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SEC Registration Number

G L O B A L F E R R O N I C K E L H O L D I N G S I N C

f o r m e r l y :

S O U T H E A S T A S I A C E M E N T H O L D I N G S

I N C

(Company's Full Name)

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P A S E O D E R O X A S C O R A R N A I Z S T

M A K A T I

(Business Address: No. Street City/Town/Province)

Atty. Noel Lazaro

(Contact Person)

(632) 5118229

(Company Telephone Number)

Month Day

(Fiscal Year)

1 7 - A

(Form Type)

Month Day

(Annual Meeting)

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

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**SECURITIES AND EXCHANGE COMMISSION  
SEC FORM 17-A**

**ANNUAL REPORT PURSUANT TO SECTION 17  
OF THE SECURITIES REGULATION CODE AND SECTION 141  
OF THE CORPORATION CODE OF THE PHILIPPINES**

1. For the calendar year ended - **December 31, 2019**

2. SEC Identification Number - **ASO94-003992**

3. BIR Tax Identification No. - **003-871-592**

4. Exact name of issuer as specified in its charter

**GLOBAL FERRONICKEL HOLDINGS, INC.**

5. Province, Country or other jurisdiction of incorporation or organization

**Metro Manila, Philippines**

6. Industry Classification Code:  (SEC Use Only)

7. Address of principal office

Postal Code

**7th Floor Corporate Business Centre, 151 Paseo de Roxas  
corner Arnaiz Street, Makati City, Metro Manila, Philippines**

**1228**

8. Issuer's telephone number, including area code

**(632) 519 7888**

9. Former name, former address, and former fiscal year, if changed since last report

**Not Applicable**

10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sec. 4 and 8 of the RSA

Title of Each Class

Number of Shares of Common Stock  
Outstanding or Amount of Debt Outstanding

**Common Shares**

**6,072,357,151**

11. Are any or all of registrant's securities listed on a Stock Exchange?

Yes [  ] 6,072,357,151 Common Shares    No [  ]

If yes, disclose the name of such Stock Exchange and the class of securities listed therein:

**The Philippine Stock Exchange, Inc.**

**Common Shares**

12. Check whether the issuer:

- (a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports);

Yes [  ] No [  ]

- (b) has been subject to such filing requirements for the past ninety (90) days.

Yes [  ] No [  ]

13. State the aggregate market value of the voting stock held by non-affiliates of the registrant

The aggregate market value of the voting stock held by non-affiliates of the registrant (i.e., excluding shareholders having at least 10% of the issued capital of the Company and officers, directors and affiliates of the Company), consisting of 2,641,889,879 shares as of December 31, 2019, is ₱ 4,728,982,883, computed by reference to the closing price on December 27, 2019 of ₱1.79 per share.



# Global Ferronickel Holdings, Inc.

**GLOBAL FERRONICKEL HOLDINGS, INC.  
17-A ANNUAL REPORT 2019**

## ***PART I – BUSINESS AND GENERAL INFORMATION***

### **Item 1. Business**

#### **Corporate Information**

Global Ferronickel Holdings, Inc. (the “Company” or “Parent Company” or “Corporation” or “FNI” or “GFHI”) was established on May 3, 1994 as a holding company.

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

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

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

On September 5, 2014, as a requirement under the Securities Regulation Code (SRC), the Thirteen Stockholders have launched a mandatory tender offer to acquire the shares of the minority stockholders holding 712,781,634 common shares of the Company and filed a Tender Offer Report with the Philippine Securities and Exchange Commission (SEC) and Philippine Stock Exchange (PSE). The Tender Offer period lapsed October 10, 2014 where 204,264 common shares (the “Tendered Shares”) were tendered to the Thirteen Stockholders. 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 or Board) and the stockholders of the Company, respectively, approved the following amendments to the Articles of Incorporation (AOI) and By-laws:

- Change in the 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 Buildings, 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 Company from ₱2,555,000,000.00 divided into 7,300,000,000 common shares with a par value of ₱0.35 per share to ₱12,555,000,000.20 divided into 35,871,428,572 common shares with a par value of ₱0.35 per share; and
- Change of fiscal year from June 30 to December 31.

The BOD and the stockholders of the Company also approved the issuance of 10,463,093,371 new common shares of the Company resulting from the increase in the authorized capital stock to the Thirteen Shareholders who are also the stockholders of Platinum Group Metals Corporation (“PGMC”) in exchange for the sale and transfer to the Company of 99.85% of the outstanding capital stock of PGMC under a Deed of Exchange dated October 23, 2014; and the follow-on offering and listing of shares with the PSE which includes the 10,463,093,371 common shares issued to the stockholders of PGMC.

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

On November 27, 2014, the Company entered into a Memorandum of Agreement with Giantlead Prestige, Inc., Alpha Centauri Fortune Group, Inc., Antares Nickel Capital, Inc., Huatai Investment Holding Pty. Ltd. and an individual 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 United States Dollar (US\$)50.0 million or its Philippine peso equivalent.

On December 1, 2014, the Company filed with the SEC a Notice of Exempt Transaction under Section 10.1 (e) and (i) of the SRC, or pursuant to the sale of capital stock of a corporation to its own stockholders exclusively, where no commission or other remuneration is paid or given directly or indirectly in connection with the sale of such capital stock and pursuant to the subscription for shares of the capital stock of a corporation prior to the incorporation thereof or in pursuance of an increase in its authorized capital stock under the Philippine Corporation Code, when no expense is incurred, or no commission, compensation or remuneration is paid or given in connection with the sale or disposition of such securities, and only when the purpose for soliciting, giving or taking of such subscriptions is to comply with the requirements of such law as to the percentage of the capital stock of a corporation which should be subscribed before it can be registered and duly incorporated, or its authorized capital increased, for the issuance of the aforementioned 10,463,093,371 new common shares. An amended Notice of Exempt Transaction was filed on February 18, 2015.

On December 22, 2014, the Philippine SEC approved the Company's application to increase the authorized capital stock of the Company to ₱12,555,000,000.20 divided into 35,871,428,572 common shares with a par value of ₱0.35 per share, and the issuance of 10,463,093,371 to the stockholders of PGMC who transferred their shares in PGMC to the Company, as well as the amendment of its articles of incorporation and by-laws to reflect the change in the corporate name, principal address, number of directors and fiscal year.

On February 26, 2015, the Company's stockholders representing 71.64% of the total outstanding shares unanimously approved and ratified the planned acquisition of SPNVI.

On May 19, 2015, SEC approved PGMC's increase of authorized capital stock from ₱715,375,046.80 to ₱1,515,375,046.80. Out of the increase in the authorized capital stock of ₱800,000,000.00 divided into 80,000,000,000 Class A Common Shares with a par value of ₱0.01 per share, FNI subscribed 20,000,000,000 Class A Common Shares or 61.51% of PGMC.

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

- The execution of the Contract to Sell for the purchase of 500,000 common shares and 6,250,000,000 preferred shares or one hundred percent (100%) interest of SPNVI for US\$50.0 million or its Philippine peso equivalent; and
- Subscription of the Company to the remaining unissued and unsubscribed shares of SPNVI consisting of Three Hundred Thousand (300,000) common shares with a par value of One Peso (₱1.00) per share, and Three Billion Seven Hundred Fifty Million (3,750,000,000) preferred shares with a par value of One Centavo (₱0.01) per share, for a total subscription price of Thirty Seven Million Eight Hundred Thousand Pesos (₱37,800,000.00).

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

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

- Reverse stock split of the Parent Company's common stock at a ratio 1-for-3;
- Amendment of the AOI to reflect an increase in the par value per share and a corresponding decrease in the total number of shares or a reverse stock split, whereby in effect, the authorized capital stock of the Parent Company is increased from ₱12,555,000,000.20 divided into 35,871,428,572 common shares with a par value of ₱0.35 per share to ₱12,555,020,001.30 divided into 11,957,161,906 common shares with a par value of ₱1.05 per share, or an increase of ₱20,001.10; and
- Amendment of the By-laws to include notice of regular or special meetings of the Board by electronic mail and attendance to board meetings by means of telephone, electronic, or other suitable electronic communication facilities, including telephone conference, video conference, or the internet or any combination of those methods.

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

On July 20, 2018, the Parent Company completed its 250,000,000 common shares follow-on offering at an offer price of ₱2.07 with total proceeds of ₱517.5 million. On the same date, all the 6,072,357,151 issued shares of the Parent Company, including the common shares issued in accordance with the Share Swap transaction approved by the SEC on December 22, 2014, private placement and follow-on offer shares, are listed in the PSE. Pursuant to the use of proceeds from the follow-on offering, the Parent Company subscribed to PGMC's common stock amounted to ₱480.6 million on August 2, 2018 and on August 3, 2018, PGMC used this amount to pay a portion of the Taiwan Cooperative Bank Manila Offshore Banking Branch (TCB) loan.

The Company, its Subsidiaries and Affiliates (collectively, the "Group") have no record of any bankruptcy, receivership or similar proceedings during the past three (3) years. Neither has the Group made any material reclassification, merger, consolidation, or purchase nor sale of a significant amount of assets not in the ordinary course of business from 2017 to 2019, except as disclosed and mentioned herein, and in the Company and Subsidiaries Audited Financial Statements.

### **Corporate Objective**

The Company's objective is to deliver value by carrying out its activities in an environmentally, socially and financially responsible manner for the benefit of the nation, the communities where it operates, its employees, customers and other stakeholders.

### **Products**

The Company produces two types of nickel ore, namely saprolite and limonite. Nickel ore can be blended into six (6) product categories to meet the specifications stipulated in the Company's supply contracts entered into with its customers. The shipping grades and tonnages may vary yearly depending on customer specifications and demand for different product types. However, based on historical shipment records, previous product specifications were generally classified in the categories presented in the table on the next page.

*Historical Product Categories:*

Nickel Ore Type	Product Categories	Grade Specifications
Limonite	Low Grade Nickel-High Iron Ore	Ni $\geq$ 0.9% < 1.2%; Fe $\geq$ 48.0%
Limonite	Low Grade Nickel-Medium Iron Ore	Ni $\geq$ 1.2% < 1.3%; 45% $\leq$ Fe < 49.0%
Saprolite	Low Grade Nickel Ore	Ni $\geq$ 1.3%; Fe $\geq$ 40% or Fe < 30%
Saprolite	Medium Grade Nickel-High Iron Ore	Ni $\geq$ 1.5%; Fe $\geq$ 30%
Saprolite	Medium Grade Nickel-Low Iron Ore	Ni $\geq$ 1.5%; Fe $\leq$ 20%
Saprolite	High Grade Nickel Ore	Ni $\geq$ 1.8%; regardless %Fe

Though there is a category for waste that falls outside of the saleable grade ranges, the Company stockpiles waste for future blending purposes or for future sale when they become marketable.

In general, low grade nickel high iron products have the greatest volumes sold, which represented approximately 57.2% by mass of total ore shipped followed by medium grade nickel products at approximately 38.3% and high grade products at approximately 4.5% for the years 2007 to 2019. A high proportion of low nickel grade materials have been sold as this material is closest to the surface; they are the easiest to be mined and most abundant at Cagdianao.

