial assets and liabilities which primarily arise from export sales of mineral products and US$ and HK$-denominated loans with TCB and other bank loans.

To mitigate the effects of foreign currency risk, the Group seeks to accelerate the collection of foreign currency-denominated receivables and the settlement of foreign currency-denominated payables, whenever practicable. Also, foreign exchange movements are monitored on a daily basis via Philippine Dealing and Exchange Corp.

The Group's foreign currency-denominated financial assets and liabilities and their Philippine Peso equivalents as at December 31, 2016 and 2015 are as follows:

	2016			2015	
	US$ Amount	**HK$ Amount**	**Peso Equivalent**	US$ Amount	Peso Equivalent
Financial Assets:					
Cash with banks	**US$9,114**	**HK$1,918**	**₱465,462**	US$8,486	₱399,351
Trade receivables	**16,498**	**1,188**	**827,908**	15,322	721,053
	25,612	**3,106**	**1,293,370**	23,808	1,120,404
Financial Liabilities:					
Trade and other payables	**2,761**	**9,165**	**196,116**	6,007	282,689
Bank loans	**20,000**	–	**994,400**	20,000	941,200
	22,761	**9,165**	**1,190,516**	26,007	1,223,889
Net Financial Assets (Liabilities)	**US$2,851**	**(HK$6,059)**	**₱102,854**	(US$2,199)	(₱103,485)

The exchange rates used for conversion of US$1.00 to peso equivalent were ₱49.72 and ₱47.06 as at December 31, 2016 and 2015, respectively. The exchange rate used for conversion HK$1.00 to peso equivalent was ₱6.42 as at December 31, 2016.

The following table demonstrates the sensitivity to a reasonably possible change in the US$ and HK$ exchange rates, with all other variables held constant, of the Group's income before income tax (due to changes in revaluation of financial assets and liabilities) for the years ended December 31, 2016 and 2015 and six months ended December 31, 2014.

	Foreign Currency Appreciates/ Depreciates by	Effect on Income Before Income Tax US$	Effect on Income Before Income Tax HK$
December 31, 2016	**+2**	**(₱5,702)**	**(₱12,118)**
	-2	**5,702**	**₱12,118**
December 31, 2015	+2	(₱478)	–
	-2	478	–
December 31, 2014	+2	(₱7,604)	–
	-2	7,604	–

There is no other effect on the Group's equity other than those already affecting the consolidated statements of comprehensive income.

Interest Rate Risk
Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group's exposure to the risk for changes in interest relates primarily to its loan with banks with floating interest rate.

The Group regularly monitors interest rates movements to assess exposure impact. Management believes that cash generated from operations is sufficient to pay its obligations under the loan agreements as they fall due.

The terms and maturity profile of the interest-bearing financial assets and liabilities as at December 31, 2016 and 2015, together with its corresponding nominal interest rate and carrying values are shown in the following table:

2016	**Nominal Interest Rate**	**Less than 6 Months**	**6 to 12 Months**	**1 to 2 Years**	**More than 2 Years**	**Total**
Cash with banks	**Various**	**₱551,045**	**₱–**	**₱–**	**₱–**	**₱551,045**
Bank loans	**10.50%-14.00%; LIBOR plus 3.75%**	**2,629**	**996,066**	**713**	**–**	**999,408**

2015	Nominal Interest Rate	Less than 6 Months	6 to 12 Months	1 to 2 Years	More than 2 Years	Total
Cash with banks	Various	₱502,262	₱–	₱–	₱–	₱502,262
Bank loans	10.50%-14.00%; LIBOR plus 9.00%	984,384	2,966	5,479	1,755	994,584

The following table sets forth, for the year indicated, the impact of a reasonably possible change in interest rate for the years ended December 31, 2016 and 2015 and the six months ended December 31, 2014 consolidated statements of comprehensive income (through the impact of floating rate borrowings):

	Increase/Decrease in Basis Points	Effect on Income Before Income Tax
December 31, 2016	**+100**	**(₱9,944)**
	-100	**9,944**
December 31, 2015	+100	(₱9,412)
	-100	9,412
December 31, 2014	+100	(₱2,348)
	-100	2,348

There is no other effect on the Group's equity other than those already affecting the consolidated statements of comprehensive income.

Equity Price Risk
Equity price risk is the risk to earnings or capital arising from changes in stock prices relating to its quoted equity instrument. The Group's exposure to equity price risk relates primarily to its AFS financial assets in OPRGI.

The Group's policy is to maintain the risk to an acceptable level. Movement of share price is monitored regularly to determine effect on its financial position.

