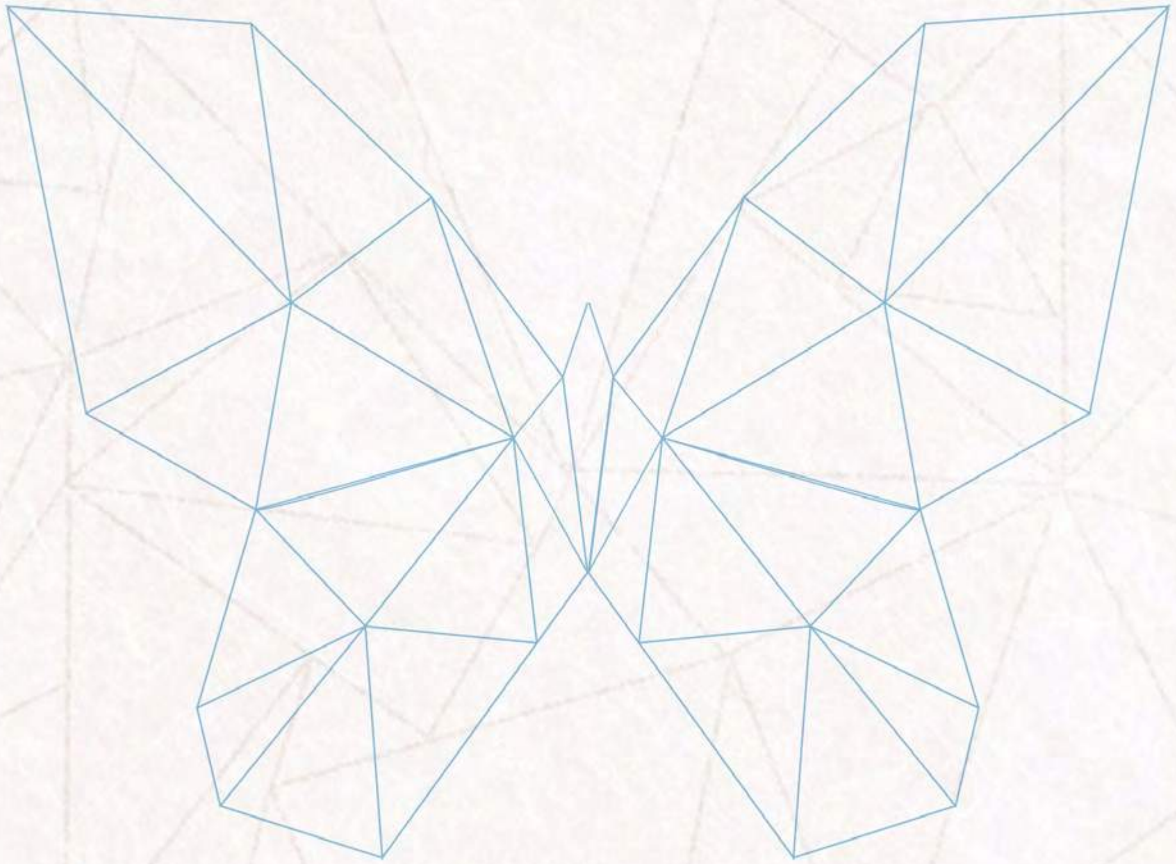
Global Ferronickel Holdings, Inc.

2017
ANNUAL REPORT

ABOUT THE COVER



Change flutters and challenges float.
The world is dramatically different
from when we began operations in 2006.
Tradition has given way to innovation.
Modernity to sustainability.
Opportunities abound in the emergent market
of green and clean mobility.
As interest in electric vehicles has increased,
our entire transport paradigm will
transform the need for nickel.

At FNI, we choose to effectively adapt to
these technological breakthroughs.
We reshape our business models
without cost to our core values.
We ensure that our approaches and resources
protect our environmental concerns
and uplift the lives of the communities we serve.
These are changing times.
We expand our wings.

TRANSFORMATION

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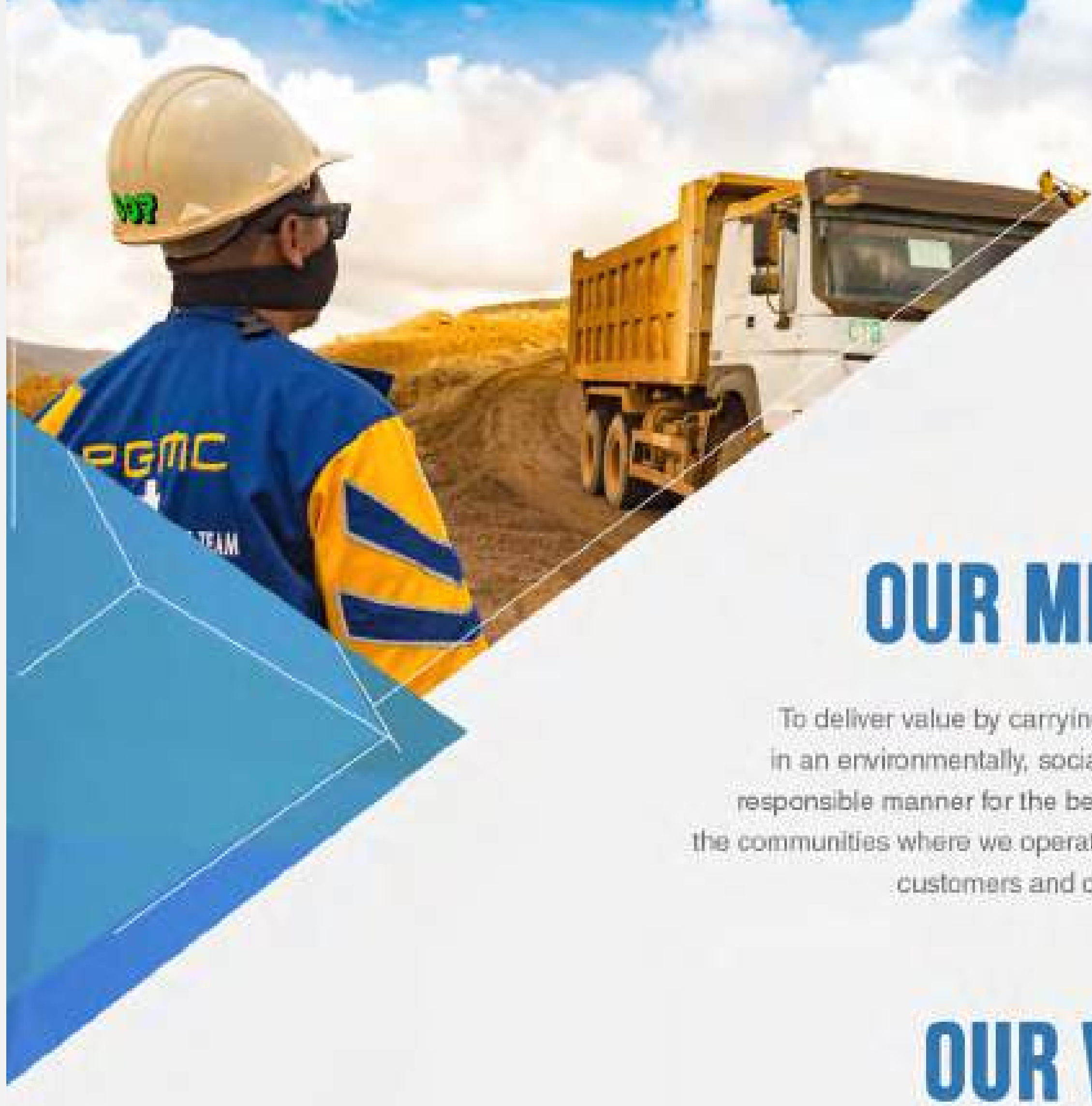


OUR MISSION

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.

OUR VISION

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

OUR VALUES

Integrity
Meritocracy
Accountability
Fiscal responsibility
Social responsibility
Teamwork and synergy
Taking care of our people
Caring for the environment

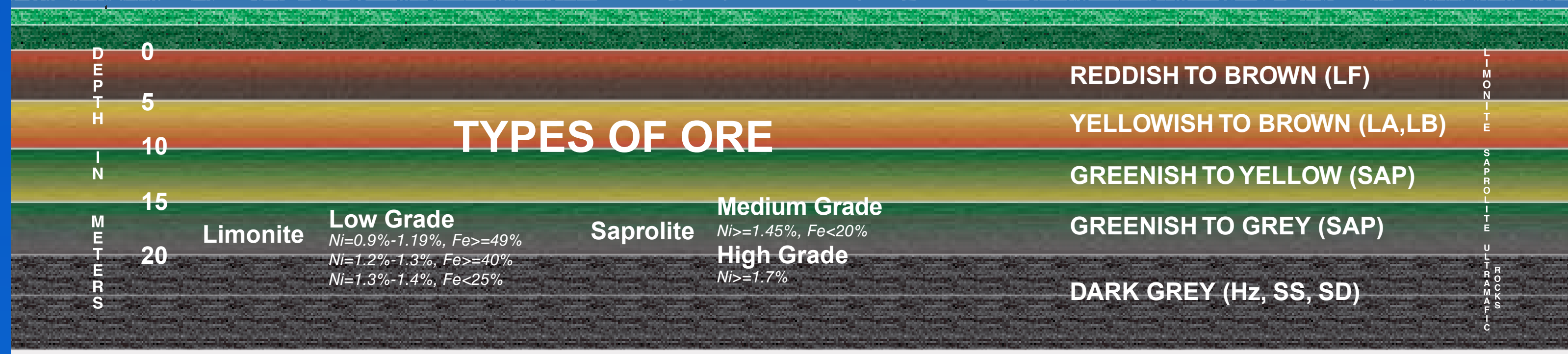
OUR STORY

Over the past decade, the extractive industry has weathered historic highs and lows. Shifts in regulatory environments have led to volatile global commodity prices while social pressures on sustainability have altered the fundamentals of operational realities. Indeed, nothing has been constant except change - where regulations continue to be uncertain and expectations are more complex.

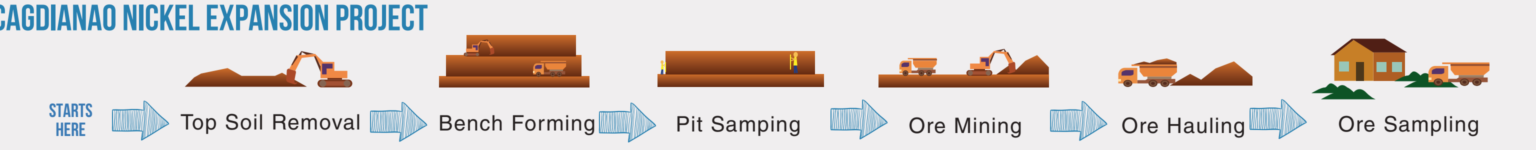
But some changes should come faster. Emerging on the horizon is a new world of technological breakthroughs in light of green car revolution. This is why we have positioned ourselves to expand our capabilities as the industry evolves. Our diligence and discipline have equipped us to triumph against the challenges of the previous years. And our many efficiency improvements are a visible sign of our transformation. Our recent actions such as changes to organizational structure and processes, early preparation for stripping activities and better scheduling of shipment loading will make us a more valuable partner to our stakeholders, and ultimately, a more successful company.

As we look ahead to a 2018 filled with more challenges and opportunities, we draw strength from our innovative spirit and resilience along with our inspired workforce. We also find motivation from valued partnerships with our customers and communities, renewed commitment with government and other stakeholders who keep us socially accountable and relevant. With their trust, we are determined to learn more and prosper together, whatever the weather, as we continue to supply the resources needed by our constantly changing world.

AT A GLANCE

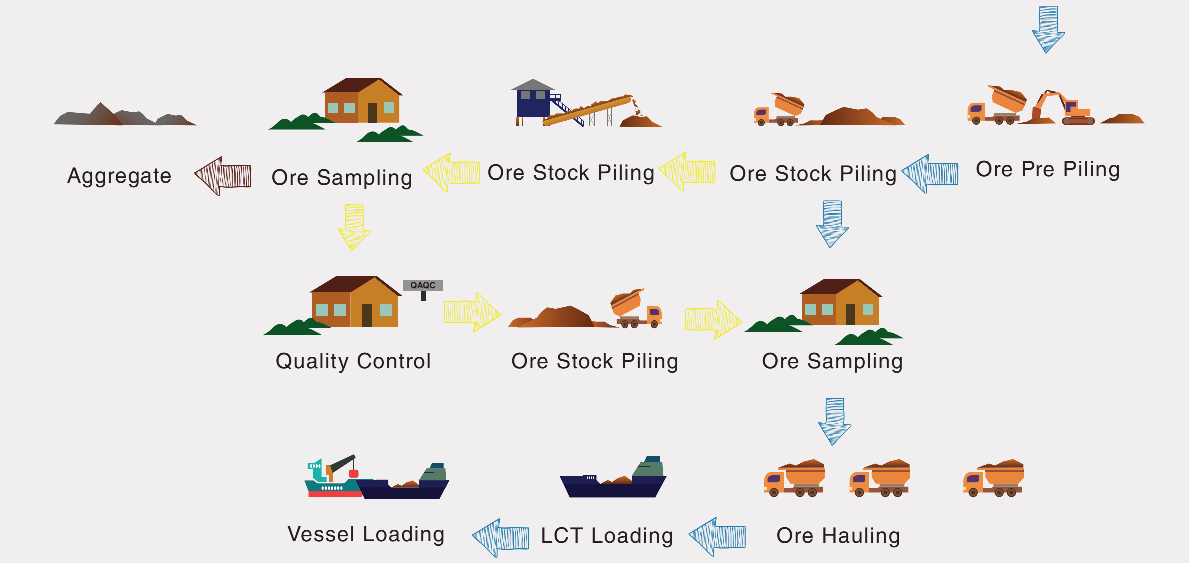


CAGDIANAO NICKEL EXPANSION PROJECT



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 allows 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)
TERM	Valid until June 20, 2041
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
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
CONTRACT AREA	4,376 hectares. Additional mine site of 843 hectares (covered by EPA-000101-XIII) adjacent to our existing mine site
MINING METHOD	Surface mining
DISTANCE	2-8 km inland between the active mining blocks and the loading causeways
CUSTOMERS	Large and well-established stainless steel producers; International trading companies; Independent ferronickel smelters
MINE SITE	Claver, Surigao del Norte Cagdianao Mine located in Sitio Kinalablaban Brgy. Cagdianao
ANNUAL MAXIMUM PRODUCTION VOLUME	5.0 million DMT or 7.7 million WMT
RESOURCES AND RESERVES	**Resources:** Measured and indicated: 54.2 million DMT; Inferred: 18.1 million DMT. **Reserves:** 24 million DMT or 36.3 million WMT. **Exploration method:** Stage-Approach Strategy

PGMC
PLATINUM GROUP METALS CORPORATION

JOINT MESSAGE FROM OUR LEADERS

Overcoming challenges and growing from strength to strength

2017 was a year of challenges and surprises, but more importantly, of transformation. We overcame regulatory pressures here and abroad, which allowed us to come out stronger and more resilient than ever.

Looking back, it is worth noting the two major policy shifts that shook the market in 2017. At the beginning of the year, Indonesia announced that it would relax restrictions on the export of unprocessed ores subject to certain conditions – a move that created uncertainties around supply and temporary weakness in nickel prices. Shortly after, former Secretary Gina Lopez of the Department of Environment and Natural Resources made pronouncements on mine closures and suspensions for half of the country's nickel ore producers, which sent prices higher on speculation. However, Ms. Lopez's eventual dismissal in June dragged down the prices, with three-month contracts sliding to US$8,795 per metric tonne at the London Metal Exchange (LME).

By the third quarter of 2017, China implemented regulatory measures for environmental management and financial markets in line with its supply-side structural reform. Specifically, a new round of environmental inspections was announced in August to enforce more stringent environmental standards while also removing excess capacity, particularly for steel. In September, Shanghai Futures Exchange tripled transaction fees on nickel futures contracts and imposed stricter position limits. These regulatory adjustments led to spikes in global nickel prices to as high as US$12,250.

During these changing times, perhaps the most important driver of our success is culture. Ours is founded in a collaborative mindset. It starts with a belief that each person is responsible for one's own actions and that we must look at every problem as our own and take an active role to be part of the solution. We believe that the best outcomes are achieved by maximizing the talents of everyone working in unity, and putting the well-being of the organization above individual interest. This work environment where all employees can do their best work has produced significant improvements in our processes and cost structure as well as operational efficiency which helped us withstand nickel price volatility and increase our productivity despite unfavorable weather conditions.

Through our subsidiary—Platinum Group Metals Corporation (PGMC), we have achieved a 52% increase in nickel ore production to 6.2 million wet metric tonnes (WMT) in 2017 and we have shipped 109 vessels with a total volume of 5.971 million WMT—about 39% higher than in 2016. This higher volume combined with nickel ore price recovery resulted in revenues of P5.8 billion, up 54% from a year ago. And together with productivity measures, cost-effectiveness and favorable foreign exchange rate, our net income reached P779.7 million, far exceeding the P37.5 million we registered in 2016.

We were also busy with our ongoing survey and exploration at Cagdianao areas 1 to 5 which have confirmed our historical findings, allowing us to successfully increase our resource inventory. The results we have gathered serve as the basis for a robust and reliable geological model and mine planning as well as resource and reserve statements that are Joint Ore Reserves Committee (JORC) and Philippine Mineral Reporting Code (PMRC) compliant.

Another significant milestone took place on November 13 when we signed an agreement with Vi Holding LLC to launch joint business projects in the processing of lateritic ores. Vi Holding LLC is a member of an international investment and industrial group of companies from Russia with interests in mineral exploration and processing, real estate, energy and innovative solutions. The momentous signing event was witnessed by none other than His Excellency Rodrigo Roa Duterte, President of the Republic of the Philippines and by His Execellency Dmitry Medvedev, Prime Minister of the Federation of Russia. We are now working on a feasibility study for the proposed processing plant and both teams are in the process of forming a Joint Working Group to undertake initial testing of ore.

Beyond these operations and financial results, we are particularly proud that our environmental and social development programs have become ever more inclusive. This year, we have surpassed 1 million seedlings planted since we started our tree planting program in 2007. We have also completed all committed environmental control measures and research initiatives, promoted a unified Information, Education and Communication (IEC) program and pursued educational assistance for young people with disabilities.

We are working hard to build on our achievements in the past year and we are committed to playing our part towards becoming a bigger and more dynamic organization. We would like to thank our shareholders and customers, who together with our employees and community partners, help define who we are. We thank you for putting your trust in us as we continue on this journey of prosperity together.

Joseph C. Sy
Chairman

Dante R. Bravo
President

PRESIDENT'S REPORT

"Times of change call for fresh, collaborative ways — for transformation.

To create impact means to think and work outside the box and to learn lessons from the past in order to forge progressive, meaningful paths."

GETTING BACK TO BALANCED GROWTH

The true test of growth is the internal change we make that brings out the best in us as individuals and as an organization.

There is no doubt that the growth we have experienced in 2017 reflects the wide range of approaches and practices that increased our operational competitiveness. Through our productivity agenda, we took conscientious steps to address the challenges we had in the past.