The Company's primary customers include trading companies as well as end users in China. One Hundred Percent (100.0%) of the Company's sales for the years ended December 31, 2017, 2018 and 2019 were sold to customers in China and the Company expects that China will continue to be a large contributor to its sale of nickel ore in the future. The Company's customers mainly use the ore it provides to produce intermediate products for the manufacture of stainless steel, nickel pig iron (NPI) and for the production of nickel cathodes. High grade nickel ore are purchased by the Company's customers for the production of higher grade stainless steel such as the 300 Series, and low grade nickel ore is used by the Company's customers for the production of lower grade stainless steel such as the 200 Series.

**Subsidiaries**

The Parent Company's ownership interests in its subsidiaries are presented below:

Subsidiaries	Principal Place of Business	Principal Activities	Effective Ownership
PGMC	Philippines	Mining	99.98%
Surigao Integrated Resources Corporation (SIRC) <sup>(1)</sup>	Philippines	Mining	99.98%
PGMC-CNEP Shipping Services Corp. (PCSSC) <sup>(1)</sup>	Philippines	Services	99.98%
PGMC International Limited (PIL) <sup>(1)</sup>	Hong Kong	Marketing, Trading and Services	99.98%
FNI Steel Corporation (FSC)	Philippines	Manufacturing	51.00%
FNI Steel Landholdings Corporation (FSLC)	Philippines	Real Properties	60.00%

*(1) Indirect ownership through PGMC*



Platinum Group Metals Corporation

PGMC was registered with the Philippine SEC on February 10, 1983. PGMC is primarily engaged in the exploration, mining and exporting nickel ore located in the municipality of Claver, Surigao del Norte.

PGMC has the exclusive privilege and right to operate for a period of twenty-five (25) years the lateritic nickel mine in Cagdianao, Claver, Surigao del Norte, Philippines, hereafter referred to as the “Cagdianao Mine” covered under Mineral Profit Sharing Agreement (MPSA) No. 007-92-X by virtue of the Operating Agreement entered into on September 15, 2006 by PGMC and SIRC, a subsidiary. PGMC currently operates two deposit sites known as CAGA 2 and CAGA 4 within the Cagdianao Mine. There are five (5) additional deposit sites at Cagdianao Mine that have yet to be developed and exploited.

*Seasonality*

The Cagdianao Mine produces and exports nickel ores from April to October of each year, typically the dry and minimal sea swell season at the mine site. During the rainy season, mining operations in the mine site are suspended and there is no loading of ore onto ships. This seasonality results in quarter-to-quarter volatility in the operating results with more revenue being earned and more expenses being incurred during the second and third quarters compared to the first and fourth quarters.

As of 2019, PGMC is the second largest nickel ore producer in the Philippines by total volume of nickel shipped and by total value of shipment from 2014 to 2019, accounting for 10.90% and 15.15%, respectively, according to the data obtained from Mines and Geosciences Bureau’s (MGB) website.

Surigao Integrated Resources Corporation

SIRC was organized in July 1999 and duly registered with the Philippine SEC on July 16, 1999. Its primary purposes are to engage in the exploration and processing of minerals, petroleum and other mineral oils, to enter into financial and technical assistance agreements for the large scale exploration, development and utilization of mineral resources or otherwise engage in mining activities or enter into agreements as may be allowed by law.

SIRC is the holder of MPSA No. 007-92-X located in Cagdianao, Claver, Surigao del Norte covering an area of 4,376 hectares. The said MPSA was last renewed on June 21, 2016 for another twenty-five (25) years from its initial term ending in 2017, or until February 14, 2042.

On June 15, 2016, SIRC and Cagdianao Lateritic Nickel Mining, Inc. (CLNMI) executed a Deed of Assignment wherein CLNMI has agreed to assign all of its rights, titles and interests on its Exploration Permit (EP) and mineral property. CLNMI has a pending application for EP with Application No. EPA-000101-XIII filed with the MGB covering an area of about 927.9 hectares located at Cagdianao, Claver, Surigao del Norte. The Deed of Assignment was approved by the MGB on June 27, 2016. As such, on June 28, 2016, the contract area covered by the MPSA was amended from 4,376 hectares to 5,219.5612 hectares by annexing the portion of the area covered by the application for EP. Consequently, MPSA No. 007-92-X-SMR is redenominated as MPSA No. 007-92-X-SMR (Amended 1).

PGMC-CNEP Shipping Services Corp.

On June 4, 2013, PGMC incorporated PCSSC. PCSSC was registered with the Philippine 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 tank (LCT) or other ships or vessels, together with equipment, appurtenances and furniture therefor; and to employ the same in the conveyance and carriage of ores, minerals, goods, wares and merchandise of every kind and description.

PGMC International Limited

On July 22, 2015, PIL was incorporated under the Companies Ordinance of Hong Kong, and is a limited company. It was established to conduct marketing, trading, sales and to facilitate relations with Chinese customers, to avail of offshore banking services such as loans, credit/discounting lines and other financing arrangements, and to do other services for PGMC.

#### FNI Steel Corporation

FSC was registered with the Philippine SEC on August 5, 2019. Its primary purpose is to engage in the business of buying, selling, dealing, at wholesale and retail, importing and manufacturing iron, steel and other ferrous or non-ferrous metal products, to be processed either by melting, rolling, casting, or forging to produce it in the form of ingots, billets, sections, bars, plates, strips, rods, tubes, pipes and other such form in demand in the market or industry; to import materials, machinery and equipment needed to manufacture such finished products; and to lease real properties such as land and buildings as needed.

#### FNI Steel Landholdings Corporation

FSLC was registered with the Philippine SEC on May 31, 2019. Its primary purpose is to engage in the business of managing real estate or interest therein, alone or in joint ventures with others and for this purpose acquire land by purchase, lease, donation, or otherwise, and to own, use, improve, subdivide, hold, administer, sell, convey, exchange, lease, mortgage, dispose of, work, develop, or otherwise deal in real property of any kind and interest or right therein and to construct, improve, manage, or otherwise dispose of buildings and other structures of whatever kind, together with their appurtenances whether for dwelling, commercial or industrial purposes. FSLC was incorporated to hold real properties of FSC.

PGMC, SIRC, PCSSC and PIL are hereinafter collectively referred to as PGMC Group. PGMC Group's registered address is the same as that of the Company except for PIL which is registered at Unit 4101-02, 41/F, Office Tower, Convention Plaza, 1 Harbour Road Wanchai, Hongkong. FSC's registered address is at 9L, 3/F AFAB Administration Bldg., Freeport Area of Bataan Alas-asin Mariveles, Bataan, while FSLC's registered address is the same as that of the Company.

### **Key Strengths**

The Group believes that its key strengths include the following:

- Leading nickel producer with significant resources and reserves with high exploration potential

As of 2019, PGMC is the second largest nickel ore producer in the Philippines by total volume of nickel shipped and by total value of shipment from 2014 to 2019, accounting for 10.90% and 15.15%, respectively, according to the data obtained from MGB's website. As of October 15, 2019, the Group's Cagdianao Mine has Philippine Mineral Reporting Code (PMRC)-compliant measured and indicated mineral resources of 65.840 million dry metric tons (DMT) with an average grade of 1.1% nickel and 29.9% iron and additional inferred mineral resources of 17.904 million DMT. The Group's proven and probable ore reserves are at 43.358 million wet metric tons (WMT) with an average grade of 1.19% nickel and 29.88% iron, as estimated in accordance with the PMRC Report dated December 15, 2019. The current resources and reserves are contained in Ni-laterite deposits CAGA 1 to 5. The Group believes that these deposits have an additional resource potential that can be delineated through infill/production and peripheral extension drilling. The Group on June 9, 2018 started exploration drilling in CAGA 6 and 7 new areas, which have some similarities to the identified CAGA 3 and 5 deposits. The results of which up to the October 15, 2019 estimation period have identified substantial laterite material under "Exploration Results" category. The Group believes that over time this will be upgraded into mineral resources that will increase the overall mineral resource and ore reserve inventory at Cagdianao and significantly extend the mine life of the project.

- Flexible ore supply to optimize profitability while serving customer base

The Group believes that its ore supply is highly flexible in terms of the quality and nickel content it can mine, giving it a natural competitive advantage compared to other mining companies with more uniform ore resources. The Group is able to mine a range of low grade ore (with high iron and low nickel content), which accounted for a majority of its sales by volume in the past three (3) years. At the same time, the Cagdianao Mine produces a significant supply of high and medium grade ore, which accounted for 49.0% of the Group's ore sales volume in the last three (3) years. The flexibility in the ore that the

Group can supply is important for our core customers in China, many of whom require a range of nickel grades and iron contents in their specific products. Sales of high and medium grade ore provide the Group with higher margins, and the Group aims to optimize its production schedule over time in light of relative market prices and relative demand from its customers.

- Cost efficient operations with relatively low operational risk

The Group benefits from favorable geologic conditions at its Cagdianao Mine. The Group's lateritic nickel deposits are near-surface, blanket-like layered deposits with minimal overburden and generally five (5.0) to thirty (30.0) meters thick. This allows the Group to conduct simple surface mining using trucks and excavators without blasting, the use of chemicals or complex waste handling. Since 2014, we have had a waste to ore ratio of 0.15:1, which means that about 87% of what the Group mine is ore. The nickel deposits at the Group's Cagdianao Mine are located within two (2) to eight (8) kilometers from the applicable tidewater loading area, enabling easy hauling and transportation by barges and LCTs to its customers' ships. The short hauling distance from the Group's mining operations to its loading facilities substantially contributes to its favorable cost position. Because the Group's lateritic nickel deposits are relatively shallow, the Group also expects the progressive rehabilitation of its mining areas to be relatively low cost.

Starting 2016, the Group's operating expenses have been reduced to make its mining operations as efficient as it has ever been. The Group has appointed a total of nine (9) different service contractors in 2019 to do different facets of the mining operations in the Cagdianao Mine. The Group continually reviews the performance of its service contractors to ensure that its operations will continue to be cost-efficient. The service contractors are evaluated annually based on the following factors: (a) minimum production per day; (b) stockpile inventory; (c) volume of ore shipped; (d) equipment efficiency; (e) environment policies; (f) safety policies; and (g) compliance with labor standards.

- Experienced management and technical team

The Group's management and technical teams have many years of relevant experience. On average, the Group's senior management team has approximately more than 16 years of experience in the mining industry, which it believes is a key asset for its operations, marketing and strategic development. The management is led by our Chairman, Mr. Joseph C. Sy, who is a Filipino-Chinese entrepreneur with long-standing experience in nickel and commodity trading, and who has developed trusted relationships with key nickel customers in China.

The Group's technical team comprises experienced engineers and geologists with significant experience in their respective fields, including leading technical positions at international mining companies. Given the long history of mining in the Philippines, the Group has steadily hired individuals into its team who possess relevant skills and have been exposed to other types of mining operations that the Group believes enhances its operations framework.

- Established partnerships with service contractors to optimize capital investment

The Group has entered into arrangements with numerous Philippine service contractors. In 2019, the Group has independent mining service agreement with three (3) contractors assigned for operations at its CAGA 2 deposit, four (4) contractors assigned for operations at its CAGA 3 deposit and seven (7) contractors assigned for operations at its CAGA 4 deposit. Each of these contractors is well-established in the Philippines and brings experience, manpower and expertise to conduct the Group's operations in an efficient manner. These contractors have further added value through proactively participating in the continuing refinement of the Group's operations, as well as providing expertise in ancillary aspects of the business. The Group believes that by utilizing these contractors rather than operating all aspects of the mines by itself, the Group has more flexibility in its operations and reduces its overall capital outlay and operational risk. The Group believes that this flexibility has led to cost savings and reductions in asset

intensity, increased mining efficiency and an increase in overall production.