The table below shows the sensitivity to a reasonably possible change in equity prices on AFS financial assets as at December 31, 2016 and 2015. The equity impact is arrived using the reasonably possible change of the relevant market indices and the specific adjusted beta of each stock the Group holds. Adjusted beta is the forecasted measure of the volatility of a security or a portfolio in comparison to the market as a whole.

	Average change in market indices	Sensitivity to equity
2016	**-2.29%**	**(₱205)**
	2.29%	**205**
2015	-1.25%	(₱94)
	1.25%	94

The AFS financial assets shares of stock are traded in the PSE.

<u>Credit Risk</u>
Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily for trade receivables) and from its financing activities, including deposits in banks and financial institutions, foreign exchange transactions and other financial instruments.

The Group trades only with recognized, reputable and creditworthy third parties and/or transacts only with institutions and/or banks which have demonstrated financial soundness. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, export buyers are required to pay via Letters of Credit issued by reputable banks with the result that Group's exposure to bad debts is not significant. Also, the Group, in some circumstances,

requires advances from customers. Since the Group trades only with recognized third parties, there is no requirement for collateral.

Credit Risk Exposure
The table below shows the gross maximum exposure to credit risk for the components of consolidated statements of financial position.

	Notes	**2016**	2015
Cash with banks	4	**₱551,045**	₱502,262
Trade receivables	5	**725,912**	704,056
Advances to related parties:	30		
Stockholders		**1,506,995**	1,538,677
Affiliates with common officers, directors and stockholders		**101,035**	94,500
Others		**6,054**	6,054
AFS financial assets	13	**4,470**	5,903
Total		**₱2,895,511**	₱2,851,452

Aging Analyses of Financial Assets
The aging analyses of the Group's financial assets as at December 31, 2016 and 2015 are summarized in the following tables:

	Neither	**Past due but not impaired**				
2016	**past due nor impaired**	**90 days or less**	**91-120 days**	**More than 120 days**	**Impaired**	**Total**
Cash with banks	**₱551,045**	**₱–**	**₱–**	**₱–**	**₱–**	**₱551,045**
Trade receivables	**708,553**	**–**	**–**	**–**	**17,359**	**725,912**
Advances to related parties:						
Stockholders	**1,506,995**	**–**	**–**	**–**	**–**	**1,506,995**
Affiliates with common officers, directors and stockholders	**101,035**	**–**	**–**	**–**	**–**	**101,035**
Others	**6,054**	**–**	**–**	**–**	**–**	**6,054**
AFS financial assets	**4,470**	**–**	**–**	**–**	**–**	**4,470**
Total	**₱2,878,152**	**₱–**	**₱–**	**₱–**	**₱17,359**	**₱2,895,511**

	Neither	Past due but not impaired				
2015	past due nor impaired	90 days or less	91-120 days	More than 120 days	Impaired	Total
Cash with banks	₱502,262	₱–	₱–	₱–	₱–	₱502,262
Trade receivables	393,138	–	–	293,559	17,359	704,056
Advances to related parties:						
Stockholders	1,538,677	–	–	–	–	1,538,677
Affiliates with common officers, directors and stockholders	94,500	–	–	–	–	94,500
Others	6,054	–	–	–	–	6,054
AFS financial assets	5,903	–	–	–	–	5,903
Total	₱2,540,534	₱–	₱–	₱293,559	₱17,359	₱2,851,452

Credit Quality of Financial Assets
The credit quality of financial assets is managed by the Group using credit ratings and is classified into three (3): High grade, which has no history of default; Standard grade, which pertains to accounts with history of one (1) or two (2) defaults; and Substandard grade, which pertains to accounts with history of at least three (3) payment defaults or no repayment dates.

Accordingly, the Group has assessed the credit quality of the following financial assets classified as neither past due nor impaired:

- Cash with banks and other noncurrent assets are considered high-grade since these are deposited in reputable banks.
- Trade receivables, which pertain mainly from sale of nickel ore, are assessed as high grade since these receivables are fully matched with advances from customers.
- Advances to related parties are assessed as substandard grade since these have no repayment dates.
- AFS financial assets in equity instrument are investments that can be traded to and from companies with good financial capacity, making the investment secured and realizable. Management assesses the quality of these assets as high grade.

The Group has no significant concentration of credit risk in relation to its financial assets.

Liquidity Risk
Liquidity risk arises from the possibility that the Group may encounter difficulties in raising funds to meet commitments from financial instruments.

The Group's objective is to maintain sufficient funding to finance mining activities through internally generated funds, advances from customers and availment of existing credit lines with banks. 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 debts. The Group regularly evaluates its projected and actual cash flow information and continuously assesses conditions in the financial markets.

