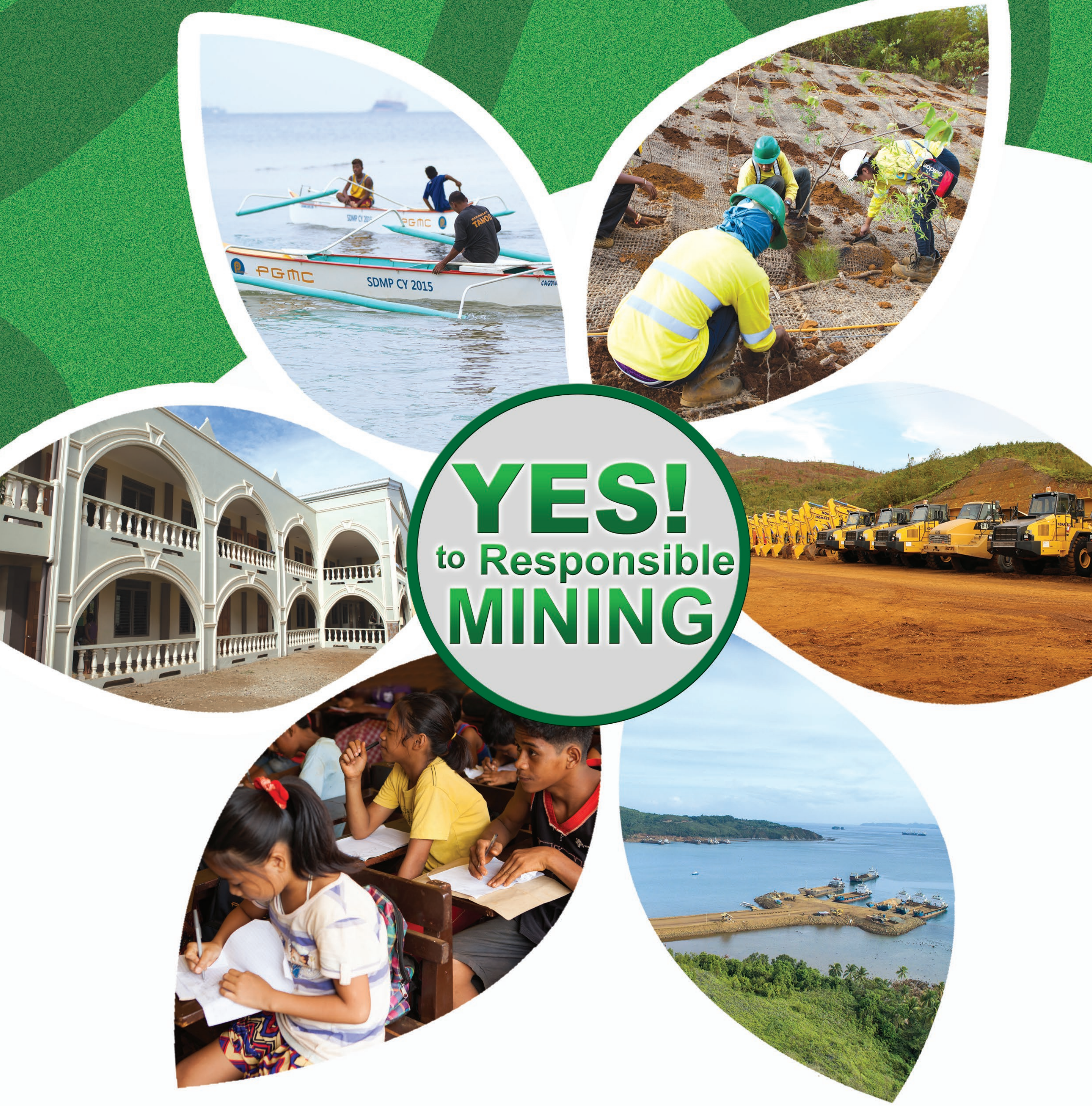

Global Ferronickel Holdings, Inc.

2015 ANNUAL REPORT

THE STORY ABOUT THE COVER

The growth of Global Ferronickel Holdings Inc. (GFNI) could be likened to that of a fast-growing tree. We have taken root in Surigao, and, in just a few years, our Cagdianao mine has enabled the Company to have a sturdy and steady trunk that branches out for expansion. Along with our progress, we remain committed to ensure that we create value to our stakeholders and improve the quality of life of our host community together with the indigenous peoples and neighboring barangays.

With a strong base that will continue to gain strength and size year-on-year, GFNI is turning over a new leaf with the acquisition of another mine in Palawan. We are up to speed to commence the Palawan mine which is envisioned to provide year-round growth for the Company.

We also recognize the important role we play in nation-building. We shall continue to be productive partner of government, both in the local and national levels, compliant with the laws and mindful of our socio-civic duties.

Our environment is our responsibility. Responsible mining is our legacy.

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COMPANY PROFILE

Global Ferronickel Holdings Inc. ("GFNI" or the "Company") is the second largest nickel ore producer in the Philippines. It counts Platinum Group Metals Corporation (PGMC), a subsidiary, and Ipilan Nickel Corporation (INC), an affiliate, as its main mining assets. Other subsidiaries of the Company are: PGMC CNEP Shipping Services Corporation (PCSSC), which holds the barging assets servicing the mines, and Surigao Integrated Resources Corporation (SIRC), the claim holder in Surigao. Its affiliate, Southeast Palawan Nickel Ventures, Inc. (SPNVI), is the owner of INC, the claim holder in Palawan. These affiliates will soon be fully integrated into the Company's fold.

PGMC, the largest single mine exporter of nickel lateritic ore in the Philippines in terms of value, has been operating its Surigao mine for almost a decade. From initial exports of 470K WMT at the start of 2007 to its peak of 6.3M WMT in 2014, the Company has sold more than 32.8M WMT to its various customers across the region. The Company's reserves and resources have been expanding as substantial investment in exploration work in the Surigao property is being undertaken. Indeed, the potential for growth is promising as only twenty percent (20%) of its 4,376-hectare tenement area has been explored.

We have been producing various grades of nickel laterite ore, from low-grade-high-iron limonite ore to high-grade saprolite ore, which is used as feed material for the production of nickel pig iron, ferronickel and nickel compacts in China and in Australia. These are then utilized to make stainless steel and channel other nickel products.

Starting this year, there have been significant developments critical to the Company's future. Operations at the Surigao mine were optimized with cost-cutting measures geared towards reducing operating costs by more than 30% while retaining profitability in a low price setting. Then the Company received the green light to proceed with the development of our high-grade mine in Palawan. The Palawan mine will be producing predominantly high-grade and middle-grade nickel ore. It has a shipping window that stretches beyond that of Surigao. This makes the Company a year-round producer.

The Company has been active in environmental protection with the installation of mitigating structures to capture run-offs, reforestation to re-establish flora, and slope stability and coastal preservation works. These activities are not just confined to the areas where the Company operates but in surrounding communities as well.

The programs we have set in place go beyond minimum governmental regulations. They are aligned with international norms and best practices driven by the highest standards of corporate governance.

VISION

Our vision is to be a leading Filipino company engaged in the mining of metals and related businesses.

MISSION

Our mission is 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.

MINING PROPERTIES

PLATINUM GROUP METALS CORPORATION

PGMC, a wholly-owned subsidiary of GFNI, is the base of our growing Company. It has an agreement with Surigao Integrated Resources Corporation (SIRC), which PGMC owns, to exclusively operate the Cagdianao mine. The operating agreement was approved by the Mines and Geosciences Bureau on July 18, 2011. The Cagdianao mine sits on a Mineral Production Sharing Agreement (MPSA No.007-92-X) covering an area of 4,376 hectares assigned to SIRC. The deed of assignment was approved by the Department of Environment and Natural Resources (DENR) Secretary on July 20, 2005..

PGMC has been mining the Cagdianao mine since 2006 and has shipped over 33 million Wet Metric Tons (WMT) from 2007 onwards. In 2015 the mine became the second largest exporter of nickel ore in the Philippines and recorded the highest revenue on a single mine basis. Noteworthy is the jump in middle-grade ore being shipped out from the mine since 2014 as the mine has more middle-grade ore than previously expected. Moving forward the Cagdianao mine will be a major source of middle-grade nickel ore for exports. The mine also offers more exploration potential as only 893 hectares or 20% of the total tenement of 4,376 hectares have been drilled. The current permitted production limit is at 7.0 million WMT of nickel ore.

TOTAL PRODUCTION
34,735K WMT

2008 - 781K WMT
▲ 2009 - 1,957K WMT
▲ 2010 - 3,828K WMT
▲ 2011 - 5,016K WMT
▲ 2012 - 6,178K WMT
▼ 2013 - 4,525K WMT
▲ 2014 - 6,450K WMT
▼ 2015 - 6,000K WMT

TOTAL SHIPMENT
32,512K WMT

2008 - 506K WMT
▲ 2009 - 1,952K WMT
▲ 2010 - 3,766K WMT
▲ 2011 - 4,148K WMT
▲ 2012 - 5,929K WMT
▼ 2013 - 4,501K WMT
▲ 2014 - 6,303K WMT
▼ 2015 - 5,407K WMT

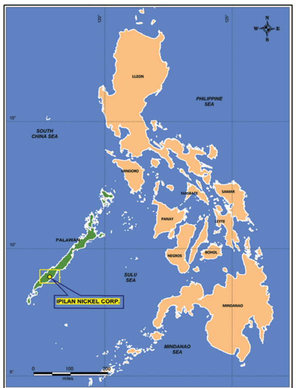
IPILAN NICKEL CORPORATION

INC is the next mine of GFNI. It will be developed in the second half of 2016 with possible trial shipments by the fourth quarter of the year. The Ipilan mine has an approved MPSA under Celestial Nickel Mining Exploration Corporation (CNMEC) which has an operating agreement with INC for 25 years starting January 2005. GFNI has acquired Southeast Palawan Nickel Ventures Inc. (SPNVI) which owns 96% of INC. The balance of 6% is owned by Nickel Laterite Resources, Inc. The contract area covers 2,835 hectares and contains a JORC-indicated and -inferred resource of 66.5 million dry metric tons (DMT) or 102.3 million WMT grading at 1.23% nickel. Total of 630 hectares or 22% of the tenement has been explored and is ripe for further exploration work to further expand the resource base.

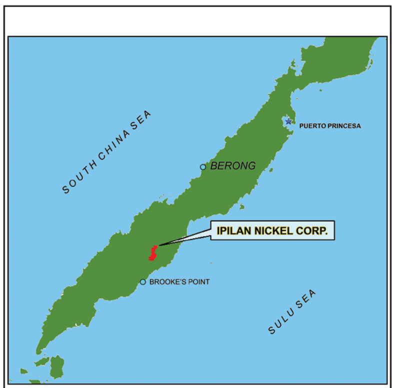
The approved mining plan will be producing more of the high-grade ore at 1.93% Ni for the next three years. The medium-grade and high-grade component of the Ipilan deposit make up 80% with the high grade at 50%. The current permitted production limit is at 1.5 million WMT of nickel ore.

Classification	Dry Tonnes (Mt)	Moisture (%)	Ni (%)	Fe (%)
Measured	32.8	25.1	1.3	23.8
Indicated	21.3	25.1	1.1	22.5
Inferred	12.5	25.9	1.0	25.9
Combined	66.5	25.3	1.2	23.8

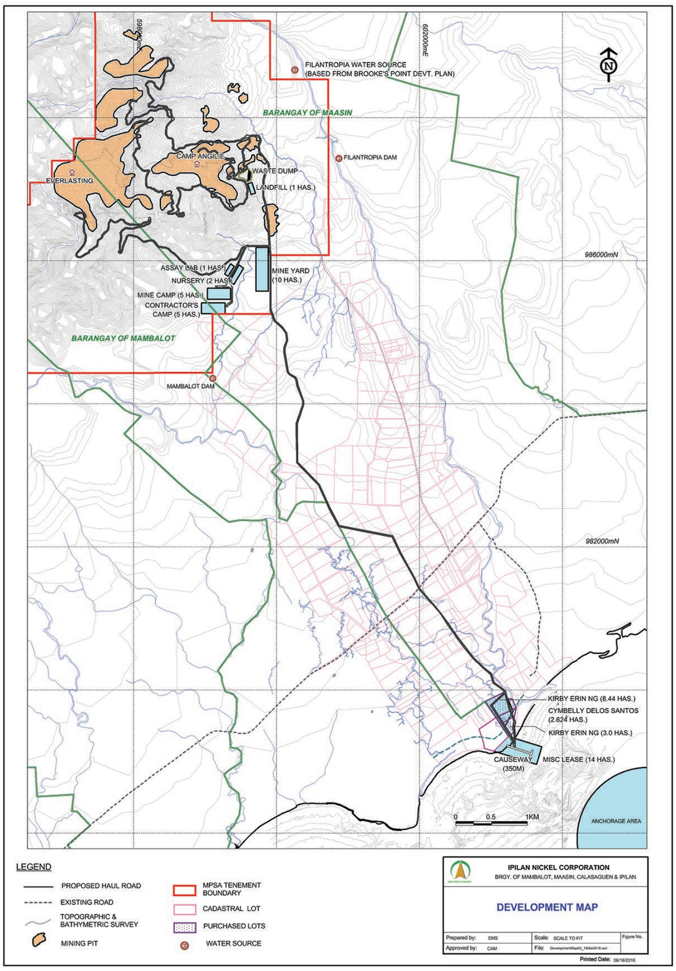
Ipilan Deposit 31st December 2014 Mineral Resource Estimate (0.7% Ni Cut-off)



Location Map of MPSA Area relative to the Philippines



Location Map of MPSA Area relative to Palawan



REVIEW OF OPERATIONS

PLATINUM GROUP METALS CORPORATION

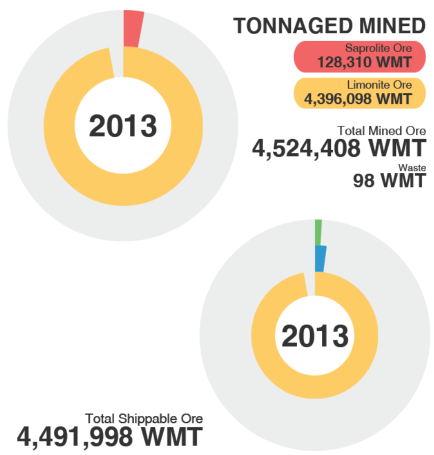
Mining Volume

The volume of ore mined from both CAGA2 and CAGA4 pits for the year amounted to **5.731 million WMT,** consisting of **4.996 million WMT** of saprolite ore and **0.735 million WMT** of limonite ore. This year's mine production was more focused on the medium-grade ore which amounted to **3.123 million WMT** as compared to the previous year of only **1.678 million WMT**. This was due to the very low market price of the low-grade ore which prompted the company to lower production of this type of ore to only **0.735 million WMT** as compared to the last year's **3.533 million WMT.**

Shipments

A total volume of **5.352 million WMT** of nickel ore was shipped and sold solely to Chinese customers consisting of **0.608 million WMT** low-grade ore, **4.368 million WMT** medium grade ore and **0.376 million WMT** high-grade ore with an average price of USD26.69/WMT FOB. The average price of the medium-grade ore of USD27.67/WMT for this year was lower by 54% as compared to 2014 while the low-grade ore was only USD13.64/WMT down by 56%. The high-grade ore average price was also down to USD36.42/WMT from USD130/WMT in 2014.

The year-end's ending stockpile inventory volume was **691,072 WMT** broken down as **496,392 WMT** of low-grade ore, **161,134 WMT** of medium-grade ore and **6,726 WMT** of high-grade ore.

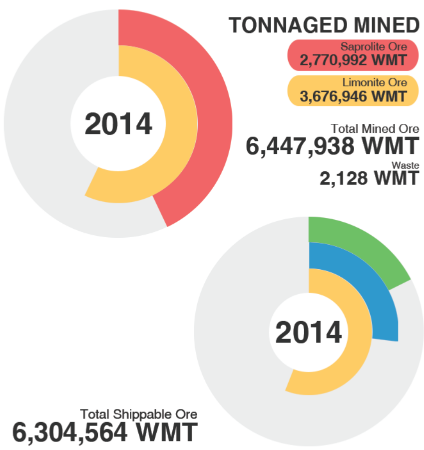


SHIPPABLE ORE | SALES DATA

38,444 WMT High Grade | Volume - / Average Nickel Grade - / Average Price -

89,866 WMT Medium Grade | Volume - 109,572 WMT / Average Nickel Grade - 1.52% / Average Price - 18.82 USD/WMT

4,396,098 WMT Low Grade | Volume - 4,391,657 WMT / Average Nickel Grade - 1.06% / Average Price- 19.41 USD/WMT

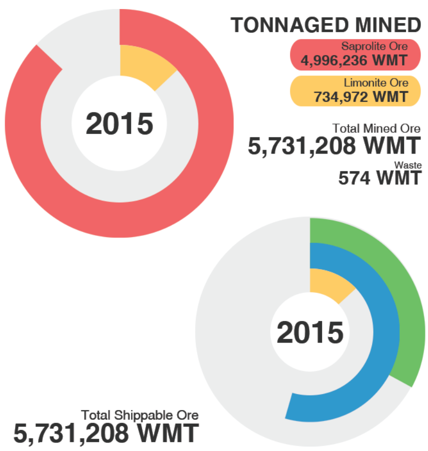


SHIPPABLE ORE | SALES DATA

1,093,022 WMT High Grade | Volume - 96,543 WMT / Average Nickel Grade - 1.77% / Average Price - 130.21 USD/WMT

1,677,970 WMT Medium Grade | Volume - 2,381,337 WMT / Average Nickel Grade - 1.54% / Average Price - 59.94 USD/WMT

3,533,572 WMT Low Grade | Volume - 3,825,112 WMT / Average Nickel Grade - 1.08% / Avearge Price - 30.68 USD/WMT



SHIPPABLE ORE | SALES DATA

1,872,360 WMT High Grade | Volume - 376,223 WMT / Average Nickel Grade - 1.71% / Average Price - 36.42 USD/WMT

3,123,876 WMT Medium Grade | Volume - 4,367,940 WMT / Average Nickel Grade - 1.52% / Average Price - 27.67 USD/WMT

734,972 WMT Low Grade | Volume - 607,660 WMT / Average Nickel Grade - 1.17% / Average Price - 13.64 USD/WMT

FINANCIAL HIGHLIGHTS

STATEMENTS OF FINANCIAL POSITION

(PHP '000)	**Year Ended 31-Dec-15**	**Six-Months Ended 31-Dec-14**	**Year Ended 30-Jun-14**
Current Assets	PHP 3,670,086	PHP 3,181,492	PHP 6,702,176
Non Current Assets	5,414,927	4,473,379	4,440,235
Total Assets	PHP 9,085,013	PHP 7,654,871	PHP 11,142,411
Current Liabilities	PHP 2,440,566	PHP 2,076,816	PHP 9,075,243
Noncurrent Liabilities	106,573	152,025	393,675
Total Liabilities	2,547,139	2,228,841	9,468,918
Equity	6,537,874	5,426,030	1,673,493
Total Liabilities and Equity	PHP 9,085,013	PHP 7,654,871	PHP 11,142,411
BOOK VALUE PER SHARE (PHP)	0.37	0.31	0.24

STATEMENTS OF INCOME

(PHP '000)	**Year Ended 31-Dec-15**	**Six-Months Ended 31-Dec-14**	**Year Ended 30-Jun-14**
REVENUES	PHP 6,533,218	PHP 9,047,476	PHP 5,667,768
COST AND EXPENSES			
Cost of sales	3,574,596	2,556,640	2,514,842
Excise taxes and royalties	906,351	1,258,746	795,893
General and administrative	629,788	237,316	430,546
Shipping and distribution	166,471	63,749	202,243
	5,277,206	4,116,451	3,943,524
FINANCE COSTS AND OTHER CHARGES (INCOME) - Net	194,960	147,282	-15,062
PROVISION FOR (BENEFIT FROM) INCOME TAX	-50,698	-33,304	68,977
NET INCOME	PHP 1,111,750	PHP 4,817,047	PHP 1,670,329
BASIC EARNINGS PER SHARE (PHP)	0.06	0.66	0.24

The Company changed its reporting period from fiscal year end June 30 to calendar year end December 31 starting for the period ended December 31, 2014. The Securities and Exchange Commission approved the amendment on December 22, 2014.

REVIEW OF EXPLORATION

PLATINUM GROUP METALS CORPORATION

Development drilling at CAGA4 commenced on 10 October 2015 specifically in mining areas 6 and 4 along the eastern part of the deposit. A total of 8 rigs were used to drill a 342 holes with a meterage of 3,921 meters and 98% core recovery at an average depth of 11.5 meters.