### Key Strategies

The Company's strategy is designed to maximize the profitability of its existing base of operations while driving growth through continued exploration and development of the Cagdianao mine, expansion of its customer base, ongoing monitoring of value-added opportunities, particularly in downstream processing, and opportunistic acquisition of other suitable properties and/or businesses.

The key elements of the Company's strategy are:

- Maintain compliance with all applicable environmental laws

As far as the Company is concerned, the Company is compliant with all laws, rules and regulations applicable to its mining operations, including environmental laws.

On August 3-11, 2016, a multi-sectoral team formed by the Department of Environment and Natural Resources (DENR) conducted a mine audit for PGMC's Nickel Project under its MPSA No. 007-92-X covering 4,376 hectares located in Brgy. Cagdianao, Claver, Surigao del Norte, which covers CAGA 1 to 5. On October 28, 2016, PGMC received the "DENR Mine Audit Team 10 Report for PGMC," that contains a "final" recommendation stating that the "PGMC should continue to operate" because: "(a) PGMC is ISO 14001 certified; (b) PGMC is compliant with the policies, environmental laws, rules and regulations of the Philippine Mining Act and on the issued Environmental Compliance Certificate (ECC) particularly on the establishment of adequate environmental protection and enhancement measures including safety and housekeeping, and implementation of progressive rehabilitation of mined-out areas; and (c) Social acceptability of the mine operation is high with several social development projects in place, which are all well implemented. In addition, PGMC was awarded on July 13, 2016 with an ISO 14001 certification showing that its operations are environmentally compliant even based on international standards. PGMC was recertified with ISO 14001:2015 in October 2019.

Furthermore, the Philippine Mine Safety and Environment Association (PMSEA) conferred to PGMC the Platinum Achievement Award in the Surface Mining Operation Category in the 2019 Presidential Mineral Industry Environmental Award, citing the Company's commitment to "the pursuit of excellence in environmental protection, safety and health management, and social and community development".

The Company will continue to maintain its compliance with all laws, including environmental laws, so that its operations in the CAGA Mine will not be cancelled or suspended by any valid order from the Government after observance of the required due process.

- Develop and upgrade existing resources and reserves within, and adjacent to, the Cagdianao Mine site

The existing mine site in Cagdianao has several additional areas with mine deposits, from which the Company believes it can efficiently extract a steady supply of low, medium and high grade ore. Although each of these additional areas is in varying stages of development, the Company intends to commence production of these deposits, subject to market conditions. In addition, the Company aims to explore additional mine sites on an 843-hectare parcel of land adjacent to its existing mine. The application for an EP (EPA-000101-XIII) for this parcel of land was held by an individual Filipino citizen and has been assigned to CLNMI, a company that is 70.0% owned by the Company's Chairman, Mr. Joseph C. Sy, through a deed of assignment entered into on August 31, 2013. On June 15, 2016, CLNMI has assigned its rights to exploration and mining to SIRC, as approved by MGB on June 27, 2016. On June 28, 2016, the contract area covered by the MPSA was amended from 4,376 hectares to 5,219.5612 hectares by annexing the portion of the area covered by the application for EP. Consequently, MPSA No. 007-92-X-SMR is redenominated as MPSA No. 007-92-X-SMR (Amended 1).

A preliminary assessment of this area was conducted last April 1 to May 15, 2016 by virtue of a DENR-MGB issued memorandum dated March 28, 2016 giving the Company with an “Authority to Verify Minerals.” A potential for a Nickel (“Ni”)-laterite deposit exists at the tenure area as verified by the reconnaissance survey and discussed in the Exploration Results Report dated May 16, 2016. The Company believes that the acquisition of this additional parcel of land presents a significant opportunity to enhance its nickel ore resources without requiring significant expenditures for mine infrastructure development.

- Strengthen customer base in China, including direct sales to smelters in China

The Company intends to further develop the existing relationship in its key market of China, and also explore new opportunities in other countries. The Company believes that there is currently a favorable economic and business climate for mining companies, and it aims to take full advantage of its flexible and large nickel ore supply, as well as its proximity to key markets to progressively expand its customer base. The Company also intends to increase its proportion of direct sales to end users, most notably smelters in China, as it believes that this will generate consistent demand for its products while minimizing its overall credit risk.

- Evaluate and selectively pursue value-added opportunities

The Company currently evaluates, and will continue to evaluate, opportunities for value-added processes, including but not limited to acquiring or entering into further mining agreements and/or joint ventures, as well as downstream processing / vertical integration opportunities. The longer term objective is to increase the scale and scope of the Company’s operations and to potentially further expand the variety of its ore.

One of these opportunities is the proposed development of a stainless steel plant in the Philippines. On October 21, 2016, the Company signed a Memorandum of Cooperation with China’s state-owned enterprise, Baiyin Nonferrous Group Company Limited (Baiyin), to evaluate the economic feasibility of providing trade financing to the Company’s operations in the Iplan Nickel Corporation (INC) Mine and of constructing an integrated 200-series stainless steel plant in the Philippines with an annual capacity of 1.0 million tons using lower grade nickel ore sourced in the Philippines (an estimated total investment of around US\$500.0 to US\$700.0 million).

With regard to upstream operations, the Company may seek to acquire additional mining assets that are located in regions other than its existing mine. The Company will also consider potential downstream acquisitions, including smelters, which would allow it to vertically integrate its operations and potentially increase margins. The Company may use debt, cash, equity, or a combination of all three, in order to finance any mining or downstream acquisitions.

- Diversify into other minerals

The Company believes that there are opportunities to acquire additional mines in the Philippines containing other minerals, such as chromite and other platinum group metals, which it is continuing to examine as part of its future expansion strategy. However, the commercial viability of the other potential acquisition targets is uncertain and the Company would be required to invest time and resources to determine which particular mineral mine is feasible for acquisition. The Company intends to continue to evaluate any potential acquisition and diversify into other mineral varieties if suitable opportunities arise. The Company believes that it has and its contractors the technological know-how to exploit the additional mineral resources in other mines in the future.

- Complete the acquisition of INC Mine and commence development and production

In November 2014, the Company entered into a Memorandum of Agreement for the acquisition of SPNVI. SPNVI owns INC, which operates the INC Mine under an Operating Agreement with Celestial Nickel Mining Exploration Corporation (CNMEC), holder of MPSA of the INC Mine in the South-eastern Palawan. As of October 14, 2014, the INC Mine had PMRC-compliant measured and indicated mineral resources of 50.0 million DMT with an average grade of 1.23% nickel, which includes PMRC proved and probable ore reserves of 28.6 million WMT with an average grade of 1.43% nickel. In addition, the INC Mine has inferred mineral resources of 7.0 million DMT with an average grade of 1.09% nickel.

The Company believes that the INC Mine will be a critical part of its future growth trajectory. The Company plans to mine the INC Mine using the same surface mining method at the Cagdianao Mine during the mining season in Palawan, which is between November and July. The mining season of the INC Mine very well complements the mining season of the Cagdianao Mine, i.e. the INC Mine is expected to produce when the Cagdianao Mine is in off-season. This will provide the Company with a steady supply of nickel ore all year around, which is expected to increase and stabilize its revenue streams throughout the year.

As of December 31, 2019, the Company has not completed the acquisition of the INC Mine because there are still pending conditions precedent that must be complied with under the Contract to Sell.

## **Competition**

The Company competes with foreign nickel ore suppliers (primarily from New Caledonia, Indonesia and Australia) in world nickel ore markets, as well as other Philippine players. The most notable domestic competitors are Nickel Asia Corporation, Marcventures Mining and Development Corporation, CTP Construction and Mining Corporation, Carrascal Nickel Corporation and Oriental Peninsula Resources Group, Inc. The Company competes with other nickel ore suppliers primarily on the basis of ore quality, price, transportation cost and reliability of supply. The Company believes that it can effectively compete with other nickel ore suppliers due to efficient systems put in place in the operations of the CAGA Mine.

## **Source of Supplies**

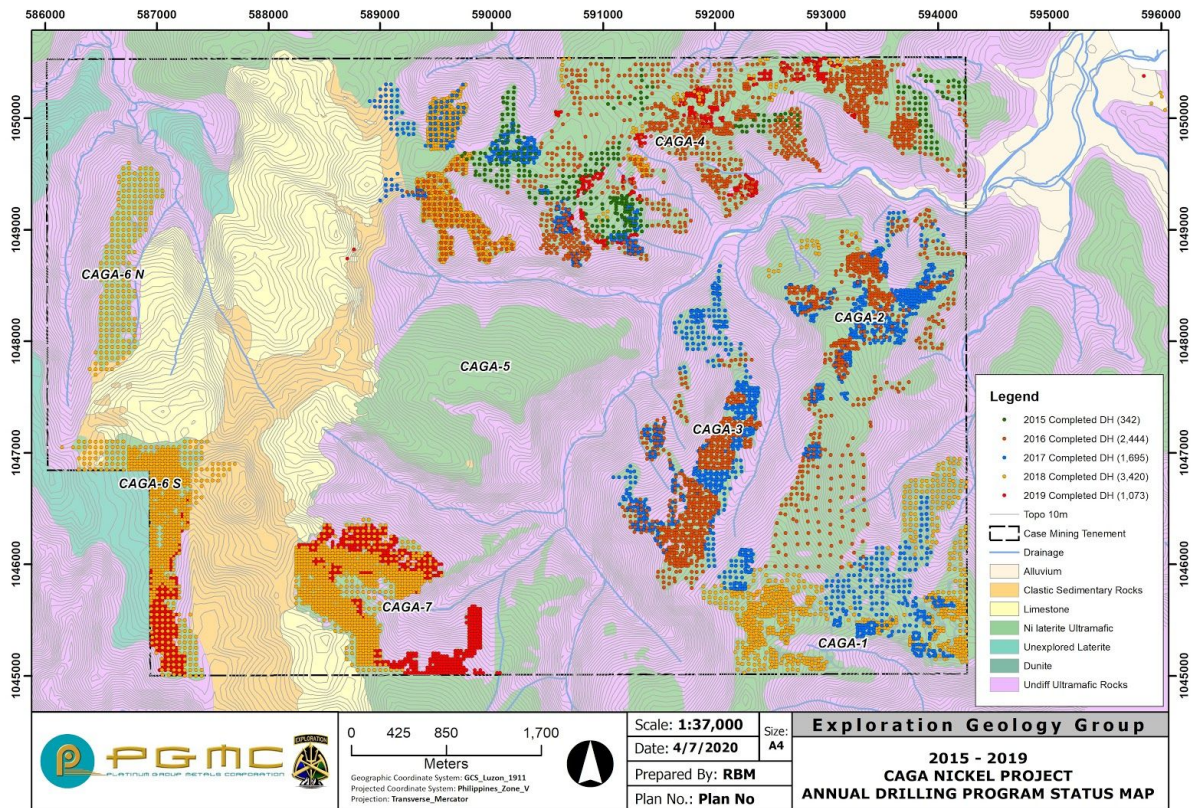
The main supplies that the Group and its service contractors require to operate its business include diesel fuel, tires, and spare parts for its mining equipment. The Group buys diesel fuel from Petron Corporation and Phoenix Petroleum Philippines, Inc. and heavy mining equipment such as trucks and excavators from three (3) manufacturers, Komatsu, Caterpillar and Volvo, through their Philippine distributors Maxima Machineries and Monark and Civic Merchandising. In addition, the Group has its own fleet of barges and heavy mining equipment. The Group's contractors provide their own mining equipment and supplies necessary for the mining operations. The Group believes that there are a number of alternative suppliers for all of its requirements.