By improving our organizational structure and processes within our teams, we have effectively increased our connectivity and efficiency, which enabled us to act swiftly upon day-to-day weather conditions and on other business information. To put this in context, we experienced more rain in 2017 compared to 2016, both in terms of intensity as measured by depth and frequency as measured by number of rainy days. Yet, we still registered higher operating hours because we kept a tight control over operations. We did this by improving the monitoring and supervision of the port operations and grade control departments, the scheduling of LCT loading and the cooperation among contractors. It also helped that we have been disciplined in maintaining adequate stockpile which meant that we were able to drawdown from it during rainfall and continue our loading operations.

Nickel ore production significantly increased by 36% year-on-year, hitting 6.154 million WMT in 2017. In terms of product mix, we have produced 55% low-grade ores, 41% medium-grade ores, and 1% high-grade ores, with rest being non-marketable grade ores and waste. The increase in ore production can be attributed to several factors, including increases in operating days (182 operating days, as compared to 158 operating days in 2016) and number of contractors (12 vs. 10 in 2016). Moreover, the implementation of advance developments and stripping activities in the previous year have facilitated the exposure of the ore body suitable for two-year mine production. Approximately

1.668 million WMT of waste has been extracted in 2016 as we had implemented road developments, clearing and grubbing at Cagdianao area 4 blocks 42, 48, 49, 50, 1 and the main road to Cagdianao area 3. Accordingly, these steps prepared the ore deposit for extraction in 2017—making it easier and faster to access. Waste-to-ore ratio dropped to 0.04:1 for 2017 from 0.30:1 in 2016.

By the end of the year, we have shipped a total of 5.971 million WMT or 39% more than we did last year. We are very pleased that our average daily load rate increased by 32% to 27,388 WMT in 2017 as against 18,517 WMT in 2016. Plus, we reached a record high of 58,768 WMT ore loaded in one day on July 30 from our previous high of 48,068 WMT. About 66% of the total number of shipments were dispatch—meaning loading operations were completed earlier than the agreed time and the ship was released for early sail. As this scenario benefits the ship-owner, we have received some compensation in consideration of the time we have saved. There were 72 vessels or 66% on dispatch and 37 vessels or 34% on demurrage.

All of these improvements translated into year-end achievements. Revenues totaled P5.8 billion, up by 54% from the previous year on higher volumes shipped, better selling prices, and favorable exchange rates. Operating cash cost per unit declined by as much as 10% to P554.83 per WMT from P619.97 in 2016 despite increases in volume and inflationary pressures. Net income reached P780 million from just over P37 million in 2016 and margins improved across the board – EBITDA to 31%, net profit margin to 13% and ROE to 12%.

BUILDING A PATHWAY TO THE FUTURE

Investment opportunity in mining is largely dependent on two factors: the geological potential of the area and the favorable exploration climate.

Looking at our historical exploration, we have long established that the seven areas in our Cagdianao mine share a similar geological setting. These areas have rich nickel ore resources and some packets of other commodities such as limestone and chromite.

Armed with this baseline assessment, we have carried out an ongoing exploration program that started in 2014. Our resource estimates have evolved quite markedly since, despite our continuous ore extraction in two of the mine areas.

In 2017, we have drilled a total of 1,695 holes were at Cagdianao areas 1 to 4 with an aggregate meterage of 16,690 meters at 95.4% average core recovery at 9.85m average depth. In-fill and confirmatory drilling operations continued at Cagdianao 2 from January to May while drilling resumed at Cagdianao 3 by mid-February and continued until its completion by June. Drilling recommenced at Cagdianao 4 by October for its in-fill, sanitation, and reconnaissance targets.

2017 CONTRIBUTIONS

Php 102.4M	Php 255.9M	Php 59M	Php 38M	Php 104.6M
Excise Tax on Minerals	Royalties (Mineral Reservation)	IP Royalty Share	Social Development and Management Program	Environmental Protection and Enhancement Program

These exploration activities have increased our combined measured and indicated mineral resources at Cagdianao areas 1 to 5 by 3.846 million dry metric tons (DMT). As at 23 June 2017, mineral resources rose to 54.160 million DMT from 50.314 million DMT as at 30 June 2016. Average grade stood at 1.1% nickel and 31.4% iron. We have also expanded our reserves despite having shipped over 5 million WMT since June 2016. As at 23 June 2017, our combined proven and probable ore reserves were 36.3 million WMT with an average grade of 1.22% nickel and 31.7% iron.

These estimates are very encouraging as there are still four deposit areas where we need to advance our exploration campaign. These include Cagdianao areas 1 and 5 which we have yet to restart drilling activities and Cagdianao areas 6 and 7 which we have not surveyed yet. In view of this, our 2018 exploration program will focus on Cagdianao areas 1, 6, and 7, with further confirmatory drilling for Cagdianao 2 and 4 in order to raise our existing resource base and keep us firmly in a position of growth and strength.

PRESIDENT'S REPORT

Statement of Mineral Resources for Total Nickel as of 23 June 2017 (Measured and Indicated)

Deposit	PMRC Classification	Quantity (Tonnes)	%Ni	%Fe	Dry Bulk Density
CAGA4 (as of 23 Jun 2017)	Measured	9,121,000	1.1	43.8	1.0
	Indicated	7,811,000	1.3	23.3	1.1
	Subtotal	16,932,000	1.2	34.4	1.1
CAGA2 (as of 23 Jun 2017)	Measured	8,209,000	1.2	25.8	1.3
	Indicated	5,326,000	1.1	29.3	1.3
	Subtotal	13,535,000	1.1	27.1	1.3
CAGA3 (as of 23 Jun 2017)	Measured	9,687,000	1.2	28.9	1.2
	Indicated	3,122,000	1.1	23.3	1.2
	Subtotal	12,809,000	1.2	27.5	1.2
CAGA1 (unmined)*	Measured	4,349,000	1.0	45.3	1.2
	Indicated	3,470,000	1.0	28.5	1.2
	Subtotal	7,819,000	1.0	37.9	1.2
CAGA5 (unmined)*	Measured	1,409,000	1.0	46	1.2
	Indicated	1,656,000	1.0	23.5	1.2
	Subtotal	3,065,000	1.0	33.8	1.2
Total	Measured	32,775,000	1.1	35.2	1.2
	Indicated	21,385,000	1.2	25.7	1.2
	Total	54,160,000	1.1	31.4	1.2

Statement of Ore Reserves of CAGA1 to CAGA5 as of 23 June 2017

Classification	Proven			Probable			Total		
Material	WMT	%Ni	%Fe	WMT	%Ni	%Fe	WMT	%Ni	%Fe
LGHF	12,701,968	0.92	49.08	2,941,272	0.92	48.98	15,643,240	0.92	49.07
LGMF	2,404,740	1.23	46.40	439,605	1.22	46.50	2,844,346	1.23	46.41
LGLF	3,091,363	1.27	14.34	2,547,974	1.26	12.01	5,639,337	1.26	13.29
MGMF	619,423	1.44	42.98	64,319	1.43	43.77	683,741	1.44	43.05
MGLF	4,487,540	1.48	13.08	3,193,322	1.48	12.24	7,680,862	1.48	12.73
HG	1,776,569	1.81	13.96	2,074,576	1.85	12.60	3,851,145	1.83	13.23
Total	**25,081,603**	**1.17**	**35.46**	**11,261,068**	**1.34**	**23.37**	**36,342,670**	**1.22**	**31.72**

UPHOLDING GLOBAL ENVIRONMENTAL STANDARDS

Mining is a temporary land use. As a company that recognizes the potential adverse impact that our activities have on the environment, we have continuously prioritized the installation of control measures alongside the rehabilitation of mining areas as part of our responsible mining ethos.

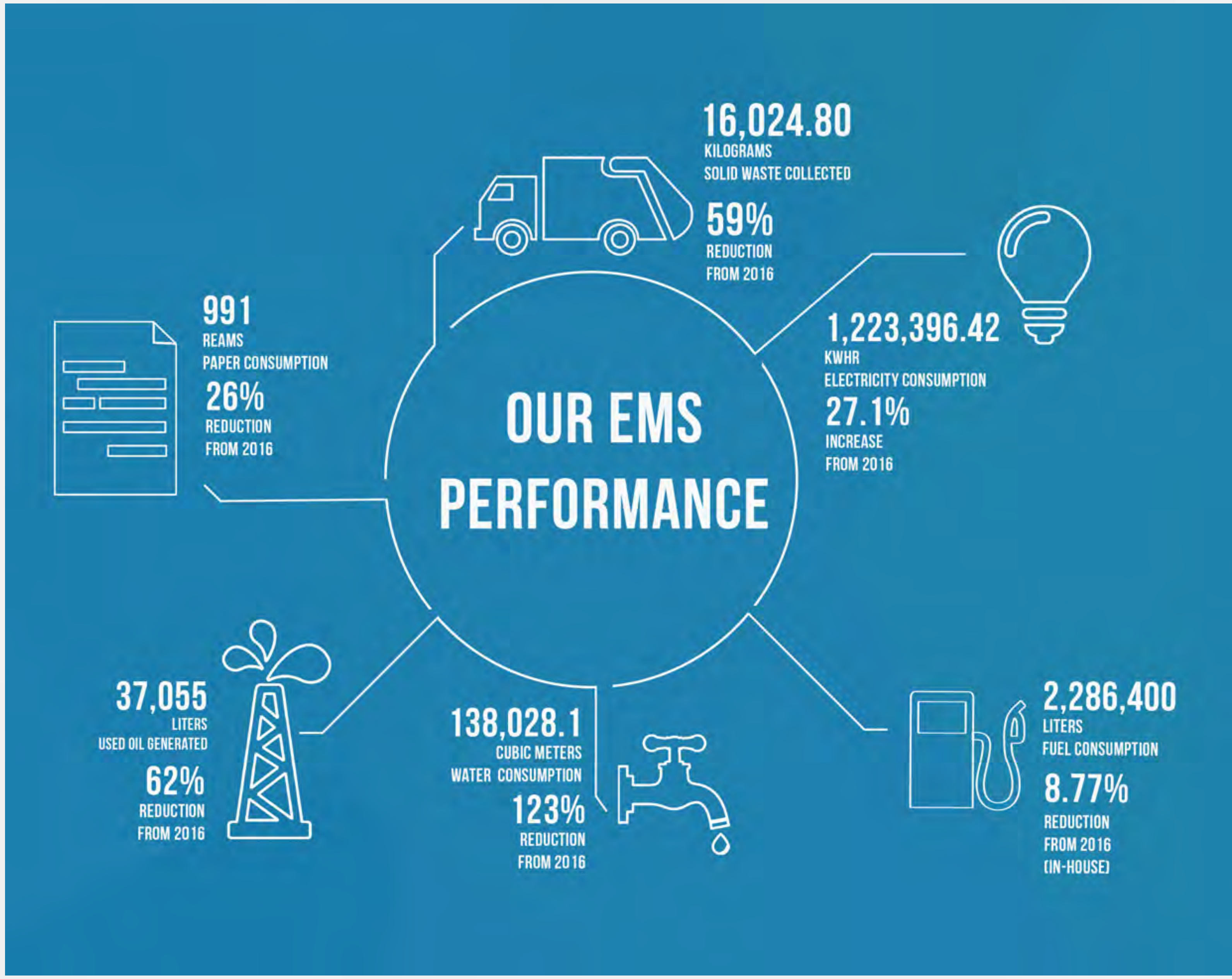
Since 2015, we have defined six sustainability measures that demonstrate how we are structured to reduce the environmental impact of our operations and contribute to sustainable development. These measures are based upon the standards set out in International Organization for Standardization (ISO) 14001:2015 including energy, fuel, water, paper, used oil and waste.

In 2017, our approach has been centered on bringing awareness to our stakeholders. We have increasingly practiced conservation reminder campaigns such as water-saving signage, two-sided printing or copying and waste segregation at source.

Some examples include:

- To tackle water usage, signage have been placed in sinks, toilets, car wash areas, and other applicable sites. Moreover, impounded water in siltation ponds has been recycled for use in watering/spraying road networks to suppress dust.
- For used oil generation, preventive maintenance service activities including periodic change of engine oils were closely monitored according to the set guidelines. All contractors have also been required to deposit generated waste engine oil our central waste storage facility for proper monitoring, transport, and treatment.
- For domestic waste generation, solid waste management program has been reinforced through recycling and segregation of waste at source, composting of biodegradable waste, and weekly inspection at the contractor's facilities;
- For paper consumption, technology has helped us migrate from paper- and manual-based processes to electronic format. This includes the roll-out of our human resource information system, and electronic submission of select government reports including Adopt-a-river Program, Self-monitoring Report, and Compliance Monitoring Report). Advocacy campaigns also included reuse of paper for printing of memos and draft letters.

These mechanisms are well underway and have already produced tangible results. More importantly, we are seeing improvements towards behavioral goal achievement among employees and contractors. We report the results of our Environmental Management System (EMS) performance on this page.



Another way in which we have challenged ourselves on environmental matters is by aligning our Annual Environmental Protection and Enhancement Program (AEPEP) to the priority areas of local authorities. Mines and Geosciences Bureau (MGB) reported that some of the most common lapses of mining companies include:

- Inappropriate species selection for reforestation;
- Minimal/improper progressive rehabilitation of disturbed areas;
- Failure to implement effective topsoil management;
- Excessive dust generation in the active mining area and during hauling

Over the past year, we have spent P104.6 million on our AEPEP to address not only these observed gaps but also our commitments on land and water resources, and noise and air quality. Similarly, we have instituted programs focused on environmental monitoring, waste management, and research and trainings. As a result, we have achieved 98.3% of our physical targets and 83.3% of the total financial budget.

Of all the initiatives undertaken in 2017, land rehabilitation has been prioritized, receiving about P20.9 million or 20% of total planned expenses for environmental programs. Meanwhile, backfilling or re-shaping of mined-out areas was the single biggest activity at P12.2 million, as a large portion within Cagdianao area 2 has been declared mined-out and should undergo progressive rehabilitation.

ENHANCING THE COMMUNITY TOGETHER

We remain committed to our shared value approach which enables us to operate as a trusted partner to our host communities in Claver, Surigao del Norte—supporting them to reach their own development goals.

For 2017, we have continued to implement programs to improve the health, education and livelihood status of the local residents of Cagdianao and Hayanggabon barangay communities, as well as improve public utilities and services and assist in socio-cultural preservation. We have likewise maintained our activities aimed at promoting public awareness and education on mining technology and geosciences and advancing mining technology and geosciences by organizing training workshops and seminars. Overall, we have utilized a total of P38.4 million for the different programs, projects and activities – a sum that represents an 88% utilization of the annual budget for Social Development and Management Program (SDMP).

Health

A healthy community is a productive community. When children and the youth are healthy, they can attend school and other activities that develop their skills and self-confidence. When adults are healthy, they can participate in and contribute to the local economy. Indeed, the positive impact in a community when the health needs of its members are met transcends provision of immediate relief and comfort.

In 2017, we have assisted a total of 190 families of our host and neighboring communities to gain access to PhilHealth insurance coverage, ensuring they can get the proper medical treatment they need when they need it. We have also ensured that medicines and vitamins were provided to some 2,800 patients through our bi-weekly medical missions. During these missions, we have covered the incentives for community physician, midwives, and barangay health workers. And to secure the availability of ambulances in times of medical emergencies, we have supported the fuel and maintenance costs for ambulance vehicles of Barangay Cagdianao as well as the payment of incentives for ambulance drivers.

In preventing communicable diseases, it also makes the case for rethinking the communities' solid waste management programs. To this end, we have funded income- and employment-generation opportunities for garbage truck drivers and collectors to ensure that household garbage is regularly collected and properly disposed of.

PRESIDENT'S REPORT

Education

Raising educational levels present unprecedented opportunities for achieving the future we want—a more productive, more educated workforce. That is why we have made education a cornerstone of our social development program.

We have made great strides in supporting the educational aspirations of the youth, especially those who are furthest behind. Each of the 89 college students with disabilities from barangay Hayanggabon has received P25,000 per semester to cover their tuition, board and lodging and other miscellaneous fees as well as some 24 college students from Barangay Cagdianao. We have coordinated with barangay officials to validate that all the recipients are deserving of the grants and we have closely monitored the scholars' progress to ensure that they have the best chance of completing their tertiary education.

In addition to scholarships and grants, we have maintained a holistic approach to supporting early child care and development and basic education services in our host communities. In 2017, in response to the needs identified by officials and community members, we have provided supplies and materials for Cagdianao Daycare Center and GK Sibol Day Care Center, both of which cater to a total of 125 pupils. We have also handed subsidies for five volunteer teachers in day care, high school and elementary school. In Barangay Cagdianao, we have distributed school bags to at least 380 elementary school students and provided subsidies for the school bus driver and covered the maintenance and fuel costs of the school bus to ensure that at least 210 students are safely transported from their homes to school and back.

Skills

Our partnership with the Technical Education and Skills Development Authority (TESDA) remains active with a total of 114 students in 2017 receiving specialized training courses that would enable them to gain critical skills to secure jobs or advance their careers. These young individuals have been trained on automotive mechanics, shielded metals arc welding, agriculture and livestock management, food processing and catering services.

We have also provided financial assistance to Barangay Cagdianao's Samahang Magsasaka for the establishment of their Agricultural and Livestock demonstration farm, to Gawad Kalinga's Association livelihood training program that benefited 60 households, and to designated fish wardens of the Cagdianao Fishermen Organization (CFO).

Safety

In addition to safeguarding our employees, we also extend our assistance to the communities we call home.

The PGMC Mine Rescue Team was created to be of service in cases of calamities and disasters. In 2017, the team has responded to rescue and relief operations after a 6.7 intensity earthquake struck the city and province of Surigao on February 10 and after a 6.5 intensity earthquake hit Ormoc City, Leyte on July 6.

The teams deployed to Surigao and Leyte coordinated with respective local governments and helped assess damages in affected areas, deliver and distribute relief goods to affected communities, deliver water to residents, and in Surigao, implement crowd control measures during the visit of President Rodrigo Duterte. Their efforts are a source of pride for the entire PGMC as they continue to live our mission of being a socially responsible company for the benefit of the nation.

FORMING ENGAGED AND VALUES-DRIVEN TEAMS

No two employees are the same, but they are shaped by the values and culture that fuel an organization.

Towards the middle of 2017, we formally launched our core values to ensure we create a workplace that pushes us all to row in the same direction. Value workshops were held which provided useful context and insights on our conduct agenda. We also started conversations about taking these values as key factors in individual performance management and development programs. We intend to continue informal value formation activities in 2018.

As we outline a way forward that focuses on annual and long-term goals and metrics, we took the necessary steps to enhance our reward strategy, and retain and motivate key employees and top leadership.

On May 9, the Board of Directors and the Compensation Committee approved the Employee Stock Option Master Plan, a share-based compensation plan. They also authorized the First Tranche grant—comprised of 20 million option grants to be vested over three years at a strike price of P2.00 per share and 20 million stock grants to be granted over two years.

On December 27, the stock grant agreement in relation to the Employee Stock Option Master Plan was executed between the company and the grantees. A total of 10.1 million treasury FNI shares were granted to PGMC, then subsequently issued and awarded by PGMC to its employees as recognition for their past services. The stock grant has a lock-in period of two years from the date of grant where such shares may not be sold, assigned, transferred, pledged, hypothecated, or otherwise encumbered or disposed of.

MARKET OUTLOOK

Looking into 2018, about 20 million WMT export quotas of nickel ore have been awarded in Indonesia but these are contingent on each company's progress in investing in smelting capacity—one of the conditions of the partial-lifting of the export ban in Indonesia. There is also expectation of increased NPI supply from China and Indonesia.