The tables below summarize the maturity profile of the Group's financial liabilities as at December 31, 2016 and 2015 based on contractual undiscounted payments.

2016	**On Demand**	**Less than 3 Months**	**3 to 6 Months**	**6 to 12 Months**	**1 to 2 Years**	**More than 2 Years**	**Total**
Bank loans	**₱–**	**₱1,476**	**₱1,325**	**₱996,132**	**₱733**	**₱–**	**₱999,666**
Trade and other payables:							
Trade	**262,040**	**–**	**–**	**–**	**–**	**–**	**262,040**
Accrued expenses	**13,717**	**–**	**–**	**–**	**–**	**–**	**13,717**
Nontrade	**9,725**	**–**	**–**	**–**	**–**	**–**	**9,725**
Amounts owed to related parties	**666,481**	**–**	**–**	**–**	**–**	**–**	**666,481**
Other noncurrent liabilities:							
Payable to stockholders of CNMEC	**366,463**	**–**	**–**	**–**	**–**	**–**	**366,463**
Payable to BNVI	**165,566**	**–**	**–**	**–**	**–**	**–**	**165,566**
Total	**₱1,483,992**	**₱1,476**	**₱1,325**	**₱996,132**	**₱733**	**₱–**	**₱2,483,658**

2015	On Demand	Less than 3 Months	3 to 6 Months	6 to 12 Months	1 to 2 Years	More than 2 Years	Total
Bank loans	₱–	₱512,198	₱472,186	₱2,966	₱5,479	₱1,755	₱994,584
Trade and other payables:							
Trade	383,033	–	–	–	–	–	383,033
Accrued expenses	10,389	–	–	–	–	–	10,389
Nontrade	3,214	–	–	–	–	–	3,214
Amounts owed to related parties	624,211	–	–	–	–	–	624,211
Total	₱1,020,847	₱512,198	₱472,186	₱2,966	₱5,479	₱1,755	₱2,015,431

The tables below summarize the maturity profile of the Group's financial assets used to manage the liquidity risk of the Group as at December 31, 2016 and 2015.

2016	**On Demand**	**Less than 3 Months**	**3 to 6 Months**	**6 to 12 Months**	**1 to 2 Years**	**More than 2 Years**	**Total**
Cash							
Cash on hand	**₱897**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱897**
Cash with banks	**551,045**	**–**	**–**	**–**	**–**	**–**	**551,045**
Trade receivables	**725,912**	**–**	**–**	**–**	**–**	**–**	**725,912**
AFS financial assets	**4,470**	**–**	**–**	**–**	**–**	**–**	**4,470**
Total	**₱1,282,324**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱1,282,324**

2015	On Demand	Less than 3 Months	3 to 6 Months	6 to 12 Months	1 to 2 Years	More than 2 Years	Total
Cash							
Cash on hand	₱614	₱–	₱–	₱–	₱–	₱–	₱614
Cash with banks	502,262	–	–	–	–	–	502,262
Trade receivables	704,056	–	–	–	–	–	704,056
AFS financial assets	5,903	–	–	–	–	–	5,903
Total	₱1,212,835	₱–	₱–	₱–	₱–	₱–	₱1,212,835

Capital Management

The primary objective of the Group's capital management is to ensure that it maintains sufficient cash balances and strong credit rating to support its business and to maximize shareholders' value.

The Group manages its capital structure and makes adjustments to it after carefully considering changes in the economic environment. To maintain or adjust the capital structure, the Group may utilize the following: (a) obtain additional shareholders' advances to augment capital, (b) issuance of new shares, and (c) to return capital to shareholders if and when feasible. No changes were made in the objectives, policies or processes in December 31, 2016 and 2015.

The Group monitors capital using the monthly cash flows and financial statements. It is the policy of the Group to maintain a positive cash flow from operations. The Group determines the inflows from operations for the analysis of its cash position in order to pay currently maturing obligations. The Group place reliance on sales projections and cost management in addressing cash flow concerns.

The Group likewise monitors certain ratios respective of the loan covenants it signed for credit facility obtained for the Surigao mining operations financing as well as for capital expenditure purposes.

33. **Fair Value Measurement**

The following table shows the carrying values and fair values of the Group's assets and liabilities, whose carrying values does not approximate its fair values as at December 31, 2016 and 2015:

	Carrying Values		Fair Values	
	2016	2015	**2016**	2015
Investment property	**₱319,865**	₱319,865	**₱367,003**	₱367,003
Bank loans	**994,408**	994,584	**999,666**	826,538
Finance leases liabilities	**5,553**	14,994	**5,862**	23,930

Cash, Trade and Other Receivables and Trade and Other Payables
The carrying amounts of cash, trade and other receivables and trade and other payables approximate their fair values due to the short-term nature of these accounts.