## **Exploration and Development**

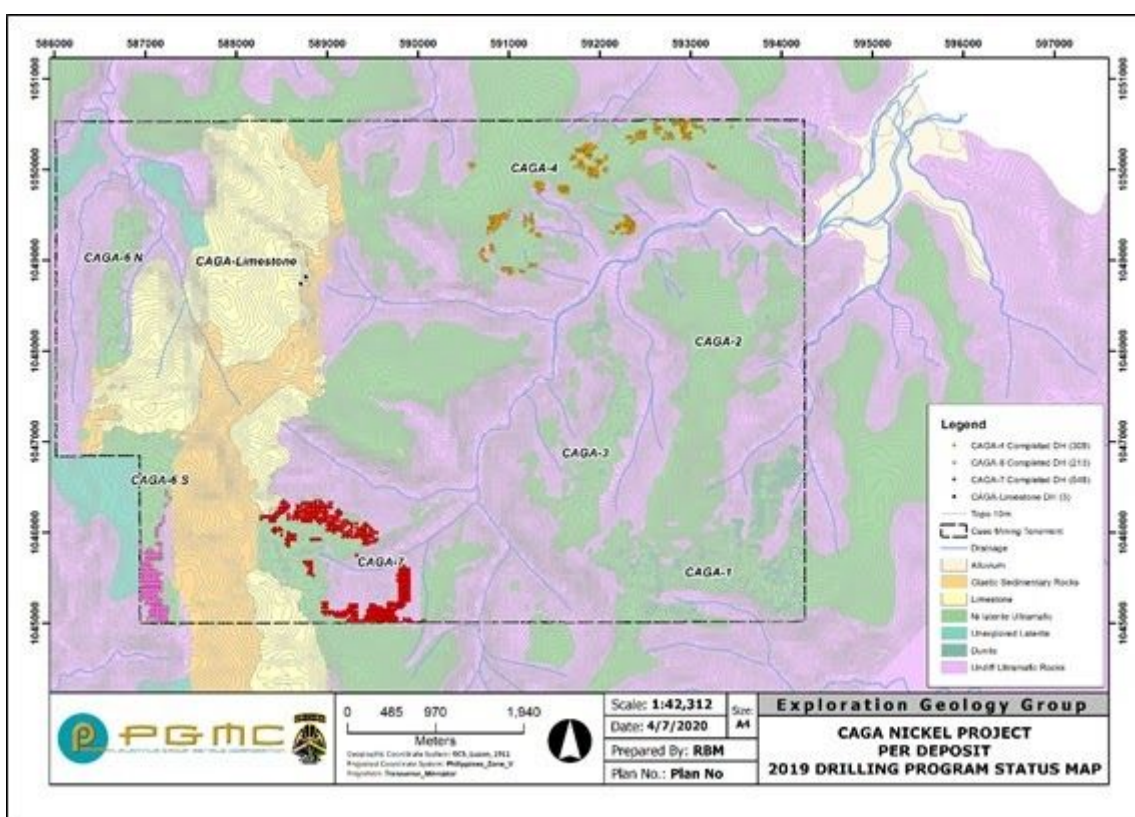
### ***Nickel Resources***

The Group has an extensive portfolio of exploration areas and programs encompassing both brownfield exploration, which consists of activities at its existing mine operations and identified deposits to extend resource boundaries and to upgrade mineral resources to ore reserves; and a greenfield exploration, which involves exploring and delineating additional nickel laterite deposits in its existing properties. The Group has sixteen (16) available drill rigs designed specifically for drilling near surface lateritic deposits in a quick, efficient and economical manner for use in its exploration drilling. The Group also has an experienced pool of geologists and a laboratory at its mine sites to conduct assaying of samples as required.

The figure below shows the coverage of the Group’s current exploration program at its existing mine and expansion areas:







The following table sets forth a summary description of the Group’s proposed exploration activities at its existing mine:

**Proposed PGMC-CNEP Exploration/Drilling Program 2019-2020**

DEPOSIT	DHs/METERAGE	AREA (Has)	EXPLORATION TARGET (DMT)	COST (P)
1.0 CAGA-2 Deposit	399/4,788	58	1.75M -3.5M	9,288,100.00
2.0 CAGA-4 Deposit	644/7,728	71	2M - 4M	16,603,600.00
3.0 CAGA-7East Deposit	551/6,612	52	2.5M - 5M	13,298,900.00
4.0 HIGDON New Area	1,763/21,156	190	9M -18M	54,969,208.00
<b>TOTAL</b>	<b>3,357/40,284</b>	<b>371</b>	<b>15.25M – 30.5M</b>	<b>94,159,808.00</b>

Notes:

1. CAGA-2 and CAGA-4 drilling programs will be for five (5) months.
2. CAGA-7 drilling program will be for four (4) months.
3. HIGDON drilling program will be for a period of one (1) year.

***Cagdianao - Deposit Areas***

The Cagdianao Mine has a total area of 4,376 hectares and the Company is currently operating the deposits in CAGA 2, 3 and 4 (CAGA 3 has started operations in May 2019). The Company’s rights to the property are governed by the MPSA and the ECC allows PGMC to produce 5.0 million DMT or 7.7 million WMT of ore each year. As of October 15, 2019, the Group’s Cagdianao Mine had measured and indicated mineral resources of



65.840 million DMT with an average grade of 1.1% nickel and 29.9% iron and inferred mineral resources of 17.904 million DMT, as estimated by the PMRC Competent Person (CP), and have an estimated remaining mine life of about seven (7) years which may be extended after completion of the whole exploration program by 2020. Exploration plans through core drilling are focused on the upgrading of inferred resources to measured resources, peripheral extensions on the CAGA 1 to 5 deposit areas as well as in new areas, CAGA 6, CAGA 7 and Higdon expansion area. Proposed exploration at these sites covering approximately 1,075 hectares (updated 2018) could potentially delineate additional mineral resources.

### ***Additional Exploration and Initial Exploration Results***

The potential for further resources is within the Group's current MPSA area as it has yet to complete exploration and resource estimation for the CAGA 6 and 7 areas by 2020. These areas consist of outcropping ultramafic lithologies with laterite development similar in topographic features and size to the CAGA 3 and 5 deposits. There may also be other areas of smaller, isolated laterite profiles that may become feasible if mined in conjunction with the existing deposits.

The Group's current resources include measured and indicated resources for all deposits that have undergone reconnaissance to resource definition drilling programs (CAGA 1 to CAGA 5). Further resource potential exists in limited extensions at the periphery of these deposits and additional resources at CAGA 6, CAGA 7 and Higdon expansion area.

Based on the original proposed exploration plan and budget for the CAGA mine dated October 3, 2014, PGMC conducted exploration drilling at CAGA 2 and CAGA 4 areas from October 2015 to May 2016 covering some 1,791 drill holes and 18,405.30 meters. This exploration program was used as the basis for updates on mineral resource estimates in 2016. Further, additional drilling at CAGA 2 and CAGA 3 from 2016- 2017 of 2,233 drill holes and 23,167.25 meters resulted in the update of mineral resource estimates in June 2017. A CP Resource Update was conducted on 29 October 2018 with the completion of some 3,415 drill holes having a meterage of 34,780.30m. Further, a CP Report on resource update was generated on 15 October 2019 covering 5,366 drill holes (CAGA-4 at 3,555, CAGA-6 with 1,246 and CAGA-7 with 565) were used for a total of 64,053.22 meters and 65,453 assays. However, not all drill holes were incorporated in the CP Report update as it has an earlier cut-off date than the completion of the annual 2019 drilling campaign.

The updated proposed exploration plan and budget for the CAGA mine and expansion area dated August 30, 2017 considers priority drilling based on deposit/prospect potential as presented in the Proposed PGMC-CNEP Exploration/Drilling Program 2017-2020. Drilling on each priority area includes drilling schemes as applicable:

- Scheme 1: Infill drilling at resource blocks to upgrade inferred resources to measured resources
- Scheme 2: Peripheral drilling at resource blocks to define extensions of current resources
- Scheme 3: Reconnaissance drilling at unexplored CAGA 6, CAGA 7, and Higdon expansion area

Prior to commencement of the drilling program, each prospective area will be evaluated by geological mapping to determine the occurrence and thickness of the laterite profile. The proposed drilling program will be modified based on this evaluation.

The Company has identified exploration target ranges for each area as shown in the summary of the 2017-2020 exploration program below. The total estimated cost of this exploration program is approximately ₱149.3 million (US\$2.8 million). It is expected to take approximately 35 months to complete, including the sample preparation, analysis and PMRC reporting. Implementation of the updated 2017-2020 exploration program commenced in October 2017 with the drilling at CAGA 1 area and commencement of drilling at CAGA 6 and CAGA 7 areas on June 9, 2018. This exploration program is currently on-going and the completion target is by 2020.

#### Exploration Target/Proposed Drill Holes 2017-2020

DEPOSIT	SIZE (HAS)	DHs	METERAGE	EXPLORATION TARGET (DMT)	Remarks
1. CAGA-1 Deposit	220	1,077	12,072	14,000,000 - 23,000,000	Completed
2. CAGA-6 Deposit	200	1,282	15,384	10,500,000 - 17,000,000	Completed
3. CAGA-7 Deposit	205	2,215	26,580	17,000,000 - 27,000,000	Partially Completed
4. CAGA-5 Deposit	130	536	6,432	9,000,000 - 15,000,000	Planned
5. HIGDON	320	618	7,416	25,000,000 - 40,000,000	Planned
<b>TOTAL</b>	<b>1,075</b>	<b>5,728</b>	<b>67,884</b>	<b>75,500,000 - 122,000,000</b>	

**Notes:**

- The above table is part of the overall exploration/drilling program for the whole PGMC-CAGA Project wherein CAGA-2, CAGA-3 and CAGA-4 are included. Drilling at CAGA-2, CAGA-3 and CAGA-4 have been prioritized and completed earlier (2015- 2017) which paved the way for the 2017 and 2018 Mineral Resource Update for the Project.
- Drilling then continued for the other identified (CAGA-1, 6 and 7) deposits and programmed also for CAGA-5 and Higdon areas.
- CAGA-1 mineral resource estimate included in 2019 CPReport.
- The overall drilling program does not include additional production drilling undertaken at CAGAs 2 and 4.
- Completed drilling at CAGAs 6 and 7 generated "Exploration Results" presented in 2019 CP Report. This will be upgraded into mineral resources upon completion of detailed topographic survey and validated database.
- CAGA- 7East, CAGA-5 and Higdon are planned for exploration.
- With the interesting results for CAGA-2, CAGA-3 and CAGA-4 where substantial additional mineral resources were estimated, it is anticipated that further confirmatory/production drilling may be undertaken as necessary and these are not shown in the 2017-2020 drilling program above.