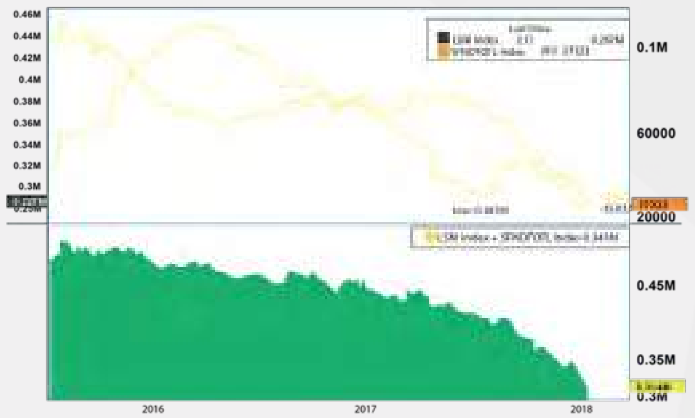
Yet, there are other key factors affecting the supply. The impact there is to see what will be the result of the declining inventory of combined stocks at London and Shanghai markets. Total stocks at these two exchanges continued to fall to around 340,000 tonnes sometime in the second quarter of 2018 from a high of 500,000 tonnes in the first quarter of 2016. And, in particular, nickel stocks at LME have dropped every month since August 2017 and are now at their lowest level since June 2014.

Recent trends concerning sanctions could also dramatically disrupt supply. Should U.S. sanctions extend to Russian metals producers which account for 9% of global nickel production, it could trigger supply tightness and sharp movement in prices.

In this context, World Bank forecasts nickel prices to remain an uptrend, rising by another 30% from 2017 to US$13,500. This higher expectation reflects the risk of Russian sanctions as well as growth in electric vehicle demand. Meanwhile, the International Nickel Study Group (INSG) has revised its 2018 deficit forecast to 117,000 tonnes from its previous assessment of 53,000 tonnes in October 2017.

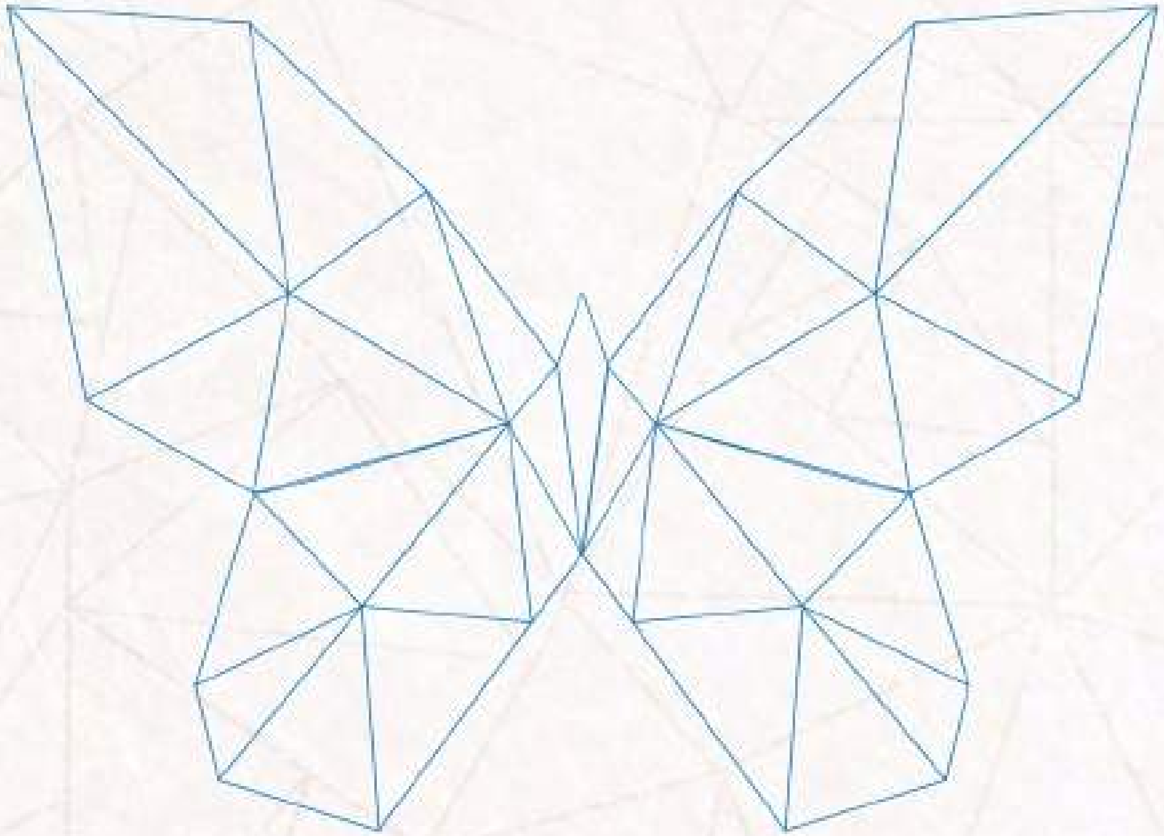
In medium- to long-term, laterite ores are expected to be the main source of pure nickel and new nickel units, as discovery and development of sulphide ores remain underinvested. This is because higher nickel prices are required to incentivize producers to expand existing facilities or look for new additional investments in nickel suitable for battery use.

REFINED NICKEL INVENTORY (LME AND CHINA STOCK)



CHINA LATERITE ORE INVENTORY

SOURCE: Bloomberg June 2018



BOARD OF DIRECTORS AND MANAGEMENT TEAM

BOARD OF DIRECTORS

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Joseph C. Sy
Chairman

Joseph Sy became Chairman of both the Company and PGMC on 6 August 2015 and 10 August 2015, respectively. Prior to this, he was appointed President of the Company on 29 August 2014 and had served as President of PGMC since 2011. Joseph is also a Director of the Ipilan Nickel Corporation, former Treasurer of the Philippine Nickel Industry Association (PNIA), and the Director of Mining for the Philippine Chamber of Commerce and Industry (PCCI). He has more than 16 years of experience in managing companies engaged in mining and mineral exploration and development. Mr. Sy studied management at the Far Eastern University Manila.

David Chua
Vice Chairman

David Chua is the owner and chairman of Summit Investment Partners (SIP) whose principal activity is to invest proprietary capital in growth companies that are seeking to expand. He is also the Chairman of Travellers International Hotel Group, the developer and operator of Resorts World Manila. Previously, he was the President of Genting Hong Kong from 2007 to 2014 and held key management positions in various international securities companies in Malaysia, Singapore, and Hong Kong. Mr. Chua completed his Bachelor of Arts in Political Science & Economics from Carleton University in Canada.

Dante R. Bravo
President

Dante Bravo became President of both the Company and PGMC on 6 August 2015 and 10 August 2015, respectively. Previously, he held various positions of increasing authority in PGMC, including Corporate Secretary, Chief Finance Officer, and, ultimately, 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 currently the President of the Philippine Nickel Industry Association (PNIA). He is a Certified Public Accountant. He completed his Bachelor of Laws from San Beda College and his Bachelor of Accountancy from the University of Santo Tomas. He placed 10th in the 2001 Philippine Bar Examinations.

Mary Belle D. Bituin
Chief Finance Officer and Treasurer

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

Gu Zhi Fang
Director

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

Dennis Allan T. Ang
Director

Dennis Allan Ang became a Director of the Company on 10 August 2015. He is the Founder and President of Engagement, Inc., as well as the Founder of Full Metro Gear Corp. and is the Corporate Secretary of

Maxima Machineries. Mr. Ang occupied several key positions at the Asian Institute of Management from 2001 to 2006. He completed his Bachelor of Science in Management Information Systems from the Ateneo de Manila University in 1997 and obtained his Masters in Business Administration from the Asian Institute of Management in 2001.

Francis C. Chua
Director

Francis Chua became a Director of the Company on 22 October 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 Honorary Consul General of the Republic of Peru in Manila. Mr. Chua also served as Special Envoy on Trade and Investments in China. He completed his 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

Luis Yu is the Chairman Emeritus of 8990 Holdings, Inc. He was voted the 2016 Entrepreneur of the Year by the Cebu Chamber of Commerce and Industry (CCCI). Mr. Yu completed his Bachelor of Arts in Social Science from Velez College, Cebu City, in 1974 and obtained his Masters in Business Management from the Asian Institute of Management in 1977.

Roberto C. Amores
Independent Director

Roberto Amores became a Director of the Company on 17 March 2015. He has more than 30 years of corporate management experience. He is the Director for SME and Export Services and Committee Chairman for Agriculture at the Philippine Chamber of Commerce & Industry (PCCI), and a member of the Technical Advisory Group for the Agribusiness Office of Secretary Arthur C. Yap in the Department of Agriculture. Mr. Amores is also President of the Philippine Food Processors and Exporters Organization and is a Council Member and Trustee of the Export Development Council in the Philippine Department of Trade and Industry. He completed his Bachelor of Arts from the University of the Philippines in 1976.

Edgardo G. Lacson
Independent Director

Edgardo Lacson became a Director of the Company on 29 June 2016. Mr. Lacson is a Director of the Puregold Price Club, Inc. He is also a Trustee of De La Salle University, ADR Institute for Strategic and International Studies, and the Philippine Disaster Recovery Foundation. He is Chairman of the Employers Confederation of the Philippines. Mr. Lacson is the President of MIS Maritime Corporation, Safe Seas Shipping Agency, and Marine Industrial Supply Corporation. He is also a Trustee, Past President, and Honorary Chairman of the Philippine Chamber of Commerce and Industry. He was a Director of the Philippine Stock Exchange from 2011 to May 2018. He completed his Bachelor of Science in Commerce, major in Accountancy, from the De La Salle College.

MANAGEMENT TEAM

Dante R. Bravo
President

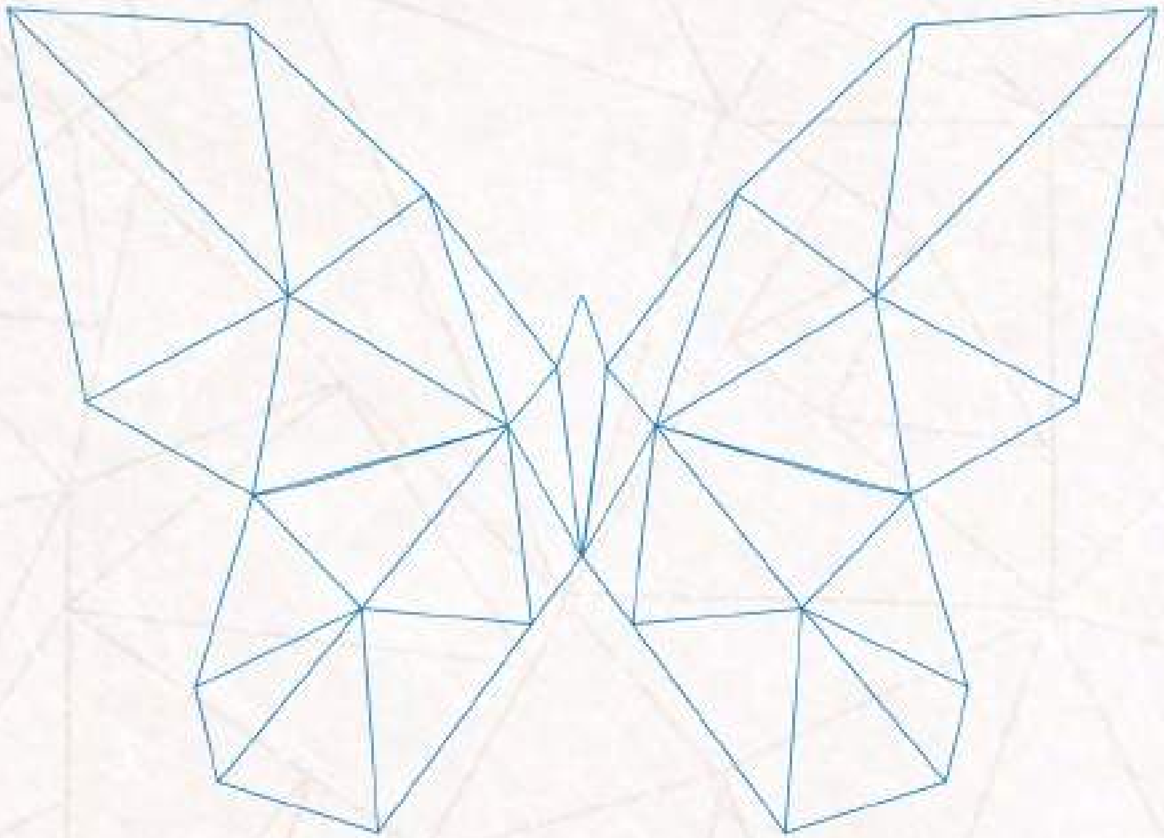
Joseph C. Sy
Chairman

Carlo A. Matilac
Senior Vice President for Operations

Mary Belle D. Bituin
Chief Finance Officer

Evеart Grace Pomarin-Claro
Assistant Corporate Secretary

Noel B. Lazaro
Corporate Secretary/ Senior Vice President for Legal and Regulatory Affairs



FINANCIAL PERFORMANCE

FINANCIAL HIGHLIGHTS

	2017	2016	2015
Volume ('000 WMT)	5,970.6	4,308.6	5,351.8
Average realized price (US$/WMT)	17.0	17.9	26.7
	(in PHP millions, except per share amounts and ratios)		
Sale of Ore	5,815.6	3,773.7	6,533.2
Operating Income	1,110.8	210.9	1,256.0
Net Income	779.7	37.5	1,111.8
Earnings per Share	0.14	0.01	0.22
Current Ratio	2.04	1.63	1.50
Debt-to-Equity Ratio	0.41	0.44	0.39

Global Ferronickel Holdings, Inc. and Subsidiaries

Consolidated Financial Statements
as at December 31, 2017 and 2016
and for the Years Ended December 31, 2017, 2016 and 2015

and

Independent Auditor's Report

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

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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

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, 2017 and 2016, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2017, 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, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2017 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

Ore reserves are estimates of the amount of ore that can be economically and legally extracted from the Group's mining properties and are key inputs to depletion, amortization and decommissioning provisions. 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 and depreciation and depletion charges.

The Group's mining properties and mining rights amounting to ₱743.2 million and ₱220.2 million as at December 31, 2017, respectively, are amortized using the units of production method. Under the units of production method, cost is amortized based on the ratio of the volume of actual ore extracted during the year over the estimated volume of mineable ore reserves for the remaining life of the mine. This matter is significant to our audit because the estimation of the mineable ore reserves for Cagdianao, Claver, Surigao del Norte for the entire life of the mine requires significant estimation from the management.

The Group's disclosure on mining properties and mining rights are included in Notes 3, 8 and 10 to the consolidated financial statements.

Audit Response

We evaluated the competence, capabilities and objectivity of the external geologist and competent person engaged by the Group to perform an independent assessment of its ore reserves by considering their qualifications, experience and reporting responsibilities. We reviewed the geologist and competent person's report and obtained an understanding of the nature, scope and objectives of their work, basis of the estimates including the changes in the reserves during the year. We evaluated the relevance and reasonableness of the significant factors considered by the geologist and competent person in preparing and producing the technical report such as estimates of foreign exchange rates, commodity prices, future capital requirements, and production costs. 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 ₱241.7 million as at December 31, 2017 represents the expenditures incurred by the Group for the Cagdianao areas, which are still under exploration. Under PFRS 6, *Exploration for and Evaluation of Mineral Resources*, these mine exploration costs shall be assessed for impairment when facts and circumstances suggest that the carrying amounts exceed the recoverable amounts. The ability of the Group to recover its mine exploration costs would depend on the commercial viability of the reserves. We considered this as a key audit matter because of the materiality of the amount involved and the significant management's judgment required in assessing whether there is any indication of impairment.

The Group's disclosures about mine exploration costs are included in Notes 3 and 12 to the consolidated financial statements.

Audit Response

We obtained management's assessment on whether there is any indication that mine exploration costs may be impaired. We reviewed the summary of the status of the Cagdianao areas under exploration as of December 31, 2017, as certified by the Group's technical group head and compared it with the disclosures submitted to regulatory agencies. We reviewed contracts and agreements, and budget for exploration costs. We inspected the licenses/permits 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, will not expire in the near future, and will be renewed accordingly. We inquired about the existing concession areas that are expected to be abandoned or any exploration activities that are planned to be discontinued in those areas.

Recoverability of Deposits for Future Acquisition

As at December 31, 2017, the Group has deposits for future acquisition amounting to ₱2.2 billion. The significant portion of these deposits will form part of the purchase price for the acquisition of additional interest in the Group's investment in an associate, Southeast Palawan Nickel Ventures, Inc. (SPNVI). SPNVI has a subsidiary, Ipilan Nickel Corporation (INC), which is still under exploration stage and has pending legal cases. Currently, INC is taking actions to settle the cases that includes constant communication with the National Government. We considered this as a key audit matter because of the materiality of the amount involved and the significant management's judgment required, such as the feasibility and successful development of INC's exploration activities, in assessing whether there is any indication of impairment.

The Group's disclosures on deposits for future acquisition are included in Notes 3 and 30 to the consolidated financial statements.

Audit Response

We obtained management's assessment on whether any events or circumstances exist that may indicate that the deposits for future acquisition may be impaired. We involved our internal specialist in evaluating the methodologies and the assumptions used in the impairment assessment, which include the estimated timing of resumption of operations, mine production, nickel prices, price inflation and discount rate. With respect to mineral production, we compared the forecasted mine production of INC with the Declaration of Mining Project Feasibility it submitted to the Mines and Geosciences Bureau. We compared the nickel prices, price inflation and discount rate with externally published data. We inquired the status of INC's exploration activities and reviewed the related budget for exploration costs, and INC's projects and future business plans. We inspected the related permits of INC's exploration project to determine that the period for which INC has the right to explore in the specific area has not expired, will not expire in the near future, and will be renewed accordingly. We discussed with management the status of INC's pending legal cases, and obtained correspondences with the relevant authorities and opinions from the external legal counsel.

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, 2017, 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, 2017 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.

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

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

SYCIP GORRES VELAYO & CO.