The drilling program of these areas has a very high potential to upgrade the limonite and saprolite resources which will provide additional feedstock for the mining operations of the CAGA4 pit in the succeeding years. Likewise, topographic and hole layouts were done in Areas 1, 2, 3 and 4 within CAGA4 in preparation for the in-fill and extension drilling in the first quarter of 2016.

A special tree cutting permit application was already filed in the DENR Forest Management Bureau Regional Office XIII covering around 156 hectares in anticipation of the extension of mining operations towards Areas 2 and 4 which will be the subject of further exploration drilling in the 1st quarter of 2016.

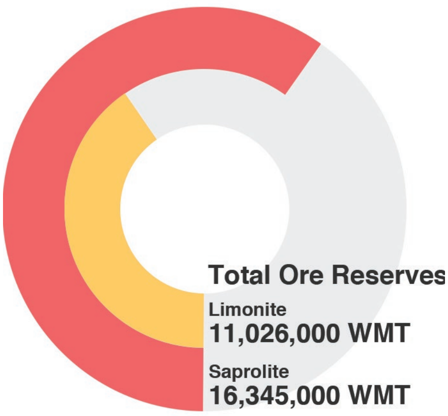
Finally, drilling contracts were already entered for the development and extension drilling of CAGA2 and CAGA3 deposits located along the southern part of CAGA4 while exploration drilling activities at CAGA6 an CAGA7 have been put on hold pending the conclusion of the memorandum of understanding with the indigenous people in the area which is expected to be obtained within the 2nd quarter of 2016.

SUMMARY OF ORE RESERVES AND MINERAL RESOURCES

Total Ore Reserves ending 31 December 2015

Deposit	Mineral Type	Classification	Tonnes (DMT)	Tonnes (WMT)	%Ni	%Fe
CAGA 1	Saprolite	Proved and Probable	467,000	718,000	1.36	17.65
	Limonite	Proved and Probable	1,763,000	2,713,000	0.87	48.74
CAGA 2	Saprolite	Proved and Probable	3,047,000	4,688,000	1.42	12.95
	Limonite	Proved and Probable	618,000	951,000	0.88	50.08
CAGA 3	Saprolite	Proved and Probable	1,736,000	2,671,000	1.42	15.97
	Limonite	Proved and Probable	1,312,000	2,018,000	1.05	47.29
CAGA 4	Saprolite	Proved and Probable	5,288,000	8,136,000	1.56	12.40
	Limonite	Proved and Probable	2,713,000	4,174,000	1.04	49.16
CAGA 5	Saprolite	Proved and Probable	86,000	132,000	1.25	19.29
	Limonite	Proved and Probable	761,000	1,170,000	0.94	48.68

This summary was prepared by Engr. Carlo A. Matilac who is the Senior Vice President for Operations of Platinum Group Metals Corporation. The figures reflected made reference to the Philippine Mineral Reporting Code (PMRC) Report dated 20 March 2015 as prepared for by Engr. Vicente M. Jayme. Engr. Jayme is a competent person who has sufficient experience as to the type of deposit and mineralization. He has given his consent to the public reporting of this statement concerning ore reserves estimation as well as the mine production data of the company.



Total Mineral Resources as of 31 December 2015

Operation	Deposit	PMRC Classification	Tonnes (DMT)	Tonnes (WMT)	Ni %	Fe%
SIRC						
Cagdianao Nickel Expansion Project	CAGA4	Measured	3,670,000	5,646,000	1.12	47.96
		Indicated	10,025,000	15,423,000	1.42	20.22
		Inferred	3,556,000	5,471,000	1.33	18.06
		Subtotal	17,251,000	26,540,000	1.31	27
	CAGA2	Measured	4,875,000	7,500,000	1.22	27.89
		Indicated	4,905,000	7,546,000	1.30	14.22
		Inferred	533,000	820,000	1.20	18.28
		Subtotal	10,313,000	15,866,000	1.23	23.8
	CAGA1	Measured	4,349,000	6,691,000	0.94	45.3
		Indicated	3,470,000	5,338,000	1.05	28.5
		Inferred	740,000	1,138,000	1.12	17.1
		Subtotal	8,559,000	13,167,000	1.00	36.1
	CAGA3	Measured	3,199,000	4,922,000	1.07	44.9
		Indicated	3,986,000	6,132,000	1.27	19.1
		Inferred	992,000	1,526,000	1.23	13.9
		Subtotal	8,177,000	12,580,000	1.19	28.6
	CAGA5	Measured	1,409,000	2,168,000	1.02	45.9
		Indicated	1,656,000	2,548,000	1.01	23.6
		Inferred	2,230,000	3,431,000	1.00	30.6
		Subtotal	5,295,000	8,147,000	1.01	32.5
Total Resources		Measured	25,830,000	39,738,000	1.14	39.1
		Indicated	29,183,000	44,897,000	1.27	21.6
		Inferred	11,839,000	18,214,000	1.22	19.3
		TOTAL	66,852,000	102,849,000	1.21	27.9

This summary was prepared by Edgardo G. Garcia who is a Consultant Geologist for Platinum Group Metals Corporation. Mr. Garcia is a competent person for exploration and mineral exploration under the definition of PMRC and has sufficient experience as to the type of deposit and mineralization. He has given his consent to the public reporting of this statement concerning Mineral Resource Estimation.

Note: Cut-off grades used for Estimation of Mineral Resources and Ore Reserves

For the Mineral Resource	For the Ore Reserves
Saprolite: Ni ≥ 0.80/ Fe < 48%	Saprolite: Ni ≥ 1.20%/ Fe < 30%
Limonite: Ni ≥ 0.70/ Fe ≥ 48%	Limonite: Ni<1.20%/Fe ≥ 48%; Ni≥1.20%/Fe≥30%

Mr. Joseph C. Sy
Chairman

Atty. Dante R. Bravo
President

JOINT MESSAGE FROM THE CHAIRMAN AND THE PRESIDENT

"They say the true measure of a man is not where he stands in moments of comfort and convenience but where he stands at times of adversity. The same may be said to the worth of an organization. We are happy to announce that we remained profitable last year despite the challenging environment faced by the mining industry. The nickel ore industry was severely affected by the huge drop of nickel ore prices. Right at the start of 2015, nickel ore prices dropped by more than 40% across the board, affecting all our product lines, and the prices failed to recover throughout the year. But due to sound management practices, we ended last year with a respectable performance. We have even become the second largest nickel ore producer in the country."

OPERATING RESULTS

During the past few years we have been exposing our middle-layer zones to get a better picture of our deposit. We found out that we have more middle-grade ore than initially explored which have helped us maintain our profitability during the year. A total of 5.352 million Wet Metric Tons (WMT) of nickel ore was shipped. It is broken down into 4.368 million WMT of middle-grade ore (82% of total shipment), 608 thousand WMT of low-grade ore (11% of total shipment) and 376 thousand WMT of high-grade ore (7% of total shipment). Total volume shipped was lower by 15% from the previous year as we encountered unusually heavy rainfall during the peak months of June and August. With the average price of USD26.69/WMT and lower volume, net revenue stood at USD143 million, lower by 47.6% over the high of USD273 million experienced in 2014. Prices across the board were lower by 65% year-on-year, but management's decision to tap the discovered large deposits of middle-grade ore helped the Company mitigate the low prices. We have remained profitable with earnings of PHP1.112 billion on sales of PHP6.533 billion.

We, however, will continue to prioritize mining the middle-grade ore even as we look for opportunities in other product lines.

We put emphasis on extending our mining operations way beyond 2019 with intensive exploration work. During the lull in mining in Surigao, we focused our efforts on converting resources into the reserve category. We are delighted to learn that initial indications show we have more middle-grade ores found underneath than previously thought. We expect that the Competent Person Report will be out during the third quarter of the year. This confidence will be reflected on the shift in product mix to higher valued ore in the medium term.

NICKEL PRICES

Prices continued to fall during the start of the mining season in 2015 as the expected supply deficit did not materialize. This led to a depressed commodity price environment and resulted in nickel ore miners' decision to focus on delivering higher valued ore to remain profitable. The entry of new mines during the year have also added pressure to an already depressed market. Prices went downhill. Although they appeared to have stabilized by August, most miners had already been dealt the blow of margin squeeze. We started the year with LME nickel at USD7.00/lb and nickel ore prices at USD73/WMT for high-grade ore, USD43/WMT for middle-grade ore and USD22/WMT for low-grade ore. We ended 2015 with LME at USD3.96/lb and nickel ore prices at USD38/WMT for high-grade ore, USD23/WMT for middle-grade ore and USD11/WMT for low-grade ore. These prices spilled over to early 2016.

IPILAN NICKEL

In our last Annual Stockholders' Meeting (ASM) we disclosed the planned acquisition of the Palawan mine. We are pleased to announce that we have proceeded with the acquisition of Ipilan Nickel Corporation (INC) without waiting for the Follow On Offering (FOO) to materialize. We have advanced the permitting process and secured approval from the Mines Geosciences Bureau (MGB) to develop the area. We are now finalizing engineering plans for approval to start operations. Concurrent to that is our capital raising exercise with emphasis on debt. We have been conservative in our long term debt recognizing the commodity risks in the business, but we feel that the high-grade nature of the Palawan mine offers us stronger ability to carry and service our indebtedness for the Palawan mine. We have kept our commitment. And we will expand our operations as recommended in the third-party Competent Person Report.

COST OPTIMIZATION

As part of our drive to improve competitiveness, the Company initiated cost-cutting measures, productivity enhancement and over-all optimization programs geared towards improving productivity and margins. The fruits of our efforts are being felt with our costs-per-ton expected to drop and with our new set of contractors digging in to produce the most ton with the lowest wastage at the least cost. We beefed up our grade control as the Company is now running the whole operation. Our contractors are only mining in the areas we have programmed, their movements limited to what we have designed. We also took control of barging operations to reduce queues at the two causeways and to avoid concentration of barge time to certain contractors. We expect these moves to result in lower-unit operating costs and better operating margins for the Company.

OUTLOOK

At the start of 2016 both the London Metals Exchange (LME) and nickel ore prices were weak. Prices had lows of USD3.46/lb on LME as global economic fears focusing on China's slowdown hug the news. Spurned by the pump-priming activities of the Chinese government, signs of recovery have been sprouting all over. Ore prices started to recover with low-grade-high-iron ore moving up by more than 20%. We view these developments in China to be positive for the demand for nickel and nickel ore in general.

We are optimistic that the consumption-led recovery in China will boost demand for stainless steel products - from catering and appliances (38% of end use) to architectural, building and construction (17% of end use) and to transportation (12% of end use). With tightness of supply impacting the end users, nickel ore prices have been diverging away from LME price behavior and trading at a premium. There is an air of growth in China. We are upbeat that prices this year will recover.

ENVIRONMENTAL PROTECTION

We are conscious of our role as stewards of our environment. To this end we keep in mind key facets in ecological protection. We employ land, water, air and waste management. We monitor the environment. We do research. We train people so they could recreate if not refine the flora and fauna. We put in place an adopt-a-river program to dredge up waste materials and stabilize the river bank to avoid disasters.

Our mining forest and greening program (114% accomplishment or 91 hectares actual vs. 80 hectares committed), maintenance of re-vegetated areas (104% accomplishment or 104 hectares actual vs. 100 hectares committed), and slope stabilization (108% accomplishment or 6.5 hectares actual vs. 6 hectares committed) are all critical in the land facet of environmental protection. Our land accomplishment is already at 106% of what we have promised to do in our Annual Environmental Protection and Enhancement Program (AEPEP) for 2015. In terms of water, we have achieved a 105% accomplishment. This involved construction and maintenance of various mitigating measures like settling ponds (4 actual vs. 6 target), in-pit check dams (2 actual vs. 2 target), drainage check dams (6 actual vs. 10 target), sumps (6 actual vs. 10 target), silt traps (27 actual vs. 15 target), and curtain canals (3.16 actual vs. 2 target). Our coastal resource management has achieved 116% accomplishment through mangrove plantation (46,239 seedlings actually planted vs. target of 40,000). On air management, we have achieved 119% accomplishment (as we graveled 21.42 km. vs. 10 km. target and street sweeping of 3,482 man-days vs. target of 2,340 man-days). As regards actual physical measures and mitigating structures, we are above the requirement.

With respect to other facets like waste management, adopt-a-river program, environmental monitoring and research and training, our scores are passing but measures are now employed to improve on them. We are taking steps to excel as well in the deficient facets to elevate results.

SOCIAL DEVELOPMENT

In 2015 a total of PHP43.98 million was spent for the Annual Social Development and Management Program (ASDMP) of the Company. As part of our continuing efforts to provide social development to our host communities and other stakeholders, we have contributed to programs like mass weddings, brigada eskwela, children's Christmas programs and the like. We have embarked on a research study to enhance livelihood projects in Cagdianao and Hayanggabon and commissioned the crafting of a 5-year Barangay Development Plan for the two barangays covering the 2016-2020 period. Aside from this, we have given away 34 college scholarships for deserving students of the host barangays.

The bulk of the budget involved the development of host and neighboring communities wherein the Company spent PHP24.438 million for health, education, livelihood, public utilities and socio-cultural preservation service. This included the expansion of the birthing clinic and the completion of the 2nd storey classroom building of Hayanggabon Elementary School. Along with the structures, we provided the salaries for community doctor, midwives, nutritionist, health workers, ambulance drivers and others. The Company has been working with the local government in providing services to the communities as part of our contract and commitment to social development.

We value our community and we profess our unwavering support to provide them structures and services for a brighter future with quality education at the core.

IP DEVELOPMENT

We have been religiously remitting royalty payments equivalent to 1.0% of sales to the National Commission on Indigenous People (NCIP). These payments are divided evenly between the Manobo and the Mamanwa tribes within the locality of our Surigao mine. For 2015 we paid a total of PHPh65.326 million. These tribes are included in our social development plans. We have been providing them jobs at the mine site involving less critical areas that suit their skills. They each have their own villages that are organized with facilities catering to their needs like schools, health centers and meeting places. We are committed to upholding their economic interests, cultures and human rights. Gone were the days when you would see them scouring the mountains for food and produce. They now work. Their children go to schools. Some even proceed to colleges. They are a lot better off than they were before. Most importantly, even as they grow into a vibrant community, they get to keep their traditions and festivities. This transformation defines the rewarding relationship among the Company, indigenous peoples and the NCIP.

ACKNOWLEDGEMENT

"This was a trying year for the Company. Our resolve was put to a test. But these were the times our values stood out as well. Despite market volatility and other challenges, we proved resilient in our efforts to bring value to the Company.

Throughout this journey, we acknowledge the loyalty, dedication and hard work of our professional team of officers, managers, supervisors and workers. Each one is a vital cog in the wheel, without whose efforts the Company would have been hard-pressed to get things done in a timely and efficient manner. We also acknowledge our Directors for their wisdom, innovation and commitment to uphold ethical corporate governance and internationally-accepted best practices. Finally, we thank our shareholders for their unwavering trust and continuing support.

As we move forward as a leaner but stronger organization, we are excited to take on positive developments, drawing strength from our greatest resource: our people."

Joseph C. Sy
CHAIRMAN

Dante R. Bravo
PRESIDENT

BOARD OF DIRECTORS

Joseph C. Sy
Chairman

Mr. Sy became Chairman of the Company and PGMC on August 6, 2015 and August 10, 2015, respectively. He served as President of PGMC and the Company in 2011 and on August 29, 2014, respectively. He is also a Director of INC and the Director of Mining for the Philippine Chamber of Commerce and Industry. Mr. Sy has more than 14 years of experience in managing companies engaged in mining and mineral exploration and development.

Dante R. Bravo
President

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

Mary Belle D. Bituin
Chief Financial Officer and Treasurer

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

Francis C. Chua
Director

Mr. Chua became a Director of the Company on October 22, 2014. He is the Honorary Consulate General of the Republic of Peru, the Honorary President of the Federation of Filipino Chinese Chamber of Commerce and Industry and President Emeritus of the Chamber of Commerce of the Philippines Foundations. Mr. Chua also served as Special Envoy on Trade and Investments on China. He completed a Bachelor of Science in Industrial Engineering from the University of the Philippines, College of Engineering and doctorate degrees in Humanities and Business Technology from the Central Luzon State University and the Eulogio Amang Rodriguez Institute of Science and Technology, respectively.

Shirley Solis-Sin
Director

Ms. Solis-Sin became a Director of the Company on October 22, 2014. She was Vice President and Treasurer of Bread Z Global Philippines, Inc., Corporate Secretary of CIESB, Inc., Vice President of Jiang Tuo Mining Philippines, Inc. and Vice President of Gae-K Group, Inc. Ms. Solis completed a Business Administration degree from Eulogio "Amang" Rodriguez Institute of Science and Technology.

BOARD OF DIRECTORS

Gu Zhi Fang
Director

Ms. Gu Zhi Fang became a Director of the Company on October 22, 2014. She has served as General Manager of Ferrochrome Resources, Inc. since 2011. She has also been a Director and General Manager of Jiangsu Lianhua Paper Ltd., Wujiang, Jiangsu Province, China. She completed a degree in International Trade from Suzhou University.

Yuqiang Xie
Director

Mr. Xie became a Director of the Company on October 22, 2014. He was Finance Director of Guangdong Century Tsinghshan Nickel Industry Co., Ltd., Director of the Ping An Bank – Fuzhou branch from 2010 to 2011 and Assistant Governor of the Plan Finance Department of the China Everbright Bank – Fuzhou branch from 1999 to 2010.

Dennis Allan T. Ang
Director

Mr. Ang became a Director of the Company on August 10, 2015. He is the Corporate Secretary of Maxima Machineries, Inc. and the System Architect and Lead Programmer of Engagement Workflow System Architecture Development. He founded Full Metro Gear Corp. and Engagement, Inc. in 2014 and 2007, respectively. He occupied several key positions in Asian Institute of Management from 2001 to 2006. Mr. Ang completed a Bachelor of Science in Management Information Systems from Ateneo de Manila University and a Master in Business Administration from Asian Institute of Management.

Miguel B. Varela
Independent Director

Mr. Varela became a Director of the Company on October 22, 2014. He holds the following positions: Chairman, Philippine Chamber of Commerce and Industry; Chairman, Employers Confederation of the Philippines; Trustee, Philippine Trade Foundation, Inc.; President, Philippine Association of Voluntary Arbitration Foundation, Inc.; Chairman, Philippine Dispute Resolution Center, Inc.; Chairman, GS1 Philippines; Vice Chairman/Trustee, Foundation for Crime Prevention; Employers' Representative, Employees' Compensation Commission and the Occupational Safety and Health Board; Private Sector Representative, Legislative Executive Development Council; Vice President, International Labor Organization Foundation, Inc.; Lifetime Member, Philippine Constitution Association; Member, Philippine Bar Association; and Director, Makati Rotary Club. Mr. Varela completed an Associate in Liberal Arts degree from San Beda College and a Bachelor of Laws from the University of the East, College of Law.

Roberto C. Amores
Independent Director

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

OTHER EXECUTIVE OFFICERS

Noel B. Lazaro
Senior Vice President for Legal and Regulatory Affairs
Corporate Secretary, Compliance Officer and Corporate Information Officer

Mr. Lazaro became the Corporate Secretary, Compliance Officer and Corporate Information Officer of the Company on October 22, 2014. He also acts as its Senior Vice President for Legal and Regulatory Affairs. He joined PGMC as General Counsel on August 1, 2014. He is a Director and Corporate Secretary of Southeast Palawan Nickel Ventures, Inc. and Ipilan Nickel Corporation. Mr. Lazaro was Partner at Siguion Reyna Montecillo & Ongsiako, Associate at SyCip Salazar Hernandez & Gatmaitan and Professorial Lecturer for the Lyceum of the Philippines College of Law, and for the De la Salle University Graduate School of Business and Far Eastern University Institute of Law, Master of Business Administration-Juris Doctor Dual Degree Program. He completed his Bachelor of Laws from the University of the Philippines College of Law and placed 19th in the 1995 Philippine Bar Examinations.

Carlo A. Matilac
Senior Vice President for Operations

Mr. Matilac became Senior Vice President for Operations on August 1, 2014. Mr. Matilac served as Technical Specialist for BHP Billiton and QNI, and Mine Engineering Superintendent for Manila Mining Corp. Mr. Matilac has more than 19 years of technical and engineering experience in managing companies engaged in mining and mineral exploration and development. He completed a Master in Business Administration from the Saint Paul University and a Bachelor of Science in Mining Engineering in Cebu Institute of Technology. He placed 1st in the 1994 Mining Engineer Licensure Examinations.