#### **Exploration Results for Total Nickel for New Deposits as of 15 October 2019**

Material Type	Deposit	PMRC Classification	Quantity (Tonnes)	%Ni	%Fe	Dry Bulk Density
<b>Combined</b> (High Grade, Medium Grade, Low Grade)	<b>CAGA-6N</b> (Unmined)	Exploration Results	4,746,000	1.1	25.1	1.4
	<b>CAGA-6S</b> (Unmined)	Exploration Results	5,751,000	1.1	27.6	1.1
	<b>CAGA-7</b> (Unmined)	Exploration Results	10,992,000	1.1	32.7	1.1
	<b>Combined</b>	<b>Exploration Results</b>	<b>21,489,000</b>	<b>1.1</b>	<b>27.9</b>	<b>1.2</b>

As reviewed by the PMRC CP, the Company's proposed exploration program is sufficient to adequately increase the Mineral Resource and Ore Reserve inventory and extend the mine life of the CAGA mine site.

### **Environment and Rehabilitation**

The Group adheres to the principles and practices of sustainable development. In addition, the Group's mining operations are subject to stringent and extensive environmental regulations. As such, the Group is deeply committed to implementing best practices in managing the environmental impact of its operations, from exploration to rehabilitation. Upon cessation of the Group's mining operations, it plans to restore its mining properties to their pre-mining conditions or to develop alternative productive land uses for the benefit of the affected communities.

The Implementing Rules and Regulations of the Philippine Mining Act require the Group to contribute 3.0% to 5.0% of its direct mining costs for the implementation of the annual Environmental Protection and Enhancement Program (EPEP). Activities undertaken under its annual EPEP include among others: rehabilitation of mine disturbed areas, reforestation, construction and/or maintenance of environmental facilities, solid waste management, hazardous waste management, air quality monitoring and water quality monitoring. In 2017, 2018 and 2019, the Group spent approximately ₱104.6 million, ₱190.7 million and ₱100.1 million, respectively, on its EPEP.

The Group's compliance with ECC conditions and performance of its commitments under its annual EPEP are subject to monitoring and evaluation of the Multipartite Monitoring Team ("MMT"). The MMT is a multi-sector group headed by a representative from the MGB and representatives of local government units, other government agencies, non-government organizations, people's organizations, the church sector and the Group. Funds for mine rehabilitation and other environmental guarantee funds are established and deposited in trust funds, as required by the Philippine Mining Act. As at December 31, 2017, 2018 and 2019, total rehabilitation and monitoring trust funds amounted to ₱5.9 million, ₱6.0 million and ₱6.0 million, respectively. This amount complies with the minimum requirement under the law.

The Group's latest Final Mine Rehabilitation and Decommissioning Plan (FMRDP) was submitted to MGB in July 2018. The Group periodically book an accretion expense and corresponding provision for mine rehabilitation and decommissioning. The basis for this expense/liability is the Group's latest FMRDP. As of December 31, 2018 and 2019, the Group had ₱230.1 million and ₱289.5 million cash provisions/funds, respectively, for the mine rehabilitation and decommissioning, which complies with the schedule given by MGB.

The operating mine of SIRC is representative of mature surface mining operations, with disturbed areas that require on-going restoration and rehabilitation to re-establish the natural vegetation, as well as to reduce the significant visual impact of the mining operations.

The mine has an approved EPEP and secured the required operating permits to construct and operate siltation control facilities. Consistent with the EPEP, in early 2014, the Cagdianao mine received an environmental award under its "Adopt a River Program" for its protection of the Kinalablaba river, which is within the area of operations in the Cagdianao Mine.

The necessity to segregate each material classification and to partially reduce moisture content through solar drying involves a fairly wide open area exposed to soil erosion that will cause sediment loadings and deposition in natural drainages feeding to the ocean. To mitigate such sediment loadings from reaching the ocean, all operations constructed siltation ponds, most of them in series, to catch and contain as much run-off as possible.

The mining method, considering the geographic, geological, climatic and other relevant attributes, is not expected to lead to significant or irreversible adverse impacts to the environment provided that environmental monitoring, mitigation and rehabilitation measures are properly developed and implemented. The environmental management personnel of our mine are well-qualified and have many years of relevant experience.

The DENR requires all operating mines to submit their FMRDP for evaluation and approval. Upon approval, the mine is required to deposit annually a portion of the total FMRDP cost. The FMRDP shall be deposited as a trust fund in a Government depository bank and shall be used solely for the implementation of the approved FMRDP. Annual cash provisions shall be made by the mining companies to a FMRDP fund based on the formula provided in DENR Administrative Order No. 2005-07. As of December 31, 2019, the Company has a trust fund deposit with Development Bank of the Philippines Surigao City in the total amount of ₱289.5 million to comply with such requirements under the FMRDP. The Group is in compliance with such requirements in all material respects.

Compliance with the ECC and implementation of EPEP of all sites are audited quarterly by the MMT.

The DENR also requires all mining companies to secure ISO 14001 certification - Environmental Management System. This system ensures sufficient environmental funds are available to cover full mine rehabilitation even in the event of a premature closure. In 2016, PGMC was certified with ISO 14001:2015 (Environmental Management System) and was recertified in October 2019. In April 2017, INC was certified with ISO 14001:2015 in its Environmental Management System for the Management of Mine Site Preparation. In March 2020, INC was certified with ISO 14001:2015 in its Environmental Management System for the Preparatory Activities for Mine Site Operations.

### **Occupational Health and Safety**

The Group is committed to providing safe and healthy working conditions to protect its employees from injuries and to prevent damage to its properties and equipment.

Health and safety are integral parts of the Group's personnel policies. Its comprehensive safety program is designed to minimize health risks arising out of work activities and to assure compliance with occupational health and safety standards and rules and regulations that apply to its operations.

The Group provides and strictly requires the utilization of a comprehensive suite of protective equipment and safety devices for employees and visitors. First aid and emergency equipment are installed strategically in its work areas. Safety in-house inspections are regularly conducted to identify hazards and unsafe conditions or practices. Managers and supervisors regularly conduct safety briefings and meetings. Safety orientation training is also conducted for new employees and emergency preparedness training and drills are conducted periodically.

The Group has a rigorous system of investigating accidents and near-misses to understand causes and implement corrective measures. The Group records and monitors lost time injuries, medically treated injuries, minor injuries, and non-injury incidents that include serious incidents, and property damage and their frequency rates.

### **Corporate Social Responsibility**

#### *General*

We believe that we have a corporate social responsibility to protect and care for the people and the environment affected by our operations and attempt to improve the welfare and quality of life in the communities in which we operate. We believe that we contribute to the sustainable economic development of these communities and, more broadly, the nation.

The Philippine Mining Act contains specific provisions with respect to social development and management programs. The provisions require all mining companies to assist in: (a) the development of local communities to promote the general welfare of the local inhabitants; and (b) the development of mining technology and geosciences as well as manpower training and development. Under the Implementing Rules and Regulations of the Philippine Mining Act, all mining companies are required to allocate annually a minimum of 1.5% of the total operating costs for such purposes. 75.0% of the 1.5% total operating costs shall be apportioned for the development of the Host and Neighboring Communities program, 15.0% of the 1.5% total operating costs shall be

apportioned for the Promotion of Public Awareness and Education on Mining Technology and Geosciences program and the remaining 10.0% of the 1.5% total operating costs shall be used to assist in the development of Mining Technology and Geosciences program as well as research and studies, scholarship programs for mining and environmental courses, manpower training and development.

Community relations staff and community organizers assist us in building and establishing partnerships within the communities in which we operate, formulating programs that address the needs of such communities and also enable us to immediately address local issues and concerns. Projects for education, health, livelihood, infrastructure assistance and other social services are all designed and implemented in close coordination with relevant local government units and communities. The Representatives of Host and Neighboring Communities (RHNC), which is composed of representatives from local government units, government agencies, non-governmental organizations, community organizations, churches, and us, regularly monitors our performance in implementing our social development and management program.

#### *Education*

We believe that quality education is the best tool to fight poverty. We award scholarships and other forms of aid to deserving students, including students who are members of indigenous groups, so as to improve their education, job opportunities and their ability to support their families. These scholarships and other forms of aid include payment of tuition, stipend allowances and provision of school supplies and uniforms. Education projects also involve the improvement of school facilities, provision of educational materials to schools, teachers' training programs and payment of teachers' honoraria. At our Cagdianao Mine, we have constructed a six classroom school building for Hayanggabon Elementary School. The school provides free education and school materials to about 800 students from barangay Hayanggabon. In addition, we provided Barangay Cagdianao a brand new school bus to fetch and ferry students from residence to school. We also provide salaries for six teachers who work with public schools in the communities where our Cagdianao Mine is located. We have also initiated a school to school campaign promoting knowledge in mining and sponsorship for inter-school educational competitions and supports the Department of Education's annual Brigada Eskwela.

#### *Health*

Affordable and quality health care is provided to local community members, in addition to our employees and their dependents. We conduct medical missions designed to address the basic medical needs of local community members, including indigenous people and the indigent, where free medicine, basic dental services and ambulance service facilities are provided. Our health care projects involve the construction and improvement of Barangay health centers, provision of sanitation latrines for households, and provision of salary to local health workers, midwives, nurses and a doctor. Outpatients are being treated by the medical team and medicine is provided for free. At our Cagdianao Mine, we established a maternity clinic, where pregnant women as well as other members of the immediate community are being served.

#### *Livelihood and Training*

We organize cooperatives and people's organization from our impact and non-impact communities and provide them with social enterprise projects such as egg-laying & poultry projects, seedling production and nursery, agri-farming, woodcraft making, chips making, handicraft/weaving production and tshirt-tarpaulin printing. We regularly provide local community organizations with technical and financial assistance in the form of seminars, study tours, financial literacy classes, leadership and management training programs, capital funding, raw materials and equipment for production, and farm inputs for crop production.

We also work with the Technical Education and Skills Development Authority ("TESDA") to provide technical education and skills development to residents of neighboring communities. We constructed a skills training center and provided equipment that are utilized by TESDA participants and trainers. We also assisted the

graduates of the skills training center to establish an auto repair shop, providing employment to some of the graduates.

In addition, we established a vegetable training farm to provide training and education for farmers, who may eventually be able to supply and sell their produce to the local markets and generate extra income.

#### *Infrastructure Assistance*

We undertake infrastructure projects in local communities, including production and display areas of social enterprise products, water system projects, construction of new school building and improvement of buildings (such as barangay halls, daycare centers, churches and schools), road improvements and electrification projects as part of our social development and management program. These projects are implemented with the involvement of community members so as to foster cooperation and teamwork and impart a sense of ownership among them.

At our Cagdianao Mine, we funded various infrastructure projects such as the construction of housing for indigent members of the community, through the Gawad Kalinga program, construction of sea walls to protect the neighboring communities from the effects of sea erosion, construction of a multi-purpose community hall in Barangay Cagdianao, construction of some barangay road and churches, procurement of materials for the electrification of individual households, construction of water processing stations and construction of the Cagdianao public markets.

Moreover, we have also provided and constructed shallow water pumps, a weir dam and an office building at the local water processing stations to support the local water supply system in the nearby communities.

#### *Other Social Services*

We actively participate in, and provide financial and non-financial assistance to, local cultural celebrations, sports competitions and other socio-cultural activities. We also assist with soliciting support from various institutions like the academe, the religious sector, local groups and government agencies.