Eleanore A. Layug
Partner
CPA Certificate No. 0100794
SEC Accreditation No. 1250-AR-1 (Company A),
January 7, 2016, valid until January 6, 2019
Tax Identification No. 163-069- 453
BIR Accreditation No. 08-001998-97-2018,
February 2, 2018, valid until February 2, 2021
PTR No. 6621271, January 9, 2018, Makati City

February 28, 2018

GLOBAL FERRONICKEL HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Amounts in Thousands)

	December 31	
	2017	2016
ASSETS		
Current Assets		
Cash (Note 4)	**₱886,566**	₱551,942
Trade and other receivables (Note 5)	**348,668**	847,175
Advances to related parties (Note 30)	**1,871,978**	1,614,084
Current portion of finance lease receivable (Note 18)	**73,812**	72,282
Inventories - at cost (Note 6)	**286,598**	275,983
Prepayments and other current assets (Note 7)	**214,484**	271,306
Total Current Assets	**3,682,106**	3,632,772
Noncurrent Assets		
Property and equipment (Note 8)	**2,003,317**	2,111,973
Deposits for future acquisition (Note 30)	**2,217,354**	2,217,354
Mine exploration costs (Note 12)	**241,729**	223,807
Mining rights (Note 10)	**220,209**	264,888
Finance lease receivable - net of current portion (Note 18)	**86,858**	160,670
Deferred tax assets - net (Note 31)	**127,476**	58,310
Investment property (Note 11)	**–**	319,865
Investment in an associate (Note 9)	**–**	116
Other noncurrent assets (Note 13)	**461,808**	436,939
Total Noncurrent Assets	**5,358,751**	5,793,922
TOTAL ASSETS	**₱9,040,857**	₱9,426,694
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Note 14)	**₱577,149**	₱548,229
Current portion of bank loans (Note 15)	**749,669**	998,695
Advances from related parties (Note 30)	**327,593**	666,481
Current portion of finance lease liabilities (Note 18)	**2,350**	2,416
Income tax payable	**148,768**	11,926
Total Current Liabilities	**1,805,529**	2,227,747
Noncurrent Liabilities		
Bank loans - net of current portion (Note 15)	**–**	713
Provision for mine rehabilitation and decommissioning (Note 16)	**245,407**	67,123
Retirement obligation (Note 17)	**51,203**	47,882
Finance lease liabilities - net of current portion (Note 18)	**787**	3,137
Other noncurrent liabilities (Note 19)	**533,627**	533,533
Total Noncurrent Liabilities	**831,024**	652,388
Total Liabilities	**2,636,553**	2,880,135
Equity		
Capital stock (Note 20)	**6,113,475**	6,113,475
Remeasurement gain on retirement obligation (Note 17)	**12,561**	5,342
Valuation loss on available-for-sale financial assets (Note 13)	**(464)**	–
Cumulative translation adjustment	**(4,751)**	(14,106)
Retained earnings (Note 20)	**1,237,573**	459,654
Treasury shares (Note 20)	**(954,090)**	(17,806)
Total Equity	**6,404,304**	6,546,559
TOTAL LIABILITIES AND EQUITY	**₱9,040,857**	₱9,426,694

See accompanying Notes to Consolidated Financial Statements.

GLOBAL FERRONICKEL HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in Thousands, Except Earnings per Share)

	Years Ended December 31		
	2017	2016	2015
SALE OF NICKEL ORE (Note 34)	**₱5,815,596**	₱3,773,669	₱6,533,218
COST OF SALES (Note 22)	**2,768,571**	2,308,220	3,509,917
GROSS PROFIT	**3,047,025**	1,465,449	3,023,301
OPERATING EXPENSES			
General and administrative (Note 23)	**833,158**	460,914	628,271
Excise taxes and royalties (Note 24)	**714,206**	503,275	972,546
Shipping and distribution (Note 25)	**388,843**	290,405	166,472
	1,936,207	1,254,594	1,767,289
FINANCE COSTS (Note 28)	**(68,741)**	(67,696)	(88,891)
FINANCE INCOME (Notes 4, 13 and 18)	**6,877**	6,505	9,431
SHARE IN NET LOSS OF AN ASSOCIATE (Note 9)	**(116)**	(184)	–
OTHER INCOME (CHARGES) - net (Note 29)	**28,369**	(32,373)	(115,500)
INCOME BEFORE INCOME TAX	**1,077,207**	117,107	1,061,052
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 31)			
Current	**373,786**	35,406	4,081
Deferred	**(76,268)**	44,207	(54,779)
	297,518	79,613	(50,698)
NET INCOME	**779,689**	37,494	1,111,750
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	**9,355**	(14,106)	–
Valuation loss on available-for-sale financial assets (Note 13)	**(464)**	–	(506)
	8,891	(14,106)	(506)
Item that will not be reclassified to profit or loss in subsequent periods:			
Remeasurement gain on retirement obligation - net of tax effect (Note 17)	**7,219**	3,065	600
	16,110	(11,041)	94
TOTAL COMPREHENSIVE INCOME	**₱795,799**	₱26,453	₱1,111,844
Basic/Diluted Earnings Per Share (Note 21)	**₱0.14**	₱0.01	₱0.22

See accompanying Notes to Consolidated Financial Statements.

GLOBAL FERRONICKEL HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(Amounts in Thousands)

	Capital Stock (Note 20)	Treasury Shares (Note 20)	Equity Reserve (Note 20)	Valuation Gain (Loss) on Available-for-sale Financial Assets (Note 13)	Remeasurement Gain on Retirement Obligation	Cumulative Translation Adjustment	Retained Earnings (Deficit; Note 20)	Total	Non-controlling Interest	Total Equity
Balances at December 31, 2014	₱6,113,455	(₱18)	₱–	₱506	₱1,675	₱–	(₱696,966)	₱5,418,652	₱7,378	₱5,426,030
Net income	–	–	–	–	–	–	1,111,750	1,111,750	–	1,111,750
Other comprehensive income - net of tax	–	–	–	–	600	–	–	600	–	600
Unrealized valuation loss transferred from equity to consolidated statements of comprehensive income	–	–	–	(506)	–	–	–	(506)	–	(506)
Total comprehensive income (loss) - net of tax	–	–	–	(506)	600	–	1,111,750	1,111,844	–	1,111,844
Dilution of non-controlling interest (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	–	–	–	–	–	–	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
Net income	–	–	–	–	–	–	779,689	779,689	–	779,689
Other comprehensive income (loss) - net of tax	–	–		(464)	7,219	9,355	–	16,110	–	16,110
Total comprehensive income (loss)	–	–	–	(464)	7,219	9,355	779,689	795,799	–	795,799
Purchase of treasury shares (Note 20)	–	(964,516)	–	–	–	–	–	(964,516)	–	(964,516)
Stock grant expense (Note 20)	–	–	26,462	–	–	–	–	26,462	–	26,462
Issuance of treasury shares in relation to stock grant (Note 20)	–	28,232	(26,462)	–	–	–	(1,770)	–	–	–
Balances at December 31, 2017	₱6,113,475	(₱954,090)	₱–	(₱464)	₱12,561	(₱4,751)	₱1,237,573	₱6,404,304	₱–	₱6,404,304

See accompanying Notes to Consolidated Financial Statements.

GLOBAL FERRONICKEL HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands)

	Years Ended December 31		
	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱1,077,207**	₱117,107	₱1,061,052
Adjustments for:			
Depreciation, depletion and amortization (Note 27)	**444,367**	388,108	594,483
Provision for impairment losses on:			
Trade and other receivables (Notes 5 and 23)	**208,805**	–	–
Other noncurrent assets (Notes 13 and 23)	**20,798**	–	–
Prepayments and other current assets (Notes 7 and 23)	**3,684**	–	–
Interest expense (Note 28)	**56,586**	60,387	75,716
Net change in retirement obligation (Note 17)	**10,828**	10,123	9,278
Interest income (Notes 4, 13 and 18)	**(6,877)**	(6,505)	(9,431)
Accretion interest on provision for mine rehabilitation and decommissioning (Notes 16 and 28)	**4,077**	1,401	1,117
Unrealized foreign exchange gains (losses) - net	**2,025**	36,296	(3,040)
Share in net loss of an associate (Note 9)	**116**	184	–
Levelization of rental expense	**94**	409	743
Loss on:			
Disposal of property and equipment (Notes 8 and 29)	**8**	24,282	6,327
Acquisition of a subsidiary (Note 29)	**–**	7,356	–
Modification of finance lease receivable (Note 29)	**–**	1,037	86,885
Impairment loss on available-for-sale financial assets (Notes 13 and 29)	**–**	1,433	2,445
Amortization of discount on bank loans (Notes 15 and 28)	**–**	–	2,068
Operating income before changes in working capital	**1,821,718**	641,618	1,827,643
Decrease (increase) in:			
Trade and other receivables	**289,702**	(77,810)	(403,448)
Inventories - at cost	**(10,615)**	367,800	(397,741)
Prepayments and other current assets	**53,138**	(242,219)	39,868
Increase (decrease) in trade and other payables	**27,517**	(259,389)	(210,403)
Net cash generated from operations	**2,181,460**	430,000	855,919
Income taxes paid	**(235,868)**	(24,543)	(7,119)
Interest paid	**(60,592)**	(51,811)	(73,848)
Interest received	**5,644**	1,270	1,202
Net cash flows from operating activities	**1,890,644**	354,916	776,154
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to:			
Property and equipment (Notes 8 and 37)	**(103,354)**	(270,341)	(31,146)
Mine exploration costs (Note 12)	**(17,922)**	(83,017)	(131)
Decrease (increase) in:			
Advances to related parties	**(256,608)**	(15,708)	(1,499,565)
Finance lease receivable	**73,515**	–	–
Deposits for future acquisition	**–**	–	(23,055)
Other noncurrent assets	**(46,131)**	96,669	(41,629)
Proceeds from:			
Sale of property and equipment (Note 8)	**5,960**	2,543	–
Insurance of property and equipment	**–**	–	1,582
Cash inflow from acquisition of net assets of a subsidiary	**–**	5,364	–
Net cash flows used in investing activities	**(344,540)**	(264,490)	(1,593,944)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments of bank loans (Note 15)	**(1,382,576)**	(875,038)	(1,989,598)
Proceeds from:			
Availments of bank loans (Note 15)	**1,124,017**	832,396	2,339,014
Issuance of capital stock	**–**	20	–
Purchase of treasury shares (Note 20)	**(964,516)**	(17,788)	–
Issuance of treasury shares in relation to stock grant (Note 20)	**26,462**	–	–
Increase (decrease) in:			
Advances from related parties	**(22,508)**	19,586	279,918
Finance lease liabilities	**(2,416)**	(20,270)	(26,451)
Net cash flows from (used in) financing activities	**(1,221,537)**	(61,094)	602,883
NET INCREASE (DECREASE) IN CASH	**324,567**	29,332	(214,907)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	**10,057**	19,734	25,914
CASH AT BEGINNING OF YEAR	**551,942**	502,876	691,869
CASH AT END OF YEAR	**₱886,566**	₱551,942	₱502,876

See accompanying Notes to Consolidated Financial Statements.

GLOBAL FERRONICKEL HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

Global Ferronickel 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 Platinum Group Metals Corporation (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) for United States Dollar (US$)30.0 million or its Philippine Peso (₱) equivalent; and
- 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.

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.

On August 6, 2015, after the meeting, the parties through their authorized representatives signed the Contract to Sell.

<u>The Subsidiaries</u>
PGMC
PGMC was registered with the SEC on February 10, 1983. PGMC is a wholly-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.

Seasonality
During the rainy season, mining operations at PGMC are suspended and there are no loading of ore onto ships. The Cagdianao Mine operates in certain months of the year, typically from April to October of each year, due to the weather conditions at the mine site. This seasonality results in quarter-to-quarter volatility in the operating results with more revenue being earned and more expenses being incurred in the second and third quarters compared to the first and fourth quarters.

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 common 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 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 non-controlling interest (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%.

On February 13, 2017, PGMC applied for the conversion and increase in authorized capital stock from ₱1,515.4 million composed of:

- 92,501,562,696 Class A common shares with a par value of ₱0.01 per share;
- 15,000,000 Class B-1 Reedemable Preferred Shares (RPS) with a par value of ₱1.00 per share;
- 5,753,594 Class B-2 RPS with a par value of ₱100.00 per share; and
- 1,984 Class B-3 RPS with a par value of ₱0.01 per share

to ₱1,515.4 million divided into 15,154,000 common shares with a par value of ₱100.00 per share. This was approved by the SEC on February 21, 2017.

The Parent Company subscribed and paid in cash a total of 249 shares with a par value of ₱100.00 per share amounting to a total of ₱25.0 thousand.

On December 29, 2017, PGMC applied for an increase in authorized capital stock with the SEC and the SEC simultaneously approved the increase in authorized capital stock of PGMC from ₱1,515.4 million divided into 15,154,000 shares with a par value of ₱100.00 each to ₱3,000.0 million divided into 30,000,000 shares with a par value of ₱100.00 per share. Of the increase in authorized capital stock of PGMC, a total of ₱1,200.0 million equivalent to 12,000,000 common shares with a par value of ₱100.00 per share was subscribed and issued as stock dividends.

Certification for Value-Added Tax (VAT) Zero-Rated Status
PGMC has been certified by Board of Investment (BOI) as a qualified enterprise for the purpose of VAT zero-rating of its transactions pursuant to the terms and conditions set forth by the BOI.

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.

Surigao Integrated Resources Corporation (SIRC)
SIRC is a wholly-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 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 wholly-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 wholly-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.

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.

The Associate
SPNVI is an associate of the Parent Company and was registered with SEC on July 11, 2014 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. The registered office address of SPNVI is at 7th Floor, Corporate Business Centre, 151 Paseo De Roxas corner Arnaiz Street, Makati City, Philippines.

On September 1, 2016, SPNVI and the Parent Company entered into a Deed of Assignment, 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.

As a result of the above Deed of Assignment, the Parent Company acquired thirty-seven and a half percent (37.50%) 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.

As at December 31, 2017 and 2016, SPNVI directly owns 99.76% and 94% of Ipilan Nickel Corporation (INC), respectively, a company registered with the SEC on July 22, 2005, for the primary purpose to explore, develop, mine, operate, produce, utilize, process and dispose of all the minerals and the products or by-products that may be produced, extracted, gathered, recovered, unearthed or found within the area of Sitio Ipilan, Mambalot, Municipality of Brooke's Point, Province of Palawan, consisting of 2,835 hectares and covered by MPSA No. 017-93-IV, Amended 2000 by the Government of the Republic of the Philippines through the Secretary of the Department of Environment and Natural Resources (DENR).

The Group's share in net loss of SPNVI amounted to ₱0.1 million and ₱0.2 million in 2017 and 2016, respectively. As at December 31, 2017 and 2016, the Group's unrecognized share in net losses of SPNVI amounted to ₱95.0 thousand and nil, respectively.

Authorization for Issue
The accompanying consolidated financial statements of GFHI and Subsidiaries (the Group) as at December 31, 2017 and 2016 and for the years ended December 31, 2017, 2016 and 2015 were authorized for issue by the BOD on February 28, 2018.

2. **Basis of Preparation, Statement of Compliance and Changes in Accounting Policies and Disclosures 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 available-for-sale (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 (PFRSs). 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 comparative six months period December 31, 2013 and for the years ended June 30, 2014, 2013 and 2012 reflects that of the PGMC Group for the full period while the consolidated statement of comprehensive income for the current period from July 1, 2014 to December 31, 2014 reflects that of PGMC Group for the full period together with the post-combination results of GFHI (i.e. for the period from December 22, 2014 to December 31, 2014).

Reverse acquisition only applies to the consolidated financial statements. The Parent Company financial statements will continue to represent GFHI as a stand-alone entity as at December 31, 2017 and 2016.

Basis of Consolidation
The consolidated financial statements as at December 31, 2017 and 2016 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; and
- 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 and 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 PFRSs. PFRSs includes statements named PFRSs, Philippine Accounting Standards (PASs), and Standard Interpretation Committee/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, 2017:

- Amendments to PFRS 12, *Disclosure of Interests in Other Entities*, *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.

  Adoption of these amendments did not have any impact on the Group's consolidated financial statements.

- Amendments to PAS 7, *Statement of Cash Flows*, *Disclosure Initiative*
  The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

  The Group has provided the required information in Note 15 to the consolidated financial statements.

- 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.

  The Group applied the amendments retrospectively. However, their application has no effect on the Group's financial position and performance as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

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 will 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, 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.

  The Group is currently assessing the potential impact of the amendments on its consolidated financial statements.

- 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. 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 Group plans to adopt the new standard on the mandatory effective date.

  The Group is currently assessing the potential impact of this standard in 2018.

- 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 new insurance contracts standard. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018. An entity may elect the overlay approach when it first applies PFRS 9 and apply that approach retrospectively to financial assets designated on transition to PFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying PFRS 9.

  The amendments are not applicable to the Group since none of the entities within the Group have activities that are connected with insurance or issue 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 retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018.

Early adoption is permitted. The Group plans to adopt the new standard on the required effective date.

As the presentation and disclosure requirements in PFRS 15 are more detailed than under current PFRSs, the Group is currently assessing what necessary changes it needs to make on its current systems, internal controls, policies and procedures to enable the Group to collect and disclose the required information.

The recognition and measurement requirements in PFRS 15 also apply to gains or losses on disposal of nonfinancial assets (such as items of property and equipment and intangible assets), when that disposal is not in the ordinary course of business. However, on transition, the effect of these changes is not expected to be material for the Group.

- 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. 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.

  The amendments are not expected to have significant impact on the Group.

- 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.

  The amendments are not applicable to the Group since its investment property was sold in 2017.

- Philippine Interpretation 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. Entities may apply the amendments on a fully retrospective basis.

  Alternatively, an entity 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.

  The Group is currently assessing the potential impact of adopting the interpretation.

Effective beginning on or after January 1, 2019

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*
  The amendments to PFRS 9 allow debt instruments with negative compensation prepayment features to be measured at amortized cost or fair value through other comprehensive income. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

  The amendments will not have any impact on the financial statements of the Group since it has no debt instruments with negative compensation prepayment.

- PFRS 16, *Leases*
  PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of twelve (12) months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

  Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

  Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases.

  PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17. Early application is permitted, but not before an entity applies PFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

  The Group is currently assessing the potential impact of adopting PFRS 16.

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*
  The amendments to PAS 28 clarify that entities should account for long-term interests in an associate or joint venture to which the equity method is not applied using PFRS 9. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

  The amendments are not expected to have any significant impact on the Group.

- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*
  The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12 and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- How an entity considers changes in facts and circumstances.

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

The Group is currently assessing the potential impact of adopting this interpretation.

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 FRSC deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board completes 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.

<u>Summary of Significant Accounting Policies</u>

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

<u>Cash</u>
Cash represents cash on hand and in banks. Cash in banks earn interest at the respective bank deposit rates.

<u>Financial Instruments</u>
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.

<u>Financial Assets</u>
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.

Financial assets are classified, at initial recognition as financial assets at financial assets at fair value through profit or loss (FVPL), loans and receivables, held-to-maturity (HTM) investments, AFS financial assets or derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognized initially at fair value plus, in case of financial assets not recorded at FVPL, transaction costs that are attributable to the acquisition of the financial assets.

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 include loans and receivables and AFS financial assets. As at December 31, 2017 and 2016, 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. 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. The 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, 2017 and 2016, 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 while 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, 2017 and 2016, the Group's AFS financial assets consist of quoted equity instruments (see Note 13).

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

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of the Group's continuing involvement. 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 pay. 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 objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred "loss event") has impact on the estimated future cash flows of the financial asset of the financial asset or the group of the 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 observable data indicating 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 in 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 directly recognized in equity through the consolidated statement of comprehensive income.

The determination of what is "Significant" or "Prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

<u>Financial Liabilities</u>
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 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.

The Group's financial liabilities include loans and borrowings and trade and other payables. As at December 31, 2017 and 2016, 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, 2017 and 2016, the Group's loans and borrowings and trade and other payables include trade and other payables (excluding statutory payables), bank loans, advances from related parties and payable to Brooks Nickel Ventures Inc. (BNVI) and previous stockholders of CNMEC which are under other noncurrent liabilities (see Notes 14, 15, 19 and 30).

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

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts of a financial liability extinguished or transferred to another party and the consideration paid, 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, e.g. when the entity acquires a business, or when an entity measures the recoverable amount of an asset or cash-generating unit at fair value less costs of disposal. 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 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at 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 - at cost
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. This includes all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. 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 restricted cash, prepaid rent, prepaid taxes and licenses and prepaid insurance and others. Other noncurrent assets are composed of advances to suppliers, input VAT, mine rehabilitation fund (MRF), AFS financial assets and others. These are classified as current when these are 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.