Ramon Peter E. Adviento
Senior Vice President for Investor Relations

Mr. Adviento joined the Company in November 2015 as Senior Vice President for Investor Relations. Mr. Adviento has over 18 years of experience in mine planning and design, mining operation, rehabilitation and consultancy for copper, gold, nickel, chromite and coal, and 14 years in investment banking industry as analyst and investment banker. He was voted Best Mining Analyst by the Fund Management Association of the Philippines from 2012 to 2015. He was Vice President, Senior Analyst in Maybank ATR Kim Eng and Vice President, Head of Operations in Century Peak Metal Holdings Corp. He completed a Bachelor of Science in Engineer of Mines from the University of the Philippines and a Master in Business Management from the Asian Institute of Management. He placed 7th in the 1990 Mining Engineer Licensure Examinations.

Eveart Grace Pomarin-Claro
Assistant Corporate Secretary and Alternate Corporate Information Officer

Ms. Pomarin-Claro became the Assistant Corporate Secretary and Alternate Corporate Information Officer of the Company on September 10, 2014. Atty. Pomarin-Claro served as the Corporate Secretary of the Company from February 1, 2014 to August 29, 2014. She is the Assistant Corporate Secretary of PGMC and Surigao Integrated Resources Corporation and the Corporate Secretary of Ipilan Nickel Corporation, Nickel Laterite Resources, Inc. and Celestial Nickel Mining Exploration Corporation. She completed a Bachelor of Laws from the University of St. La Salle.

FEATURE STORY

OUR INDIGENOUS PEOPLE (IP) COMMUNITY

Nestled on top of a small hill overlooking Hinadkaban Bay and near the mouth of Kinalablaban River in Brgy Cagdianao, Claver, Surigao del Norte is a bustling community over a thousand Mamanwa Lumads. Their place is called Punta Naga. From just a knob on the hill filled with ferns, brushes and brush trees but with fantastic views of the Bay, the limestone and white sand beaches of Bucas Grande Island and of the Pacific Ocean bearing down on the beaches and cliffs of Surigao del Norte, the area has undergone a major transformation with the entry of Platinum Group Metals Corp. (PGMC)

The Mamanwa Lumads have come down the mountains and hills behind Claver where their major sources of livelihood were wood gathering, charcoal making and rattan gathering. It was such a difficult way of life given the challenges of transporting their produce and making enough money to support their families. And to add to that, while in the mountains, they have limited access to vital government services such as healthcare, education and other social welfare programs.

When PGMC started mining in 2006, and with the first shipment of nickel ore in 2007, the Mamanwa Lumads started to trickle into the mining areas. The first group of settlers chose Punta Naga as it straddles the operations of the largest nickel endowment in the region. And given their status as members of the indigenous population, they are assured of a better way of life through the strength of the Indigenous Peoples' Rights Act of 1997 (Republic Act 8371).

RA 8371 gives the National Commission on Indigenous Peoples (NCIP) supervision over areas, which have been declared to be the dominion of the Indigenous People (IP) thru the approval of the Certificate of Ancestral Domain Title (CADT). The CADT over an area would provide the IP with rights, primary of which is the royalty of one percent (1.0%) over all natural resources extracted from their CADT. The Surigao Mineral District is covered by a CADT. In mining operations over their CADT they will also be beneficiaries of the Social Development Management Program (SDMP).

Instead of toiling in the mountains they have come down and settled on the hill with a beautiful view. With PGMC as their host, the Mamanwa Lumads are given the opportunity and resources to build homes. They now have access to healthcare, education and are beneficiaries of the Company's many socio-civic initiatives. Jobs at the mine are also made available to them should they wish to seek employment. They have chosen mostly seasonal jobs that will not require them to be at work all the time. These include menial work of covering the nickel ore stockpiles with tarpaulin in the event of rain, assisting in stevedoring jobs during the loading of nickel ore into the bulk carriers and assisting the grade control work in the mine.

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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 AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Global Ferronickel Holdings, Inc. (formerly Southeast Asia Cement Holdings, Inc.) and Subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2015 and 2014, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the year ended December 31, 2015, six months ended December 31, 2014 and year ended June 30 2014, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Philippine Financial Reporting Standards, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Global Ferronickel Holdings, Inc. and Subsidiaries as at December 31, 2015 and 2014, and their financial performance and their cash flows for the year ended December 31, 2015, six months ended December 31, 2014 and year ended June 30, 2014 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Jaime F. del Rosario
Partner
CPA Certificate No. 56915
SEC Accreditation No. 0076-AR-3 (Group A),
March 21, 2013, valid until April 30, 2016
Tax Identification No. 102-096-009
BIR Accreditation No. 08-001998-72-2015,
March 24, 2015, valid until March 23, 2018
PTR No. 5321628, January 4, 2016, Makati City

April 8, 2016

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Amounts in Thousands)

	December 31	
	2015	2014 (As restated, Note 2)
ASSETS		
Current Assets		
Cash (Note 4)	**₱502,876**	₱691,869
Trade and other receivables (Note 5)	**700,770**	324,468
Current portion of finance lease receivable (Note 18)	**167,949**	95,910
Advances to related parties (Note 29)	**1,639,231**	1,767,858
Inventories - at cost (Note 6)	**643,783**	246,042
Prepayments and other current assets (Note 7)	**15,477**	55,345
Total Current Assets	**3,670,086**	3,181,492
Noncurrent Assets		
Property and equipment (Note 8)	**2,048,979**	2,305,893
Deposits for future acquisition (Note 29a)	**1,651,247**	–
Mining rights (Note 9)	**301,605**	396,500
Finance lease receivable - net of current portion (Note 18)	**319,593**	770,814
Investment property (Note 10)	**319,865**	319,865
Mine exploration costs (Note 11)	**140,790**	140,659
Deferred income tax assets - net (Note 30)	**97,785**	43,263
Available-for-sale (AFS) financial assets (Note 12)	**5,903**	8,854
Other noncurrent assets (Note 13)	**529,160**	487,531
Total Noncurrent Assets	**5,414,927**	4,473,379
TOTAL ASSETS	**₱9,085,013**	₱7,654,871
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Notes 14 and 33)	**₱792,661**	₱1,107,819
Current portion of bank loans (Note 15)	**987,350**	573,865
Amounts owed to related parties (Note 29)	**624,211**	344,293
Dividends payable (Note 19)	**20,287**	20,287
Current portion of finance lease liabilities (Note 18)	**14,994**	26,451
Income tax payable	**1,063**	4,101
Total Current Liabilities	**2,440,566**	2,076,816
Noncurrent Liabilities		
Bank loans - net of current portion (Note 15)	**7,234**	46,361
Provision for mine rehabilitation and decommissioning (Note 16)	**58,259**	60,212
Retirement obligation (Note 17)	**39,985**	30,101
Finance lease liabilities - net of current portion (Note 18)	–	14,994
Other noncurrent liabilities (Note 33)	**1,095**	357
Total Noncurrent Liabilities	**106,573**	152,025
Total Liabilities	**2,547,139**	2,228,841
Equity		
Capital stock (Note 19)	**6,113,455**	6,113,455
Valuation gain on AFS financial assets (Note 12)	–	506
Gain on remeasurement of retirement obligation	**2,277**	1,675
Retained earnings (deficit) (Note 19)	**422,160**	(696,966)
Treasury stock (Note 19)	**(18)**	(18)
Equity attributable to the Equity holders of Global Ferronickel Holdings, Inc. (GFHI; the Parent Company)	**6,537,874**	5,418,652
Non-controlling interest (NCI)	–	7,378
Total Equity	**6,537,874**	5,426,030
TOTAL LIABILITIES AND EQUITY	**₱9,085,013**	₱7,654,871

See accompanying Notes to Consolidated Financial Statements.

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2015, SIX MONTHS ENDED DECEMBER 31, 2014 AND YEAR ENDED JUNE 30, 2014
(Amounts in Thousands)

	December 31		June 30
	2015	2014	2014
SALE OF ORE (Note 33)	**₱6,533,218**	₱9,047,476	₱5,667,768
COST OF SALES (Note 21)	**3,574,596**	2,556,640	2,514,842
GROSS PROFIT	**2,958,622**	6,490,836	3,152,926
OPERATING EXPENSES			
Excise taxes and royalties (Note 22)	**906,351**	1,258,746	795,893
General and administrative (Note 23)	**629,788**	237,316	430,546
Shipping and distribution (Note 24)	**166,471**	63,749	202,243
	1,702,610	1,559,811	1,428,682
FINANCE INCOME (Notes 4 and 18)	**9,431**	3,465	7,956
FINANCE COSTS (Note 27)	**(88,891)**	(73,323)	(202,058)
OTHER INCOME (CHARGES) - net (Note 28)	**(115,500)**	(77,424)	209,164
INCOME BEFORE INCOME TAX	**1,061,052**	4,783,743	1,739,306
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 30)			
Current	**4,081**	6,673	142
Deferred	**(54,779)**	(39,977)	68,835
	(50,698)	(33,304)	68,977
NET INCOME	**1,111,750**	4,817,047	1,670,329
OTHER COMPREHENSIVE INCOME (LOSS)			
Item that may be reclassified to profit or loss in subsequent periods:			
Valuation gain (loss) on AFS financial assets (Note 12)	**(506)**	(337)	4,174
Item that will not be reclassified to profit or loss in subsequent periods:			
Remeasurement gain (loss) on retirement obligation (Note 17)	**857**	(6,224)	204
Income tax effect	**(257)**	1,867	(61)
	600	(4,357)	143
	94	(4,694)	4,317
TOTAL COMPREHENSIVE INCOME	**₱1,111,844**	₱4,812,353	₱1,674,646
Net Income Attributable To:			
Equity holders of the Parent Company	**₱1,111,750**	₱4,809,681	₱1,667,776
NCI	–	7,366	2,553
	₱1,111,750	₱4,817,047	₱1,670,329
Total Comprehensive Income Attributable To:			
Equity holders of the Parent Company	**₱1,111,844**	₱4,804,995	₱1,672,087
NCI	–	7,358	2,559
	₱1,111,844	₱4,812,353	₱1,674,646
Basic/Diluted Earnings Per Share on Net Income Attributable to Equity Holders of the Parent Company (Note 20)	**₱0.06**	₱0.66	₱0.24

See accompanying Notes to Consolidated Financial Statements.

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2015, SIX MONTHS ENDED DECEMBER 31, 2014 AND YEAR ENDED JUNE 30, 2014
(Amounts in Thousands)

	Equity Attributable to Equity Holders of the Parent Company									
	Capital Stock (Note 19)	Additional Paid-in Capital (APIC) (Note 19)	Tresury Stock (Note 19)	Valuation Gain (Loss) on AFS Financial Assets (Note 12)	Gain (Loss) on Remeasurement of Retirement Obligation	Equity Reserve (Note 19)	Retained Earnings (Deficit) (Note 19)	Total	**NCI**	Total Equity
Balances at June 30, 2013	₱2,451,372	₱127,171	(₱18)	(₱3,326)	₱5,882	(₱1,878,341)	₱4,358,289	₱5,061,029	₱6,868	₱5,067,897
Net income for the year	–	–	–	–	–	–	1,667,776	1,667,776	2,553	1,670,329
Other comprehensive income - net of tax	–	–	–	4,168	143	–	–	4,311	6	4,317
Total comprehensive income	–	–	–	4,168	143	–	1,667,776	1,672,087	2,559	1,674,646
Dividend declaration	–	–	–	–	–	–	(5,061,301)	(5,061,301)	(7,749)	(5,069,050)
Balances at June 30, 2014	2,451,372	127,171	(18)	842	6,025	(1,878,341)	964,764	1,671,815	1,678	1,673,493
Net income for the period	–	–	–	–	–	–	4,809,681	4,809,681	7,366	4,817,047
Other comprehensive loss for the period- net of tax	–	–	–	(336)	(4,350)	–	–	(4,686)	(8)	(4,694)
Total comprehensive income (loss) for the period	–	–	–	(336)	(4,350)	–	4,809,681	4,804,995	7,358	4,812,353
Issuance of shares through Share Swap, As restated (Notes 1 and 2)	3,662,083	1,695,121	–	–	–	(5,357,204)	–	–	–	–
Assumption and cancellation of GFHI receivables	–	–	–	–	–	(2,589,722)	–	(2,589,722)	–	(2,589,722)
Effect of acquisition of net assets of the accounting acquiree	–	–	–	–	–	2,605,460	–	2,605,460	–	2,605,460
Application of APIC and retained earnings to equity reserve	–	(1,822,292)	–	–	–	7,210,807	(5,388,515)	–	–	–
Issuance of shares by Platinum Group Metals Corporation (PGMC)	–	–	–	–	–	9,000	–	9,000	–	9,000
Dividend declaration	–	–	–	–	–	–	(1,082,896)	(1,082,896)	(1,658)	(1,084,554)
Balances at December 31, 2014, As restated (Note 2)	6,113,455	–	(18)	506	1,675	–	(696,966)	5,418,652	7,378	5,426,030
Net income for the year	–	–	–	–	–	–	1,111,750	1,111,750	–	1,111,750
Other comprehensive income (loss) - net of tax	–	–	–	–	600	–	–	600	–	600
Unrealized gains transferred from equity to consolidated statements of comprehensive income	–	–	–	(506)	–	–	–	(506)	–	(506)
Total comprehensive income (loss)	–	–	–	(506)	600	–	1,111,750	1,111,844	–	1,111,844
Dilution of NCI (Note 1)	–	–	–	–	2	–	7,376	7,378	(7,378)	–
Balances at December 31, 2015	₱6,113,455	₱–	(₱18)	₱–	₱2,277	₱–	₱422,160	₱6,537,874	₱–	₱6,537,874

See accompanying Notes to Consolidated Financial Statements.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015, SIX MONTHS ENDED DECEMBER 31, 2014 AND YEAR ENDED JUNE 30, 2014

(Amounts in Thousands)

	December 31		June 30
	2015	2014	2014
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱1,061,052**	₱4,783,743	₱1,739,306
Adjustments for:			
Depreciation, depletion and amortization (Notes 8, 9 and 26)	**594,483**	92,683	216,890
Loss on modification of finance lease receivable (Notes 18 and 28)	**86,885**	–	–
Interest expense (Note 27)	**75,716**	55,348	150,732
Interest income (Notes 4 and 18)	**(9,431)**	(3,469)	(7,956)
Retirement benefits costs (Notes 17 and 25)	**9,368**	3,195	6,215
Loss (gain) on disposals of property and equipment (Notes 8 and 28)	**6,327**	(91)	159
Unrealized foreign exchange gains - net	**(3,040)**	26,231	(205,543)
Impairment loss on AFS financial assets (Notes 12 and 28)	**2,445**	–	–
Amortization of discount on bank loans (Note 27)	**2,068**	6,650	20,805
Accretion interest on provision for mine rehabilitation and decommissioning (Notes 16 and 27)	**1,117**	549	1,279
Levelization of rental expense	**743**	(34)	323
Operating income before changes in working capital	**1,827,733**	4,964,805	1,922,210
Decrease (increase) in:			
Trade and other receivables	**(403,448)**	563,990	(599,417)
Inventories - at cost	**(397,741)**	51,065	(58,088)
Prepayments and other current assets	**39,868**	(187,487)	(98,807)
Increase (decrease) in trade and other payables	**(210,403)**	(1,997,001)	772,402
Net cash generated from operations	**856,009**	3,395,372	1,938,300
Interest paid	**(73,848)**	(58,304)	(144,739)
Income taxes paid	**(7,119)**	(2,855)	(66)
Interest received	**1,202**	1,045	813
Retirement benefits paid (Note 17)	**(90)**	(3,819)	(4,201)
Net cash flows from operating activities	**776,154**	3,331,439	1,790,107
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to:			
Property and equipment (Notes 8 and 37)	**(31,146)**	(86,198)	(803,778)
Mine exploration costs (Note 11)	**(131)**	–	(72,021)
Decrease(increase) in:			
Advances to related parties	**(1,499,565)**	(2,003,156)	(772,274)
Deposits for future acquisition (Notes 29 and 37)	**(23,055)**	–	–
Other noncurrent assets	**(44,135)**	(34,481)	149,894
Proceeds from insurance of property and equipment (Note 8)	**1,582**	227	–
Cash inflow from acquisition of net assets of accounting acquiree (Parent Company)	–	20,322	–
Net cash flows used in investing activities	**(1,596,450)**	(2,103,286)	(1,498,179)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from:			
Availments of bank loans (Note 15)	**2,393,284**	302,935	432,400
Issuance of capital stock	–	9,000	–
Payments of bank loans	**(1,989,598)**	(1,074,621)	(632,449)
Increase (decrease) in:			
Amounts owed to related parties	**279,982**	24,710	78,693
Finance lease liabilities	**(26,451)**	(19,597)	(28,707)
Other noncurrent - liabilities	–	(282)	–
Net cash flows from (used in) financing activities	**657,217**	(757,855)	(150,063)
NET INCREASE (DECREASE) IN CASH	**(163,079)**	470,298	141,865
EFFECT OF EXCHANGE RATE CHANGES ON CASH (Note 28)	**(25,914)**	(11,593)	(14,048)
CASH AT BEGINNING OF YEAR (Note 4)	**691,869**	233,164	105,347
CASH AT END OF YEAR	**₱502,876**	₱691,869	₱233,164

See accompanying Notes to Consolidated Financial Statements.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

The Parent Company

GFHI (formerly Southeast Asia Cement Holdings, Inc) 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.

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 GFHI (the Subject Shares), comprising the entirety of their respective shareholdings and representing 89.82% of the total issued and outstanding capital stock of GFHI.

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 GFHI and filed a Tender Offer Report with the SEC and PSE. The Tender Offer period lapsed last October 10, 2014 where 204,264 common shares were tendered to the Thirteen Stockholders (the Tendered Shares). After the lapse of the tender offer period, the Thirteen Stockholders completed the purchase of the Subject Shares in accordance with the Share Purchase Agreement. The Subject and Tendered Shares were crossed through the PSE on October 15, 2014.

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

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

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

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

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

GFHI and PGMC Share-for-Share Swap (Share Swap) Transaction
On October 23, 2014, GFHI executed a Deed of Exchange for a Share Swap with the Thirteen Stockholders of PGMC. GFHI 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 GFHI 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 GFHI to the Thirteen Stockholders amounted to ₱3,662.1 million.

The shares issued by GFHI 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, GFHI entered into two (2) MOAs with the following:

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

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

On February 26, 2015, the Group's stockholders representing 71.64% of the total issued shares unanimously approved and ratified the above planned acquisitions.

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 GFHI 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, GFHI 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 GFHI 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 GFHI 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 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 has already been secured during the Corporation's Special Stockholders' Meeting held last February 26, 2015.

As at December 31, 2015, the Parent Company has made various cash advances for the acquisition of SPNVI and treated these advances as deposits for future acquisition amounting to ₱1,628.1 million (see Note 29). The acquisition of SPNVI will be finalized in 2016.

<u>The Subsidiaries</u>
PGMC
PGMC was registered with the SEC on February 10, 1983. PGMC's primary purpose is "to prospect, explore, locate, acquire, hold, work, develop, lease, operate and exploit mineral lands for chromite, copper, manganese, magnesite, silver, gold, and other precious and non-precious minerals; 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, exchange or otherwise deal in chromite, copper, manganese, magnesite, silver, gold and other mineral products". Pursuant to this purpose, PGMC acquired control and currently operates the mining tenement containing nickel ore located in Surigao del Norte.

Registration with the Board of Investments (BOI)
On November 16, 2007, PGMC was registered with the BOI as a new producer of beneficiated nickel ore on a non-pioneer status on its Surigao registered nickel project (see Note 34).

PGMC has been certified by BOI as a qualified enterprise for the purpose of value-added tax (VAT) zero-rating of its transactions pursuant to the terms and conditions set forth by the BOI. On February 17, 2015, PGMC received the renewed certification of BOI for the VAT zero-rated status (see Note 33).

On July 23, 2014, PGMC received the approval for the extension of its one (1) year income tax holiday (ITH) starting November 16, 2014 to November 15, 2015.

Increase in Authorized Capital Stock
In March 2015, PGMC applied for an increase in authorized capital stock, from ₱715.4 million, consisting of 12,522,318,274 shares, to ₱1,515.4 million, consisting of 92,522,318,274 shares by increasing the number of Class A common shares by 80,000,000,000 shares. The increase was approved by the Philippine SEC on May 19, 2015.