Restricted Cash
The carrying amounts of restricted cash approximate their fair values since they are restricted cash with bank. Restricted cash earns interest based on prevailing market rates repriced monthly.

AFS Financial Assets
The fair value of quoted equity instrument is determined by reference to market closing quotes at the end of the reporting period.

Investment Property
The fair value of investment property is determined using the Market Data Approach. In this approach, the value of the land was based on the sales and listings of comparable property registered within the vicinity. The technique of this approach requires the adjustments of comparable property by reducing reasonable comparative sales and listings to a common denominator. This was done by adjusting the differences between the subject property and those actual sales and listings regarded as comparable. The properties used as bases of comparison are situated within the immediate vicinity of the subject property. The comparison was premised on the factors of location, size and shape of the lot, time element and others.

	Valuation technique	Significant unobservable Inputs	Range (weighted average)
Investment property	Market Data Approach	Estimated price per square meter	₱109,000
		Land area square meter	3,367

Advances to Related Parties and Amounts Owed to Related Parties
Advances to related parties and amounts owed to related parties do not have fixed repayment terms. As such, their carrying amounts approximate their fair values.

Bank Loans
Fair value of bank loans is estimated using the discounted cash flow methodology using the benchmark risk free rates for similar types of loans and borrowings, except for variable-rate borrowings which are repriced quarterly.

Finance Lease Receivables and Liabilities
The fair value of finance lease receivables approximates its carrying value given that it is valued on discount rates on the same year. The fair value of finance lease liabilities are based on the present value of contractual cash flows discounted at market adjusted rates.

Fair Value Hierarchy
All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy as follows:

2016	**Carrying Amount**	**Level 1**	**Level 2**	**Level 3**	**Total**
Asset measured at fair value:					
AFS financial assets	**₱4,470**	**₱4,470**	**₱–**	**₱–**	**₱4,470**
Asset for which the fair value is disclosed:					
Investment property	**319,865**	**–**	**–**	**367,003**	**367,003**
	₱324,335	**₱4,470**	**₱–**	**₱367,003**	**₱371,473**
Liabilities for which fair values are disclosed:					
Bank loans	**₱994,408**	**₱–**	**₱–**	**₱999,666**	**₱999,666**
Finance lease liabilities	**5,553**	**–**	**–**	**5,862**	**5,862**
	₱999,961	**₱–**	**₱–**	**₱1,005,528**	**₱1,005,528**

2015	Carrying Amount	Level 1	Level 2	Level 3	Total
Asset measured at fair value:					
AFS financial assets	₱5,903	₱5,903	₱–	₱–	₱5,903
Asset for which the fair value is disclosed:					
Investment property	319,865	–	–	367,003	367,003
	₱325,768	₱5,903	₱–	₱367,003	₱372,906
Liabilities for which fair values are disclosed:					
Bank loans	₱994,584	₱–	₱–	₱826,538	₱826,538
Finance lease liabilities	14,994	–	–	23,930	23,930
	₱1,009,578	₱–	₱–	₱850,468	₱850,468

There were no transfers between levels of fair value measurement as at December 31, 2016 and 2015.

34. Significant Agreements

Deed of Guarantee
GFHI
On November 9, 2016, the Parent Company entered into a Deed of Guarantee with Baiyin International Investment Ltd. (BIIL) to serve as a guarantor for the loan made by Ipilan Nickel Corporation (INC), a subsidiary of SPNVI with BIIL. As guarantor, the Parent Company, irrevocably and conditionally, jointly and severally guarantees to BIIL the due and punctual payment and performance of INC in all secured obligations. Also, the Parent Company, undertakes to pay principal obligation of INC, if INC fails to pay its principal obligation and any of the secured obligations, as if it was the principal obligor.

Ore Supply Agreements
Ore Supply Agreements with Chinese Customers
The Group has ore supply agreements with Chinese customers, each for a fixed tonnage at specific nickel grades and iron content. The fixed tonnage of ore is generally the volume expected delivery within a few months. Revenue from Chinese customers amounted to ₱3,773.7 million, ₱6,533.2 million and ₱8,218.7 million for the years ended December 31, 2016 and 2015 and six months ended December 31, 2014 , respectively.

Queensland Nickel Pty. Limited (QNPL)
The Group has ore supply agreement with QNPL, an Australian corporation, for a fixed tonnage at specific nickel grades and iron content. The fixed tonnage of ore is generally the volume expected delivery within a few months. Revenue from QNPL amounted to nil, nil and ₱828.8 million for the years ended December 31, 2016 and 2015 and six months ended December 31, 2014 , respectively.