Revenues, expenses, and assets are recognized net of the amount of VAT, if applicable. When VAT from sales of goods and/or services (output VAT) exceeds VAT passed on from purchases of goods or services (input VAT), the excess is recognized as payable in the consolidated statement of financial position. When VAT passed on from purchases of goods or services (input VAT) exceeds VAT from sales of goods and/or services (output VAT), the excess is recognized as an asset in the consolidated statement of financial position as part of "Other noncurrent assets" to the extent of the recoverable amount.

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 are 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.

Deposits for Future Acquisition
This pertains to advances made to related parties converted into deposits for future acquisition of shares with the intention of applying the same as payment for future acquisition of stock.

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.

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 mine 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 it has been disposed of or when the it 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.

Investment in an Associate
An associate is an entity over which the Group 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 Group's investment in an associate is 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 Group'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 Group's share of the results of operations of the associate. Any change in OCI of those investees is presented as part of the Group'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 consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The aggregate of the Group'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 NCI in the subsidiaries of the associate. If the Group'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 Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

Impairment of Non-Financial Assets

Prepayments and Other Current and Noncurrent Assets, Property and Equipment, Deposits for Future Acquisition, Mining Rights, Investment Property, Mine Exploration Costs 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 Group determines whether it is necessary to recognize an additional impairment loss of the Group's investment in an associate. The Group 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 Group 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 Group 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. 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 is 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 additional paid-in capital (APIC).

Treasury Shares
Treasury shares are recorded at cost and are presented as deduction from equity. Any consideration paid or received in connection with treasury shares 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 shares account is credited and reduced by the 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.

Share-based Payment Transactions
The cost of equity-settled transactions with employees is measured by reference to their fair value at the date they are granted, determined using the acceptable valuation techniques.

The cost of equity-settled transactions, together with a corresponding increase in equity, is recognized over the period in which the performance and/or service conditions are fulfilled ending on the date on which the employees become fully entitled to the award ("Vesting Date").

The cumulative expense recognized for equity-settled transactions at each end of the reporting period up to and until the Vesting Date reflects the extent to which the vesting period has expired, as well as the Parent Company's best estimate of the number of equity instruments that will ultimately vest.

The profit or loss charge or credit for the period represents the movement in cumulative expense recognized at the beginning and end of that period. No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which awards are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum, an expense is recognized as if the terms had not been modified. An additional expense is likewise recognized for any modification which increases the total fair value of the share-based payment arrangement or which is otherwise beneficial to the employee as measured at the date of modification. Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. If a new award, however, is substituted for the cancelled awards and designated as a replacement award, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (EPS).

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 represents 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 calculated by dividing net income attributable to the 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 is 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 (2) 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 38 to the consolidated financial statements.

Retained Earnings and Dividends
Retained earnings represents 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.

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
Sale of nickel ore 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
Other income 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. These 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. This mainly consists of contract hire, depreciation, depletion and amortization, personnel costs, environmental protection cost, community relations, assaying and laboratory and others, which are provided in period when the goods are delivered.

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

- There is a change in contractual terms, other than a renewal or extension of the arrangement;
- A renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
- There is a change in the determination of whether fulfillment is dependent on a specified asset; or
- 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 costs 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; and
- 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 those have become probable that sufficient future taxable income will allow the deferred tax assets 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
Events after the end of the reporting period 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. Events after the end of the reporting period 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 PFRSs requires the Group to make judgments, 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 represent 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 Group 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, 2017 and 2016, the Group 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 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 from Runge Pincock Minarco in February 2015. Total ore reserves estimate pertaining to the operating CAGAs 2 and 4 was changed from 86.0 million WMT of ore resources to 20.3 million WMT of ore reserves which had an impact on the remaining life of the Group's mining properties classified under "Property and equipment" and "Mining rights."

On July 1, 2016, there was a change in the ore reserves estimate used in calculating the depletion rate used for the depletion and amortization of mining properties and mining rights. The change was based on the latest Philippine Mining Reporting Code - Competent Person (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 were based on the latest JORC Report 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.

Effective July 1, 2017, there was a change in the ore reserves estimate used in calculating the depletion rates used for the depletion and amortization of mining properties and mining rights. The change was based on the latest PMRC-CP Technical Report dated October 15, 2017 (as of June 23, 2017 cut-off reserve) compared to the PMRC-CP Technical Report dated September 15, 2016 (as of June 30, 2016 cut-off reserve) with a proven and probable ore reserves estimate of 23.1 million WMT and 25.6 million WMT, respectively, for operating CAGAs 2 and 4 out of the total proven and probable reserves of 36.3 million WMT and 35.5 million WMT, respectively, 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 from prior year amounting to ₱13.7 million and ₱8.1 million, respectively.

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. Mining rights and exploration costs shall be assessed for impairment when facts and circumstances suggest that the carrying amounts exceed the recoverable amounts. 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.

As at December 31, 2017 and 2016, mining rights amounted to ₱220.2 million and ₱264.9 million, respectively. Allowance for impairment losses on mining rights amounted to nil as at December 31, 2017 and 2016 (see Note 10).

As at December 31, 2017 and 2016, mine exploration costs amounted to ₱241.7 million and ₱223.8 million, respectively. Allowance for impairment losses on mine exploration costs amounted to nil as at December 31, 2017 and 2016 (see Note 12).

Assessing Recoverability of Deposits for Future Acquisition
The Group assesses impairment on deposits for future acquisition whenever events or changes in circumstances indicate that the carrying amount of such asset may not be recoverable. The asset is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss would be recognized whenever evidence exists that the carrying value is not recoverable. For purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

An impairment loss is recognized and charged to earnings if the discounted expected future cash flows are less than the carrying amount. Fair value is estimated by discounting the expected future cash flows using a discount factor that reflects the market rate for a term consistent with the period of expected cash flows.

As at December 31, 2017 and 2016, deposits for future acquisition amounted to ₱2,217.4 million (see Note 30). Allowance for impairment losses on deposits for future acquisition amounted to nil as at December 31, 2017 and 2016.

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 trade and other receivables and advances to related parties for collective impairment due to the few counterparties which can be specifically identified.

As at December 31, 2017 and 2016, trade and other receivables amounted to ₱348.7 million and ₱847.2 million, respectively. Provision for impairment losses on trade and other receivables amounted to ₱208.8 million in 2017. There was no provision for impairment losses in 2016 and 2015. Allowance for impairment losses on trade and other receivables amounted to ₱226.2 million and ₱17.4 million as at December 31, 2017 and 2016, respectively (see Note 5).

As at December 31, 2017 and 2016, advances to related parties amounted to ₱1,872.0 million and ₱1,614.1 million , respectively. Allowance for impairment losses on advances to related parties amounted to nil as at December 31, 2017 and 2016 (see Note 30).

Estimating Allowance for Inventory Losses
The Group maintains allowance for inventory losses at a level considered adequate to effect the excess of cost of inventories over their NRV due to damage, physical deterioration, obsolescence, changes in price levels or other causes. NRV tests are performed annually and it represents the current replacement cost. Increase in NRV of inventories will increase the cost of inventories but only to the extent of their original costs.

As at December 31, 2017 and 2016, inventories amounted to ₱286.6 million and ₱276.0 million, respectively. Allowance for impairment losses on inventories amounted to nil as at December 31, 2017 and 2016 (see Note 6).

Estimating Allowance for Impairment Losses on Prepayments and Other Current and Noncurrent Assets
The Group provides allowance for impairment losses on prepayments and other current assets and other noncurrent assets when these 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.

For the Group's AFS financial assets recorded under "Other noncurrent assets", impairment is recognized when there is a significant or prolonged decline in the fair value of the investment below cost or where other objective evidence of impairment exists. The Group also evaluates other factors, including normal volatility in share price for quoted equities and future cash flows.

As at December 31, 2017 and 2016, prepayments and other current assets, excluding restricted cash, amounted to ₱27.1 million and ₱22.2 million, respectively. Provision for impairment losses on prepayments and other current assets amounted to ₱3.7 million in 2017. There was no provision for impairment losses in 2016 and 2015. Allowance for impairment losses on prepayments and other current assets amounted to ₱3.7 million and nil as at December 31, 2017 and 2016, respectively (see Note 7).

As at December 31, 2017 and 2016, other noncurrent assets, excluding MRF and AFS financial assets, amounted to ₱375.3 million and ₱358.2 million, respectively. Provision for impairment losses on other noncurrent assets amounted to ₱20.8 million in 2017. There was no provision for impairment losses in 2016 and 2015. Allowance for impairment losses on other noncurrent assets amounted to ₱40.3 million and ₱19.5 million as at December 31, 2017 and 2016, respectively (see Note 13).

As at December 31, 2017 and 2016, AFS financial assets amounted to ₱4.0 million and ₱4.5 million, respectively. Impairment loss on AFS financial assets amounting to nil and ₱1.4 million was recognized in 2017 and 2016, respectively, as a result of a significant and prolonged decline in the fair value of the shares held by the Group (see Note 13).

Assessing Recoverability of Property and Equipment
The Group assesses impairment on property and equipment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Group considers important which could trigger an impairment review include the following:

- Significant underperformance relative to expected historical or projected future operating results;
- Significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- Significant negative industry or economic trends.

In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Group is required to make estimates and assumptions that can materially affect the financial statements.

These assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss would be recognized whenever evidence exists that the carrying value is not recoverable. For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

An impairment loss is recognized and charged to earnings if the discounted expected future cash flows are less than the carrying amount. Fair value is estimated by discounting the expected future cash flows using a discount factor that reflects the market rate for a term consistent with the period of expected cash flows.

As at December 31, 2017 and 2016, property and equipment amounted to ₱2,003.3 million and ₱2,112.0 million, respectively. Allowance for impairment losses on property and equipment amounted to nil as at December 31, 2017 and 2016 (see Note 8).

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.

As at December 31, 2017 and 2016, the Group adjusted its provision for mine rehabilitation and decommissioning to reflect the current discount rates and expenditures required to settle the expected mined out areas of the Group which resulted to a change in estimate amounting to ₱174.2 million and ₱7.5 million, respectively. As at December 31, 2017 and 2016, provision for mine rehabilitation and decommissioning amounted to ₱245.4 million and ₱67.1 million, respectively (see Note 16).

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 ₱127.5 million and ₱58.3 million as at December 31, 2017 and 2016, respectively. The Group has NOLCO amounting to ₱325.3 million, ₱214.4 million and ₱613.1 million as at December 31, 2017, 2016 and 2015, respectively. The Group has excess MCIT amounting to nil, ₱2.8 million and ₱2.3 million as at December 31, 2017, 2016 and 2015, respectively. No deferred tax asset on NOLCO was recognized as at December 31, 2017 and 2016. Deferred tax asset on excess MCIT amounted to nil and ₱2.8 million as at December 31, 2017 and 2016, respectively (see Note 31).

4. Cash

	2017	2016
Cash on hand	**₱798**	₱897
Cash in banks	**885,768**	551,045
	₱886,566	₱551,942

Cash in banks earn interest at the respective bank deposit rates. Interest income earned on cash in banks amounted to ₱1.4 million, ₱0.8 million and ₱0.9 million in 2017, 2016 and 2015, respectively.

The Group has US$-denominated cash in banks amounting to US$16.1 million and US$9.1 million as at December 31, 2017 and 2016, respectively, and HK$-denominated cash in banks amounting to HK$0.3 million and HK$1.9 as at December 31, 2017 and 2016, respectively (see Note 32).

5. Trade and Other Receivables

	2017	2016
Trade	**₱463,698**	₱725,912
Advances to:		
Contractors	**79,707**	117,078
Officers, employees and others	**31,427**	21,544
	574,832	864,534
Less allowance for impairment losses	**226,164**	17,359
	₱348,668	₱847,175

Trade Receivables
Trade receivables arising from shipment of nickel ore are noninterest-bearing and generally collectible within thirty (30) to ninety (90) days.

The Group has US$-denominated trade receivables as at December 31, 2017 and 2016 amounting to US$9.7 million and US$16.5 million, respectively, and HK$-denominated trade receivables as at December 31, 2017 and 2016 amounting to nil and HK$1.2 million, respectively (see Note 32).

Advances to Contractors
Advances to contractors are advanced payments 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.

Advances to Officers, Employees and Others
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.

Movements in the allowance for impairment losses on trade and other receivables are as follows:

	2017	2016
Beginning balance	**₱17,359**	₱17,359
Provision for impairment losses on trade and other receivables (see Note 23)	**208,805**	–
Ending balance	**₱226,164**	₱17,359

6. **Inventories** - at cost

	2017	2016
Beneficiated nickel ore	**₱188,022**	₱196,092
Materials and supplies	**98,576**	79,891
	₱286,598	₱275,983

Beneficiated Nickel Ore
The amount of inventoriable cost charged to cost of sales in the consolidated statements of comprehensive income amounted to ₱1,962.5 million, ₱1,548.4 million and ₱2,388.9 million in 2017, 2016 and 2015, respectively (see Note 22).

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

7. **Prepayments and Other Current Assets**

	2017	2016
Restricted cash	**₱187,418**	₱249,059
Prepaid rent	**14,425**	14,143
Prepaid taxes and licenses	**10,451**	4,708
Prepaid insurance and others	**5,874**	3,396
	218,168	271,306
Less allowance for impairment losses	**3,684**	–
	₱214,484	₱271,306

Restricted Cash
Restricted cash pertains to the Debt Service Reserve Account (DSRA) with Taiwan Cooperative Bank Manila Offshore Banking Branch (TCB) which acts as collateral or security for the TCB loan. The amount maybe reduced proportionately as the Group pays the principal and its interest by express agreement of the parties.

The Group has US$-denominated restricted cash amounting to US$3.8 million and US$5.0 million as at December 31, 2017 and 2016, respectively, and HK$-denominated restricted cash amounting to HK$0.3 million and nil as at December 31, 2017 and 2016, respectively (see Note 32).

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

Prepaid Taxes and Licenses
Prepaid taxes and licenses represent advance payments made to the MGB and BIR 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
Prepaid insurance and others pertain to advance payments for the insurance of the Group's property and equipment, prepayments for barging and shipping expenses, creditable withholding taxes and others. These are expected to be realized within twelve (12) months after the end of reporting period. Based on the assessment done, the Group recognized provision for impairment losses on other current assets amounting to ₱3.7 million in 2017.

8. **Property and Equipment**

	2017								
	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**	**₱55,599**	**₱904,789**	**₱11,811**	**₱5,313**	**₱1,406,438**	**₱832,789**	**₱20,721**	**₱3,247,895**
Additions	**–**	**4,071**	**117,893**	**523**	**697**	**–**	**–**	**–**	**123,184**
Disposals	**–**	**–**	**(6,856)**	**(6)**	**–**	**–**	**–**	**–**	**(6,862)**
Currency translation adjustment	**–**	**–**	**(574)**	**(18)**	**(2)**	**–**	**–**	**–**	**(594)**
Reclassifications	**–**	**11,026**	**–**	**–**	**–**	**–**	**–**	**(11,026)**	**–**
Adjustment to capitalized cost of mine rehabilitation (see Note 16)	**–**	**–**	**–**	**–**	**–**	**174,207**	**–**	**–**	**174,207**
Ending balances	**10,435**	**70,696**	**1,015,252**	**12,310**	**6,008**	**1,580,645**	**832,789**	**9,695**	**3,537,830**
Accumulated depreciation and depletion:									
Beginning balances	**–**	**25,230**	**310,301**	**7,329**	**3,311**	**650,356**	**139,395**	**–**	**1,135,922**
Depreciation and depletion	**–**	**6,318**	**152,248**	**1,448**	**860**	**187,075**	**51,739**	**–**	**399,688**
Disposals	**–**	**–**	**(888)**	**(6)**	**–**	**–**	**–**	**–**	**(894)**
Currency translation adjustment	**–**	**–**	**(189)**	**(12)**	**(2)**	**–**	**–**	**–**	**(203)**
Ending balances	**–**	**31,548**	**461,472**	**8,759**	**4,169**	**837,431**	**191,134**	**–**	**1,534,513**
Net book values	**₱10,435**	**₱39,148**	**₱553,780**	**₱3,551**	**₱1,839**	**₱743,214**	**₱641,655**	**₱9,695**	**₱2,003,317**

	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	–	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

On February 26, 2015, the Group engaged JL Earthmoving Corporation (JLEC) as an additional mining contractor in CAGA 2 whereby some assets returned by Frasec Ventures Corporation (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 in 2015 (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 ₱6.0 million and ₱2.5 million in 2017 and 2016, respectively, and recorded a loss amounting to ₱8.0 thousand, ₱24.3 million and ₱6.3 million in 2017, 2016 and 2015, respectively (see Note 29).

As a result of the acquisition of PIL on January 21, 2016, the Group's property and equipment increased by ₱16.7 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 ₱28.61 per WMT for the period July 1 to December 31, 2017, ₱31.71 per WMT for the period January 1 to June 30, 2017 and July 1 to September 30, 2016, and ₱60.48 for the period January 1 to June 30, 2016. Starting July 1, 2017, the rate used was based on the latest PMRC-CP Technical Report dated October 15, 2017 with proven and probable ore reserves estimate of 23.1 million WMT for CAGAs 2 and 4 as at June 23, 2017. The change in ore reserves estimate resulted to lower depletion.

The CIP balance in the books of the Group pertains to the construction of roads, fences and improvements in the mine site. The CIP balance amounting to ₱11.0 million was transferred to building and land improvements as at December 31, 2017.

The gross carrying amount of fully depreciated property and equipment that is still in use by the Group amounted to ₱145.2 million and ₱61.9 million as at December 31, 2017 and 2016, 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.

As a result of the above Deed of Assignment, the Parent Company acquired thirty-seven and a half percent (37.50%) 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.

SPNVI's net loss amounted to ₱44.2 million and ₱39.1 million in 2017 and 2016, respectively. The Group's share in net loss of SPNVI amounted to ₱0.1 million and ₱0.2 million in 2017 and 2016, respectively.

The Group's unrecognized share in net loss of SPNVI amounted to ₱95.0 thousand and nil in 2017 and 2016, respectively.

10. Mining Rights

	2017	2016
Cost	**₱396,500**	₱396,500
Accumulated amortization:		
Beginning balance	**131,612**	94,894
Amortization	**44,679**	36,718
Ending balance	**176,291**	131,612
Net book value	**₱220,209**	₱264,888

Mining rights refer to the right of the Group as the holder of MPSA No. 007-92-X located in Cagdianao, Claver, Surigao del Norte, acquired through the assignment of the said MPSA from CMDC to SIRC, a wholly-owned subsidiary, under a 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.

The rates used by the Group in computing amortization were ₱6.90 per WMT for the period July 1 to December 31, 2017, ₱8.19 per WMT for the period January 1 to June 30, 2017 and July 1 to September 30 2016, and ₱9.59 per WMT for the period January 1 to June 30, 2016. The rates used starting July 1, 2017, was based on the latest PMRC-CP Technical Report dated October 15, 2017 with proven and probable ore reserves of 36.3 million WMT for CAGAs 1 to 5 as at June 23, 2017. The change in ore reserves estimate would result to lower amortization.

No provision for impairment losses on mining rights was recognized in 2017, 2016 and 2015.

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 City. The land was held for capital appreciation. The bank loan related to the purchase of the Aseana Property was fully paid on January 29, 2016.