On April 22, 2015, GFHI subscribed for an additional 20,000,000,000 Class A common shares with a par value of ₱0.01 amounting to a total of ₱200.0 million and paid a total amount of ₱50.0 million out of the subscribed shares. There was no additional subscription of shares from the increase in authorized capital stock of PGMC by the NCI which resulted to its dilution as at December 31, 2015.

As a result, PGMC is 99.98% and 99.89%, owned by GFHI as at December 31, 2015 and 2014, respectively.

Surigao Integrated Resources Corporation (SIRC)
SIRC is a one hundred percent (100%)-owned subsidiary of PGMC and was organized in July 1999 and duly 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.

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

PGMC-CNEP Shipping Services Corp. (PCSSC)
On June 4, 2013, PGMC incorporated PCSSC, its wholly owned subsidiary. It was registered with the SEC, primarily 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 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, SIRC and PCSSC are hereinafter collectively referred to as PGMC Group. PGMC Group's registered address is the same as that of the Parent Company.

The accompanying consolidated financial statements of GFHI and Subsidiaries (the Group) as at December 31, 2015 and 2014 and for the year ended December 31, 2015, six months ended December 31, 3014 and year ended June 30, 2014 were authorized for issue by the BOD on April 8, 2016.

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

<u>Basis of Preparation</u>
The accompanying consolidated financial statements have been prepared on a historical cost basis, except for quoted AFS financial assets, which are carried at fair value. The consolidated financial statements are presented in Philippine peso, which is the Group's functional and presentation currency under the Philippine Financial Reporting Standards (PFRS). 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, GFHI and the Thirteen Stockholders of PGMC entered into a Share Swap that resulted to GFHI 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 19 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 year ended December 31, 2015, six months ended December 31, 2014 and for the year ended June 30, 2014 reflect that of the PGMC Group for the full period. The six months ended December 31 2014 includes the post-combination results of GFHI (e.g. for the period from December 22, 2014 to December 31, 2014).

Reverse acquisition applies only to the consolidated financial statements. The Parent Company financial statements will continue to represent GFHI as a stand-alone entity as at December 31, 2015 and 2014.

Statement of Compliance

The accompanying consolidated financial statements of the Group have been prepared in compliance with PFRS.

Basis of Consolidation

The consolidated financial statements include the accounts of the Parent Company and its subsidiaries after eliminating significant intercompany balances and transactions. These subsidiaries are all based in the Philippines and are duly registered with the SEC. The financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company, using uniform and consistent accounting policies.

Control is achieved when the Parent Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Parent Company controls an investee if, and only if, the Parent Company has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

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

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

The Parent Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Parent Company obtains control over the subsidiary and ceases when the Parent Company loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Parent Company gains control until the date the Parent Company ceases to control the subsidiary.

All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated in full.

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

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, NCI and other components of equity while any resultant gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations based on International Financial Reporting Interpretations Committee (IFRIC) and improvements to PFRS which were adopted as at January 1, 2015 and the accounting for equity reserve as a result of reverse acquisition.

- PAS 19, *Employee Benefits - Defined Benefit Plans: Employee Contributions* (Amendments)
  PAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is not relevant to the Group, since the Group has no defined benefit plans with contributions from employees or third parties.

Annual Improvements to PFRSs (2010-2012 cycle)
The Annual Improvements to PFRSs (2010-2012 cycle) are effective for annual periods beginning on or after January 1, 2015 and have no material impact on the Group's consolidated financial statements. They include:

- PFRS 2, *Share-based Payment - Definition of Vesting Condition*
  This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

  - A performance condition must contain a service condition.
  - A performance target must be met while the counterparty is rendering service.
  - A performance target may relate to the operations or activities of an entity, or to those of another entity in the same company.
  - A performance condition may be a market or non-market condition.
  - If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

- PFRS 3, *Business Combinations - Accounting for Contingent Consideration in a Business Combination*
  The amendment is applied prospectively for business combinations for which the acquisition date is on or after July 1, 2014. It clarifies that a contingent consideration that is not classified as equity is subsequently measured at FVPL whether or not it falls within the scope of

PAS 39, *Financial Instruments: Recognition and Measurement* (or PFRS 9, *Financial Instruments*, if early adopted). The Group shall consider this amendment for future business combinations.

- PFRS 8, *Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*
  The amendments are applied retrospectively and clarify that:

  - An entity must disclose the judgments made by management in applying the aggregation criteria in the standard, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are "similar".
  - The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

- PAS 16, *Property, Plant and Equipment, and* PAS 38, *Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Depreciation and Amortization*
  The amendment is applied retrospectively and clarifies in PAS 16 and PAS 38 that the asset may be revalued by reference to the observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset.

- PAS 24, *Related Party Disclosures - Key Management Personnel*
  The amendment is applied retrospectively and clarifies that a management entity, which is an entity that provides key management personnel services, is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

Annual Improvements to PFRSs (2011-2013 cycle)
The Annual Improvements to PFRSs (2011-2013 cycle) are effective for annual periods beginning on or after January 1, 2015 and do not have an impact on the Group's consolidated financial statements. They include:

- PFRS 3, *Business Combinations - Scope Exceptions for Joint Arrangements*
  The amendment is applied prospectively and clarifies the following regarding the scope exceptions within PFRS 3:

  - Joint arrangements, not just joint ventures, are outside the scope of PFRS 3.
  - This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

- PFRS 13, *Fair Value Measurement - Portfolio Exception*
  The amendment is applied prospectively and clarifies that the portfolio exception in PFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of PAS 39 (or PFRS 9, if early adopted).

- PAS 40, *Investment Property*
  The description of ancillary services in PAS 40 differentiates between the investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that PFRS 3, and not the description of ancillary services in PAS 40, is used to determine if the transaction is the purchase of an asset or business combination. The description of ancillary services in PAS 40 only differentiates between investment property and owner-occupied property (i.e., property, plant and equipment).

Accounting for Equity Reserve
Any difference between the consideration transferred by GFHI and the legal capital of PGMC that is eliminated is reflected as “Equity reserve” (see Note 19). In 2015, the Group changed the accounting treatment for equity reserve as a result of change in the valuation of investment in a subsidiary (PGMC) of the Parent Company acquired through Share Swap from ₱6,565.7 million to ₱7,946.9 million. Management assessed that the investment in a subsidiary should be measured using the original carrying amount of the investment in a subsidiary in the Thirteen Stockholder’s separate financial statements since the Share Swap is considered as common control transaction.

The change made is accounted for as change in accounting policy and has been applied retrospectively in accordance with PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*. In 2015, management retrospectively applied its existing APIC to equity reserve with the excess applied to retained earnings amounting to ₱1,822.3 million and ₱5,388.5 million, respectively.

The composition of equity reserve, APIC and retained earnings in the consolidated financial statements are as follows:

	As at December 31, 2014		
Equity Reserve	As previously reported	Increase (decrease)	As restated
Issuance of GFHI shares	₱3,662,083	₱–	₱3,662,083
APIC from issuance of shares through Share Swap	313,893	1,381,228	1,695,121
Assumption and cancellation of receivables	2,589,722	–	2,589,722
Elimination of PGMC Capital, net of NCI of ₱191	(709,184)	–	(709,184)
Elimination of GFHI retained earnings prior to acquisition	(26,935)	–	(26,935)
	₱5,829,579	₱1,381,228	₱7,210,807
Application of:			
APIC	–	(1,822,292)	(1,822,292)
Retained earnings	–	(5,388,515)	(5,388,515)
Equity reserve (Note 19)	₱5,829,579	(₱5,829,579)	₱–

APIC	As previously reported	Increase (decrease)	As restated
	As at December 31, 2014		
Balances as at June 30, 2014	₱127,171	₱–	₱127,171
Issuane of shares through Share Swap	313,893	1,381,228	1,695,121
	441,064	1,381,228	1,822,292
Application to equity reserve	–	(1,822,292)	(1,822,292)
Balances as at December 31, 2014	₱441,064	(₱441,064)	₱–

Retained Earnings	As previously reported	Increase (decrease)	As restated
	As at December 31, 2014		
Balances as at June 30, 2014	₱964,764	₱–	₱964,764
Net income	4,809,681	–	4,809,681
Dividend declaration	(1,082,896)	–	(1,082,896)
	4,691,549	–	4,691,549
Application to equity reserve	–	(5,388,515)	(5,388,515)
Balances as at December 31, 2014, As restated	₱4,691,549	(₱5,388,515)	(₱696,966)

Standards and Interpretations Issued but not yet Effective

The Group will adopt the following standards and interpretations enumerated below when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended PFRS, PAS and Philippine Interpretations to have significant impact on its consolidated financial statements. The relevant disclosures will be included in the notes to the consolidated financial statements when these become effective.

Effective beginning January 1, 2016

- PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures - Investment Entities: Applying the Consolidation Exception* (Amendments)
  These amendments clarify that the exemption in PFRS 10 from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity that measures all of its subsidiaries at fair value and that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity parent is consolidated. The amendments also allow an investor (that is not an investment entity associate or joint venture), when applying the equity method, to retain fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

- PAS 27, *Separate Financial Statements* - *Equity Method in Separate Financial Statements* (Amendments)
  These amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively.

- PFRS 11, *Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations* (Amendments)
  These amendments to PFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business (as defined by PFRS 3), to apply the relevant PFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to PFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

  The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation.

- PAS 1, *Presentation of Financial Statements - Disclosure Initiative* (Amendments)
  The amendments are intended to assist entities in applying judgment when meeting the presentation and disclosure requirements in PFRS. They clarify the following

  - That entities shall not reduce the understandability of their financial statements by either obscuring material information with immaterial information; or aggregating material items that have different natures or functions;
  - That specific line items in the statement of profit or loss and other comprehensive income (OCI) and the statement of financial position may be disaggregated; and
  - That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

  Early application is permitted and entities do not need to disclose that fact as the amendments are considered to be clarifications that do not affect the entity's accounting policies or accounting estimates. The Group will assess the impact of these amendments on its financial statements.

- PFRS 14, *Regulatory Deferral Accounts*
  PFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and OCI. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements.

- PAS 16 and PAS 41, *Agriculture* - *Bearer Plants* (Amendments)
  These amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial recognition, bearer plants will be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41 measured at fair value less costs to sell. For government grants related to bearer

plants, PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, will apply.

- PAS 16 and PAS 38 - *Clarification of Acceptable Methods of Depreciation and Amortization* (Amendments)
  These amendments clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets.

Annual Improvements to PFRSs (2012-2014 cycle)
These Annual Improvements to PFRSs (2012-2014 cycle) are effective for annual periods beginning on or after January 1, 2016 and are not expected to have an impact on the Group. They include:

- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations - Changes in Methods of Disposal*
  This amendment is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.

- PFRS 7, *Financial Instruments: Disclosures - Servicing Contracts*
  This standard requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance in PFRS 7 in order to assess whether the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendments.

- PFRS 7 - *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
  This amendment is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.

- PAS 19, *Employee Benefits - Regional Market Issue Regarding Discount Rate*
  This amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

- PAS 34, *Interim Financial Reporting - Disclosure of Information "Elsewhere in the Interim Financial Report"*
  This amendment is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).

Effective January 1, 2018

- PFRS 9, *Financial Instruments* (2014 or final version)
  In July 2014, the International Accounting Standards Board (IASB) issued a final version of International Financial Reporting Standars (IFRS) 9, *Financial Instruments*. The new standard (renamed as PFRS 9) reflects all phases of all financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all of previous PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of PFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before February 1, 2015. The Group did not early adopt PFRS 9.

  The adoption of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets and impairment methodology for financial assets, but will have no impact on the classifications and measurements of the Group's financial liabilities. The Group will assess the impact of adopting this standard.

The following new standards issued by IASB has not yet been adopted by the Financial Reporting Standards Council (FRSC).

- IFRS 15, *Revenue from Contracts with Customers*
  IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised 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 IFRS 15 provide a more structured approach to measuring and recognising revenue.

  The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date once adopted locally.

Effective January 1, 2019

- IFRS 16, *Leases*
  On January 13, 2016, the IASB issued its new standard, IFRS 16 which replaces International Accounting Standards (IAS) 17, the current leases standard, and the related Interpretations.

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

The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under IAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure into residual value.

Entities may early adopt IFRS 16 but only if they have also adopted IFRS 15. When adopting IFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs. The Group will assess the impact of IFRS 16 and plans to adopt the new standard on the required effective date once adopted locally.

Effective Date to be Determined

- Philippine Interpretation IFRIC 15, *Agreement for Construction of Real Estate*
  This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11 or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The SEC and FRSC have deferred the effectivity of this interpretation until the final revenue standard is issued by the IASB and an evaluation of the requirements of the final revenue standard against the practices of the Philippine real estate industry is completed. Adoption of the interpretation when it becomes effective will not have any impact on the consolidated financial statements of the Group.

The revised, amended and additional disclosures or accounting changes provided by the standards and interpretations will be included in the consolidated financial statements in the year of adoption, if applicable.

<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 statements of comprehensive income.

<u>Cash</u>
Cash represents cash on hand and with banks.

Financial Instruments - Initial Recognition and Subsequent Measurement

Date of Recognition

Financial instruments within the scope of PAS 39 are recognized in the consolidated statement of financial position when the Group becomes a party to the contractual provision of the instrument. 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).

Initial Recognition and Measurement of Financial Instruments

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

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

Financial Assets

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

The Group's financial assets are in the nature of loans and receivables and AFS financial assets. As at December 31, 2015 and 2014, there were no financial assets at FVPL, HTM investments or as derivatives designated as hedging instruments in an effective hedge.

Financial Liabilities

Financial liabilities are classified, at initial recognition, as financial liabilities at FVPL, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities are in the nature of loans and borrowings and payables. As at December 31, 2015 and 2014, the Group has no financial liabilities at FVPL or as derivatives designated as hedging instruments in an effective hedge.

Fair Value Measurement

The Group measures financial instruments, such as AFS financial assets, at fair value at the end of the reporting period. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 32.

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

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

The fair value of financial instruments that are actively traded in organized financial markets is determined by reference to quoted market close prices at the close of business on the end of the reporting period.

For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques include comparison to similar investments for which market observable prices exist and discounted cash flow analysis or other valuation models.

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.

Subsequent Measurement
The subsequent measurement of financial instruments depends on their classification as follows:

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

comprehensive income. Any losses arising from impairment are recognized in "General and administrative expenses" in the consolidated statements of comprehensive income. Gains and losses are recognized in the consolidated statements 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, 2015 and 2014, the Group's loans and receivables include cash, trade and other receivables, advances to related parties, and restricted cash and mine rehabilitation fund (MRF) classified under "Other noncurrent assets" (see Notes 4, 5, 29 and 13).

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 statements of comprehensive income in "Other charges" and removed from "Valuation gain (loss) on AFS financial assets". Interest earned whilst holding AFS financial assets is reported as interest 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, 2015 and 2014, the Group's AFS financial assets consist of quoted equity instruments (see Note 12).

Other Financial Liabilities
Financial liabilities are classified in this category if these are not held for trading, not derivatives, or not designated as at FVPL upon inception of the liability.

After initial recognition, interest-bearing other financial liabilities are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in the consolidated statements 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 statements of comprehensive income.

Other financial liabilities 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, 2015 and 2014, the Group's other financial liabilities include trade and other payables (excluding statutory payables), bank loans, amounts owed to related parties and dividends payable (see Notes 14, 15, 29 and 19).

Derecognition of Financial Instruments

Financial Assets

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

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

Where the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Financial Liabilities

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

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts of a financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed is recognized in the consolidated statements of comprehensive income.

Impairment of Financial Assets

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

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

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

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

Interest income continues to be recognized based on the original EIR of the asset. The interest income is recorded as part of "Finance income" in the consolidated statements 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 statements 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 statements of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

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

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

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

Objective evidence of impairment includes, but is not limited to, significant financial difficulty of the issuer or obligor and it becoming probable that the borrower will enter bankruptcy or other financial reorganization.

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 offset 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.

Inventories
Inventories are valued at the lower of cost and net realizable value (NRV). Cost is determined by the moving average production cost during the year for nickel ore inventories exceeding a determined cut-off grade and moving average method for materials and supplies. The NRV of nickel ore inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. The NRV of materials and supplies is the current replacement cost. In determining NRV, the Group considers any adjustment necessary for obsolescence.

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

Input VAT
Input VAT represents VAT imposed on the Group by its suppliers and contractors for the acquisition of goods and services required under Philippine taxation laws and regulations.

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

Deferred Transaction Costs
Transaction costs are specific incremental costs directly associated with the Parent Company's follow-on offering, primarily legal and accounting costs, which are deferred and reflected as assets until classification to equity upon successful conclusion of the follow-on offering. These capitalized costs is expensed out and charged to the consolidated statements of comprehensive income if the follow-on offering is not materialized.

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 issuance of stock. This is shown as part of noncurrent assets in the consolidated statement of financial position.

Property and Equipment

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

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 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 mineral reserves. Depreciation and depletion ceases when the assets are fully depreciated or depleted, or at the earlier of the date that the item is classified as held for sale (or included in the disposal group that is classified as held for sale) in accordance with PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, and the date the item is derecognized.

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

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

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 with the assignment of MPSA from Case Mining Development Corporation (CMDC) to the Group under the Deed of Assignment. It also includes initial deferred exploration costs incurred by the Group relative to the exploration works on the mining properties.

Mining rights with an indefinite useful life is stated at cost less accumulated impairment in value and is not amortized. The useful life of such an asset is reviewed at each end of the reporting period to determine whether events and circumstances continue to support an indefinite useful life assessment for the asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for as a change in estimate. Mining rights with finite useful life is stated at cost less amortization and accumulated impairment in value. Impairment assessments are made if events or changes of circumstances indicate that the carrying value of the assets may not be recoverable.

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

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

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

Transfers are made to investment properties when, and only when, there is a change in use, evidenced by ending of owner-occupation or commencement of an operating lease to another party. Transfers are made from investment properties when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale.

Under the cost model, transfers between investment property, owner-occupied property and inventories do not change the carrying amount of the property transferred and they do not change the cost of that property for measurement or disclosure purposes.

Mine Exploration Costs

Pre-license costs are expensed in the period in which they are incurred. Once the legal right to explore has been acquired, exploration and evaluation expenditure is deferred as asset when future economic benefit is more likely than not to be realized. These costs include materials and fuels used, surveying costs, drilling costs and payments made to contractors. The Group capitalizes any further evaluation costs incurred to exploration and evaluation assets up to the point when a commercial reserved is established. Upon the start of commercial operations, such costs are transferred to property and equipment. If no mineable ore body is discovered, capitalized acquisition costs are expensed in the period in which it is determined that the mineral property has no future economic value.

Impairment of Non-Financial Assets

Property and Equipment, Mining Rights, Investment Property and Other Noncurrent Assets

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 statements 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 statements 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.

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.

Advances from Customers
The Group obtained advances from its customers in the form of deposits for future nickel ore shipments. These deposits are to be applied against receivables from the customers on ore shipment made to them.

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 statements of comprehensive income.

Provision for Mine Rehabilitation and Decommissioning
The Group records the present value of estimated costs of legal and constructive obligations required to restore operating locations in the period in which the obligation is incurred. The nature of these restoration activities includes dismantling and demolition of infrastructures, removal of residual materials and remediation of disturbed areas. The obligation generally arises when the asset is installed or the ground/environment is disturbed at the production location. When the liability is initially recognized, the present value of the estimated cost is capitalized by increasing the carrying amount of the related mining assets. Over time, the discounted liability is increased for the change in present value based on the discount rates that reflect current market assessments and the risks specific to the liability. The periodic unwinding of the discount is recognized in “Finance costs” in the consolidated statements 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 statements 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 statements 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 mineral reserves or production rates. As a result, there could be significant adjustments to the provision for mine rehabilitation and decommissioning, which would affect future financial results.

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

OCI

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

Capital Stock

Common shares are classified as equity.

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

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

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from proceeds. The excess of proceeds from issuance of shares over the par value of shares are credited to APIC.

Treasury Stock

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

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

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

Retained Earnings (Deficit) and Dividends

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

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

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

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).

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

Diluted EPS amounts are calculated by dividing the net income attributable to common equity holders of the Parent Company by the weighted average number of ordinary shares outstanding, adjusted for any stock dividends declared during the year plus weighted average number of ordinary shares that would be issued on the conversion of all the dilutive ordinary shares into ordinary shares, excluding treasury shares.