<u>Operating Agreements</u>
SIRC
On September 15, 2006, PGMC entered into an Operating Agreement with SIRC, holder of rights to mining tenements located in the Surigao provinces. SIRC grants PGMC exclusive privilege and right to occupy, explore, develop, utilize, mine, mill, beneficiate and undertake activities within the areas in the Cagdianao mining tenement covered under MPSA No. 007-92-X for a period of twenty-five (25) years. For purposes of royalty obligation, PGMC adopts the royalty agreement entered into by SIRC with CMDC. PGMC shall pay CMDC royalty fees of three percent (3%) to seven percent (7%) of gross receipts determined through freight on board price from the sale of nickel ore mined and produced from the Cagdianao mining properties.

Total royalty fees incurred to CMDC amounted to ₱204.3 million, ₱449.1 million and ₱631.6 million for the years ended December 31, 2016 and 2015 and for the six months ended December 31, 2014, respectively (see Note 23).

Service Contract - CAGA 2
On February 26, 2015 and March 7, 2014, the Group entered into a service contract agreement with JLEC and FVC, mining contractors, respectively, to operate the mining activities within CAGA 1 upon start of commercial operations and CAGA 2 in Surigao, wherein the Group will pay the contractor on a per metric ton based on the grade of the ore shipped.

In 2016, the Company ended its service contract with FVC wherein previously leased assets were returned and included as part of total additions to property and equipment (see Note 8).

In 2016, the Company entered into service contracts with Skaff Mineworks, Inc. and MRMJ Movers Corporation, mining contractors, to operate the mining activities within CAGA 2 in Surigao wherein the Group will pay the contractor on a per metric ton based on the grade of the ore shipped.

Service Contract - CAGA 4
On July 16, 2009, as amended on March 8, 2011, the Group entered into a service contract with 4K Development Corporation, a contractor, to operate the mining activities within CAGA 4 in Surigao, wherein the Group will pay the contractor a fixed amount of per metric ton shipped ore. The service contract expired in 2015 and was not renewed.

In 2016, the Company entered into service contracts with Best Trucking & Transport Phil. Inc., IPM Construction & Dev't Corporation, Landstar Earthmoving Corporation, Loufran Minerals and Dev't Corp., Anseca Dev't Corporation and CTB Engineering Construction, mining contractors, to operate the mining activities within CAGA 4 in Surigao, wherein the Group will pay the contractors on a per metric ton based on the grade of the ore shipped.

Total contract hire incurred for both CAGAs 2 and 4 amounted to ₱1,548.4 million, ₱2,388.9 million and ₱1,921.5 million for the years ended December 31, 2016 and 2015 and six months ended December 31, 2014, respectively (see Note 22).

<u>Lease Agreements</u>
The Group leases its Makati office premises and various machineries and equipment in the mine site. This lease has a remaining term of less than ten (10) years. Renewals are subject to the mutual consent of the lessors and the lessee.

Future minimum lease payments follow:

Category	2016	2015
Within one (1) year	**₱2.9 million**	₱2.9 million
After one (1) year but not more than five (5) years	**20.8 million**	20.8 million
More than five (5) years	**10.0 million**	10.0 million

Rent payable reported under "Other noncurrent liabilities" amounted to ₱1.1 million as at December 31, 2016 and 2015.

Total rent expense incurred amounted to ₱60.3 million, ₱78.2 million and ₱44.8 million for the years ended December 31, 2016 and 2015 and six months ended December 31, 2014, respectively (see Notes 22 and 24). Prepaid rent related to these lease agreements amounted to ₱14.1 million and ₱0.5 million as at December 31, 2016 and 2015, respectively (see Note 7).

35. Registration with the BOI

On November 16, 2007, PGMC, a subsidiary, was registered with the BOI as a new producer of beneficiated nickel ore on a non-pioneer status on its Surigao registered nickel project. It was entitled to avail of the ITH incentive, among other incentives, for an initial period of six (6) years from November 2007 to November 2013.

On July 23, 2013, PGMC received the approval for the extension of its one (1) year ITH starting November 16, 2013 to November 15, 2014.

On July 23, 2014, PGMC received the further approval of the extension of its one (1) year ITH starting November 16, 2014 to November 15, 2015. On April 4, 2016, PGMC received the Certificate of ITH Entitlement for taxable year 2015.

PGMC availed of the ITH incentive amounting to ₱547.4 million in 2015. The ITH incentive of PGMC expired on November 15, 2015.