On March 1, 2017, PGMC entered into a Deed of Absolute Sale agreement with JSY6677 Landholdings, Inc. (JLI) for the sale of the Aseana property amounting to ₱319.9 million. The related payment was offset against the outstanding amounts owed to JLI. No gain or loss was recognized in relation to the transaction (see Note 30).

There was no income earned from the investment property in 2017, 2016 and 2015. Interest expense incurred in relation to the bank loan and real property tax related to the investment property amounted to ₱0.5 million, ₱2.3 million and ₱4.2 million in 2017, 2016 and 2015, respectively.

12. Mine Exploration Costs

	2017	2016
Beginning balance	**₱223,807**	₱140,790
Exploration expenditures incurred	**17,922**	83,017
Ending balance	**₱241,729**	₱223,807

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 2018.

13. Other Noncurrent Assets

	2017	2016
Advances to suppliers	**₱210,381**	₱171,873
Input VAT	**184,436**	184,980
MRF	**82,466**	74,299
AFS financial assets	**4,006**	4,470
Others	**20,798**	20,798
	502,087	456,420
Less allowance for impairment losses	**40,279**	19,481
	₱461,808	₱436,939

Movements in the allowance for impairment losses on other noncurrent assets are as follows:

	2017	2016
Beginning balance	**₱19,481**	₱19,481
Provision for impairment losses on other noncurrent assets (see Note 23)	**20,798**	–
Ending balance	**₱40,279**	₱19,481

Advances to Suppliers

Advances to suppliers pertain to deposits on the Group's purchase of goods from various suppliers.

Input VAT

Input VAT represents the VAT paid on purchases of applicable goods and services and capital assets, 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 BIR and/or the Philippine Bureau of Customs. Allowance for impairment losses on input VAT amounted to ₱19.5 million as at Decemeber 31, 2017 and 2016, respectively.

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 MRF deposits with any government bank. The Group has deposits 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. Interest income earned on MRF amounted to ₱0.6 million, ₱0.5 million and ₱0.3 million in 2017, 2016 and 2015, respectively.

AFS Financial Assets
As at December 31, 2017 and 2016, 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 in 2017 and 2016. The fair value of the quoted equity instrument is based on the exit market price as at December 31, 2017 and 2016.

Movements in the fair value of the quoted equity instrument are as follows:

	2017	2016
Beginning balance	**₱4,470**	₱5,903
Impairment loss on AFS financial assets (see Note 29)	**–**	(1,433)
Valuation loss	**(464)**	–
Ending balance	**₱4,006**	₱4,470

No dividend income was earned from the quoted equity instrument in 2017, 2016 and 2015.

Impairment loss recognized in 2017, 2016 and 2015 amounted to nil, ₱1.4 million and ₱2.4 million, 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. Full provision of allowance for impairment losses was recognized in 2017.

14. Trade and Other Payables

	2017	2016
Trade	**₱254,788**	₱262,040
Advances from customers	**170,410**	92,682
Accrued expenses and taxes	**88,362**	115,071
Nontrade	**38,782**	49,623
Dividends payable	**20,287**	20,287
Interest payables	**4,520**	8,526
	₱577,149	₱548,229

Trade
Trade payables are noninterest-bearing and generally settled within thirty (30) days. These include payables to suppliers, contractors and other service providers for the goods delivered and/or services rendered to the Group in the ordinary course of business.

Advances from Customers
Advances from customers pertain to the amounts received from customers before services are provided or before goods are shipped. These are settled by deducting the payments from collections based on the schedule of shipments.

Accrued Expenses and Taxes
Details of the accrued expenses and taxes are as follows:

	2017	2016
Excise taxes and royalties payable (see Note 24)	**₱39,375**	₱74,762
Business and other taxes	**27,607**	25,083
Provision for Social Development and Management Program (SDMP) and Indigenous Cultural Communities (ICC)	**12,572**	6,197
Accrued payroll	**3,630**	671
Accrued professional fees	**1,219**	5,400
Others	**3,959**	2,958
	₱88,362	₱115,071

Excise Taxes and Royalties Payable
Excise taxes and royalties are immediately payable upon receipt from the DENR-MGB of the Order of Payment and before every shipment of beneficiated nickel ores. Royalty fees to claim owners are noninterest-bearing, payable within thirty (30) calendar days after payment of the final invoice for the relevant shipment by the customers.

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 Payroll
Accrued payroll pertains to the accrual related to the salaries and wages of the Group's employees which are noninterest-bearing, payable on demand and/or generally settled within thirty (30) days.

Accrued Professional Fees
Acccrued professional fees pertain to the accrual related to the audit, legal and advisory services rendered to the Group.

Others
Others mainly pertain to outside services and purchases of supplies which are usual in the business operations of the Group.

Nontrade
Nontrade payables pertain to payable to third party companies which are payable on demand/or generally settled within thirty (30) days.

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, 2017 and 2016 and will be reissued to such investors subsequent to year-end.

Interest Payables
Interest payables arise from the Group's bank loans and finance lease liabilities (see Notes 15 and 18).

The Group has US$-denominated trade and other payables amounting to US$6.6 million and US$2.8 million as at December 31, 2017 and 2016, respectively, and HK$-denominated trade and other payables amounting to HK$39.0 thousand and HK$9.2 million as at December 31, 2017 and 2016, respectively (see Note 32).

15. Bank Loans

	2017	2016
TCB	**₱748,950**	₱994,400
Banco de Oro (BDO)	**719**	5,008
	749,669	999,408
Less current portion:		
TCB	**748,950**	994,400
BDO	**719**	4,295
Current portion	**749,669**	998,695
Noncurrent portion	**₱–**	₱713

Movements in the carrying value of bank loans are as follows:

	2017	2016
Beginning balance	**₱999,408**	₱994,584
Availments	**1,124,017**	832,396
Payments	**(1,382,576)**	(875,038)
Effect of changes in foreign currency exchange rates (see Note 29)	**4,300**	55,841
Others	**4,520**	(8,375)
Ending balance	**₱749,669**	₱999,408

TCB
On April 17, 2016, the Group was granted by TCB a loan facility in the amount of US$20.0 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.

On May 17, 2017, the Group repaid the US$20.0 million loan extended by TCB. The Group was re-granted by TCB a one-year loan facility with a reduced amount of US$15.0 million for the same general corporate purposes, with the same terms and conditions (see Note 32).

The interest shall be payable quarterly in arrears. The interest rate for the loan is the aggregate of the reference rate plus spread of 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 are as follows:

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 of the loan or equivalent to US$30.0 million as follows:
   i. Accounts receivables from PGMC's customers or clients.
   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 a deposit amounting of US$3.75 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 ₱50.7 million, ₱52.2 million and ₱35.1 million in 2017, 2016 and 2015, respectively (see Note 28).

Amortization of discount on bank loan related to TCB loan amounted to nil in 2017 and 2016 and ₱0.6 million in 2015 (see Note 28).

The Group has complied with the terms of the loan as at December 31, 2017 and 2016.

BDO
The Group annually avails a US$20.0 million Export Packing Credit Line for working capital purposes. As at December 31, 2017 and 2016, the remaining balance is 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 ₱0.7 million and ₱5.0 million as at December 31, 2017 and 2016, respectively.

Interest expense related to BDO loan amounted to ₱2.8 million, ₱4.6 million and ₱13.4 million in 2017, 2016 and 2015, respectively (see Note 28).

The Group has complied with the terms of the loan as at December 31, 2017 and 2016.

UnionBank and EastWest
As at December 31, 2016, the loans from UnionBank and EastWest have been fully paid. Interest expense related to the service vehicle loans amounted to nil, ₱0.4 million and ₱0.6 million in 2017, 2016 and 2015, respectively (see Note 28).

Bank of China (BOC)
As at December 31, 2016, the short-term credit facility granted by BOC in 2014 has been fully paid. Interest expense amounted to nil in 2017 and 2016 and ₱2.0 million in 2015 (see Note 28).

Amsterdam Trade Bank (ATB) and Philippine Export-Import Credit Agency (PhilEXIM)
As at December 31, 2015, the loans from ATB and PhilEXIM have been fully paid. Interest expense related to these loans amounted to nil in 2017 and 2016 and ₱15.7 million in 2015 (see Note 28). Amortization of discount on these loans amounted to nil in 2017 and 2016 and ₱1.4 million in 2015 (see Note 28).

16. Provision for Mine Rehabilitation and Decommissioning

	2017	2016
Beginning balance	**₱67,123**	₱58,259
Accretion interest (see Note 28)	**4,077**	1,401
Effect of change in estimate (see Note 8)	**174,207**	7,463
Ending balance	**₱245,407**	₱67,123

The provision for mine rehabilitation and decommissioning was adjusted in 2017 to reflect the current expenditures required to settle the expected mined out areas of the Group based on the latest Final Mine Rehabilitation and Decommissioning Plan submitted to the MGB on December 11, 2017. In 2016, the provision for mine rehabilitation and decommissioning was adjusted to reflect the current discount rates.

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, 2017 and 2016.

The latest actuarial valuation report of the retirement plan is as at December 31, 2017.

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.

Details of the retirement benefits costs are as follows:

	2017	2016	2015
Retirement benefits costs (see Note 26)	**₱10,828**	₱10,383	₱9,368
Interest cost on retirement obligation (see Note 28)	**2,806**	2,152	1,463
	₱13,634	₱12,535	₱10,831

The Group has one hundred sixty-six (166) regular employees, eleven (11) employees on probationary and project status and eighty-four (84) employees on a fixed term as at December 31, 2017 and one hundred seventy-two (172) regular employees, two (2) employees on probationary and project status and one hundred fifty-five (155) employees on a fixed term as at December 31, 2016.

Movements in the present value of retirement obligation are as follows:

	2017	2016
Beginning balance	**₱47,882**	₱39,985
Retirement benefits costs	**10,828**	10,383
Interest cost on retirement obligation	**2,806**	2,152
Remeasurement loss (gain) arising from:		
Experience adjustments	**(10,758)**	(520)
Financial assumptions	**445**	(3,858)
Benefits paid	**–**	(260)
Ending balance	**₱51,203**	₱47,882

The Group does not have any plan assets as at December 31, 2017 and 2016.

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:

	2017	2016	2015
Discount rate	**5.77%**	5.86%	5.38%
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)	**2017**	2016
Discount rate	+100 basis points	**(₱6,571)**	(₱6,883)
	-100 basis points	**7,968**	8,516
Salary increase rate	+100 basis points	**₱7,098**	₱7,601
	-100 basis points	**(6,031)**	(6,352)

The Group is processing the opening of its retirement fund in the first quarter of 2018 to be administered by a Trustee Bank. The Group does not currently employ any asset-liability matching.

Shown below is the maturity analysis of the undiscounted benefit payments as at December 31, 2017 and 2016:

	2017	2016
Less than one (1) year	**₱3,769**	₱2,619
More than one (1) year to five (5) years	**5,302**	3,919
More than five (5) years to ten (10) years	**45,147**	38,620
	₱54,218	₱45,158

The average duration of the defined retirement benefits obligation as at December 31, 2017 and 2016 is 14.2 years and 19.3 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).

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 were included as part of total additions (see Note 8).

On February 28, 2017, JLEC assigned its responsibilities with regard to the Group's property and equipment to Nickelbase Inc. (NI) that took over the operation of JLEC in CAGA 2 area. NI agreed to shoulder the balance of the remaining service agreement with JLEC.

Details of the finance lease receivable as at December 31, 2017 and 2016 are as follows:

	2017		2016	
	Minimum lease payments	**Present value of minimum lease payments**	Minimum lease payments	Present value of minimum lease payments
Within one (1) year	**₱77,214**	**₱73,812**	₱77,214	₱72,282
After one (1) year but not more than five (5) years	**88,940**	**86,858**	166,154	160,670
Total minimum lease payments	**166,154**	**160,670**	243,368	232,952
Less amount representing finance costs	**5,484**	**–**	10,416	–
Present value of minimum lease payments	**₱160,670**	**₱160,670**	₱232,952	₱232,952

Interest income related to the finance lease receivable amounted to ₱4.9 million, ₱5.2 million and ₱8.2 million in 2017, 2016 and 2015, 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). These are included as part of "Machineries and other equipment" category under "Property and equipment" as at December 31, 2017 and 2016, respectively.

Future annual minimum lease payments under the lease agreements, together with the present value of the minimum lease payments as at December 31, 2017 and 2016 are as follows:

	2017		2016	
	Minimum lease payments	**Present value of minimum lease payments**	Minimum lease payments	Present value of minimum lease payments
Within one (1) year	**₱2,577**	**₱2,350**	₱2,886	₱2,416
After one (1) year but not more than five (5) years	**804**	**787**	3,274	3,137
Total minimum lease payments	**3,381**	**3,137**	6,160	5,553
Less amount representing finance costs	**244**	**–**	607	–
Present value of minimum lease payments	**₱3,137**	**₱3,137**	₱5,553	₱5,553

Interest expense related to finance lease liabilities amounting to ₱0.3 million, ₱1.0 million and ₱3.1 million in 2017, 2016 and 2015, respectively, is reported under "Finance costs" (see Note 28).

19. **Other Noncurrent Liabilities**

	2017	2016
Previous stockholders of CNMEC	**₱366,463**	₱366,463
BNVI	**165,566**	165,566
Others	**1,598**	1,504
	₱533,627	₱533,533

Payable to Previous Stockholders of CNMEC and BNVI
In 2016, the Parent Company, SPNVI and the stockholders of SPNVI executed a Deed of Assignment wherein SPNVI assigned its payable to the previous stockholders of CNMEC and BNVI to the Parent Company amounting to ₱532.0 million.

20. **Equity**

Capital Stock
The Parent Company's authorized and issued capital stock as at December 31, 2017 and 2016 are as follows:

	2017	2016
Par value	**₱1.05**	₱1.05
Authorized shares	**11,957,161,906**	11,957,161,906
Total authorized capital stock	**₱12,555,020,001.30**	₱12,555,020,001.30
Issued shares	**5,822,357,151**	5,822,357,151
Total capital stock (amounts in thousand)	**₱6,113,475**	₱6,113,475

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

Increase in Authorized Capital Stock
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).

As discussed in Note 1, the BOD and stockholders of the Parent Company approved a capital restructuring through a reserve 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 ₱20,000.40 divided into 19,048 common shares at a par value of ₱1.05.

All issued shares of the Parent Company, 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

Employee Stock Option Plan (ESOP)
On June 29, 2016, the BOD and stockholders of the Parent Company approved the establishment of an ESOP (which covers the qualified employees of the subsidiaries of the Parent Company), the details of which shall be subject to the approval of the Compensation Committee. On May 9, 2017, the Compensation Committee and the BOD approved the Employee Stock Option Master Plan which is a share-based compensation plan. It also approved the granting of the First Tranche which comprised the 20,000,000 option grants to be vested over three (3) years at a strike price of ₱2.00 and 20,000,000 share/stock grants to be vested over two (2) years (i.e., 10,000,000 share/stock grants each year). As at February 28, 2018, the Group has not yet recognized compensation expense in relation to the stock option grant as this has not yet been communicated to the qualified employees.

Special Stock Grant
The stock grant agreement in relation to the Employee Stock Option Master Plan was executed on December 27, 2017, the grant date, between the Parent Company and the grantees. The fair value of the shares is ₱2.62, as at grant date, taking into consideration the terms and conditions of the stock grant. A total of 10,100,000 treasury shares of the Parent Company was granted to PGMC, then subsequently issued and awarded by PGMC to its employees as recognition for their past services. The basic terms and conditions of the stock grant are as follows:

- The participants of the special stock grant are the officers and employees of its significantly owned subsidiaries as selected and approved by the Compensation Committee;
- The shares granted under the 2017 Plan will be registered in the employee's name and will have a lock-in period of two (2) years from the date of grant;
- As the owner of record, the employee will have the right to vote shares and receive dividends; and
- During the lock-in period, such shares of stocks granted may not be sold, assigned, transferred, pledged, hypothecated, or otherwise encumbered or disposed of. Pursuant to this, the certificate covering the shares of stock will be held in escrow by the designated escrow agent, and will be released at the end of the lock-in period.

Stock grant expense amounting to ₱26.5 million was recognized by PGMC in 2017 (see Note 26).

Treasury Shares
For the period ended December 31, 2017 and 2016, the Parent Company purchased a total of 362,584,000 common shares amounting to ₱964.5 million and 6,333,333 common shares amounting to ₱17.8 million, respectively. 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. As at December 31, 2017 and 2016, the Parent Company repurchase about seven (7%) and one tenth (0.10%) of its total outstanding shares, repectively.

The cost of treasury shares issued in relation to the special stock grant on December 27, 2017 amounted to ₱28.2 million. A decrease in retained earnings amounting to ₱1.8 million was recognized based on the difference between the fair value of the treasury shares at the date of grant and the cost of treasury shares upon reacquisition.

The Parent Company has 358,819,752 shares amounting to ₱954.1 million and 6,335,753 shares (after the reverse stock split) amounting to ₱17.8 million in treasury shares as at December 31, 2017 and 2016, respectively.

Retained Earnings
On December 16, 2017, PGMC's shareholders and BOD declared a cash dividend of ₱480.00 per share to stockholders of record as at December 31, 2017 and stock dividend amounting to ₱1,200.0 million divided into 12,000,000 shares at the par value of ₱100.00 per share to be issued out of the increase in the authorized capital stock of PGMC on December 29, 2017. The cash and stock dividends declared by PGMC were taken out of its unrestricted retained earnings as at December 31, 2016. Portion of the cash dividends payable was settled on December 29, 2017 by offsetting the cash advances to stockholders classified under "Advances to related parties".

Retained earnings include the accumulated equity in undistributed net earnings of subsidiaries amounting to ₱1,398.4 million which is not available for dividend declaration by the Parent Company until declared by the investee companies.

Retained earnings are further restricted for the payment of dividends to the extent of the cost of treasury shares.

In accordance with SRC Rule 68, as Amended (2011), Annex 68-C, the Parent Company's retained earnings available for dividend declaration amounted to ₱4,307.6 million as at December 31, 2017.

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 shares") 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 shares	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	₱–

21. **EPS**

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

	2017	2016	2015
Net income (amounts in thousands)	**₱779,689**	₱37,494	₱1,111,750
Number of shares:			
Common shares outstanding at beginning of the year	**5,816,021,399**	5,822,335,684	4,960,166,752
Effect of buyback	**115,220,005**	1,649,837	–
Adjusted weighted average number of common shares outstanding	**5,700,801,394**	5,820,685,847	4,960,166,752
Basic/diluted EPS	**₱0.14**	₱0.01	₱0.22

The number of shares presented in 2017, 2016 and 2015 is based on the shares calculated after the reverse stock split (see Note 20).

As at December 31, 2017 and 2016, there are no potentially dilutive common shares.