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

Operating Segment
For management purposes, the Group is organized and managed separately according to the nature of the products and services provided. The Group has two segments: (1) the mining segment which is engaged in the mining and exploration of nickel saprolite and limonite ore; and (2) the services segment which is engaged in the chartering out of Landing Craft Transport by PCSSC to PGMC. The Group's core service is the sale of ore to external customers which accounted for the majority of the Group's total revenue. Accordingly, the Group operates mainly in one reportable business and geographical segment which is the Philippines. 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.

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

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

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

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

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

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

Leases
Determination of Whether an Arrangement Contains a Lease
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A reassessment is made after inception of the lease only if one of the following applies:

a. There is a change in contractual terms, other than a renewal or extension of the arrangement;
b. A renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
c. There is a change in the determination of whether fulfillment is dependent on a specified asset; or
d. There is a substantial change to the asset.

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

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

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

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

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

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method. This method reflects service rendered by employees to the date of valuation and incorporates assumptions concerning the employees' projected salaries.

Defined benefit costs comprise the following:

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

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as "Retirement benefits costs" under "Personnel costs" under "Cost of sales" and "General and administrative expenses" in the consolidated statements 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 statements 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 "Gain on remeasurement of retirement obligation" under equity.

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

The Group's right to be reimbursed of some or all of the expenditure required to settle a defined 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.

<u>Foreign Currency Transactions</u>
The consolidated financial statements are presented in Philippine peso, which is the Group's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at functional currency rate of exchange ruling 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 statements of comprehensive income.

<u>Income Taxes</u>
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 Income Tax
Deferred income tax is provided using liability 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.

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

- Where the deferred income 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 income 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 income 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 income 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 income 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 income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that sufficient future taxable income will allow the deferred income tax asset to be recovered.

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

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

Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but are disclosed when an inflow of economic benefits is probable.

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

3. **Significant Accounting Judgments, Estimates and Assumptions**

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

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

Judgments
In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the consolidated financial statements. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Determining Functional Currency
Based on the economic substance of the underlying circumstances relevant to the Group, the functional currency of the Group has been determined to be the Philippine peso. The Philippine peso is the currency that most faithfully represents the economic substance of the Group's underlying transactions, events and conditions.

Classifying Financial Instruments
The Group classifies a financial instrument, or its component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual agreement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the consolidated statement of financial position.

The Group classified its equity instruments as AFS financial assets and classified under noncurrent assets since management does not intend to dispose the investments within twelve (12) months from the end of the reporting period.

Distinction Between Investment Property and Owner-occupied Property
The Group determines whether a property is classified as investment property or owner-occupied property:

- Investment property comprises land which is not occupied substantially for use by, or in the operations of, the Group, nor for sale in the ordinary course of business, but are held primarily to earn rental income and capital appreciation.
- Owner-occupied property is property held (by the owner or by the lessee under a finance lease) for use in the production or supply of goods or services or for administrative purposes.

Operating Lease Commitments - Group as Lessee
The Group has entered into leases on its mine site and facility, and administrative office locations. The Group has determined that it does not retain all the significant risks and rewards of ownership of these properties which are leased on operating leases.

Finance Lease Commitments - Group as Lessor
The Group has entered into a mining contract with Frasec Ventures Corporation (FVC) and JL Earthmoving Corporation (JLEC) to undertake mining operations within the mining property of the Group, wherein the latter shall be allowed to the use of all the Group's transportation and handling equipment subject to reimbursement based on the book value and estimated useful life. In the contract, the Group will transfer all the risk and rewards incidental to the ownership of the equipment at the end of the lease term. At the inception of the lease, the present value of the minimum lease payment that the Group will receive amounts to at least substantially the fair value of the leased asset (see Note 18).

Finance Lease Commitments - Group as Lessee
The Group has entered into Master Finance Lease Agreement with the Caterpillar Financial Services Philippines, Inc. (CFSPI) and SBM Leasing Inc. (SBML) on its 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 (see Note 18).

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.

Assessing UOP Depletion
Estimated recoverable reserves are used in determining the depletion of mine assets. This results in a depletion charge proportional to the depletion of the anticipated remaining mine life. Each item's life, which is assessed annually, has regard to both physical life limitations and to present assessments of economically recoverable reserves of the mine property at which the asset is located. The calculations require the use of estimates of future capital expenditure. The Group uses the tons of ore produced as the basis for depletion. Any change in mineral reserves estimates is accounted for prospectively.

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

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

Trade and other receivables amounted to ₱700.8 million and ₱324.5 million as at December 31, 2015 and 2014, respectively (see Note 5).

Allowance for impairment losses on trade and other receivables amounted to ₱17.4 million as at December 31, 2015 and 2014. There were no impairment losses recognized for the year ended December 31, 2015, six months ended December 31, 2014 and year ended June 30, 2014 (see Note 5).

Advances to related parties amounted to ₱1,639.2 million and ₱1,767.9 million as at December 31, 2015 and 2014, respectively. There were no allowance for impairment losses on advances to related parties as at December 31, 2015 and 2014 (see Note 29).

Allowance for Inventory Losses
The Group maintains allowance for inventory losses at a level considered adequate to reflect the excess of cost of inventories over their NRV. NRV of inventories are assessed regularly based on prevailing estimated selling prices of inventories and the corresponding cost of disposal. Increase in the NRV of inventories will increase cost of inventories but only to the extent of their original acquisition costs.

The carrying value of inventories amounted to ₱643.8 million and ₱246.0 million as at December 31, 2015 and 2014, respectively. There were no allowance for inventory losses as at December 31, 2015 and 2014 (see Note 6).

Estimating Mineral Reserves and Resources
Mineral 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 mineral reserves based on information compiled by appropriately qualified persons relating to the geological data on the size, depth and shape of the ore body, and requires complex geological judgments to interpret the data. The estimation of recoverable reserves is based upon factors such as estimates of foreign exchange rates, commodity prices, future capital requirements, and production costs along with geological assumptions and judgments made in estimating the size and grade of the ore body. Changes in the reserve or resource estimates may affect the carrying value of mine exploration costs, property and equipment, provision for mine rehabilitation and decommissioning, recognition of deferred income tax assets, and depreciation and depletion charges. Any change in the reserve or resource estimates as a result of latest available information is accounted for prospectively.

In 2015, total ore estimate pertaining to the Surigao Mine Cagdianao Area (CAGA) was changed from 77.7 million dry metric tons (DMT) of mineral resources to 24.2 million DMT of mineral reserves based on the latest Joint Ore Reserves Committee (JORC) Report received in February 2015.

Estimating Useful Lives of Property and Equipment
The Group estimates the useful lives of property and equipment, except land, based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, estimation of the useful lives of property and equipment is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of the property and equipment would increase the recorded expenses and decrease the noncurrent assets. Any change in the reserve or resource estimates as a result of latest available information is accounted for prospectively.

In 2015, total ore estimate pertaining to the operating CAGA 2 and 4 was changed from 55.9 million DMT of mineral resources to 13.2 million DMT of mineral reserves based on the latest JORC Report received in February 2015 which will have an impact on the remaining life of the Group's mining properties classified under "Property and equipment". Except for the effect of the change in mineral reserves mentioned, there is no other change in the estimated useful lives of property and equipment as at December 31, 2015 and 2014.

The aggregate net book values of property and equipment amounted to ₱2,049.0 million and ₱2,305.9 million as at December 31, 2015 and 2014, respectively. The balance of the accumulated depreciation and depletion of property and equipment amounted to ₱793.1 million and ₱309.9 million and as at December 31, 2015 and 2014, respectively (see Note 8).

Estimating Impairment of Property and Equipment and Investment Property
The Group assesses impairment of property and equipment and investment property 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 and ultimate disposition of the assets, the Group is required to make estimates and assumptions that can materially affect the consolidated financial statements.

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. There were no impairment losses recognized in 2015 and 2014.

The aggregate net book values of property and equipment amounted to ₱2,049.0 million and ₱2,305.9 million as at December 31, 2015 and 2014, respectively (see Note 8).

The carrying value of mining rights amounted to ₱301.6 million and ₱396.5 million as at December 31, 2015 and 2014, respectively (see Note 9).

The aggregate net book value of investment property amounted to ₱319.9 million as at December 31, 2015 and 2014 (see Note 10).

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

The Group has no provision for impairment loss for mining rights and mine exploration costs for the year ended December 31, 2015, six months ended December 31, 2014 and year ended June 30, 2014.

As at December 31, 2015 and 2014, the carrying values of mining rights amounted to ₱301.6 million and ₱396.5 million, respectively (see Note 9).

As at December 31, 2015 and 2014, mine exploration costs amounted to ₱140.8 million and ₱140.7 million, respectively (see Note 11).

Assessing Recoverability of Deferred Income Tax Assets
The Group reviews the carrying amounts of deferred income tax assets at each end of the reporting period and reduces deferred income 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 income tax assets that can be recognized, based upon the likely timing and level of sufficient future taxable income together with future tax planning strategies.

Net deferred income tax assets amounted to ₱97.8 million and ₱43.3 million as at December 31, 2015 and 2014, respectively. The Group has NOLCO amounting to ₱613.1 million, ₱425.8 million and ₱357.2 million as at December 31, 2015 and 2014 and June 30, 2014, respectively. The Group has excess MCIT amounting to ₱1.8 million, ₱1.3 million and ₱1.3 million as at December 31, 2015 and 2014 and June 30,2014, respectively. Deferred income tax asset on NOLCO amounting to ₱43.5 million and nil was recognized as at December 31, 2015 and 2014, respectively. Deferred income tax asset on excess MCIT amounting to ₱2.0 million and nil was recognized as at December 31, 2015 and 2014, respectively (see Note 30).

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

In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities. The fair value of AFS financial assets amounted to ₱5.9 million and ₱8.9 million as at December 31, 2015 and 2014, respectively. Impairment loss recognized amounted to ₱2.4 million for the year ended December 31, 2015 and nil for the six months ended December 31, 2014 and year ended June 30, 2014, respectively (see Notes 12 and 28).

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

As at December 31, 2015 and 2014, the carrying value of prepayments and other current assets amounted to ₱15.5 million and ₱55.3 million, respectively. An allowance for bad debts was written-off as at December 31, 2015 (see Note 7).

The carrying values of other noncurrent assets excluding restricted cash and MRF amounted to ₱352.5 million and ₱252.4 million as at December 31, 2015 and 2014, respectively. Allowance for impairment losses on input VAT amounted to ₱19.5 million as at December 31, 2015 and 2014 (see Note 13).

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. 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 amounted to ₱58.3 million and ₱60.2 million as at December 31, 2015 and 2014, respectively (see Note 16).

Estimating Retirement Benefits Costs
The cost of defined benefit retirement as well as the present value of the retirement obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates, and future retirement expenses. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit retirement obligation are highly sensitive to changes in these assumptions. All assumptions are reviewed at each end of the reporting period. The retirement obligation amounted to ₱40.0 million and ₱30.1 million as at December 31, 2015 and 2014, respectively (see Note 17).

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit retirement obligation.

Further details about the assumptions used are provided in Note 17.

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

Any change in the fair value of financial assets and financial liabilities would directly affect net income (see Note 32).

Estimating Contingencies
The Group evaluates legal and administrative proceedings to which it is involved based on analysis of potential results. Management and its legal counsels do not believe that any current proceedings will have material adverse effects on its financial position and results of operations. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of strategies relating to these proceedings (see Note 35).

4. **Cash**

	2015	2014
Cash on hand	**₱614**	₱620
Cash with banks	**502,262**	691,249
	₱502,876	₱691,869

Cash with banks earn interest at the respective bank deposit rates. Interest income earned on cash with banks amounted to ₱1.2 million, ₱1.1 million and ₱0.8 million for the year ended December 31, 2015, six months ended December 31, 2014 and year ended June 30, 2014, respectively.

The Group has US$-denominated cash with banks amounting to US$8.5 million and US$5.6 million as at December 31, 2015 and 2014, respectively (see Note 31).

5. **Trade and Other Receivables**

	2015	2014
Trade	**₱704,056**	₱337,544
Advances to:		
Contractors	**2,203**	1,347
Officers, employees and others	**11,870**	2,936
	718,129	341,827
Less allowance for impairment losses	**17,359**	17,359
	₱700,770	₱324,468

Trade receivables arising from shipment of nickel ore are noninterest-bearing and are generally collectible within thirty (30) to ninety (90) days. The Group has US$-denominated trade receivables amounting to US$15.3 million and US$7.5 million as at December 31, 2015 and 2014, respectively (see Note 31).

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

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

Movements in the allowance for impairment losses follow:

	2015	2014
Beginning balance	**₱17,359**	₱21,834
Write-off	**–**	(4,475)
Ending balance	**₱17,359**	₱17,359

In 2013, the Group considered ₱17.4 million of trade receivables as impaired of which an allowance was provided. Advances to claim-owners under “Advances - others” amounting to ₱4.5 million were written-off as at December 31, 2014.

6. **Inventories** - at cost

	2015	2014
Beneficiated nickel ore	**₱574,726**	₱166,893
Materials and supplies	**69,057**	79,149
	₱643,783	₱246,042

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

7. **Prepayments and Other Current Assets**

	2015	2014
Prepaid taxes and licenses	**₱9,899**	₱1,957
Prepaid rent	**463**	921
Deferred transaction costs	**–**	50,179
Prepaid insurance and others	**5,115**	2,288
	₱15,477	₱55,345

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

Deferred transaction costs pertain to actual offer expenses incurred such as registration and other regulatory fees, amounts paid to legal, accounting and other professional advisers, in relation to the follow-on offering of new shares. In 2015, the Group did not push through with the follow-on offering of new shares due to the decreasing nickel market price that resulted to a decrease in stock prices. The Group re-assessed its accounting treatment for these costs and accounted it through expensing the transaction costs incurred in 2014 that could have been deducted from the offering proceeds. The Group considers postponing the follow-on offering of new shares until there is an upturn on nickel prices in the market.

Prepaid insurance and prepaid rent represent advance payments made for the insurance of the Group’s property and equipment and for the rent of the Group’s registered office address.

8. Property and Equipment

	December 31, 2015								
	Land	**Building and Land Improvements**	**Machineries and Other Equipment**	**Furniture and Fixtures**	**Equipment and Supplies**	**Mining Properties**	**Roads and Bridges**	**CIP**	**Total**
Cost:									
Balances at December 31, 2014	**₱10,435**	**₱46,014**	**₱543,482**	**₱6,844**	**₱4,134**	**₱1,396,257**	**₱592,545**	**₱16,104**	**₱2,615,815**
Additions	–	**7,978**	**237,539**	**702**	**643**	–	**3,067**	**2,143**	**252,072**
Adjustment to capitalized cost of mine rehabilitation (see Note 16)	–	–	–	–	–	**(3,070)**	–	–	**(3,070)**
Disposals	–	–	**(22,702)**	–	–	–	–	–	**(22,702)**
Reclassifications	–	–	–	**(78)**	**78**	–	–	–	–
Balances at December 31, 2015	**10,435**	**53,992**	**758,319**	**7,468**	**4,855**	**1,393,187**	**595,612**	**18,247**	**2,842,115**
Accumulated depreciation and depletion:									
Balances at December 31, 2014	–	**13,400**	**102,081**	**4,532**	**1,742**	**119,893**	**68,274**	–	**309,922**
Depreciation and depletion (see Note 26)	–	**5,611**	**99,309**	**924**	**783**	**360,561**	**32,401**		**499,589**
Disposals	–	–	**(16,375)**	–	–	–	–	–	**(16,375)**
Balances at December 31, 2015	–	**19,011**	**185,015**	**5,456**	**2,525**	**480,454**	**100,675**	–	**793,136**
Net book values	**₱10,435**	**₱34,981**	**₱573,304**	**₱2,012**	**₱2,330**	**₱912,733**	**₱494,937**	**₱18,247**	**₱2,048,979**

	December 31, 2014								
	Land	Building and Land Improvements	Machineries and Other Equipment	Furniture and Fixtures	Equipment and Supplies	Mining Properties	Roads and Bridges	CIP	Total
Cost:									
Balances at July 1, 2014	₱10,435	₱38,490	₱476,340	₱6,386	₱2,927	₱1,396,257	₱590,045	₱16,073	₱2,536,953
Additions	–	7,524	79,981	679	1,207	–	2,500	159	92,050
Disposals	–	–	(12,839)	(221)	–	–	–	(128)	(13,188)
Balances at December 31, 2014	10,435	46,014	543,482	6,844	4,134	1,396,257	592,545	16,104	2,615,815
Accumulated depreciation and depletion:									
Balances at July 1, 2014	–	11,153	85,804	4,363	1,477	72,268	54,264	–	229,329
Depreciation and depletion (see Note 26)	–	2,247	28,146	390	265	47,625	14,010	–	92,683
Disposals	–	–	(11,869)	(221)	–	–	–	–	(12,090)
Balances at December 31, 2014	–	13,400	102,081	4,532	1,742	119,893	68,274	–	309,922
Net book values	₱10,435	₱32,614	₱441,401	₱2,312	₱2,392	₱1,276,364	₱524,271	₱16,104	₱2,305,893

On March 7, 2014, the Group entered into a mining contract with FVC that resulted into the recognition of finance lease of transportation and handling equipment. Accordingly, the book value of transportation and handling equipment subjected to finance lease amounted to ₱954.3 million.

On February 26, 2015, the Group engaged JLEC as additional mining contractor in CAGA 2 whereby some assets to be returned by FVC to the Group are to be 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 back as part of "Machineries and other equipment" under "Property and equipment" (Notes 18 and 37).

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 ₱1.3 million was recognized as part of the total loss on modification of finance lease receivable amounting to ₱86.9 million (see Notes 18 and 28).

In 2015, the Group disposed various assets under "Machineries and equipment" and recorded a loss equivalent to its net book value amounting to ₱6.3 million (see Note 28).

The rates used by the Group in computing depletion are ₱60.48, ₱15.57 and ₱11.21 per wet metric ton (WMT) for the year ended December 31, 2015, six months ended December 31, 2014 and year ended June 30, 2014, respectively. For the year ended December 31, 2015, the rates used was based on the latest JORC Report received from Runge Pincock Minarco (RPM) in February 2015 with an indicated mineral reserve estimate of 13.2 million DMT for CAGAs 2 and 4. For the six months ended December 31, 2014 and the year ended June 30, 2014, the rates used was based on the previous JORC Report dated February 20, 2013 with an indicated mineral resource estimate of 55.9 million DMT for CAGAs 2 and 4.

The CIP balance in the books of the Group pertains to the construction of roads, fences and improvements in the mine site and ongoing construction of shipping equipment. The estimated completion of the CIP for the mine site improvements is ninety-five percent (95%) and eighty percent (80%) for the ongoing construction of shipping equipment as at December 31, 2015 and 2014.

The gross carrying amount of fully depreciated property and equipment that is still in use by the Group amounted to ₱33.7 million as at December 31, 2015 and 2014.

9. Mining Rights

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

There were no provision for impairment losses on mining rights recognized for the year ended December 31, 2015, six months ended December 31, 2014 and year ended June 30, 2014.

As at December 31, 2015 and 2014, the carrying value of mining rights amounted to ₱301.6 million and ₱396.5 million, respectively. Amortization of mining rights amounted to ₱94.9 million for the year ended December 31, 2015 and nil for the six months ended December 31, 2014 and year ended June 30, 2014.

10. Investment Property

State Properties Corporation (SPC)
In August 2011, the Group acquired parcels of land consisting of twenty (20) lots from SPC amounting to ₱79.6 million located in Las Piñas. The land was held for capital appreciation.

On March 7 and July 7, 2014, the Group sold eight (8) and twelve (12) lots from these parcels of land with proceeds from the sale amounting to ₱32.0 million and ₱47.6 million, respectively. No gain or loss related to the sale of land was recognized.

Portal Holdings, Inc. (PHI)
In June 2012, the Group acquired a parcel of land (Aseana Property) from PHI amounting to ₱319.9 million located in Paranaque. The land was held for capital appreciation. As at December 31, 2015 and 2014, related borrowings amounting to ₱40.0 million and ₱120.0 million, respectively, are presented as "Bank loans" (see Note 15).

Total investment property amounted to ₱319.9 million as at December 31, 2015 and 2014. The fair value of investment property amounted to ₱367.0 million as at December 31, 2015 and 2014 (see Note 32). The latest appraisal report is dated June 19, 2014.

There was no income earned nor direct operating expense incurred related to the investment property for the year ended December 31, 2015, six months ended December 31, 2014 and year ended June 30, 2014.

11. Mine Exploration Costs

	2015	2014
Beginning balance	**₱140,659**	₱140,659
Exploration expenditures incurred	**131**	–
Ending balance	**₱140,790**	₱140,659

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 33).