36. Other Matters

On March 22, 2017, PGMC received a Writ of Execution for the Civil Case 6499 Pascual vs. Mamanwa. The Civil Case pertains to the claim of Sergio Pascual, Plaintiff, of the 30% royalty fees paid to the IPs. The Court grants the deposit of 30% of the 1% royalty fees. The defendants , Datu Reynante Buklas, Datu Dodoy Bago, Datu Alicio Patac and Datu Ebeniza Olorico and their successors-in-interest are ordered to to deposit immediately the 30% share of the 1% royalty fees they received from PGMC from the beginning up to the present and PGMC to deposit in court all the amount of 30% of the 1% royalty fees still to be paid to defendants Reynante Buklas, Alicio Patac, Dodoy Olorico and Ebiniza Olorico. PGMC and MGB to deliver all documents showing the total amount of royalty fees paid or to be paid to to the defendants.

37. Events After the End of the Reporting Period

On January 19, 2017, the BOI issued to PGMC the certification granting the renewal of PGMC's VAT zero-rated status. The certification is valid from January 1 up to December 31, 2017 unless sooner revoked by the BOI Governing Board.

On March 1, 2017, the Group entered into a Deed of Absolute Sale agreement with JSY6677 Landholdings, Inc. for the sale of the Aseana property located in Paranaque City amounting to ₱319.9 million.

On February 20, 2017, the Group received a Show Cause Notice (“SCN”) from the DENR directing the Group to show cause why it should not be held liable for violation of Section 71 of the Philippine Mining Act which mandates the establishment of a mine rehabilitation fund. Based on the SCN, the Group has only deposited ₱56.5 million out of a commitment of ₱1,259.7 million for the Final Mine Rehabilitation/ Decommissioning Fund (FMRDF).

The Group has submitted its reply to the SCN on February 28, 2017 in which it refuted DENR’s allegations, and pointed out that: (1) PGMC FMRDF commitment is only ₱74.6 million, not ₱1,259.7 million based on the DENR Mine Audit Team 10 Report;(2) PGMC FMRDF is up-to-date with prescribed schedule of deposits; and (3) DENR’s Technical Review Committee upheld the Audit Report.

On March 9, 2017, the Group received an SCN from the DENR directing the Group to show cause why its mining operations should not be suspended due to the extensive siltation of waters. DENR recommended that a review of the MPSA, that overlaps the pristine forest ecosystems of Mt. Hilong-Hilong Key Biodiversity Areas, should be undertaken to spare the most important forest block of northeastern Mindanao from further destruction.

The Group has submitted its reply to the SCN on March 28, 2017 in which it clarified that the CAGA 5 area is not within the mountain ranges of Mt. Hilong-Hilong based on the Tenement Map of Caraga R-XIII of the MGB. Furthermore, the Group also stands that it has not caused the siltation of coastal waters but instead caused by high volume of lateritic content in the soil which triggered the discoloration of water into rusty-red even without mining activities.

On March 23, 2017, PGMC was no longer one of the companies whose mines are "for suspension" or "for closure" according to a list, accessed from the DENR official website, entitled “DENR Status of Mining Operations after the Review of the Mining Audit.

On March 30, 2017, the Parent Company has obtained regulatory approval on its follow-on offering with an offer share up to ₱250.0 million at an offer price of up to ₱8.10 per share.

During the first quarter of 2017, the Group has signed supply contracts with Baosteel Resources International Co. Ltd., Golden Harbour International Pte., Ltd. and Guangdong Century Tsinghan Nickel Industry Company Ltd. for the delivery of 4.0 million WMT of its mining production which is equivalent to about seventy percent (70%) of its target of 6.0 million WMT mining production for 2017.

38. Supplemental Disclosure to Consolidated Statements of Cash Flows

Noncash financing and investing activities as at December 31, 2016 pertain to the following:

a. Increase in property and equipment as a result of:
   - Return of property and equipment arising from finance lease termination amounting to ₱138.3 million.
   - Acquisition of PIL and purchases on account amounting to ₱20.5 million and ₱0.8 million, respectively.
   - Addition to property and equipment acquired through finance lease agreement with BLFI amounting to ₱3.5 million.