22. **Cost of Sales**

	2017	2016	2015
Contract hire (see Notes 6 and 34)	**₱1,962,517**	₱1,548,355	₱2,388,897
Depreciation, depletion and amortization (see Note 27)	**425,648**	370,407	579,482
Personnel costs (see Note 26)	**150,065**	153,762	125,806
Environmental protection cost	**42,405**	41,685	56,394
Community relations	**41,588**	47,162	45,003
Assaying and laboratory	**28,394**	23,432	25,393
Manning services	**22,155**	20,772	19,984
Operation overhead	**21,044**	15,752	7,993
Fuel, oil and lubricants	**20,785**	10,950	151,474
Repairs and maintenance	**20,430**	11,752	11,452
Rentals (see Note 34)	**9,414**	35,208	70,807
Other charges	**24,126**	28,983	27,232
	₱2,768,571	₱2,308,220	₱3,509,917

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

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

23. **General and Administrative**

	2017	2016	2015
Personnel costs (see Note 26)	**₱237,308**	₱189,332	₱159,459
Provision for impairment losses on:			
Trade and other receivables (see Note 5)	**208,805**	–	–
Other noncurrent assets (see Note 13)	**20,798**	–	–
Prepayments and other current assets (see Note 7)	**3,684**	–	–
Taxes and licenses	**140,763**	47,938	48,386
Outside services	**45,495**	26,614	38,124
Consultancy fees	**38,106**	65,285	160,780
Rentals (see Note 34)	**26,030**	25,133	7,402
Marketing and entertainment	**24,596**	22,157	72,926
Depreciation (see Note 27)	**18,719**	17,701	15,001
Travel and transportation	**15,106**	19,925	37,088
Repairs and maintenance	**12,325**	11,142	6,987
Communication	**6,057**	5,295	5,771
Office supplies	**5,440**	4,135	6,389
Fuel, oil and lubricants	**5,275**	4,287	4,935
Membership and subscription	**3,001**	2,438	2,042
Power and utilities	**1,552**	1,477	1,347
Insurance	**1,499**	2,084	1,887
SEC and listing fees	**683**	560	28,401
Trainings, seminars and meetings	**663**	565	1,194
Other charges	**17,253**	14,846	30,152
	₱833,158	₱460,914	₱628,271

Other charges include, but are not limited to, freight and delivery charges, sponsorship and other miscellaneous expenses.

24. **Excise Taxes and Royalties**

	2017	2016	2015
Royalties to:			
Claim-owners (see Note 34)	**₱296,571**	₱204,290	₱449,053
Government	**255,896**	183,197	326,634
ICC	**59,381**	42,510	66,195
Excise taxes	**102,358**	73,278	130,664
	₱714,206	₱503,275	₱972,546

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, 2017 and 2016, excise taxes and royalties payable amounted to ₱39.4 million and ₱74.8 million, respectively (see Note 14).

25. Shipping and Distribution

	2017	2016	2015
Barging charges	**₱280,881**	₱207,161	₱121,872
Stevedoring charges and shipping expenses	**61,072**	35,137	21,220
Personnel costs (see Note 26)	**27,728**	29,369	8,165
Fuel, oil and lubricants	**15,503**	17,082	14,885
Supplies	**3,331**	1,274	–
Government fees	**35**	35	88
Repairs and maintenance and others	**293**	347	242
	₱388,843	₱290,405	₱166,472

Barging charges pertain to expenses incurred from services provided by external shipping companies to transport nickel ore from the Group's causeway (barge) to the foreign vessels.

26. Personnel Costs

	2017	2016	2015
Salaries and wages	**₱340,663**	₱325,014	₱247,624
Stock grant (see Note 20)	**26,462**	–	–
Retirement benefits costs (see Note 17)	**10,828**	10,383	9,368
Other employee benefits	**37,148**	37,066	36,438
	₱415,101	₱372,463	₱293,430

Other employee benefits pertain to various benefits given to employees which are individually immaterial.

Personnel costs were distributed as follows:

	2017	2016	2015
General and administrative (see Note 23)	**₱237,308**	₱189,332	₱159,459
Cost of sales (see Note 22)	**150,065**	153,762	125,806
Shipping and distribution (see Note 25)	**27,728**	29,369	8,165
	₱415,101	₱372,463	₱293,430

27. Depreciation, Depletion and Amortization

The amounts of depreciation, depletion and amortization expense are distributed as follows:

	2017	2016	2015
Cost of sales (see Notes 8, 10 and 22)	**₱425,648**	₱370,407	₱579,482
General and administrative (see Notes 8 and 23)	**18,719**	17,701	15,001
	₱444,367	₱388,108	₱594,483

28. Finance Costs

	2017	2016	2015
Interest expense (see Notes 15, 17 and 18)	**₱56,586**	₱60,387	₱75,716
Bank charges	**8,078**	5,908	9,990
Accretion interest on provision for mine rehabilitation and decommissioning (see Note 16)	**4,077**	1,401	1,117
Amortization of discount on bank loans (see Note 15)	**–**	–	2,068
	₱68,741	₱67,696	₱88,891

29. Other Income (Charges) - net

	2017	2016	2015
Foreign exchange gains (losses) - net	**₱28,235**	₱1,276	(₱19,843)
Loss on:			
Disposals of property and equipment (see Note 8)	**(8)**	(24,282)	(6,327)
Acquisition of a subsidiary (see Note 30)	**–**	(7,356)	–
Modification of finance lease receivable (see Notes 8 and 18)	**–**	(1,037)	(86,885)
Impairment loss on AFS financial assets (see Note 13)	**–**	(1,433)	(2,445)
Others	**142**	459	–
	₱28,369	(₱32,373)	(₱115,500)

Breakdown of net foreign exchange gains (losses) is as follows:

	2017	2016	2015
Net realized foreign exchange gains (losses)	**₱32,753**	(₱48,299)	(₱27,863)
Unrealized foreign exchange gains (losses) on:			
Cash	**4,473**	19,734	25,914
Trade and other receivables	**(3,658)**	27,018	14,196
Advances to related parties	**1,286**	–	–
Prepayments and other current assets	**10**	(196)	(64)
Other noncurrent assets	**–**	7	2,506
Trade and other payables	**1,156**	58,853	(3,136)
Bank loans	**(4,300)**	(55,841)	(31,396)
Advances from related parties	**(3,485)**	–	–
	₱28,235	₱1,276	(₱19,843)

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 2017, 2016 and 2015, including the corresponding assets and liabilities arising from the said transactions as at December 31, 2017 and 2016. 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	Advances from related parties	Terms	Conditions
Stockholders					
2017	**₱44,304**	**₱1,705,633**	**₱50,000**	On demand; noninterest-bearing; collectible or payable in cash	Unsecured; no guarantee
2016	₱106,816	₱1,507,132	₱50,000		
Affiliates with common officers, directors and stockholders					
2017	**419,512**	**166,345**	**51,029**	On demand; noninterest-bearing; collectible or payable in cash	Unsecured; no guarantee
2016	1,018,720	100,898	389,917		
Other related party					
2017	**–**	**–**	**226,564**	On demand; noninterest-bearing; collectible or payable in cash	Unsecured; no guarantee
2016	–	6,054	226,564		
Total		**₱1,871,978**	**₱327,593**		
Total		₱1,614,084	₱666,481		

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	Advances from related parties	Terms	Conditions
Subsidiaries									
PGMC									
2017	**₱1,175,506**	**₱–**	**₱–**	**₱–**	**₱21,737**	**₱–**	**₱–**	On demand; noninterest-bearing; collectible in cash	Unsecured; no guarantee
2016	₱118,514	₱–	₱–	₱–	₱35,264	₱3,316,843	₱–		
PCSSC									
2017	**211,732**	**114,692**	**89,926**	**–**	**–**	**–**	**–**	On demand; noninterest-bearing; collectible in cash	Unsecured; no guarantee
2016	417,370	87,184	95,019	–	–	–	–		
SIRC									
2017	**–**	**–**	**–**	**–**	**–**	**–**	**3,719**	On demand; noninterest-bearing; payable in cash	Unsecured; no guarantee
2016	–	–	–	–	–	–	6,810		
PIL									
2017	**2,743,512**	**–**	**–**	**2,340,652**	**–**	**–**	**–**	On demand; noninterest-bearing; collectible in cash	Unsecured; no guarantee
2016	845,710	–	–	530,161	–	280,285	–		
Total		**₱114,692**	**₱89,926**	**₱2,340,652**	**₱21,737**	**₱–**	**₱3,719**		
Total		₱87,184	₱95,019	₱530,161	₱35,264	₱3,597,128	₱6,810		

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 mostly consist 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.

   PIL entered into several ore supply sales agreement with PGMC for the purchase of nickel ore amounting to ₱2,340.7 million, ₱530.2 million and nil in 2017, 2016 and 2015.

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 ₱589.3 million.

   As at December 31, 2017 and 2016, these advances amounted to ₱2,217.4 million. 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 and are recorded under "Deposits for future acquisition" (see Note 1).

c. In the first quarter of 2017, PGMC entered into a Time Charter Agreement with PSSC for the use of five (5) LCTs at ₱2.6 million each per month. This Agreement covers a period of eight (8) months on/about March 1, 2017 to October 31, 2017, subject to renewal upon mutual agreement of the parties. The charter fee incurred amounted to ₱89.9 million, ₱95.0 million and ₱89.6 million in 2017, 2016, and 2015, respectively.

d. On March 1, 2017, PGMC entered into a Deed of Absolute Sale agreement with JLI for the sale of the Aseana property located in Parañaque City amounting to ₱319.9 million. The related payment was offset against the outstanding amounts owed to JLI. No gain or loss was recognized related to the transaction (see Note 11).

e. 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. The compensation of the Group's key management personnel amounted to ₱40.5 million, ₱44.1 million, and ₱39.3 million in 2017, 2016 and 2015, respectively.

31. Income Taxes

Effective November 2007, the Group was entitled to income tax holiday (ITH) as one of the incentives granted by the BOI as a non-pioneer enterprise. The Group's ITH incentive already expired on November 15, 2015.

The current provision for income tax represents regular corporate income tax in 2017 and MCIT in 2016 and 2015. It also represents amounts which are expected to be paid to different taxation authorities, the BIR and the Inland Revenue Department (IRD) in HK.

For the BIR, 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 rate as shown in the consolidated statements of comprehensive income is as follows:

	2017	2016	2015
Income before tax computed at statutory income tax rate	**₱132,730**	₱38,711	₱378,975
Add (deduct) tax effects of:			
Change in unrecognized deferred tax assets	**36,484**	36,006	32,752
Nondeductible expenses:			
Nondeductible taxes	**18,004**	–	–
Marketing and entertainment	**4,820**	5,491	19,300
Interest	**185**	134	720
Loss on modification of finance lease receivable	**–**	311	26,066
Others	**393**	825	2,808
Expiration of deferred tax asset on NOLCO	**4,132**	65	41,331
Application of excess MCIT	**2,787**	–	–
Nontaxable interest income	**(1,480)**	(1,570)	(619)
Interest income already subjected to final tax	**(488)**	(360)	(354)
Operating income subjected to ITH	**–**	–	(551,677)
	₱197,567	₱79,613	(₱50,698)

For the IRD, the reconciliation between income (loss) before income tax computed at HK profit tax rate and the provision for income tax at the effective income tax rate as shown in the consolidated statements of comprehensive income is as follows:

	2017	2016
Income (loss) before tax computed at HK profits tax rate of 16.5%	**₱104,737**	(₱2,162)
Add (deduct) tax effects of:		
Unused (used) tax losses	**(3,591)**	3,591
Depreciation allowances	**(2,062)**	(2,385)
Nondeductible expenses	**887**	968
Nontaxable income	**(20)**	(12)
	₱99,951	₱–

The components of the Group's net deferred tax assets are as follows:

	2017	2016
Deferred tax assets:		
Provision for mine rehabilitation and decommissioning	**₱73,622**	₱20,137
Allowance for impairment losses on trade and other receivables	**67,849**	5,208
Retirement obligation recognized in profit or loss	**20,743**	16,653
Unrealized foreign exchange losses - net	**20,419**	7,793
Accrued taxes	**8,719**	11,969
Cumulative translation adjustment directly recognized in OCI	**2,036**	6,045
Rent payable	**480**	452
Excess MCIT	**–**	2,787
	193,868	71,044
Deferred tax liabilities:		
Undepleted asset retirement obligation	**₱61,010**	₱10,446
Retirement obligation directly recognized in OCI	**5,382**	2,288
	66,392	12,734
Deferred tax assets - net	**₱127,476**	₱58,310

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

Year Incurred	Year of Expiration	NOLCO
2017	2020	₱110,947
2016	2019	119,837
2015	2018	94,529
		₱325,313

NOLCO	**2017**	2016	2015
Beginning balance	**₱214,366**	₱613,126	₱425,840
Addition	**110,947**	119,837	428,648
Expiration	**–**	–	(241,362)
Application	**–**	(144,970)	–
NOLCO incurred during the ITH period	**–**	(373,627)	–
Ending balance	**₱325,313**	₱214,366	₱613,126

MCIT	**2017**	2016	2015
Beginning balance	**₱2,787**	₱2,262	₱1,218
Addition	**–**	886	1,575
Application	**(2,787)**	–	–
Expiration	**–**	(361)	(531)
Ending balance	**₱–**	₱2,787	₱2,262

The Group does not have recognized deferred tax asset on NOLCO as at December 31, 2017 and 2016. Deferred tax asset on NOLCO amounting to ₱112.4 million was not recognized in 2015 since this came from activities subjected to ITH incentive.

The Group has availed of the itemized deductions method in claiming its deductions in 2017, 2016 and 2015.

32. Financial Risk Management Objectives and Policies and Capital Management

The Group's financial instruments mainly consist of cash, advances to related parties, AFS financial assets under "Other noncurrent 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, restricted cash classified under "Prepayments and other current assets" and trade and other payables and advances from related parties, which directly arise 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, loan 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 for US$-denominated accounts and Bangko Sentral ng Pilipinas for HK$-denominated accounts.

The Group's foreign currency-denominated financial assets and liabilities and their Philippine Peso equivalents as at December 31, 2017 and 2016 are as follows:

	2017			2016		
	US$ Amount	**HK$ Amount**	**Peso Equivalent**	US$ Amount	HK$ Amount	Peso Equivalent
Financial Assets:						
Cash in banks	**US$16,090**	**HK$290**	**₱805,227**	US$9,114	HK$1,918	₱465,462
Trade receivables	**9,738**	**–**	**486,218**	16,498	1,188	827,908
Restricted cash under "Prepayments and other current assets"	**3,755**	**291**	**189,347**	5,002	–	248,699
	29,583	**581**	**1,480,792**	30,614	3,106	1,542,069
Financial Liabilities:						
Trade and other payables	**6,619**	**39**	**330,736**	2,761	9,165	196,116
Bank loans	**15,000**	**–**	**748,950**	20,000	–	994,400
	21,619	**39**	**1,079,686**	22,761	9,165	1,190,516
Net Financial Assets (Liabilities)	**US$7,964**	**HK$542**	**₱401,106**	US$7,853	(HK$6,059)	₱351,553

The exchange rates used for the conversion of US$1.00 to peso equivalent were ₱49.93 and ₱49.72 as at December 31, 2017 and 2016, respectively. The exchange rates used for the conversion of HK$1.00 to peso equivalent were ₱6.39 and ₱6.42 as at December 31, 2017 and 2016, respectively.

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, 2017, 2016 and 2015.

	Foreign Currency Appreciates/ Depreciates by	Effect on Income Before Income Tax US$	Effect on Income Before Income Tax HK$
December 31, 2017	**+2**	**₱795,220**	**₱6,938**
	-2	**(795,220)**	**(6,938)**
December 31, 2016	+2	₱283,503	(₱77,798)
	-2	(283,503)	77,798
December 31, 2015	+2	(₱206,970)	–
	-2	206,970	–

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 primarily relates 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 asset and liability as at December 31, 2017 and 2016, together with their corresponding nominal interest rate and carrying values are shown in the following table:

2017	**Nominal Interest Rate**	**Less than 6 Months**	**6 to 12 Months**	**1 to 2 Years**	**More than 2 Years**	**Total**
Cash in banks	**Various**	**₱885,768**	**₱–**	**₱–**	**₱–**	**₱885,768**
Bank loans	**10.50%-14.00%; LIBOR plus 9.00%**	**591**	**749,078**	**–**	**–**	**749,669**

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

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, 2017, 2016 and 2015 in the 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, 2017	**+100**	**(₱7,490)**
	-100	**7,490**
December 31, 2016	+100	(₱9,944)
	-100	9,944
December 31, 2015	+100	(₱9,412)
	-100	9,412

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 the Group's quoted equity instrument. The Group's exposure to equity price risk primarily relates to its AFS financial assets in OPRGI.

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

The table below shows the sensitivity to a reasonably possible change in equity prices on AFS financial assets as at December 31, 2017 and 2016. 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
2017	**-0.41%**	**(₱14)**
	0.41%	**14**
2016	-2.29%	(₱76)
	2.29%	76

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

Credit Risk
Credit risk is the risk that a 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 only trades with recognized, reputable and creditworthy third parties and/or only transacts 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 LC 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 only trades 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	**2017**	2016
Cash in banks	4	**₱885,768**	₱551,045
Trade receivables	5	**463,698**	725,912
Restricted cash under "Prepayments and other current assets"	7	**187,418**	249,059
Advances to related parties:	30		
Stockholders		**1,705,633**	1,507,132
Affiliates with common officers, directors and stockholders		**166,345**	100,898
Others		**–**	6,054
AFS financial assets under "Other noncurrent assets"	13	**4,006**	4,470
		₱3,412,868	₱3,144,570

Aging Analyses of Financial Assets
The aging analyses of the Group's financial assets as at December 31, 2017 and 2016 are summarized in the following tables:

2017	**Neither past due nor impaired**	**Past due but not impaired: 90 days or less**	**91-120 days**	**More than 120 days**	**Impaired**	**Total**
Cash in banks	**₱885,768**	**₱–**	**₱–**	**₱–**	**₱–**	**₱885,768**
Trade receivables	**–**	**241,834**	**–**	**–**	**221,864**	**463,698**
Restricted cash under "Prepayments and other current assets"	**187,418**	**–**	**–**	**–**	**–**	**187,418**
Advances to related parties:						
Stockholders	**1,705,633**	**–**	**–**	**–**	**–**	**1,705,633**
Affiliates with common officers, directors and stockholders	**166,345**	**–**	**–**	**–**	**–**	**166,345**
Others	**–**	**–**	**–**	**–**	**–**	**–**
AFS financial assets under "Other noncurrent assets"	**4,006**	**–**	**–**	**–**	**–**	**4,006**
Total	**₱2,949,170**	**₱241,834**	**₱–**	**₱–**	**₱221,864**	**₱3,412,868**

2016	Neither past due nor impaired	Past due but not impaired: 90 days or less	91-120 days	More than 120 days	Impaired	Total
Cash in banks	₱551,045	₱–	₱–	₱–	₱–	₱551,045
Trade receivables	202,031	–	249,758	256,764	17,359	725,912
Restricted cash under "Prepayments and other current assets"	249,059	–	–	–	–	249,059
Advances to related parties:						
Stockholders	1,507,132	–	–	–	–	1,507,132
Affiliates with common officers, directors and stockholders	100,898	–	–	–	–	100,898
Others	6,054	–	–	–	–	6,054
AFS financial assets under "Other noncurrent assets"	4,470	–	–	–	–	4,470
Total	₱2,620,689	₱–	₱249,758	₱256,764	₱17,359	₱3,144,570

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:

- Cash in banks and restricted cash under "prepayments and other current assets" are considered high grade since these are deposited in reputable banks.
- Trade receivables, which mainly pertain from sale of nickel ore, are assessed as standard grade since there have already been history of defaults.
- 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 assessed 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, 2017 and 2016 based on contractual undiscounted payments.