In February 2015, the Group received an updated JORC Report from RPM for the CAGA 1, 2, 3, 4 and 5 of the Cagdianao mining property. CAGA 2 and 4 are operating areas while CAGA 1, 3, and 5 are under exploration activities. The Group is yet to conduct its exploration activities for CAGA 6 and 7.

In 2015, the Group incurred costs for the deferred exploration activities and feasibility study of the Cagdianao Nickel Expansion Project in CAGA 1, 3 and 5.

12. AFS Financial Assets

As at December 31, 2015 and 2014, the Group holds 4,216,100 shares of stock of Oriental Peninsula Resources Group, Inc. (OPRGI), a publicly listed company in the Philippines. The fair value of the quoted equity instrument is based on the exit market price as at December 31, 2015 and 2014.

Movements in fair value of quoted equity instrument follow:

	2015	2014
Beginning balance	**₱8,854**	₱9,191
Impairment loss on AFS financial assets (see Note 28)	**(2,445)**	–
Unrealized gains transferred from equity to consolidated statements of comprehensive income	**(506)**	–
Valuation gain	**–**	(337)
Ending balance	**₱5,903**	₱8,854

Movements in the "Valuation gain (loss) on AFS financial assets" presented as a separate component in the consolidated statements of changes in equity follow:

	2015	2014
Beginning balance	**₱506**	₱843
Unrealized gains transferred from equity to consolidated statements of comprehensive income	**(506)**	–
Increase in fair value of AFS financial assets	**–**	(337)
Ending balance	**₱–**	₱506

There was no dividend income earned from the quoted equity instrument for the year ended December 31, 2015, six months ended December 31, 2014 and year ended June 30, 2014.

Impairment loss recognized amounted to ₱2.4 million for the year ended December 31, 2015 and nil for the six months ended December 31, 2014 and year ended June 30, 2014 (see Note 28).

13. Other Noncurrent Assets

	2015	2014
Input VAT	**₱177,888**	₱185,029
Advances to suppliers	**174,572**	67,368
Restricted cash	**114,583**	196,708
MRF	**62,117**	38,426
	₱529,160	₱487,531

Input VAT represents the VAT paid on purchases of applicable goods and services, net of output tax liabilities, if any, which may be recovered as tax credit against future tax liability of the Group upon approval by the Philippine BIR and/or the Philippine Bureau of Customs. Allowance for impairment losses on input VAT amounted to ₱19.5 million as at December 31, 2015 and 2014.

Advances to suppliers pertain to miscellaneous deposits on Group's purchase of property and equipment from various suppliers.

Restricted cash includes Debt Service Reserve Account (DSRA) with Amsterdam Trade Bank (ATB), Taiwan Cooperative Bank (TCB) and Bank of China (BOC) for the FRI loans (see Notes 15 and 29). These will be utilized for application against the Group's outstanding loans for principal, interest and fees with the banks. The Group has US$-denominated restricted cash as at December 31, 2015 and 2014 amounting to US$2.4 million and US$4.4 million, respectively (see Note 31). As at December 31, 2015, the DSRA of the Group with ATB was closed when the related loans were fully paid.

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, the Group has 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.

14. Trade and Other Payables

	2015	2014
Trade payables	**₱383,368**	₱225,007
Advances from customers (see Note 33)	**223,779**	146,271
Accrued expenses and taxes	**141,349**	629,809
Nontrade payables	**43,108**	106,079
Interest payables	**1,057**	653
	₱792,661	₱1,107,819

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

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

Details of the accrued expenses and taxes are summarized below:

	2015	2014
Excise taxes and royalties payable	**₱96,808**	₱64,924
Business and other taxes	**32,929**	537,827
Provision for Indigenous People (IP)	**3,604**	3,056
Government dues	**1,473**	4,007
Accrued payroll	**296**	245
Others	**6,239**	19,750
	₱141,349	₱629,809

The Group paid final withholding tax amounting to ₱507.0 million, lodged under "Business and other taxes", related to the payment of dividends on December 29, 2014.

Mining companies are mandated to establish a provision for IP 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 Company 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 Deparment of Environment and Natural Resources (DENR).

Accrued payroll and royalty fees to claim owners are noninterest-bearing and are payable on demand and/or generally settled within thirty (30) days' term. Royalty and excise taxes are payable immediately upon receipt from DENR-MGB of the Order of Payment and before every shipment of beneficiated nickel ores. Government dues consist of employer contributions normally payable fifteen (15) to thirty (30) days after the end of each month.

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

Nontrade payables are normally settled within thirty (30) to ninety (90)-day term. This account includes purchases of machineries and equipment and land held for capital appreciation (see Notes 8 and 10). Interest expense related to interest-bearing nontrade payables amounted to nil, ₱11.1 million and ₱4.4 million for the year ended December 31, 2015, six months ended December 31, 2014 and year ended June 30, 2014, respectively (see Note 27).

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

The Group has US$-denominated trade and other payables amounting to US$6.0 million and US$3.9 million as at December 31, 2015 and 2014, respectively (see Note 31).

15. Bank Loans

	2015	2014
TCB	**₱941,200**	₱166,543
Banco de Oro (BDO)	**53,001**	128,950
Unionbank of the Philippines (UnionBank)	**215**	1,528
EastWest Bank (EastWest)	**168**	961
ATB	**–**	281,426
Trade and Investment Development Corporation of the Philippines (PhilEXIM)	**–**	43,775
	994,584	623,183
Less unamortized discount on bank loans	**–**	2,957
	994,584	620,226
Less current portion		
TCB	**941,200**	165,385
BDO	**45,767**	82,804
UnionBank	**215**	1,314
EastWest	**168**	961
ATB	**–**	279,626
PhilEXIM	**–**	43,775
	987,350	573,865
	₱7,234	₱46,361

<u>TCB</u>
On July 4, 2013, the Group entered into a loan agreement with TCB to avail a US$10.0 million loan for capital expenditure and general corporate purposes including refinancing of existing obligations. The loan is payable in eight (8) quarterly consecutive installments to commence on the first (1st) quarter from the date of borrowing.

As at December 31, 2015, the US$10.0 million loan was fully paid and another US$20.0 million or ₱941.2 million short-term loan was availed of by the Group.

Interest expense related to TCB loan amounted to ₱35.1 million, ₱6.6 million and ₱17.6 million for the year ended December 31, 2015, six months ended December 31, 2014 and year ended June 30, 2014, respectively (see Note 27).

Amortization of discount on bank loans related to TCB loan amounted to ₱0.6 million, ₱2.0 million, and ₱7.6 million for the year ended December 31, 2015, six months ended December 31, 2014 and year ended December June 30, 2014, respectively (see Note 27).

The terms of the loan are complied by the Group as at December 31, 2015 and 2014, the Group's relevant reporting period.

<u>BDO</u>
On February 14, 2013, the Group obtained a term loan amounting to ₱240.0 million from BDO to finance seventy-five percent (75%) of the purchase price of Aseana property located at Brgy. Tambo, Paranaque City. The loan is payable in six (6) semi-annual payments every August and February with an interest of five and a half percent (5.5%) subject to monthly repricing based on the prevailing market rate of interest. The agreement is secured by a real estate mortgage over the Aseana property amounting to ₱319.9 million (see Note 10).

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

During the year, the Group entered into several service vehicle loans with BDO amounting to ₱11.2 million. The loans are payable within three (3) years at an interest rate ranging from seven percent (7%) to nine percent (9%) per annum.

Interest expense related to BDO loan amounted to ₱13.4 million, ₱7.1 million and ₱13.1 million for the year ended December 31, 2015, six months ended December 31, 2014 and year ended June 30, 2014, respectively (see Note 27).

The terms of the loan are complied by the Group as at December 31, 2015 and 2014.

<u>UnionBank and EastWest</u>
The Group entered into several service vehicle loans with UnionBank and EastWest. The loans are payable within three (3) years at an interest rate ranging from twelve percent (12%) to fourteen percent (14%) per annum.

Interest expense related to the service vehicle loans amounted to ₱0.6 million, ₱0.3 million and ₱1.2 million for the year ended December 31, 2015, six months ended December 31, 2014 and year ended June 30, 2014, respectively (see Note 27).

ATB and PhilEXIM
The Group obtained a US$35.0 million loan facility (with an accordion feature of US$5.0 million; Facility Agreement) from ATB to finance the Group's working capital and capital expenditures. The Facility Agreement was executed by and between the Group (as borrower), certain stockholders of PGMC and SIRC (collectively as Guarantors) and ATB (as original lender, arranger, agent, security agent, and account bank) on October 6, 2011.

The Group availed of the ATB loan amounting to US$20.0 million and US$15.0 million on November 25, 2011 and December 6, 2011, respectively.

On November 25, 2011, the Group, PhilEXIM and ATB entered into an increase deed in relation to the Original Facility Agreement to which PhilEXIM agreed to accede to the Original Facility Agreement as a lender to regulate and facilitate the making of Peso Loans amounting to ₱218.9 million payable in thirty (30) monthly installments starting on April 27, 2012.

The PhilEXIM loan was availed on November 29, 2011 and December 6, 2011 amounting to ₱93.8 million and ₱125.1 million, respectively.

As at December 31, 2015, the loans from ATB and PhilEXIM are fully paid.

Interest expense related to ATB loan amounted to ₱13.7 million, ₱18.5 million and ₱67.7 million for the year ended December 31, 2015, six months ended December 31, 2014 and year ended June 30, 2014, respectively (see Note 27).

Interest expense related to PhilEXIM loan amounted to ₱2.0 million, ₱3.8 million and ₱9.1 million for the year ended December 31, 2015, six months ended December 31, 2014 and year ended June 30, 2014, respectively (see Note 27).

Amortization of discount on bank loans amounted to ₱1.4 million, ₱3.3 million and ₱9.9 million for the year ended December 31, 2015, six months ended December 31, 2014 and year ended June 30, 2014, respectively (see Note 27).

The terms of the Facility Agreement are complied by the Group as at December 31, 2015 and 2014.

BOC
The Group's US$6.0 million short-term credit facility granted by BOC in 2014 to finance its working capital requirements, composed of US$2.0 million export bills purchase and US$4.0 million export packing credit line, was renewed by BOC with no sub-limit effective May 21, 2015 renewable yearly and payable from the collection proceeds on the assigned sales contract and/or covering Letter of Credit. The facility has no outstanding balance as at December 31, 2015 and 2014.

Interest expense amounted to ₱2.0 million , ₱0.4 million and ₱1.8 million for the year ended December 31, 2015, six months ended December 31, 2014 and year ended June 30, 2014, respectively (see Note 27).

16. **Provision for Mine Rehabilitation and Decommissioning**

	2015	2014
Beginning balance	**₱60,212**	₱59,663
Accretion interest (see Note 27)	**1,117**	549
Effect of change in estimate (see Note 8)	**(3,070)**	–
Ending balance	**₱58,259**	₱60,212

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. The rehabilitation provision represents the present value of rehabilitation costs. These provisions have been created based on the Group's internal estimates. Assumptions based on the current economic environment, have been made which management believes are reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual 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.

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

17. **Retirement Obligation**

The Group has an unfunded, non-contributory defined benefit retirement plan covering substantially all of its regular employees. The Group does not have an established retirement plan and only conforms to the minimum regulatory benefit under the RA 7641, *Retirement Pay Law,* which is of the defined benefit type and provides a retirement benefit equal to twenty-two and a half (22.5) days' pay for every year of credit service. The regulatory benefit is paid in lump sum upon retirement. There was no plan termination, curtailment or settlement as at December 31, 2015 and 2014.

The latest actuarial valuation report of the retirement plan is as at December 31, 2015.

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

The details of retirement benefits costs are as follows:

	Year Ended December 31, 2015	Six Months Ended December 31, 2014	Year Ended June 30, 2014
Retirement benefit costs (see Note 25)	**₱9,368**	₱3,195	₱6,215
Interest cost on retirement obligation (see Note 27)	**1,463**	641	1,197
	₱10,831	₱3,836	₱7,412

The Group has ninety-five (95) regular employees, eight (8) employees on probationary and project status and two hundred eighty (280) employees on a fixed term as at December 31, 2015 and eighty-seven (87) regular employees, six (6) employees on probationary and project status and forty-six (46) employees on a fixed term as at December 31, 2014.

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

	2015	2014
Beginning balance	**₱30,101**	₱23,860
Retirement benefit costs	**9,368**	3,195
Interest cost on retirement obligation	**1,463**	641
Remeasurement loss (gain) arising from:		
Financial assumptions	**(3,746)**	4,079
Experience adjustments	**2,889**	2,145
Benefits paid	**(90)**	(3,819)
Ending balance	**₱39,985**	₱30,101

The Group does not have any plan assets as at December 31, 2015 and 2014.

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:

	December 31		June 30
	2015	2014	2014
Discount rate	**5.38%**	4.86%	5.69%
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)	**2015**	2014
Discount rate	+100 basis points	**(₱6,115)**	(₱4,967)
	-100 basis points	**7,612**	6,257
Salary increase rate	+100 basis points	**₱6,773**	₱5,555
	-100 basis points	**(5,633)**	(4,574)

The Group does not expect to contribute to the defined benefit pension plan in 2016. The Group does not have a Trustee Bank, and does not currently employ any asset-liability matching. Shown below is the maturity analysis of the undiscounted benefit payments as at December 31, 2015 and 2014:

	2015	2014
Less than one (1) year	**₱1,615**	₱824
More than one (1) year to five (5) years	**3,202**	887
More than five (5) years to ten (10) years	**5,636**	5,381
	₱10,453	₱7,092

The average duration of the defined retirement benefits obligation as at December 31, 2015 and 2014 is 21.2 years and 22.9 years, respectively.

18. **Finance Lease**

Finance Lease Receivable

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

Finance lease receivable as at December 31, 2015 and 2014 consists of:

	2015		2014	
	Minimum lease payments	**Present value of minimum lease payments**	Minimum lease payments	Present value of minimum lease payments
Within one (1) year	**₱173,214**	**₱167,949**	₱109,375	₱95,910
After one (1) year but not more than five (5) years	**326,755**	**319,593**	801,947	750,115
More than five (5) years	–	–	20,955	20,699
Total minimum lease payments	**499,969**	**487,542**	932,277	866,724
Less amount representing finance charge	**12,427**	–	65,553	–
Present value of minimum lease payments	**₱487,542**	**₱487,542**	₱866,724	₱866,724

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 ₱311.3 million (see Note 8) which resulted to a loss amounting to ₱86.9 million (see Note 28). The remaining ₱208.1 million reverted by FVC to the Group are included as part of total additions (see Note 8).

Derived interest income related to finance lease amounted to ₱8.2 million, ₱2.4 million and ₱7.1 million for the year ended December 31, 2015, six months ended December 31, 2014 and year ended June 30, 2014, respectively.

Finance Lease Liabilities
In 2013, the Group entered into finance lease agreements with SBML and CFSPI for various equipment. These are included as part of "Machineries and other equipment" category under "Property and equipment" as at December 31, 2015 and 2014.

Future annual minimum lease payments under the lease agreements, together with the present value of the minimum lease payments as at December 31, 2015 and 2014 are as follows:

	2015		2014	
	Minimum lease payments	**Present value of minimum lease payments**	Minimum lease payments	Present value of minimum lease payments
Within one (1) year	**₱15,850**	**₱14,994**	₱29,434	₱26,451
After one (1) year but not more than five (5) years	**–**	**–**	15,850	14,994
Total minimum lease payments	**15,850**	**14,994**	45,284	41,445
Less amount representing finance charge	**856**	**–**	3,839	–
Present value of minimum lease payments	**₱14,994**	**₱14,994**	₱41,445	₱41,445

Interest expense related to finance lease amounted to ₱3.1 million, ₱4.0 million and ₱6.5 million for the year ended December 31, 2015, six months ended December 31, 2014 and year ended June 30, 2014, respectively, is reported under "Finance costs" (see Note 27).

19. **Equity**

Capital Stock
The Parent Company has 35,871,428,572 authorized shares at ₱0.35 par value as at December 31, 2015 and 2014. Out of the total authorized shares of the Parent Company, 17,467,014,310 shares are issued amounting to ₱6,113,455 as at December 31, 2015 and 2014.

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

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 capoital stock as well as the issuance of the 10,463,093,371 common shares to the Thirteen Stockholders in accordance with the Share Swap transaction was approved by the SEC on December 22, 2014 (see Note 1).

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

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

APIC

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

Balances at June 30, 2014	₱127,171
Issuance of shares through Share Swap (see Note 1); As restated (see Note 2)	1,695,121
Application of APIC to equity reserve	(1,822,292)
Balances at December 31, 2014, As restated (see Note 2)	–
Movement	–
Balances at December 31, 2015	₱–

Treasury Stock

The Company has 7,258 shares in treasury stock amounting to ₱18.4 thousand as at December 31, 2015 and 2014.

Retained Earnings (Deficit)

The Group has retained earnings (deficit) amounting to ₱422.2 million and (₱697.0 million) as at December 31, 2015 and 2014, respectively.

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

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

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, 2015 and 2014 and will be reissued to such investors subsequent to year-end.

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

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

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

20. **EPS**

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

	Year Ended December 31, 2015	Six Months Ended December 31, 2014	Year Ended June 30, 2014
Net income	**₱1,111,750**	₱4,809,681	₱1,667,776
Weighted average number of shares for basic EPS	**17,467,014,310**	7,261,907,764	7,003,913,681
Basic/Diluted EPS	**₱0.06**	₱0.66	₱0.24

As at December 31, 2015 and 2014, there is no potentially dilutive common shares.

21. Cost of Sales

	Year Ended December 31, 2015	Six Months Ended December 31, 2014	Year Ended June 30, 2014
Contract hire (see Note 33)	**₱2,388,897**	₱1,921,467	₱1,593,768
Depreciation, depletion and amortization (see Notes 8, 9 and 26)	**579,482**	86,889	204,893
Fuel, oil and lubricants	**151,474**	170,388	164,898
Personnel costs (see Note 25)	**125,806**	50,378	153,276
Rentals (see Note 33)	**70,807**	42,009	69,935
Contribution for IP	**66,195**	92,809	56,963
Community relations	**45,003**	10,996	44,630
Environmental protection cost	**56,394**	82,148	14,266
Assaying and laboratory	**25,393**	28,149	41,100
Repairs and maintenance	**12,054**	5,546	104,588
Operation overhead	**7,993**	44,582	32,485
Other charges	**45,098**	21,279	34,040
	₱3,574,596	₱2,556,640	₱2,514,842

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

Other charges incude, but not limited to, power and utilities, health and safety expenses in mine site, manning expenses, agency fees, materials, supplies and spare parts, service fee and dry docking.

22. Excise Taxes and Royalties

	Year Ended December 31, 2015	Six Months Ended December 31, 2014	Year Ended June 30, 2014
Royalties to claim-owners (see Note 33)	**₱449,053**	₱631,610	₱395,901
Royalties to government	**326,634**	447,932	284,422
Excise taxes	**130,664**	179,204	115,570
	₱906,351	₱1,258,746	₱795,893

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.

The Group is paying to CMDC royalty fees of three percent (3%) to seven percent (7%) of gross receipts.

As at December 31, 2015 and 2014, excise taxes and royalties payable amounted to ₱96.8 million ₱64.9 million, respectively (see Note 14).

23. General and Administrative

	Year Ended December 31, 2015	Six Months Ended December 31, 2014	Year Ended June 30, 2014
Consultancy fees	**₱160,780**	₱19,837	₱23,252
Personnel costs (see Note 25)	**159,459**	56,924	65,155
Marketing and entertainment	**72,926**	32,334	157,137
Taxes and licenses	**50,025**	48,812	56,308
Outside services	**38,124**	18,592	39,612
Travel and transportation	**37,088**	18,557	23,864
SEC and listing fees	**28,401**	–	–
Depreciation and depletion (see Notes 8 and 26)	**15,001**	5,794	11,997
Rentals (see Note 33)	**7,402**	2,800	3,203
Repairs and maintenance	**6,987**	5,725	2,041
Supplies	**6,389**	3,351	2,382
Communication	**5,771**	2,501	3,572
Fuel, oil and lubricants	**4,935**	11,006	9,357
Membership and subscription	**2,042**	509	48
Insurance	**1,887**	1,519	232
Trainings, seminars and meetings	**1,194**	158	93
Power and utilities	**1,347**	630	967
Proressive mine rehabilitation	**–**	–	15,078
Other charges	**30,030**	8,267	16,248
	₱629,788	₱237,316	₱430,546

Other charges pertain to various expenses such as mailing and postage charges, and health and safety supplies.