### **Employees**

As of December 31, 2019, the Group has 263 employees. Out of which, 104 are employed at the Group's head office, while the remaining 159 are employed in its mining operations at its existing mines in Cagdianao. Of these, 22 are involved in mining operations, engineering, and mine planning, 17 are employed on grade and quality control, three are handling port operations, 28 are taking care of the environment, health, and safety concerns of the Group, and 89 are performing administrative, human resource, accounting & finance, maintenance and mechanic functions, mine security, audit, and the office of the vice president. The Group has employed the best all-Filipino professional and technical personnel. Further, there are six (6) technical personnel who are members of the Group's senior and junior management.

As of December 31, 2019, the Group's service contractors had deployed an aggregate workforce of 214 employees at its Cagdianao site. In addition, the Group has chartered five (5) LCTs utilized for shipside loading operations and has about 70 personnel.

Although historically the Group has not experienced any work stoppages, strikes or industrial actions, there can be no assurance that work stoppages or other labor-related disputes, demands for increased wages or other terms or other developments will not occur in the future. As the Group's business grows, it will require additional key financial, administrative and mining personnel as well as additional operations staff.

There are no labor unions within the Company and its subsidiaries.

As of December 31, 2019, the following is the breakdown of the Group’s employees:

POSITION LEVEL	HEAD OFFICE (HO)			TOTAL FOR HEAD OFFICE	CAGDIANAO MINE SITE			TOTAL FOR CAGDIANAO	GRAND TOTAL
	R	P	FT		R	P	FT		
Executives	7			7	1			1	8
Managerial	15	2		17	9			9	26
Supervisory	12			12	65	2		67	79
Technical	6			6	46	1		47	53
Rank and File	39		23	62	8		27	35	97
<b>Total</b>	<b>79</b>	<b>2</b>	<b>23</b>	<b>104</b>	<b>129</b>	<b>3</b>	<b>27</b>	<b>159</b>	<b>263</b>

Figure was based on manpower compliment of PGMC HO, GFNI, Cagdianao Mine Site, PCSSC HO and Mine Site, INC Makati HO and Palawan Mine Site

Legend:

- R - Regular
- P - Probationary
- FT- Fixed Term

For the mining season ended 2019, the Group had an average of 1,599 employees and its service contractors had deployed an average aggregate workforce of 1,043 employees at its Cagdianao site. The Group does not currently anticipate any significant increase or decrease in the number or allocation of its employees at its Cagdianao Mine for the 2020 mining season.

#### Transactions with Related Parties

Please refer to Note 29 of the audited consolidated financial statements as of December 31, 2019.

#### Risks Related to Our Business and Industry

*Our business is sensitive to the volatility of nickel prices, which can result in volatility in our earnings.*

Our sale of nickel ore is dependent on the world market price of nickel in general, and the market price of nickel in China in particular. The sales price of saprolite ore and limonite ore is correlated with the world market price of nickel. The nickel ore price is subject to volatile price movements over time and is affected by numerous factors that are beyond our control. These factors include global supply and demand; regulatory policies of other nickel ore producing countries; expectations for the future rate of inflation; the level of interest rates; the strength of, and confidence in, the U.S. dollar; market speculative activities; and global or regional political and economic events, including changes in the global economy.

A growing world nickel market and increased demand for nickel worldwide have attracted new entrants to the nickel industry, spurred the development of new mines and expansion of existing mine in various regions, including Canada, Russia, Australia, South Africa, South America and New Caledonia, and resulted in added production capacity throughout the industry worldwide. A generally increasing trend in nickel prices since early 2003 has encouraged new or existing international nickel ore producers to expand their production capacity. An increased rate of expansion and an oversupply of nickel in world nickel markets in the future could reduce future nickel prices and the prices we receive under our nickel ore supply agreements.

If the sales price of our nickel ore falls below our production costs, we will sustain losses and, if those losses continue, we may curtail or suspend some or all of our mining and exploration activities. We would also have to

assess the economic impact of any sustained lower nickel prices on recoverability and, therefore, the cut-off grade and level of our nickel reserves and resources.

*Nickel mining is subject to a number of inherent risks such as natural catastrophes that are beyond our control.*

Our mining operations in the CAGA Mine are usually conducted during the period from April to October of each year where the weather is fair in the said area, which is different from the rainfall cycle in Luzon. A disruption of the weather cycle will affect our mining operations in the CAGA Mine.

Our mining operations are influenced by changing conditions that can affect production levels and costs for varying periods, materially disrupt our operations, and as a result, diminish our revenues and profitability. Prolonged disruption of production at our mine or transportation of our nickel ore to customers would result in an increase in our costs and a decrease in our revenues and profitability, which could have a material adverse effect on our business, results of operations and financial condition. The inability to obtain equipment necessary to conduct our operations, increases in replacement or repair costs, prices for fuel and other supplies and unexpected geological conditions could have a significant impact on the productivity of our mine, the resulting number of days we are able to mine and our operating results.

Other factors affecting the production and sale of our nickel ore that could result in increases in our costs and decreases in our revenues and profitability include:

- Inclement weather conditions, including a prolonged monsoon season;
- Equipment failures and unexpected maintenance problems;
- Interruption of critical supplies, including spare parts and fuel;
- Earthquakes or landslides;
- Environmental hazards;
- Industrial accidents;
- Increased or unexpected rehabilitation costs;
- Work stoppages or other labor difficulties; and
- Changes in laws or regulations, including permitting requirements, the imposition of additional taxes and fees and changes in the manner of enforcement of existing laws and regulations.

Last February 10, 2017, a magnitude-6.7 earthquake struck the province of Surigao del Norte. After a thorough inspection, the CAGA Mine was unaffected by the earthquake. All safety systems and protocols were observed. There were no reported injuries among employees and the mining facilities of the Company and infrastructure surrounding the area sustained no damage.

Also, the loading/unloading dock facilities in our CAGA Mine are built on reclaimed land. Earthquakes, tidal waves and other natural calamities may disturb the ground conditions where said dock facilities are located.

The realization of any of these risks could result in damage to our mining properties, nickel ore production or transportation facilities, personal injury or death, environmental damage to our properties, the properties of others or the land or marine environments, delays in mining ore or in the transportation of ore, monetary losses and potential legal liability. Surface mining and related activities present risks of injury to personnel and damage to equipment.

*Failure to obtain, sustain or renew our mineral agreements, operating agreements, currently outstanding approvals and permits and other regulatory approvals, permits and licenses necessary for our business could have an adverse effect on our business, results of operations, and financial condition.*

We rely on regulatory approvals, permits, licenses (including MPSAs), operating agreements with third-party claim owners and land access agreements to conduct our mining operations.



*There is currently no centralized exchange for trading nickel ore and as a result, our failure to source purchasers of our nickel ore would materially and adversely affect our business, results of operations and financial condition.*

Our business involves the production and sale of nickel ore. Nickel ore is not a finished metal product and there is no established spot market where our product can be sold. We must sell our nickel ore through negotiated contractual arrangements with third parties. We may not be able to find purchasers who will buy our nickel at terms acceptable to us, or at all. Accordingly, our failure to find purchasers for our nickel ore would have a material adverse effect on our business, results of operations and financial condition.

*We encounter risks in the peace and order and security of our CAGA Mine.*

In 2011, armed men entered our CAGA Mine burning our properties and causing damage to a number of our trucks and equipment. The failure to prevent such damages to properties may have an adverse effect on the financial results of the Group.

To prevent such events, we engage a third-party contractor to provide security services at our mine site. In addition, all of the contractors also engage their own security force. We have engaged Chevron Security and Investigation Agency Inc. since December 2011. The original term of the security service contract expired on November 30, 2012; however, the contract is automatically renewed every year, until a notice of termination is served to the other party. All armory and equipment are provided for by the contractor itself, and comprehensive training is also provided to the security guards stationed at our mine by the contractor.

In addition to our security force and that of our contractors, a Special Civilian Armed Auxiliary (SCAA) force comprised of approximately 120 para-military trained personnel managed by the Philippine Army, are tasked with securing the perimeter of our mining operation. Under the Memorandum of Agreement of the Group with the Philippine Army, PGMC has the obligation to provide allowances, uniform and equipment, any claims arising from personal damages caused by or to any of the SCAA when the related injury or damage is incurred in the course of lawful performance of the SCAA's duty.

Each of the neighboring mining companies in the area of our mine also cooperates and shares information pertaining to the security situation in the vicinity.

*We rely to a significant degree on third-party contractors and failure of any such contractor to comply with its contractual obligations or the loss of any such contractor's services could increase our costs or disrupt our operations and we may be held liable for costs or delays caused by them.*

We depend upon independent third-party contractors to perform our mining operations including earthmoving, loading, transportation and certain other services at our Cagdianao Mine for us. The performance of the independent third-party contractors may be constrained by labor disputes or actions, or damage to or failure of equipment and machinery or financial difficulties. In addition, failure by our contractors to comply with applicable laws could adversely affect our reputation.

In addition, there can be no assurance that our monitoring of the work and performance of our independent third-party contractors will be sufficient to control the quality of their work or their adherence to safety or environmental standards. In the event that our independent third-party contractors fail to meet the quality, safety, environmental, and other operating standards that are required by the relevant laws and regulations, our operations may suffer and we may be liable to third parties. In particular, given the dangers inherent with operating heavy machinery and mining activities, we cannot guarantee our current safety measures and monitoring activities could successfully prevent any accidents or casualties caused by the operation of our independent third-party contractors.

Furthermore, any contractual disputes with our contractors, the inability of any of our contractors to comply with their contractual obligations to us, including shipment volume guarantees, or our inability to maintain a cooperative relationship with any of our independent third-party contractors or obtain alternative providers on

comparable or more favorable terms in a timely manner, or at all, may delay our production schedule and we may breach our supply contracts with our customers, any or all of which may substantially increase our costs and may have a material adverse effect on our business, results of operations, and financial condition.

*Our reserve and resource estimates may not accurately reflect our nickel deposits, and inaccuracies or future reductions in our reserve or resource estimates could have an adverse impact on our business, results of operations, and financial condition.*

Reserve and resource figures are estimates and no assurances can be given that the indicated levels of nickel ore will be produced or that we will receive the price assumed in determining our reserves. These estimates are expressions of judgment based on knowledge, mining experience, analysis of drilling results and industry practices. Valid estimates made at a given time may significantly change when new information becomes available. While we believe that the reserve and resource estimates included in this report are well established, by their nature reserve and resource estimates depend, to a certain extent, upon statistical inferences which may ultimately prove inaccurate and require adjustment.

Furthermore, fluctuations in the market price of nickel, increased capital or production costs or reduced recovery rates, change to life of mine plans and changes in applicable laws and regulations, including environmental laws and regulations, may render ore reserves uneconomic and may ultimately result in a reduction of reserves. The extent to which resources may ultimately be reclassified as proven or probable reserves is dependent upon the determination of their profitable recovery, which determination may change over time based on economic and technological factors. Accordingly, no assurances can be given that any reserve estimates will not be reduced in the future or that any resource estimates will ultimately be reclassified as proven or probable reserves.

*Our future exploration and development activities may not be successful, and, even if we make economic discoveries of nickel ore deposits, unexpected problems during the start-up phase of any new operations could have an adverse impact on our business, results of operations, and financial condition.*

We can provide no assurance that our current exploration and development programs will result in profitable commercial mining operations or will replace production at our existing mining operations. Also, we may incur expenses on exploration projects that are subsequently abandoned due to poor exploration results or the inability to define reserves that can be mined economically. In addition, we may compete with other mining companies to acquire rights to exploit attractive mining properties.