b. The acquisition of PIL has effects on the following:
   - Increase in trade and other receivables amounting to ₱38.2 million.
   - Decrease in prepayments and other current assets amounting to ₱13.6 million.
   - Decrease in advances to related parties amounting to ₱16.6 million.
   - Increase in amounts owed to related parties amounting to ₱22.5 million.
c. Increase in interest received as a result of recognition of the remaining interest income on finance lease receivable amounting to ₱5.2 million.
d. Decrease in receivable arising from termination of finance lease amounting to ₱106.8 million.
e. Decrease in trade in other payables arising from the finance lease adjustments amounting ₱13.6 million, respectively.
f. Accrual of interest on trade and other payable, finance lease liabilities, bank loans, retirement obligation amounting to ₱7.5 million, ₱1.0 million, ₱60.4 million and ₱2.2 million, respectively.
g. Reclassification of deposits for future acquisition to advances to related parties and investment in a subsidiary amounting to ₱23.1 million and ₱0.1 million, respectively.
h. Increase in deposits for future acquisition due to the Deed of Assignments among the Parent Company, SPNVI and the stockholders of SPNVI, wherein SPNVI assigned its payable to BNVI and to the previous stockholders of CNMEC to the Parent Company amounting to ₱532.0 million.
i. Increase in advances to related parties amounting to ₱57.1 millon and ₱0.3 millon as a result of the various Deed of Assignments among the Parent Company, PGMC, SPNVI and the stockholders of SPNVI which became part of the deposits for future acquisition, and investment in an associate, respectively.

Noncash financing and investing activities as at December 31, 2015 pertain to the following:

a. Increase in property and equipment amounting to ₱208.1 million due to the return of equipment as a result of the amended finance lease agreement with FVC.
b. Net decrease in trade and other payables as a result of:
   - Offset of finance lease receivable with the Group's payable to contractors amounting to ₱90.8 million.
   - Application of advances from customers to outstanding receivables amounting to ₱27.1 million.
   - On account purchases of property and equipment amounting to ₱12.8 million
   - Accrual of interest in relation to retirement obligation amounting to ₱1.5 million (see Note 17).
c. Increase in deposits for future acquisition due to various Deed of Assignments wherein PGMC assigned all the rights, title, and interest for the cash advances made by PGMC to SPNVI, amounting to ₱1,628.1 millon, to the Parent Company.

Noncash financing and investing activities as at December 31, 2014 pertain to the increase in property and equipment amounting to ₱5.9 million due to purchases on account.

39. **Reclassification**

During the year, the Group amended its presentation of "Cost of sales" and "Excise taxes and royalties" in the consolidated financial statements to facilitate better presentation.

"Provision for IP Mining" which amounted to ₱66.2 million for the year ended December 31, 2015 was reclassified from "Cost of sales" to "Excise taxes and royalties".

40. Operating Segment Information

Operating segments are components of the Group that engage in business activities from which they may earn revenues and incur expenses, whose operating results are regularly reviewed by the Group's chief operating decision-maker (the BOD) to make decisions about how resources are to be allocated to the segment and assess their performances, and for which discrete financial information is available.

The Group's 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 conducts majority of its business activities in the following areas:

- The mining segment is engaged in the exploration, mining and exporting of nickel saprolite and limonite ore.
- The services segment is engaged in the chartering out of LCTs by PCSSC to PGMC.

The Group's core business is the sale of nickel ore to external customers which accounted for the Group's total revenue. Accordingly, the Group operates mainly in one reportable business and two geographical segments which is the Philippines and Hong Kong. Noncurrent assets of the Group comprising property and equipment, finance lease receivable, mining rights, investment property, mine exploration costs and other noncurrent assets are located in the Philippines and Hong Kong.

The Group has revenue information from external customers as follows:

	Years Ended December 31		Six Months Ended December 31
Country of Domicile	**2016**	2015	2014
China	**₱3,773,669**	₱6,533,218	₱8,218,683
Australia	**–**	–	828,793
	₱3,773,669	₱6,533,218	₱9,047,476

Financial information on the operation of the various business segments for the years ended December 31, 2016 and 2015 and six months ended December 31, 2014 are as follows:

	December 31, 2016					
	Mining		Service	Others	Elimination	Total
	Philippines	Hongkong				
External customers	₱3,121,712	₱651,957	₱–	₱–	₱–	₱3,773,669
Intersegment revenues	532,895	–	95,489	–	(628,384)	–
Total revenues	3,654,607	651,957	95,489	–	(628,384)	3,773,669
Cost of sales	2,236,282	614,070	71,938	–	(614,070)	2,308,220
Excise taxes and royalties	503,275	–	–	–	–	503,275
Shipping and distributions	385,424	–	–	–	(95,019)	290,405
Segment operating earnings	529,626	37,887	23,551	–	80,705	671,769
General and administrative	(329,196)	(40,722)	(9,117)	(81,879)	–	(460,914)
Finance costs	(65,832)	(1,798)	–	(66)	–	(67,696)
Finance income	6,402	70	9	24	–	6,505
Share in net loss of an associate	–	–	–	(184)	–	(184)
Other income (charges) - net	55,720	(11)	449	–	(88,531)	(32,373)
Provision for income tax	(75,184)	–	(4,429)	–	–	(79,613)
Net income (loss) attributable to equity holders of GFHI	₱121,536	(₱4,574)	₱10,463	(₱82,105)	(₱7,826)	₱37,494
Segment assets	₱9,249,951	₱299,675	₱353,812	₱12,018,784	(₱12,558,240)	₱9,363,982
Deferred tax assets	64,998	–	–	–	–	64,998
Total assets	₱9,314,949	₱299,675	₱353,812	₱12,018,784	(₱12,558,240)	₱9,428,980
Segment liabilities	₱2,509,711	₱311,960	₱1,894	₱4,314,930	(₱4,268,805)	₱2,869,690
Deferred tax liabilities	12,734	–	–	–	–	12,734
Total liabilities	₱2,522,445	₱311,960	₱1,894	₱4,314,930	(₱4,268,805)	₱2,882,424
Capital expenditures	₱410,496	₱376	₱146	₱2,013	₱–	₱413,031
Depreciation, depletion and amortization	₱350,569	₱4,401	₱32,836	₱302	₱–	₱388,108