24. Shipping and Distribution

	Year Ended December 31, 2015	Six Months Ended December 31, 2014	Year Ended June 30, 2014
Barging charges	**₱121,872**	₱63,704	₱156,544
Stevedoring charges and shipping expenses	**29,627**	–	21,268
Fuel, oil and lubricants	**14,885**	45	24,431
Government fees	**87**	–	–
	₱166,471	₱63,749	₱202,243

Barging charges pertain to expenses incurred from services provided to transport nickel ore.

25. **Personnel Costs**

	Year Ended December 31, 2015	Six Months Ended December 31, 2014	Year Ended June 30, 2014
Salaries and wages	**₱239,459**	₱94,301	₱189,155
Retirement benefits costs (see Note 17)	**9,368**	3,195	6,215
Other employee benefits	**36,438**	9,806	23,061
	₱285,265	₱107,302	₱218,431

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

The personnel costs were distributed as follows:

	Year Ended December 31, 2015	Six Months Ended December 31, 2014	Year Ended June 30, 2014
Cost of sales (see Note 21)	**₱125,806**	₱50,378	₱153,276
General and administrative (see Note 23)	**159,459**	56,924	65,155
	₱285,265	₱107,302	₱218,431

26. **Depreciation, Depletion and Amortization**

	Year Ended December 31, 2015	Six Months Ended December 31, 2014	Year Ended June 30, 2014
Cost of sales (see Notes 8, 9 and 21)	**₱579,482**	₱86,889	₱204,893
General and administrative (see Notes 8 and 23)	**15,001**	5,794	11,997
	₱594,483	₱92,683	₱216,890

27. **Finance Costs**

	Year Ended December 31, 2015	Six Months Ended December 31, 2014	Year Ended June 30, 2014
Interest expense (see Notes 14, 15, 17, 18 and 29)	**₱75,716**	₱55,348	₱150,732
Bank charges	**9,990**	10,776	17,339
Amortization of discount on bank loans (see Notes 15 and 29)	**2,068**	6,650	20,805
Accretion interest on provision for mine rehabilitation and decommissioning (see Note 16)	**1,117**	549	1,279
Commission expense	**–**	–	11,903
	₱88,891	₱73,323	₱202,058

28. **Other Income (Charges)** - net

	Year Ended December 31, 2015	Six Months Ended December 31, 2014	Year Ended June 30, 2013
Loss on modification of finance lease receivable (see Note 8)	**(₱86,885)**	₱–	₱–
Foreign exchange gains (losses) - net	**(19,843)**	(77,631)	209,323
Gain (loss) on disposals of property and equipment (see Note 8)	**(6,327)**	91	(159)
Impairment loss on AFS financial assets (see Note 12)	**(2,445)**	–	–
Others	**–**	116	–
	(₱115,500)	(₱77,424)	₱209,164

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

	Year Ended December 31, 2015	Six Months Ended December 31, 2014	Year Ended June 30, 2014
Net realized foreign exchange gains (losses)	**(₱27,863)**	₱46,168	(₱36,363)
Unrealized foreign exchange gains (losses) on:			
Cash	**25,914**	11,593	14,048
Trade and other receivables	**14,196**	(1,988)	(7,620)
Advances to related parties	**–**	(3,895)	142,486
Other noncurrent assets	**2,506**	1,986	(2,313)
Trade and other payables	**(3,136)**	(72,856)	23,267
Bank loans	**(31,396)**	(48,692)	67,965
Amounts owed to related parties	**(64)**	(9,947)	7,853
	(₱19,843)	(₱77,631)	₱209,323

29. **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.

Category	Amount/ Volume	Advances to related parties	Amounts owed to related parties	Terms	Conditions
Stockholders					
2015	**₱715,806**	**₱1,538,677**	**₱50,000**	Noninterest-bearing; collectible or payable on demand	Unsecured; no guarantee
2014	₱1,397,150	₱872,871	₱–		
Affiliates with common officers, directors and stockholders					
2015	**(564,515)**	**100,554**	**574,211**	Interest-bearing; payable in 8 installments	Unsecured; no guarantee
2014	1,256,212	894,987	344,293		
Other Related Party					
2015	**–**	**–**	**–**	Noninterest-bearing; collectible or payable on demand	Unsecured; no guarantee
2014	410,360	–	–		
Total		**₱1,639,231**	**₱624,211**		
Total		₱1,767,858	₱344,293		

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

a. In 2015, the Group entered into the following transactions which were recorded under "Deposits for future stock subscription":

   - The Group made cash deposit amounting to US$0.5 million or ₱23.1 million for the purchase of 10,000 shares or one hundred percent (100%) interest of PGMC International Limited, an entity incorporated in Hong Kong, China as part of the Group's expansion plans.
   - GFHI, 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 millon, to GFHI. These advances will form part of the purchase price of the acquisition of SPNVI pursuant to the Contract to Sell executed on August 6, 2015 (see Note 1).

b. On December 30, 2012, the Group entered into a MOA with Century Sunshine PGMC Company Ltd. (CSPC), a corporation incorporated in British Virgin Islands, wherein the Group's advances to CSPC under "Advances to related parties" amounting to ₱1,758.9 million will be treated by CSPC as deposit for future stock subscription of PGMC.

The advances to CSPC were made by PGMC partly to finance the acquisition of a joint venture entered by CSPC. Pending the listing of CSPC, both parties agree to treat the said advances as deposit for future subscription to shares equivalent to not more than ten percent (10%) of the total outstanding shares in CSPC. The actual conversion and issuance of the shares of stock of CSPC shall be subject to mutual agreement of the parties upon determination of the appropriate valuation of the shares of stock of CSPC, whether before or after the said listing. However, since the listing of CSPC was put on hold, the deposit for future subscription is treated purely as advances to shareholders and formed part of the declared dividends which was paid on December 29, 2014 (see Note 19).

c. The Group's US$35.0 million loan facility (with an accordion feature of US$5.0 million) with ATB under the Facility Agreement, guaranteed by a Group's subsidiary and two (2) of the Parent Company's stockholders, was fully paid as at December 31, 2015 (see Note 15).

d. In 2013, FRI availed a loan facility from BOC amounting to US$5.0 million. On August 3, 2013, the Group and FRI executed a Deed of Assignment wherein FRI agreed to assign its rights, titles, interest, and benefits in the loan facility. As required, a DSRA was opened by the Group which have in deposit an amount equivalent to one and a half times (1.5x) the amount necessary to pay the principal, interest and fees for the immediately following quarterly loan repayment schedule.

   The loan facility was actually utilized by the Group. Accordingly, the Group hereby assumes payment of the loan facility, its interest, charges and fees, and all other obligations stipulated in the loan agreement in which FRI was obliged to perform or comply.

   The annual effective interest of the loan is 4.4%. The current portion of the loan recorded under "Amounts owed to related parties" amounted to nil and US$1.9 million as at December 31, 2015 and 2014, respectively. The noncurrent portion of the loan amounted to nil as at December 31,2015 and 2014, respectively. The loan was fully paid in during the year.

   Interest expense amounted to ₱4.3 million, ₱2.9 million and ₱21.0 million for the year ended December 31, 2015, six months ended December 31, 2014 and year ended June 30, 2014, respectively. Amortization of the discount on the loan amounted to ₱0.1 million, ₱1.3 million and ₱3.3 million for the year ended December 31, 2015, six months ended December 31, 2014 and year ended June 30, 2014 (see Note 27).

e. In March 2014, PGMC entered into a charter agreement with PCSSC for the use of five (5) land tank crafts at ₱2.6 million each per month. The charter hire incurred amounting to ₱89.6 million, ₱50.0 million and ₱29.9 million for the year ended December 31, 2015, six months ended December 31, 2014 and for the year ended June 30, 2014, respectively, is recorded as barging charges.

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

g. In 2013, the Group obtained advances from other related party amounting to US$3.5 million. The amount advanced is used for working capital purposes. As at December 31, 2015, the Group has fully paid the advances. Interest expense for the advances amounted to nil, nil and

₱7.1 million for the year ended December 31, 2015, six months ended December 31, 2014 and year ended June 30, 2014, respectively.

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

	Year Ended December 31, 2015	Six Months Ended December 31, 2014	Year Ended June 30, 2014
Salaries and other employee benefits	**₱39,339**	₱16,960	₱27,216
Post-employee benefits	–	3,819	2,745
	₱39,339	₱20,779	₱29,961

30. Income Taxes

The current provision for income tax represents MCIT for the year ended December 31, 2015, six months ended December 31, 2014 and year ended June 30, 2014 for taxable income not covered under ITH. Effective November 2007, the Group is entitled to ITH as one of the incentives granted by the BOI as a non-pioneer enterprise (see Note 36). The Group's ITH incentive expired last November 15, 2015.

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

	Year Ended December 31, 2015	Six Months Ended December 31, 2014	Year Ended June 30, 2014
Income tax computed at statutory income tax rate	**₱378,975**	₱1,435,123	₱521,792
Add (deduct) tax effects of:			
Operating income subject to ITH	**(551,677)**	(1,531,852)	(570,123)
Change in unrecognized deferred income tax asset on NOLCO and excess MCIT	**32,752**	20,701	34,896
Expiration of deferred income tax asset on NOLCO and excess MCIT	**41,331**	–	–
Nondeductible expenses:			
Loss on modification of finance lease receivable	**26,066**	–	–
Marketing and entertainment	**19,300**	41,349	55,260
Interest	**720**	2,117	13,232
Donation	–	120	30
Deficiency taxes	–	1,789	6,168
Others	**2,808**	–	10,108
Interest income already subjected to final tax	**(354)**	(313)	(243)
Other nontaxable income	**(619)**	(2,338)	(2,143)
	(₱50,698)	(₱33,304)	₱68,977

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

	2015	2014
Deferred income tax assets:		
NOLCO	**₱43,491**	₱–
Provision for mine rehabilitation and decommissioning	**17,478**	18,064
Unrealized foreign exchange losses - net	**14,891**	22,182
Retirement obligation	**11,996**	9,030
Accrued taxes	**11,969**	3,300
Allowance for impairment losses on trade and other receivables	**5,208**	5,206
Excess MCIT	**1,966**	–
Rent payable	**329**	107
	107,328	57,889
Deferred income tax liability:		
Undepleted asset retirement obligation	**9,543**	14,626
	9,543	14,626
	₱97,785	₱43,263

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

Year Incurred	Year of Expiration	NOLCO	MCIT
December 31, 2015	December 31, 2018	₱428,648	₱1,574
December 31, 2014	December 31, 2017	68,631	43
June 30, 2014	June 30, 2017	115,847	142
		₱613,126	₱1,759

NOLCO	**Year Ended December 31, 2015**	Six Months Ended December 31, 2014	Year Ended June 30, 2014
Beginning balance	**₱425,840**	₱357,209	₱264,531
Additions	**428,648**	68,631	115,847
Expirations	**(241,362)**	–	(23,169)
Ending balance	**₱613,126**	₱425,840	₱357,209

MCIT	**Year Ended December 31, 2015**	Six Months Ended December 31, 2014	Year Ended June 30, 2014
Beginning balance	**₱1,331**	₱1,288	₱1,180
Additions	**1,574**	43	142
Expirations	**(1,146)**	–	(34)
Ending balance	**₱1,759**	₱1,331	₱1,288

As at December 31, 2015, the Group has recognized deferred income tax assets on NOLCO amounting to ₱43.8 million as a result of the expiration of its ITH incentive. Deferred income tax assets on NOLCO amounting to ₱140.1 million were not recognized since these NOLCO came from activities subjected to ITH incentive.

As at December 31, 2015, the Group has recognized deferred income tax assets on excess MCIT amounting to ₱2.0 million.

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

The Group has availed of the itemized deductions method in claiming its deductions for the year ended December 31, 2015, six months ended December 31, 2014 and year ended June 30, 2014.

31. Financial Risk Management Objectives and Policies and Capital Management

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

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

Market Risk

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

Foreign Exchange Risk

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

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

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

The Group's foreign currency-denominated financial assets and liabilities and their Philippine Peso equivalents as at December 31, 2015 and 2014 are as follows:

	2015		2014	
	US$ Amount	**Peso Equivalent**	US$ Amount	Peso Equivalent
Financial Assets:				
Cash with banks	**US$8,486**	**₱399,351**	US$5,586	₱249,806
Trade receivables	**15,322**	**721,053**	7,548	337,544
Restricted cash under "Other noncurrent assets"	**2,438**	**114,732**	4,399	196,723
	26,246	**1,235,136**	17,533	784,073
Financial Liabilities:				
Trade and other payables	**6,007**	**282,689**	3,921	175,347
Bank loans	**20,000**	**941,200**	10,017	447,969
	26,007	**1,223,889**	13,938	623,316
Net Financial Assets	**US$239**	**₱11,247**	US$3,595	₱160,757

The exchange rates used for conversion of US$1.00 to peso equivalent were ₱47.06 and ₱44.72 as at December 31, 2015 and 2014, respectively.

The following table demonstrates the sensitivity to a reasonably possible change in the US$ exchange rate, with all other variables held constant, of the Group's income before income tax (due to changes in revaluation of financial assets and liabilities) for the year ended December 31, 2015, six months ended December 31, 2014 and year ended June 30, 2014.

	Foreign Currency Appreciates/Depreciates by	Effect on Income Before Income Tax
December 31, 2015	**+2**	**(₱478)**
	-2	**478**
December 31, 2014	+2	(₱7,604)
	-2	7,604
June 30, 2014	+2	(₱69,180)
	-2	69,180

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

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

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

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

The terms and maturity profile of the interest-bearing financial assets and liabilities as at December 31, 2015 and 2014, together with its corresponding nominal interest rate and carrying values are shown in the following table:

2015	**Nominal Interest Rate**	**Less than 6 Months**	**6 to 12 Months**	**1 to 2 Years**	**More than 2 Years**	**Total**
Cash with banks	**Various**	**₱502,262**	**₱–**	**₱–**	**₱–**	**₱502,262**
MRF under "Other noncurrent assets"	**Various**	**–**	**–**	**–**	**62,117**	**62,117**
Bank loans	**10.50%-14.00%; LIBOR plus 9.00%**	**984,384**	**2,966**	**5,479**	**1,755**	**994,584**
Amounts owed to related parties	**6.72%**	**624,211**	**–**	**–**	**–**	**624,211**

2014	Nominal Interest Rate	Less than 6 Months	6 to 12 Months	1 to 2 Years	More than 2 Years	Total
Cash with banks	Various	₱691,249	₱–	₱–	₱–	₱691,249
MRF under "Other noncurrent assets"	Various	–	–	–	38,426	38,426
Bank loans	10.50%-14.00%; LIBOR plus 9.00%	286,727	287,138	43,350	3,011	620,226
Amounts owed to a related party	6.72%	289,729	54,564	–	–	344,293

The following table sets forth, for the year indicated, the impact of a reasonably possible change in interest rate for the year ended December 31, 2015, six months ended December 31, 2014 and year ended June 30, 2014 consolidated statements of comprehensive income (through the impact of floating rate borrowings):

	Increase/Decrease in Basis Points	Effect on Income Before Income Tax
December 31, 2015	**+100**	**(₱9,412)**
	-100	**9,412**
December 31, 2014	+100	(₱2,348)
	-100	2,348
June 30, 2014	+100	(₱15,098)
	-100	15,098

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

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

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

The table below shows the sensitivity to a reasonably possible change in equity prices on AFS equity instrument as at December 31, 2015 and 2014. 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
2015	**-1.25%**	**(₱94)**
	1.25%	**94**
2014	-0.52%	(₱56)
	0.52%	56

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

Credit Risk

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

The Group trades only with recognized, reputable and creditworthy third parties and/or transacts only with institutions and/or banks which have demonstrated financial soundness. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, export buyers are required to pay via Letters of Credit issued by reputable banks with the result that Group's exposure to bad debts is not significant. Also, the Group, in some circumstances, requires advances from customers. Since the Group trades only with recognized third parties, there is no requirement for collateral.

Credit Risk Exposure

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

	Notes	**2015**	2014
Cash with banks	4	**₱502,262**	₱691,249
Trade and other receivables:	5		
Trade receivables		**704,056**	337,544
Advances to officers, employees and others		**11,870**	2,936
Advances to related parties:	29		
Stockholders		**1,538,677**	872,871
Affiliates with common officers, directors and stockholders		**100,554**	894,987
AFS financial assets:	12		
Quoted equity instrument		**5,903**	8,854
Other noncurrent assets:	13		
Restricted cash		**114,583**	196,708
MRF		**62,117**	38,426
Total		**₱3,040,022**	₱3,043,575

Aging Analyses of Financial Assets
The aging analyses of the Group's financial assets as at December 31, 2015 and 2014 are summarized in the following tables:

2015	Neither past due nor impaired	Past due but not impaired: 90 days or less	91-120 days	More than 120 days	Impaired	Total
Cash with banks	**₱502,262**	**₱–**	**₱–**	**₱–**	**₱–**	**₱502,262**
Trade and other receivables:						
Trade receivables	**393,138**	**–**	**–**	**293,559**	**17,359**	**704,056**
Advances to officers,employees and others	**–**	**–**	**–**	**11,870**	**–**	**11,870**
Advances to related parties:						
Stockholders	**1,538,677**	**–**	**–**	**–**	**–**	**1,538,677**
Affiliates with common officers, directors and stockholders	**100,554**	**–**	**–**	**–**	**–**	**100,554**
AFS financial assets:			**–**	**–**	**–**	
Quoted equity instrument	**5,903**	**–**	**–**	**–**	**–**	**5,903**
Other noncurrent assets:			**–**	**–**	**–**	
Restricted cash	**114,583**	**–**	**–**	**–**	**–**	**114,583**
MRF	**62,117**	**–**	**–**	**–**	**–**	**62,117**
Total	**₱2,717,234**	**₱–**	**₱–**	**₱305,429**	**₱17,359**	**₱3,040,022**

2014	Neither past due nor impaired	Past due but not impaired: 90 days or less	91-120 days	More than 120 days	Impaired	Total
Cash with banks	₱691,249	₱–	₱–	₱–	₱–	₱691,249
Trade and other receivables:						
Trade receivables	320,185	–	–	–	17,359	337,544
Advances to officers, employees and others	–	–	–	2,936	–	2,936
Advances to related parties:						
Stockholders	872,871	–	–	–	–	872,871
Affiliate with common officers, directors and stockholders	894,987	–	–	–	–	894,987
AFS financial assets:						
Quoted equity instrument	8,854	–	–	–	–	8,854
Other noncurrent assets:						
Restricted cash	196,708	–	–	–	–	196,708
MRF	38,426	–	–	–	–	38,426
Total	₱3,023,280	₱–	₱–	₱2,936	₱17,359	₱3,043,575

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

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

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

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

Liquidity Risk

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

The Group's objective is to maintain sufficient funding to finance mining activities through internally generated funds, advances from customers and availment of existing credit lines with banks. The Group considers its available funds and its liquidity in managing its long-term financial requirements. For its short-term funding, the Group's policy is to ensure that there are sufficient capital inflows to match repayments of short-term debts. The Group regularly evaluates its projected and actual cash flow information and continuously assesses conditions in the financial markets.

The tables below summarize the maturity profile of the Group's financial liabilities as at December 31, 2015 and 2014 based on contractual undiscounted payments.

2015	On Demand	Less than 3 Months	3 to 6 Months	6 to 12 Months	1 to 2 Years	More than 2 Years	Total
Bank loans	**₱–**	**₱512,198**	**₱472,186**	**₱2,966**	**₱5,479**	**₱1,755**	**₱994,584**
Trade and other payables							
Trade	**383,368**	**–**	**–**	**–**	**–**	**–**	**383,368**
Accrued expenses	**61,642**	**–**	**–**	**–**	**–**	**–**	**61,642**
Nontrade	**3,214**	**–**	**–**	**–**	**–**	**–**	**3,214**
Amounts owed to related parties	**624,211**	**–**	**–**	**–**	**–**	**–**	**624,211**
Total	**₱1,072,435**	**₱512,198**	**₱472,186**	**₱2,966**	**₱5,479**	**₱1,755**	**₱2,067,019**

2014	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	₱–	₱77,573	₱209,155	₱287,137	₱43,351	₱3,010	₱620,226
Trade and other payables							
Trade	225,007	–	–	–	–	–	225,007
Accrued expenses	44,355	–	–	–	–	–	44,355
Nontrade	106,079	–	–	–	–	–	106,079
Amounts owed to related parties	262,145	27,584	27,630	26,934	–	–	344,293
Total	₱637,586	₱105,157	₱236,785	₱314,070	₱43,352	₱3,010	₱1,339,960

The tables below summarize the maturity profile of the Group's financial assets used to manage the liquidity risk of the Group as at December 31, 2015 and 2014.