The economic feasibility of development projects is based upon many factors, including the accuracy of reserve estimates; capital and operating costs; government regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting and environmental protection; and nickel prices, which are highly volatile. Development projects are also subject to the successful completion of feasibility studies, issuance of necessary governmental permits and availability of adequate financing.

Development projects have no operating history upon which to base estimates of future cash flow. Estimates of proved and probable reserves and cash operating costs are, to a large extent, based upon detailed geological and engineering analysis. We also conduct feasibility studies that derive estimates of capital and operating costs based upon many factors, including anticipated tonnage and grades of nickel ore to be mined, the configuration of the mine, ground and mining conditions and anticipated environmental and regulatory compliance costs.

It is possible that actual costs and economic returns of current and new mining operations may differ materially from our best estimates. It is not unusual for new mining operations to experience unexpected problems during the start-up phase and to require more capital than anticipated.

*Fluctuations in transportation costs and disruptions in transportation could adversely affect the demand for our nickel ore.*

Transportation costs may vary for a number of reasons, including changes in global demand for commodities, the size of the global shipping fleet and fuel costs. Under the terms of certain of our ore supply agreements, the customer is responsible for paying transportation costs including shipping and related insurance costs. Any future increases in freight costs could result in a significant decrease in the volume of nickel ore that customers outside the Philippines purchase from us.

We depend upon ships to deliver nickel ore to our international customers. While these customers typically arrange and pay for transportation of nickel ore from transshipment areas to the point of use, disruptions to these transportation services because of weather-related problems, distribution problems, labor disputes or other events could temporarily restrict the ability to supply nickel ore to customers or could result in demurrage claims by ship-owners for loading delays.

*Continued compliance with safety, health and environmental laws and regulations may adversely affect our business, results of operations, and financial condition.*

We expend significant financial and managerial resources to comply with a complex set of environmental, health and safety laws, regulations, guidelines and permitting requirements (for the purpose of this paragraph, collectively referred to as “laws”) drawn from a number of different jurisdictions. We anticipate that we will be required to continue to do so in the future as the recent trend towards stricter environmental laws is likely to continue. The possibility of more stringent laws or more rigorous enforcement or new judicial interpretation of existing laws exists in the areas of worker health and safety, the disposition of waste, the decommissioning and rehabilitation of mining sites and other environmental matters, each of which could have a material adverse effect on our exploration, operations or the cost or the viability of a particular project.

Our facilities operate under various operating and environmental permits, licenses and approvals that contain conditions that must be met and our right to continue operating our facilities is, in a number of instances, dependent upon compliance with these conditions. Failure to meet certain of these conditions could result in the interruption or closure of exploration, development or mining operations or material fines or penalties, all of which could have an adverse impact on our business, results of operations, and financial condition. An unequal application and implementation of the laws and without due process will have an adverse effect on the Company.

*Changes in, or more aggressive enforcement of laws and regulations could adversely impact our business.*

Mining operations and exploration activities are subject to extensive laws and regulations. These relate to production, development, exploration, exports, imports, taxes and royalties, labor standards, occupational health, waste disposal, protection and remediation of the environment, mine decommissioning and rehabilitation, mine safety, toxic substances, transportation safety and emergency response and other matters.

Further, there is a risk that mining laws and regulations could change and adversely impact our business. Compliance with these laws and regulations involve substantial costs. It is possible that the costs, delays and other effects associated with these laws and regulations may impact our decision as to whether to continue to operate an existing mine, refining and other facilities or whether to proceed with exploration or development of properties. Since legal requirements change from time to time, are subject to interpretation and may be enforced to varying degrees in practice, we are unable to predict the ultimate cost of compliance with these requirements or their effect on operations should any of these increases or be modified in any material respect.

*We are exposed to exchange rate fluctuations. In particular, fluctuations in the exchange rate between the Peso and the US\$ could have an adverse effect on our results of operations and financial condition.*

Our nickel ore sales are denominated in US\$ while some of our costs are incurred in Pesos. The appreciation of the Peso against the US\$ reduces our revenue in Peso terms. Accordingly, fluctuations in exchange rates can have an impact on our financial results. While our current policy is not to hedge our exposure to foreign currency exchange risk or invest in derivative instruments, the Company closely monitors the exchange rate fluctuations to determine if there is a need to hedge our exposure to foreign currency exchange risk or invest in derivative instruments.

*Economic, political and other conditions in China, as well as government policies, could adversely affect our business and prospects.*

Our business depends on the general economic conditions in China, as well as its political and social conditions. Our entire revenues for the years ended December 31, 2017, 2018 and 2019 was derived from sales of nickel ore to China. The Chinese market has become a significant source of global demand for commodities and China represented approximately 53.4% of the global primary nickel demand in the year of 2018. China's annual consumption of primary nickel has also increased by more than 12.8% since 2008 from 367,000 tonnes to an estimated 1.2 million tonnes in 2018.

The economy of China differs in many respects from the economies of most developed countries, including with respect to:

- The amount and degree of government involvement;
- Growth rate and degree of development;
- Government control over capital investment;
- Government control of foreign exchange; and
- Government allocation of resources.

The Chinese economy is in the process of transitioning from a centrally planned economy to a more market-oriented economy. For approximately three (3) decades, the Chinese government has implemented economic reform measures to utilize market forces in the development of the economy. However, the Chinese government continues to play a significant role in regulating industries and the economy through policy measures. Any political tension between the Chinese and Philippine governments may also have an adverse effect on our business and operations if such tension escalates and has effects on commerce and economic relations. For example, such tension may result in policy directives restricting free trade between China and the Philippines or increase in the cost of doing business between the two (2) countries, such as with respect to shipping and freight costs, which at present constitutes a significant competitive advantage for us against international competitors. We cannot predict the extent of any adverse effect on our current or future business, financial condition or results of operations that could be caused by any changes in Chinese economic, political or social conditions and in Chinese laws, regulations and policies.

Moreover, particularly related to our business, China, in response to its increased demand for commodities, is increasingly seeking self-sufficiency in key commodities, including nickel, through investments in nickel mining operations in other countries. In addition, nickel ore is used in the production of stainless steel and a slowdown in the stainless steel industry in China, or China's economic growth in general, could result in lower Chinese demand for our products and therefore reduce our revenue. In the event that the demand for our nickel ore from our Chinese customers materially decreases and we are unable to find new customers to replace these customers, our business, results of operations, and financial condition could be materially and adversely affected.

## **Government Regulations and Approvals**

The Company relies on regulatory approvals, permits, licenses (including MPSAs), operating agreements with third-party claim owners and land access agreements to conduct its mining operations.

Prior to its expiration, MPSA No. 007-92-X for the Cagdianao Mine, was renewed on June 21, 2016 for another twenty-five years from its initial term ending in 2017, or until February 14, 2042. On March 2, 2020, the MGB confirmed that MPSA No. 007-92-X and the Memorandum of Agreement between SIRC as “Claim Owner” and PGMC as “Operator” is valid and existing as of date.

The Company holds, or has applied for most of, the necessary regulatory approvals, licenses, permits, operating agreements and land access agreements to carry on the activities that it is conducting under applicable laws and regulations.

## **Item 2. Properties**

### **Mineral Property**

#### **Cagdianao Mine**

*MPSA No. 007-92-X* - On November 16, 2015, SIRC applied for the renewal of its MPSA and was approved for another twenty-five (25) year term on June 21, 2016. The renewed MPSA is valid until February 14, 2042. The MPSA covers an area of 4,376 hectares and is currently operating deposits CAGA 2, 3 and 4.

The Cagdianao Mine is located in Sitio Kinalablaban, Barangay Cagdianao, Municipality of Claver, in the province of Surigao del Norte in the northeast corner of Mindanao island. The Cagdianao Mine is located within the Surigao Mineral Reservation and in a geological area known as the Surigao Laterite Domain, characterized by substantial deposits of both limonite and saprolite. It is accessible via domestic flights from Manila, Cebu, and other domestic locations, which can land either in Surigao City or Butuan City; Surigao City is approximately 89 kilometers, while Butuan City is approximately 170 kilometers away from our Cagdianao Mine. The mine is connected to two (2) separate pier facilities connecting to the mining operation via causeways, which facilitate the loading of ore and the un-loading of supplies to and from ships anchored offshore in the Philippine Sea. The Cagdianao Mine also features extensive infrastructure to support the Group’s mining operations, including stockyards, administration buildings, testing and sampling laboratory, staff accommodation and access roads.

#### **Mineral Resources and Reserves**

Mineral resources and ore reserves at the Cagdianao Mine as estimated by the PMRC Competent Person as at October 15, 2019 and December 15, 2019, respectively, are shown in the tables in the next pages:

**Statement of Mineral Resources as of October 15, 2019 (Measure and Indicated)**

Material Type	Deposit	PMRC Classification	Quantity (Tonnes)	%Ni	%Fe	Dry Bulk Density
Combined (High Grade, Medium Grade, Low Grade)	CAGA-1 (Unmined)*	Measured	9,988,000	1.0	42.5	1.1
		Indicated	3,772,000	1.0	34.3	1.1
		<b>Subtotal</b>	<b>13,760,000</b>	<b>1.0</b>	<b>40.3</b>	<b>1.1</b>
	CAGA-2 (As of Oct 15, 2019)	Measured	7,006,000	1.2	26.1	1.3
		Indicated	5,620,000	1.1	29.3	1.3
		<b>Subtotal</b>	<b>12,626,000</b>	<b>1.2</b>	<b>27.6</b>	<b>1.3</b>
	CAGA-3 (As of Oct 15, 2019)	Measured	8,772,000	1.2	28.0	1.2
		Indicated	2,526,000	1.2	23.4	1.2
		<b>Subtotal</b>	<b>11,298,000</b>	<b>1.2</b>	<b>26.9</b>	<b>1.2</b>
	CAGA-4 (As of Oct 15, 2019)	Measured	13,128,000	1.2	28.4	1.4
		Indicated	11,943,000	1.2	24.3	1.4
		<b>Subtotal</b>	<b>25,071,000</b>	<b>1.2</b>	<b>26.4</b>	<b>1.4</b>
	CAGA-5 (Unmined)*	Measured	1,386,000	1.0	45.7	1.2
		Indicated	1,699,000	1.0	22.7	1.2
		<b>Subtotal</b>	<b>3,085,000</b>	<b>1.0</b>	<b>33.0</b>	<b>1.2</b>
	Combined	Measured	40,280,000	1.1	32.0	1.3
		Indicated	25,560,000	1.1	26.7	1.3
<b>Total</b>		<b>65,840,000</b>	<b>1.1</b>	<b>29.9</b>	<b>1.3</b>	

Notes:

- The PGMC Statement of Mineral Resources has been generated under the supervision of Mr. Edgardo G. Garcia who is an independent Consulting Geologist and a Registered Member of the Geological Society of the Philippines and Australian Institute of Mining and Metallurgy. He has sufficient experience that is relevant to the style of mineralization and type of deposit under consideration and to the activity that he has undertaken to qualify as a Competent Person as defined in the PMRC and Joint Ore Reserves Committee (JORC) Codes.
- All Mineral Resources figures reported in the table above represent estimates at 15 October 2019. Mineral Resource estimates are not precise calculations, being dependent on the interpretation of limited information on the location, shape, continuity of the mineralization and the availability of sampling results. The totals contained in the above table have been rounded to reflect the relative uncertainty of the estimate and thus may cause some computational variances.
- Mineral Resources are reported in accordance with the Philippine Mineral Reporting Code (PMRC 2007 Edition) which was adopted from JORC.
- The PGMC Statement of Mineral Resources includes all estimates for all explored deposits of the PGMC- CAGA Nickel Project, namely: CAGA-1 to CAGA-5. However, estimates\* for CAGA-5 remain the same as reported on 31 May 2014 as no additional exploration/drilling and mining operations have been undertaken since then. CAGA-1\* estimates remain the same as reported on 29 October 2018.
- The decrease in PGMC's Mineral Resources at CAGA-2, CAGA-3 and CAGA-4 (2018:2019) was a result of mine depletion from the last reporting on 15 October 2018.