	December 31, 2015				
	Mining	Service	Others	Elimination	Total
External customers	₱6,533,218	₱–	₱–	₱–	₱6,533,218
Intersegment revenues	–	89,594	–	(89,594)	–
Total revenues	6,533,218	89,594	–	(89,594)	6,533,218
Cost of sales	3,427,294	82,623	–	–	3,509,917
Excise taxes and royalties	972,546	–	–	–	972,546
Shipping and distributions	256,066	–	–	(89,594)	166,472
Segment operating earnings	1,877,312	6,971	–	–	1,884,283
General and administrative	(462,832)	(8,370)	(157,069)	–	(628,271)
Finance costs	(88,888)	–	(3)	–	(88,891)
Finance income	9,408	6	17	–	9,431
Other charges - net	(115,500)	–	–	–	(115,500)
Provision for (benefit from) income tax	53,205	(2,507)	–	–	50,698
Net income attributable to equity holders of GFHI	₱1,272,705	(₱3,900)	(₱157,055)	₱–	₱1,111,750
Segment assets	₱9,271,572	₱347,125	₱11,461,116	(₱12,102,128)	₱8,977,685
Deferred tax assets	107,328	–	–	–	107,328
Total assets	₱9,378,900	₱347,125	₱11,461,116	(₱12,102,128)	₱9,085,013
Segment liabilities	₱2,784,787	₱5,200	₱3,657,390	(₱3,909,781)	₱2,537,596
Deferred tax liabilities	9,543	–	–	–	9,543
Total liabilities	₱2,794,330	₱5,200	₱3,657,390	(₱3,909,781)	₱2,547,139
Capital expenditures	₱252	₱–	₱–	₱–	₱252
Depreciation, depletion and amortization	₱548,631	₱45,852	₱–	₱–	₱594,483

	December 31, 2015				
	Mining	Service	Others	Elimination	Total
External customers	₱9,047,476	₱–	₱–	₱–	₱9,047,476
Intersegment revenues	–	50,007	–	(50,007)	–
Total revenues	9,047,476	50,007	–	(50,007)	9,047,476
Cost of sales	2,536,280	17,572	–	–	2,553,852
Excise taxes and royalties	1,258,746	–	–	–	1,258,746
Shipping and distribution	116,473	–	–	(50,007)	66,466
Segment operating earnings	5,135,977	32,435	–	–	5,168,412
General and administrative	(232,342)	(2,900)	(118)	–	(235,360)
Finance costs	(73,323)	–	–	–	(73,323)
Finance income	3,465	–	–	–	3,465
Other charges - net	(77,569)	–	–	–	(77,569)
Provision for (benefit from) income tax	(40,708)	7,404	–	–	(33,304)
Net income attributable to equity holders of GFHI	₱4,796,916	₱22,131	(₱118)	₱–	₱4,818,929
Segment assets	₱7,545,680	₱353,048	₱397,414	(₱684,534)	₱7,611,608
Deferred tax assets	57,889	–	–	–	57,889
Total assets	₱7,603,569	₱353,048	₱397,414	(₱684,534)	₱7,669,497
Segment liabilities	₱2,251,594	₱7,223	₱300	(₱30,276)	₱2,228,841
Deferred tax liabilities	14,626	–	–	–	14,626
Total liabilities	₱2,266,220	₱7,223	₱300	(₱30,276)	₱2,243,467
Capital expenditures	₱78,656	₱17,768	₱–	₱–	₱96,424
Depreciation, depletion and amortization and	₱84,380	₱8,303	₱–	₱–	₱92,683

Subsidiaries and Affiliates

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