2017	**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	**₱–**	**₱418**	**₱185**	**₱749,080**	**₱–**	**₱–**	**₱749,683**
Trade and other payables:							
Trade	**254,788**	**–**	**–**	**–**	**–**	**–**	**254,788**
Accrued expenses	**21,330**	**–**	**–**	**–**	**–**	**–**	**21,330**
Nontrade	**9,718**	**–**	**–**	**–**	**–**	**–**	**9,718**
Advances from related parties	**327,593**	**–**	**–**	**–**	**–**	**–**	**327,593**
Other noncurrent liabilities:							
Payable to stockholders of CNMEC	**–**	**–**	**–**	**–**	**–**	**366,463**	**366,463**
Payable to BNVI	**–**	**–**	**–**	**–**	**–**	**165,566**	**165,566**
Total	**₱613,429**	**₱418**	**₱185**	**₱749,080**	**₱–**	**₱532,029**	**₱1,895,141**

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
Advances from 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	₱951,963	₱1,476	₱1,325	₱996,132	₱733	₱532,029	₱2,483,658

The tables below summarize the maturity profile of the financial assets used by the Group to manage its liquidity risk as at Decemer 31, 2017 and 2016.

2017	**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	**₱798**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱798**
Cash in banks	**885,768**	**–**	**–**	**–**	**–**	**–**	**885,768**
Trade receivables	**221,864**	**241,834**	**–**	**–**	**–**	**–**	**463,698**
Restricted cash under "Prepayments and other current assets"	**187,418**	**–**	**–**	**–**	**–**	**–**	**187,418**
AFS financial assets under "Other noncurrent assets"	**4,006**	**–**	**–**	**–**	**–**	**–**	**4,006**
Advances to related parties:							
Stockholders	**1,705,633**	**–**	**–**	**–**	**–**	**–**	**1,705,633**
Affiliates with common officers, directors and stockholders	**166,345**	**–**	**–**	**–**	**–**	**–**	**166,345**
Total	**₱3,171,832**	**₱241,834**	**₱–**	**₱–**	**₱–**	**₱–**	**₱3,413,666**

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 in banks	551,045	–	–	–	–	–	551,045
Trade receivables	725,912	–	–	–	–	–	725,912
Restricted cash under "Prepayments and other current assets"	249,059	–	–	–	–	–	249,059
AFS financial assets under "Other noncurrent assets"	4,470	–	–	–	–	–	4,470
Advances to relatedparties:							
Stockholders	1,507,132	–	–	–	–	–	1,507,132
Affiliates with common officers, directors and stockholders	100,898	–	–	–	–	–	100,898
Others	6,054	–	–	–	–	–	6,054
Total	₱3,145,467	₱–	₱–	₱–	₱–	₱–	₱3,145,467

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) issue new shares, and (c) return capital to shareholders if and when feasible. No changes were made in the objectives, policies or processes in 2017 and 2016.

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 places 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 asset and liabilities, whose carrying values do not approximate their fair values as at December 31, 2017 and 2016:

	Carrying Values		Fair Values	
	2017	2016	**2017**	2016
Investment property	**₱–**	₱319,865	**₱–**	₱367,003
Bank loans	**749,669**	994,408	**749,683**	999,666
Finance leases liabilities	**3,137**	5,553	**3,381**	6,160

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 approximate their fair values since these are restricted cash in banks which earn 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.

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

Bank Loans
The 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 Receivable and Liabilities
The fair value of finance lease receivable approximates its carrying value given that it is valued on discount rates on the same year. The fair value of finance lease liabilities is 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:

2017	**Carrying Amount**	**Level 1**	**Level 2**	**Level 3**	**Total**
Asset measured at fair value:					
AFS financial assets	**₱4,006**	**₱4,006**	**₱–**	**₱–**	**₱4,006**
Liabilities for which fair values are disclosed:					
Bank loans	**₱749,669**	**₱–**	**₱–**	**₱749,669**	**₱749,669**
Finance lease liabilities	**3,137**	**–**	**–**	**3,137**	**3,137**
	₱752,806	**₱–**	**₱–**	**₱752,806**	**₱752,806**

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	–	–	319,865	319,865
	₱324,335	₱4,470	₱–	₱319,865	₱324,335
Liabilities for which fair values are disclosed:					
Bank loans	₱994,408	₱–	₱–	₱994,408	₱994,408
Finance lease liabilities	5,553	–	–	5,553	5,553
	₱999,961	₱–	₱–	₱999,961	₱999,961

There were no transfers between levels of fair value measurement as at December 31, 2017 and 2016.

34. Significant Agreements

Deed of Guarantee
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 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
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 ₱5,815.6 million, ₱3,773.7 million and ₱6,533.2 million in 2017, 2016 and 2015, respectively.

Operating Agreements
SIRC
On September 15, 2006, PGMC entered into an Operating Agreement with SIRC, subsidiary and holder of rights to the 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 ₱296.6 million, ₱204.3 million and ₱449.1 million in 2017, 2016 and 2015, respectively (see Note 24).

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 Group ended its service contract with FVC wherein previously leased assets were returned and included as part of total additions to property and equipment.

In 2016, the Group entered into service contracts with Skaff Mineworks, Inc. and MRMJ Movers Corporation, and, in 2017, with NI, Primerock Trucking Services, Cagdianao Konstruct Development, Incorporated, 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. In 2017, the Group ended its mining contract with Skaff Mineworks, Inc.

Service Contract - CAGA 4
In 2016, the Group 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, and, in 2017, with Aguilo Builders and Pazifik Ventures Trucking Services, Incorporated, 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 ₱1,962.5 million, ₱1,548.4 million and ₱2,388.9 million in 2017, 2016 and 2015, respectively (see Note 22).

Lease Agreements

The Group leases its Makati office premises and various machineries and equipment in the mine site. The 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 are as follows:

Category	2017	2016
Within one (1) year	**₱5.1 million**	₱2.9 million
After one (1) year but not more than five (5) years	**18.9 million**	20.8 million
More than five (5) years	**–**	10.0 million

Rent payable reported under "Other noncurrent liabilities" amounted to ₱1.6 million and ₱1.5 million as at December 31, 2017 and 2016, respectively (see Note 19).

Total rent expense incurred amounted to ₱35.4 million, ₱60.3 million, and ₱78.2 million in 2017, 2016 and 2015, respectively (see Notes 22 and 23). Prepaid rent reported under "Prepayments and other current assets" in relation to these lease agreements amounted to ₱14.4 million and ₱14.1 million as at December 31, 2017 and 2016, respectively (see Note 7).

35. Other Matters

Show Cause Notice (SCN)

On February 20, 2017, PGMC received a SCN from the DENR directing PGMC 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, PGMC has only deposited ₱56.5 million out of a commitment of ₱1,259.7 million for the Final Mine Rehabilitation/ Decommissioning Fund (FMRDF).

PGMC 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, PGMC 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. The 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.

PGMC 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, PGMC 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".

Writ of Execution for the Civil Case 6499 Pascual vs. Mamanwa

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 thirty percent (30%) royalty fees paid to the Indigenous People. The Court grants the deposit of thirty percent (30%) of the one percent (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 deposit immediately the thirty percent (30%) share of the one percent (1%) royalty fees they received from PGMC from the beginning up to the present and PGMC to deposit in court all the amount of thirty percent (30%) of the one percent (1%) royalty fees still to be paid to defendants Reynante Buklas, Alicio Patac, Dodoy Olorico and Ebiniza Olorico. All documents showing the total amount of royalty fees paid or to be paid to the defendants are to be delivered by PGMC and MGB.

Memorandum of Cooperation and Partnership

On November 13, 2017, the Parent Company signed a Memorandum of Cooperation and Partnership with Vi Holding LLC, a Russian firm, for the implementation of joint business projects in the processing of lateritic ores. The two companies are now in the process of forming a Joint Working Group to undertake initial testing of ore samples and conduct feasibility studies.

Mercantile Insurance Co., Inc. (MIC)

On November 6, 2017, the Regional Trial Court of Makati ordered MIC to pay ₱183.3 million in relation to the insurance policy covering PGMC's property and equipment which were destroyed and deemed totally lost on October 3, 2011 due to an armed group which simultaneously raided and seized control of PGMC's mining complex. On December 11, 2017, PGMC and MIC filed a Motion for Partial Reconsideration and a Motion for Reconsideration, respectively. On December 18, 2017, MIC filed a Motion to Inhibit which was granted on January 11, 2018. As at February 27, 2018, the case is still pending with the Regional Trial Court of Makati.

Tax Assessment and Case

On March 17, 2017, a Petition for Review against PGMC was filed by the Municipal Treasurer of Claver, Surigao del Norte before the Court of Tax Appeals. The petitioner sought for the reversal of the decision of the Regional Trial Court of Surigao City on February 14, 2017 declaring as void the assessed local business taxes of PGMC for the years 2014 and 2015 amounting to ₱84.0 million and ₱61.8 million, respectively. PGMC filed its comment to the said petition on May 5, 2017. The petitioner and PGMC filed their memoranda as directed by the Court of Tax Appeals on June 28, 2017 and July 5, 2017, respectively. The case was deemed submitted for resolution as at December 31, 2017.

36. Events After the End of the Reporting Period

Buyback Transactions

From January 1 to February 27, 2018, the Parent Company purchased from the market, a total of 15,781,000 common shares at the average price of ₱2.4212 per share, pursuant to the approved buy-back program. The cumulative number of shares purchased from the date when the share buy-back program commenced is 384,698,333 shares with a total amount of shares repurchased of ₱1,020.5 million.

Registration with the BOI

On January 18, 2018, 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, 2018 unless sooner revoked by the BOI Governing Board.

Tax Reform for Acceleration and Inclusion Act (TRAIN)

RA No.10963 or the TRAIN was signed into law on December 19, 2017 and took effect January 1, 2018, making the new tax law enacted as of the reporting date. Although the TRAIN changes existing tax law and includes several provisions that will generally affect businesses on a prospective basis, the management assessed that the same will not have any significant impact on the consolidated financial statement balances as of the reporting date. However, the amendments made on Section 151 of the Tax Code which pertain to the increase in excise tax rate from two percent (2%) to four percent (4%) on all metallic minerals based on the market value of the gross output thereof at the time of the removal may have an impact on the consolidated financial statement balances of the Group in the succeeding reporting periods.

37. **Supplemental Disclosure to Consolidated Statements of Cash Flows**

Noncash financing and investing activities as at December 31, 2017 pertain to the following:

a. Additions to property and equipment as a result of purchases on account amounting to ₱5.4 million and change in estimated capitalized cost of mine rehabilitation amounting to ₱174.2 million;
b. Accrual of interest on bank loans, retirement obligation and provision for mine rehabilitation and decommissioning amounting to ₱4.5 million, ₱2.8 million and ₱4.1 million, respectively;
c. Issuance of treasury shares in relation to the special stock grant on December 27, 2017 which amounted to ₱28.2 million, resulting to a decrease in retained earnings amounting to ₱1.8 million which pertains to the difference between the fair value of the treasury shares at the date of grant and the cost of treasury shares upon reacquisition;
d. Effect of foreign exchange on bank loans amounting to ₱4.3 million; and
e. Sale of investment property to a related party amounting to ₱319.9 million which was offset against the outstanding advances from a related party.

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 and provision for mine rehabilitation and decommissioning amounting to ₱7.5 million, ₱1.0 million, ₱60.4 million, ₱2.2 million and ₱1.4 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; and
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.

38. **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; and
- 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 mainly operates in one reportable business and two geographical segments which are 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.

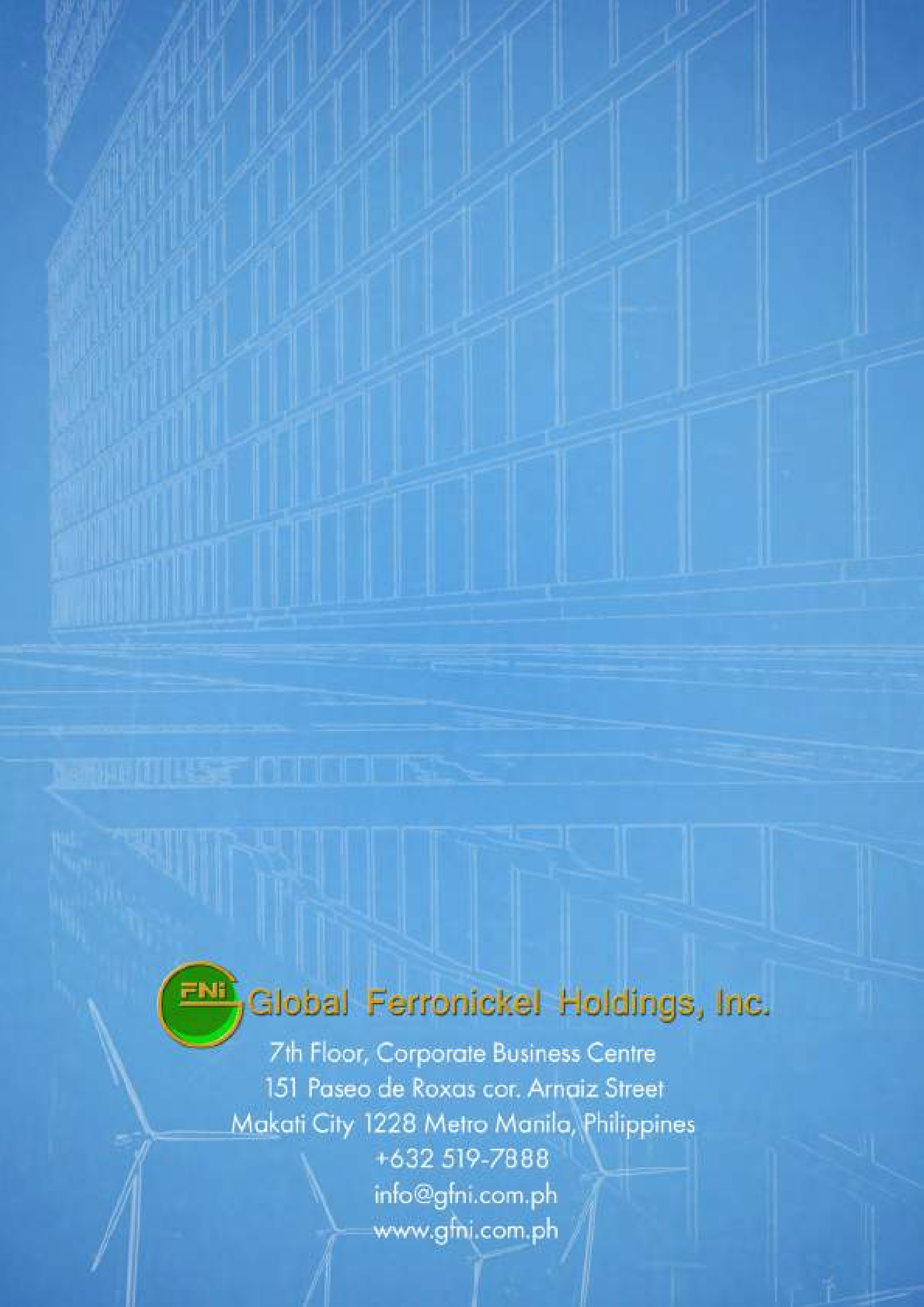
The Group has revenues from external customers in China amounting to ₱5.8 million, ₱3.8 million and ₱6.5 million in 2017, 2016 and 2015, respectively.

Financial information on the operation of the various business segments for the years ended December 31, 2017 and 2016 are as follows:

	2017			
	Mining	**Service**	**Elimination**	**Total**
External customers	**₱5,815,596**	**₱–**	**₱–**	**₱5,815,596**
Intersegment revenues	**2,340,652**	**89,926**	**(2,430,578)**	**–**
Total revenues	**8,156,248**	**89,926**	**(2,430,578)**	**5,815,596**
Cost of sales	**5,029,059**	**71,778**	**(2,332,266)**	**2,768,571**
Excise taxes and royalties	**714,206**	**–**	**–**	**714,206**
Shipping and distributions	**478,769**	**–**	**(89,926)**	**388,843**
Segment operating earnings	**1,934,214**	**18,148**	**(8,386)**	**1,943,976**
General and administrative	**(823,527)**	**(9,631)**	**–**	**(833,158)**
Finance costs	**(68,732)**	**(9)**	**–**	**(68,741)**
Finance income	**6,869**	**8**	**–**	**6,877**
Share in net loss of an associate	**(116)**	**–**	**–**	**(116)**
Other income - net	**19,983**	**–**	**8,386**	**28,369**
Provision for income tax	**(294,775)**	**(2,743)**	**–**	**(297,518)**
Net income	**₱773,916**	**₱5,773**	**₱–**	**₱779,689**
Segment assets	**₱18,757,920**	**₱361,180**	**(₱10,205,719)**	**₱8,913,381**
Deferred tax assets - net	**127,476**	**–**	**–**	**127,476**
Total assets	**₱18,885,396**	**₱361,180**	**(₱10,205,719)**	**₱9,040,857**
Segment liabilities	**₱2,980,047**	**₱3,488**	**(₱346,982)**	**₱2,636,553**
Capital expenditures	**₱106,631**	**₱16,553**	**₱–**	**₱123,184**
Depreciation, depletion and amortization	**₱410,693**	**₱33,674**	**₱–**	**₱444,367**

	2016			
	Mining	Service	Elimination	Total
External customers	₱3,773,669	₱–	₱–	₱3,773,669
Intersegment revenues	532,895	95,489	(628,384)	–
Total revenues	4,306,564	95,489	(628,384)	3,773,669
Cost of sales	2,850,352	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	567,513	23,551	80,705	671,769
General and administrative	(451,797)	(9,117)	–	(460,914)
Finance costs	(67,696)	–	–	(67,696)
Finance income	6,496	9	–	6,505
Share in net loss of an associate	(184)	–	–	(184)
Other income (charges) - net	55,709	449	(88,531)	(32,373)
Provision for income tax	(75,184)	(4,429)	–	(79,613)
Net income	₱34,857	₱10,463	(₱7,826)	₱37,494
Segment assets	₱21,572,812	₱353,812	(₱12,558,240)	₱9,368,384
Deferred tax assets - net	52,265	–	6,045	58,310
Total assets	₱21,625,077	₱353,812	(₱12,552,195)	₱9,426,694
Segment liabilities	₱7,147,046	₱1,894	(₱4,268,805)	₱2,880,135
Capital expenditures	₱35,990	₱146	₱–	₱36,136
Depreciation, depletion and amortization	₱355,272	₱32,836	₱–	₱388,108

	2015			
	Mining	Service	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 distribution	256,066	–	(89,594)	166,472
Segment operating earnings	1,877,312	6,971	–	1,884,283
General and administrative	(619,901)	(8,370)	–	(628,271)
Finance costs	(88,891)	–	–	(88,891)
Finance income	9,425	6	–	9,431
Other charges - net	(115,500)	–	–	(115,500)
Benefit from (provision for) income tax	53,205	(2,507)	–	50,698
Net income (loss)	₱1,115,650	(₱3,900)	₱–	₱1,111,750
Segment assets	₱20,742,231	₱347,125	(₱12,102,128)	₱8,987,228
Deferred tax assets - net	97,785	–	–	97,785
Total assets	₱20,840,016	₱347,125	(₱12,102,128)	₱9,085,013
Segment liabilities	₱6,451,720	₱5,200	(₱3,909,781)	₱2,547,139
Capital expenditures	₱252	₱–	₱–	₱252
Depreciation, depletion and amortization	₱548,631	₱45,852	₱–	₱594,483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