2015	**On Demand**	**Less than 3 Months**	**3 to 6 Months**	**6 to 12 Months**	**1 to 2 Years**	**More than 2 Years**	**Total**
Cash							
Cash on hand	**₱614**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱614**
Cash with banks	**502,262**	–	–	–	–	–	**502,262**
Trade receivables	**704,056**	–	–	–	–	–	**704,056**
AFS financial assets	**5,903**	–	–	–	–	–	**5,903**
Restricted cash under "Other noncurrent assets"	–	–	–	–	–	**114,583**	**114,583**
Total	**₱1,212,835**	**₱–**	**₱–**	**₱–**	**₱–**	**₱114,583**	**₱1,327,418**

2014	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	₱620	₱–	₱–	₱–	₱–	₱–	₱620
Cash with banks	691,249	–	–	–	–	–	691,249
Trade receivables	337,544	–	–	–	–	–	337,544
AFS financial assets	8,854	–	–	–	–	–	8,854
Restricted cash under "Other noncurrent assets"	–	–	–	–	–	196,708	196,708
Total	₱1,038,267	₱–	₱–	₱–	₱–	₱196,708	₱1,234,975

Capital Management

The primary objective of the Group's capital management is to ensure that it maintains sufficient cash balances and strong credit rating to support its business and to maximize shareholders' value. The Group manages its capital structure and makes adjustments to it after carefully considering changes in the economic environment. To maintain or adjust the capital structure, the Group may utilize the following: (a) obtain additional shareholders' advances to augment capital, (b) issuance of new shares, and (c) to return capital to shareholders if and when feasible. No changes were made in the objectives, policies or processes in December 31, 2015 and 2014 and June 30, 2014.

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

The Group place reliance on sales projections and cost management in addressing cash flow concerns.

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

32. **Fair Value Measurement**

The following table shows the carrying values and fair values of the Group's assets and liabilities, whose carrying values does not approximate its fair values as at December 31, 2015 and 2014:

	Carrying Values		Fair Values	
	2015	2014	**2015**	2014
Investment property	**₱319,865**	₱319,865	**₱367,003**	₱367,003
Bank loans	**994,584**	620,226	**826,538**	649,091
Finance leases liabilities	**14,994**	41,445	**23,930**	42,987

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

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

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

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

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

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

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

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

2015	**Level 1**	**Level 2**	**Level 3**	**Total**
Asset measured at fair value:				
AFS financial assets	**₱5,903**	**₱–**	**₱–**	**₱5,903**
Asset for which the fair value is disclosed:				
Investment property	**–**	**–**	**367,003**	**367,003**
	₱5,903	**₱–**	**₱367,003**	**₱372,906**
Liabilities for which fair values are disclosed:				
Bank loans	**₱–**	**₱–**	**₱826,538**	**₱826,538**
Finance lease liabilities	**–**	**–**	**23,930**	**23,930**
	₱–	**₱–**	**₱850,468**	**₱850,468**

2014	Level 1	Level 2	Level 3	Total
Asset measured at fair value:				
AFS financial assets	₱8,854	₱–	₱–	₱8,854
Asset for which the fair value is disclosed:				
Investment property	–	–	367,003	367,003
	₱8,854	₱–	₱367,003	₱375,857
Liabilities for which fair values are disclosed:				
Bank loans	₱–	₱–	₱649,091	₱649,091
Finance lease liabilities	–	–	42,987	42,987
	₱–	₱–	₱692,078	₱692,078

There were no transfers between levels of fair value measurement as at December 31, 2015 and 2014.

33. **Significant Agreements and Other Matters**

Ore Supply Agreements

Ore Supply Agreements with Chinese Customers

The Group has ore supply agreements with Chinese customers, each for a fixed tonnage at specific nickel grades and iron content. The fixed tonnage of ore is generally the volume expected delivery within a few months. Revenue from Chinese customers amounted to ₱6,533.2 million, ₱8,218.7 million and ₱5,667.8 million for the year ended December 31, 2015, six months ended December 31, 2014 and year ended June 30, 2014, respectively.

Queensland Nickel Pty. Limited (QNPL)

The Group has ore supply agreement with QNPL, an Australian corporation, for a fixed tonnage at specific nickel grades and iron content. The fixed tonnage of ore is generally the volume expected delivery within a few months. Revenue from QNPL amounted to nil and ₱828.8 million for the years ended December 31, 2015 and six months ended December 31, 2014, respectively. Advances from QNPL to the Group to be applied against future shipments amounted to nil and ₱27.1 million as at December 31, 2015 and 2014, respectively.

Operating Agreements

SIRC

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

Total royalty fees incurred to CMDC amounted to ₱449.1 million, ₱631.6 million and ₱395.9 million for the year ended December 31, 2015, six months ended December 31,2014 and year ended June 30, 2014, respectively (see Note 22).

4K Development Corporation

On July 16, 2009, as amended on March 8, 2011, the Group entered into a service contract with 4K Development Corporation, a contractor, to operate the mining activities within CAGA 4 in Surigao, wherein the Group will pay the contractor a fixed amount of per metric ton shipped ore. Total contract hire incurred amounted to ₱1,552.0 million, ₱1,298.3 million and ₱1,428.9 million for the year ended December 31, 2015, six months ended December 31, 2014 and year ended June 30, 2014, respectively (see Note 21). The service contract expired this year and was not renewed.

FVC and JLEC

On February 26, 2015 and March 7, 2014, the Group entered into a service contract 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. Total contract hire incurred amounted to ₱836.9 million, ₱623.2 million and ₱164.9 million for the year ended December 31, 2015, six months ended December 31, 2014 and year ended June 30, 2014, respectively for CAGA 2 (see Note 21).

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

Future minimum lease payments follow:

Category	**2015**	2014
Within one (1) year	**₱2.9 million**	₱4.7 million
After one (1) year but not more than five (5) years	**20.8 million**	26.9 million
More than five (5) years	**10.0 million**	10.4 million

Rent payable reported under "Other noncurrent liabilities" amounted to ₱1.1 million and ₱0.4 million as at December 31, 2015 and 2014, respectively.

Total rent expense incurred amounted to ₱78.2 million, ₱44.8 million and ₱73.1 million for the year ended December 31, 2015, six months ended December 31, 2014 and year ended December 31, 2014, respectively (see Notes 21 and 23). Prepaid rent related to these lease agreements amounted to ₱0.5 million and ₱0.9 million as at December 31, 2015 and 2014, respectively (see Note 7).

Certification for VAT Zero-Rated Status
On February 17, 2015, BOI issued a certification pursuant to Revenue Memorandum Order No. 9-2000 entitled "Tax Treatment of Sales of Goods, Properties and Services made by VAT-registered Suppliers to BOI registered Manufacturers-Exporters with one hundred percent (100%) Export Sales". The certification is valid from February 9 to December 31, 2015 and renewable annually, unless sooner revoked by the BOI Governing Board (see Note 1).

34. Registration with the BOI

On November 16, 2007, the Group was registered with the BOI as a new producer of beneficiated nickel ore on a non-pioneer status on its Surigao registered nickel project.

The terms and conditions of the registration, as well as the fiscal and non-fiscal incentives available to the registered project are as follows:

Significant Terms and Conditions
- The Group to start commercial operations in November 2007. Request for amendment of timetable shall be filed before the scheduled start of commercial operations.
- The Group to comply with all the provisions of RA 7942, the Philippine Mining Act of 1995, its implementing rules and regulations and the Group's MPSA.
- The Group to maintain a separate book of account for its registered nickel project located in Claver, Surigao del Norte.
- The Group to undertake Corporate Social Responsibility (CSR) projects/activities. A report on completed/on-going CSR projects/activities shall be submitted to the BOI prior to availment of ITH incentive.
- The Group to submit a copy of Operating Agreement between SIRC, duly noted by the Secretary of DENR-MGB prior to availment of the ITH incentive.
- The Group to submit to the Supervision and Monitoring Department of the BOI, a quarterly report on actual investments, employment and sales pertaining to the registered project. This

report shall be due within fifteen (15) days after the end of each quarter, starting on the date of registration.
- Observance of a specified production and sales schedule and project timetable.

Fiscal and Non-fiscal Incentives

- ITH for a period of six (6) years from November 2007 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration.
- For the first five (5) years from the date of registration, the firm shall be allowed an additional deduction from taxable income of one hundred percent (100%) of the wages corresponding to the increment in number of direct labor for skilled and unskilled workers in the year of availment as against the previous year if the project meets the prescribed ratio of capital equipment to the number of workers set by the Board of US$10,000 to one worker and provided that this incentive shall not be availed of simultaneously with ITH.
- Employment of foreign nationals for five (5) years from the date of registration.
- Tax credit equivalent to the national internal revenue taxes and duties paid on raw materials and supplies and semi-manufactured products used in producing its export product and forming part thereof for ten (10) years from the start of commercial operations.
- Simplification of customs procedures for the importation of equipment, spare parts, raw materials and supplies.
- Access to Customs Bonded Manufacturing Warehouse (CBMW) subject to Custom rules and regulations provided firm exports are at least seventy percent (70%) of production output.
- Exemption from wharfage dues, any export tax, duty, imports and fees for ten (10) years from date of registration.
- Importation of consigned equipment for a period of ten (10) years from date of registration, subject to the posting of re-export bond.
- Exemption from taxes and duties on imported spare parts and consumable supplies for export producers with CBMW exporting at least seventy percent (70%) of production.
- Additional deduction from taxable income of one hundred percent (100%) of the expenses incurred in the development of necessary and major infrastructure facilities, provided that the location of the project is in a less developed area (Surigao del Norte).

On April 4 2016, PGMC received the Certificate of ITH Entitlement for taxable year 2015. This certifies that PGMC is a bonafide BOI-registered enterprise and is entitled to ITH incentive as provided above. This certificate shall be attached to the income tax return where the ITH claim is reflected and cannot be used for any other purpose. PGMC availed of the ITH incentives amounting to ₱547.4 million and ₱1,847.7 million in 2015 and 2014, respectively (see Note 30). The ITH incentive of PGMC expired last November 15, 2015.

35. **Other Matters**

a. PGMC is a defendant to a certain pending legal case filed by Tribal Coalition of Mindanao, Inc, for a petition for Writ of Kalikasan with Prayer for Temporary Environmental Protection Order (TEPO) on May 25, 2011, originally filed before the Supreme Court (SC) and which is currently pending before the Court of Appeals (CA). Petitioner alleged that a member of mining companies, including PGMC, are causing environmental damage of such magnitude in Surigao del Sur and Surigao del Norte so as to cause irreparable prejudice and damage to the lives, health and properties of the Petitioners. As such, Petitioners prayed for: (i) the issuance of a TEPO and/or a Writ of Kalikasan ordering the mining companies to cease and desist from conducting all mining activities and that all ships docked in the ports not be allowed to leave the area; (ii) a resolution be issued to the effect that the TEPO remains effective until termination of the case; and (iii) after due proceedings, a decision be rendered in favor of petitioners: (a) making the TEPO and/or Writ of Kalikasan permanent and directing all mining companies to cease and desist from conducting all mining activities and directing the management/proper authorities responsible for the ports, as well as the ships in the port, to release all loaded nickel and other minerals and equipment of mining companies in favor of the petitioners and (b) nullifying all mining-related permits, licenses or agreements issued by government agencies.

The SC denied petitioners' prayer for TEPO and the case was remanded to the CA in Cagayan de Oro City for reception of evidence, in a resolution dated June 28, 2011. On March 2, 2012, the CA issued a Notice of Resolution with Writ of Kalikasan requiring the respondents to file a verified return. The prayer for TEPO by petitioners was denied by the CA. Respondents of PGMC have filed its verified return as well as a Motion for Reconsideration to the CA. Said Motion for Reconsideration was denied by the CA and considered the case as submitted for resolution. As at December 31, 2015, the case is still pending before the CA.

b. Caraga IP Management and Development Corp and alleged tribal chieftains Bago and Olorico, filed an environmental case for payment of one percent (1%) royalty fees, accounting, liquidation and receivership for violation of RA 7942 (The Philippine Mining Act of 1995) and RA 8371 (IP's Rights Act Law) before the Regional Trial Court Branch 4 docketed as Civil Case No. 6111. However, PGMC has been religiously paying the royalty fees to the IP community duly recognized and registered with the National Commission on IP. PGMC filed a Motion to Dismiss last February 3, 2014 following the decision of the CA in PGMC, etc. vs. CIPMAD, etc., et. al., docketed as CA-GR. SP No. 04842-MIN, ordering the Regional Trial Court to dismiss the case for lack of jurisdiction.

   Based on management's assessment in consultation with PGMC's legal counsel, PGMC does not have present legal or constructive obligation with respect to these pending legal cases as at December 31, 2015 and 2014. There was no provision recognized in the consolidated financial statements with respect to these matters as at December 31, 2015 and 2014.

c. There were some reclassifications made in 2014 balances to conform with 2015 presentation.

36. Events after the End of the Reporting Period

During the first quarter of 2016, PGMC has secured commitments from various customers for the delivery of a total of 4.5 million WMT of nickel ore for a period of one (1) year at spot prices. The orders represent almost ninety percent (90%) of the Group's target production for 2016.

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

On April 4, 2016, PGMC received the Certificate of ITH Entitlement for taxable year 2015 and ITH entitlement period is November 16, 2014 to November 15, 2015 bonus year.

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

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

a. Increase in property and equipment amounting to ₱208.1 million due to the return of equipment as a result of the amended finance lease agreement with FVC.
b. Net decrease in trade and other payables as a result of:
    - Offset of finance lease receivable with the Group's payable to contractors amounting to ₱90.8 million.
    - Application of advances from customers to outstanding receivables amounting to ₱27.1 million (see Note 33).
    - On account purchases of property and equipment amounting to ₱12.8 million.
    - Accrual of interest in relation to retirement obligation amounting to ₱1.5 million (see Note 17).
c. Increase in deposits for future acquisition due to various Deed of Assignments wherein PGMC assigned all the rights, title, and interest for the cash advances made by PGMC to SPNVI, amounting to ₱1,628.1 millon, to GFHI.

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

Noncash financing and investing activities as of June 30, 2014 pertain to the following:

a. Decrease in property and equipment amounting to ₱942.3 million due to the finance lease agreement entered into by the Group with FVC.
b. Increase in property and equipment amounting to ₱61.2 million due to the finance lease agreement entered into by the Group with SBML and CFSPI.

38. **Operating Segment Information**

The Group's operating business 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 has revenue information from external customers as follows:

Country of Domicile	**Year Ended December 31, 2015**	Six Months Ended December 31, 2014	Year Ended June 30, 2014
China	**₱6,533,218**	₱8,218,683	₱5,667,768
Australia	–	828,793	–
	₱6,533,218	₱9,047,476	₱5,667,768

The mining segment is engaged in the mining and exploration of nickel saprolite and limonite ore and limestone.

The services segment is engaged in the chartering out of land craft tanks to PGMC.

Financial information on the operation of the various business segments for the year ended December 31, 2015, six months ended December 31, 2014 and year ended June 30, 2014 are as follows:

	December 31, 2015				
	Mining	**Service**	**Others**	**Elimination**	**Total**
External customers	**₱6,533,218**	**₱–**	**₱–**	**₱–**	**₱6,533,218**
Intersegment revenues	**–**	**89,594**	**–**	**(89,594)**	**–**
Total revenues	**6,533,218**	**89,594**	**–**	**(89,594)**	**6,533,218**
Cost of sales	**3,493,488**	**81,108**	**–**	**–**	**3,574,596**
Excise taxes and royalties	**906,351**	**–**	**–**	**–**	**906,351**
Shipping and distributions	**256,065**	**–**	**–**	**(89,594)**	**166,471**
Segment operating earnings	**1,877,314**	**8,486**	**–**	**–**	**1,885,800**
General and administrative	**462,832**	**9,884**	**157,072**	**–**	**629,788**
Finance income	**9,408**	**6**	**17**	**–**	**9,431**
Finance costs	**(88,888)**	**–**	**(3)**	**–**	**(88,891)**
Other charges - net	**(115,500)**	**–**	**–**	**–**	**(115,500)**
Provision for (benefit from) income tax	**(53,205)**	**2,507**	**–**	**–**	**(50,698)**
Net income attributable to equity holders of GFHI	**₱1,272,707**	**(₱3,899)**	**(₱157,058)**	**₱–**	**₱1,111,750**
Segment assets	**₱9,271,572**	**₱347,125**	**₱11,461,116**	**(₱12,102,128)**	**₱8,977,685**
Deferred income tax assets	**107,328**	**–**	**–**	**–**	**107,328**
Total assets	**₱9,378,900**	**₱347,125**	**₱11,461,116**	**(₱12,102,128)**	**₱9,085,013**
Segment liabilities	**₱2,784,787**	**₱5,200**	**₱3,657,390**	**(₱3,909,781)**	**₱2,537,596**
Deferred income tax liabilities	**9,543**	**–**	**–**	**–**	**9,543**
Total liabilities	**₱2,794,330**	**₱5,200**	**₱3,657,390**	**(₱3,909,781)**	**₱2,547,139**
Capital expenditures	**₱252**	**₱–**	**₱–**	**₱–**	**₱252**
Depreciation, depletion and amortization	**₱548,631**	**₱45,852**	**₱–**	**₱–**	**₱594,483**

	December 31, 2014				
	Mining	Service	Others	Elimination	Total
External customers	₱9,033,646	₱–	₱–	₱–	₱9,033,646
Intersegment revenues	–	49,930	–	(49,930)	–
Total revenues	9,033,646	49,930	–	(49,930)	9,033,646
Cost of sales	2,532,403	20,329	–	–	2,552,732
Excise taxes and royalties	1,256,821	–	–	–	1,256,821
Shipping and distribution	113,583	–	–	(49,930)	63,653
Segment operating earnings	5,130,839	29,601	–	–	5,160,440
General and administrative	234,966	111	1,878	–	236,955
Finance income	3,462	(2)	–	–	3,460
Finance costs	(73,211)	–	–	–	(73,211)
Other income (charges)	(77,307)	–	1	–	(77,306)
Provision for (benefit from) income tax	(40,646)	7,393	–	–	(33,253)
Net income attributable to equity holders of GFHI	₱4,789,463	₱22,095	(₱1,877)	₱–	₱4,809,681
Segment assets	₱7,943,094	₱353,048	₱–	(₱684,534)	₱7,611,608
Deferred income tax assets	57,889	–	–	–	57,889
Total assets	₱8,000,983	₱353,048	₱–	(₱684,534)	₱7,669,497

	December 31, 2014				
	Mining	Service	Others	Elimination	Total
Segment liabilities	₱2,251,894	₱7,223	₱–	(₱30,276)	₱2,228,841
Deferred income tax liabilities	14,626	–	–	–	14,626
Total liabilities	₱2,266,520	₱7,223	₱–	(₱30,276)	₱2,243,467
Capital expenditures	₱78,656	₱17,768	₱–	₱–	₱96,424
Depreciation, depletion and amortization	₱84,380	₱8,303	₱–	₱–	₱92,683

	June 30, 2014			
	Mining	Service	Elimination	Total
External customers	₱5,659,105	₱–	₱–	₱5,659,105
Intersegment revenues	–	29,854	(29,854)	–
Total revenues	5,659,105	29,854	(29,854)	5,659,105
Cost of sales	2,486,561	24,436	–	2,510,997
Excise taxes and royalties	794,676	–	–	794,676
Shipping and distribution	231,790	–	(29,854)	201,936
Segment operating earnings	2,146,078	5,418	–	2,151,496
General and administrative	417,150	12,738	–	429,888
Finance income	7,943	–	–	7,943
Finance costs	(201,749)	–	–	(201,749)
Other income - net	208,844	–	–	208,844
Provision for (benefit from) income tax	69,336	(466)	–	68,870
Net income attributable to equity holders of GFHI	₱1,674,630	(₱6,854)	₱–	₱1,667,776
Segment assets	₱11,505,913	₱359,152	(₱713,463)	₱11,151,602
Deferred income tax assets	35,779	–	–	35,779
Total assets	₱11,541,692	₱359,152	(₱713,463)	₱11,187,381
Segment liabilities	₱9,492,666	₱35,457	(₱59,205)	₱9,468,918
Deferred income tax liabilities	34,359	–	–	34,359
Total liabilities	₱9,527,025	₱35,457	(₱59,205)	₱9,503,277
Capital expenditures	₱610,915	₱326,084	₱–	₱936,999
Depreciation, depletion and amortization	₱210,662	₱6,230	₱–	₱216,892

PGMC

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PGMC - CNEP
Shipping Services Corporation

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