**Statement of Ore Reserves as of December 15, 2019**

Classification	Proven			Probable			Total		
	WMT	Ni	Fe	WMT	Ni	Fe	WMT	Ni	Fe
LGHF	14,185,100	0.87	48.80	3,898,800	0.88	48.80	18,083,900	0.87	48.80
LGMF	1,799,300	1.22	45.47	348,400	1.23	44.76	2,147,700	1.22	45.36
LGLF	5,170,800	1.26	13.10	3,192,900	1.26	12.84	8,363,700	1.26	13.00
MGMF	392,700	1.43	44.21	31,200	1.42	45.66	423,900	1.43	44.32
MGLF	6,857,800	1.47	13.22	3,896,900	1.47	12.83	10,754,700	1.47	13.08
HG	2,366,900	1.78	13.61	1,217,400	1.78	12.49	3,584,300	1.78	13.23
<b>Total/Ave.</b>	<b>30,772,600</b>	<b>1.17</b>	<b>31.92</b>	<b>12,585,600</b>	<b>1.26</b>	<b>24.91</b>	<b>43,358,200</b>	<b>1.19</b>	<b>29.88</b>

**Liens and Encumbrances**

None of the Group's real properties are subject to any liens, encumbrances or other security interests.

**Item 3. Legal Proceedings**

To the knowledge and information of the Company, there is no material pending legal proceeding (wherein the amount involved, exclusive of interest and costs, exceeds ten percent (10%) of the current assets of the Company), to which the Company is a party or of which its property is the subject before any court of law in the Philippines, and which if adversely determined, will have a material adverse effect on the financial condition of the Company.

#### Item 4. Submission of Matters to a Vote of Security Holders

There were no matters covered under this item submitted in the fourth quarter of 2019 to the security holders for a vote.

### **PART II – OPERATIONAL AND FINANCIAL INFORMATION**

#### Item 5. Market for Issuer’s Common Equity and Related Stockholder Matters

##### Market Information

The PSE is the principal market for the Company’s shares. The closing price of the shares as of December 26, 2019 is at ₱1.78 per share.

The high and low sale prices of the shares of stock of the Company for each quarter within the period January 1, 2019 to December 31, 2019 and the last two (2) years are as follows:

YEAR	Q1		Q2		Q3		Q4	
	High	Low	High	Low	High	Low	High	Low
2019	1.71	1.41	1.67	1.41	1.98	1.41	2.10	1.44
2018	2.55	2.17	2.57	2.12	2.20	1.85	1.85	1.66
2017	2.86	2.78	2.53	2.47	2.84	2.70	2.64	2.59

##### Holders

The Company has approximately 1,721 shareholders owning as of December 31, 2019. Based on the record, the following are the top 20 stockholders with their respective shareholdings and percentage to total shares outstanding as of said date:

Stockholder Name	Nationality	No. of Shares	%
PCD Nominee Corp – Filipino	Filipino	2,700,255,876	48.99
PCD Nominee Corp – Non-Filipino	Foreign	1,987,216,003	36.05
Regulus Best Nickel Holdings, Inc.	Filipino	523,154,668	09.49
Blue Eagle Elite Venture, Inc.	Filipino	348,769,779	06.33
Sohoton Synergy, Inc.	Filipino	233,156,767	04.23
Huatai Investment Pty. Ltd. –Australian	Australian	137,316,347	02.49
Red Lion Fortune Group, Inc.	Filipino	57,588,866	01.04
Joseph C. Sy	Filipino	5,000,000	00.09
Dante R. Bravo	Filipino	3,261,053	00.06
Orion-Squire Capital, Inc. A/C-0459	Filipino	2,283,106	00.04
Carlo A. Matilac	Filipino	1,733,226	00.03
Mary Belle D. Bituin	Filipino	1,630,523	00.03
Squire Securities, Inc.	Filipino	867,338	00.02
Geary L. Barias	Filipino	785,860	00.01
Corsino L. Odtojan	Filipino	785,860	00.01
Mario A. Nevado	Filipino	705,852	00.01
Amor Quintero	Filipino	678,479	00.01
Marilou C. Celzo	Filipino	678,479	00.01
Emmanuel Felipe E. Fang	Filipino	575,779	00.01
Hilario A. Sale Jr	Filipino	575,779	00.01
George L. Go	Filipino	539,153	00.01

Kuok Philippines Properties Inc.	Filipino	463,953	00.01
Richard C. Gimenez	Filipino	430,738	00.01

### Dividends

Below is the history of the recent dividend declarations made by the Company and PGMC for the three most recent fiscal years.

	For the Years Ended December 31		
	2019	2018	2017
	(P in millions)		
The Company (cash dividend)	P-	P-	P-
(property dividend)	-	860	-
<i>Subsidiaries</i>			
PGMC (cash dividend)	2,201	-	4,365
PGMC (stock dividend)	-	-	1,200
<b>Total</b>	<b>P2,201</b>	<b>P860</b>	<b>P5,565</b>

On December 16, 2019, PGMC declared cash dividends of P85.00 per share to stockholders of record as of December 15, 2019 or for a total of P2,201,499,915.00 and paid its stockholders on or before January 2020.

The Board in its regular meeting on March 14, 2018 approved the declaration of property dividend consisting of FNI listed treasury shares at the ratio of 0.06 share for every FNI share to all shareholders of record by April 2, 2018 based on the March 14, 2018 listed price. On October 30, 2018, the SEC approved the Company's declaration of property dividend and payment to eligible shareholders was made on November 22, 2018.

On December 16, 2017, PGMC declared cash dividends of P480.00 per share to stockholders of record as of December 31, 2017 or for a total of P4,365,119,520.00 and paid its stockholders on January 15, 2018. On the same day, PGMC declared stock dividend amounting to P1,200,000,000.00 divided into 12,000,000 shares at the par value of P100.00 per share, or approximately 1.32 common shares for every common share held which was approved by the SEC on December 29, 2017.

Other than as set forth above, none of our other subsidiaries declared any dividends for the years ended December 31, 2019, 2018 and 2017. Declarations of dividends in previous years are not indicative of future dividend declarations.

### Description of Registrant's Securities

As of December 31, 2019, the Company has a total issued capital stock of 6,072,357,151 common shares. 5,524,965,766 common shares of the Company are outstanding and 547,391,385 shares are treasury stock.



## Item 6. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis are based on the audited consolidated financial statements as at December 31, 2019 and 2018 and for the years ended December 31, 2019, 2018 and 2017 and accompanying notes to the consolidated financial statements, prepared in conformity with Philippine Financial Reporting Standards (PFRS) and should be read in conjunction with those audited consolidated financial statements.

The Group has not, in the past five (5) years and since its incorporation, revised its consolidated financial statements for reasons other than changes in accounting period and policies.

The consolidated financial statements as at December 31, 2019 and 2018 and for the years ended December 31, 2019, 2018 and 2017 are hereto attached.

The following tables set forth the summary financial information as at and for the years ended December 31, 2019, 2018 and 2017.

### Summary of Consolidated Statements of Income

	For the Years Ended			Horizontal Analysis			
	December 31			Increase (Decrease)		Increase (Decrease)	
	2019	2018	2017	2019 vs. 2018	%	2018 vs. 2017	%
	<i>In Thousand Pesos</i>						
Revenues	6,654,626	5,486,619	5,815,596	1,168,007	21%	(328,977)	-6%
Cost of Sales	(2,737,893)	(2,656,531)	(2,768,571)	81,362	3%	(112,040)	-4%
Operating Expenses	(1,943,074)	(1,956,182)	(1,936,207)	(13,108)	-1%	19,975	1%
Finance Costs	(83,084)	(76,938)	(68,741)	6,146	8%	8,197	12%
Finance Income	9,951	4,609	6,877	5,342	116%	(2,268)	-33%
Share in Net Loss of Associates	(41,464)	-	(116)	41,464	0%	(116)	100%
Other Income (Charges) - net	(27,410)	(15,170)	28,369	12,240	81%	43,539	-153%
Provision for Income Tax - net	(528,101)	(276,879)	(297,518)	251,222	91%	(20,639)	7%
Net Income	1,303,551	509,528	779,689	794,023	156%	(270,161)	-35%

### Summary of Consolidated Statements of Income

	For the Years Ended			Vertical Analysis			
	December 31			Increase (Decrease)		Increase (Decrease)	
	2019	2018	2017	2019 vs. 2018	%	2018 vs. 2017	%
	<i>In Thousand Pesos</i>						
Revenues	6,654,626	5,486,619	5,815,596	1,168,007	147%	(328,977)	-122%
Cost of Sales	(2,737,893)	(2,656,531)	(2,768,571)	81,362	-10%	(112,040)	41%
Operating Expenses	(1,943,074)	(1,956,182)	(1,936,207)	(13,108)	2%	19,975	-7%
Finance Costs	(83,084)	(76,938)	(68,741)	6,146	-1%	8,197	-3%
Finance Income	9,951	4,609	6,877	5,342	1%	(2,268)	-1%
Share in Net Loss of Associates	(41,464)	-	(116)	41,464	-5%	(116)	0%
Other Income (Charges) - net	(27,410)	(15,170)	28,369	12,240	-2%	43,539	-16%
Provision for Income Tax - net	(528,101)	(276,879)	(297,518)	251,222	-32%	(20,639)	8%
Net Income	1,303,551	509,528	779,689	794,023	100%	(270,161)	-100%

### Summary Consolidated Statements of Financial Position as at December 31,

				Horizontal Analysis			
				Increase (Decrease)		Increase (Decrease)	
	2019	2018	2017	2019 vs. 2018	%	2018 vs. 2017	%
	<i>In Thousand Pesos</i>						
Current Assets	4,695,448	3,474,416	3,823,022	1,221,032	35%	(348,606)	-9%
Noncurrent Assets	6,006,683	5,387,665	5,217,835	619,018	11%	169,830	3%
Total Assets	10,702,131	8,862,081	9,040,857	1,840,050	21%	(178,776)	-2%
Current Liabilities	1,493,425	961,271	1,805,529	532,154	55%	(844,258)	-47%
Noncurrent Liabilities	1,562,194	1,513,304	831,024	48,890	3%	682,280	82%
Equity	7,646,512	6,387,506	6,404,304	1,259,006	20%	(16,798)	0%
Total Liabilities and Equity	10,702,131	8,862,081	9,040,857	1,840,050	21%	(178,776)	-2%

**Summary Consolidated Statements of Financial Position as at December 31,**

	2019	2018	2017	Vertical Analysis			
				Increase (Decrease)		Increase (Decrease)	
				2019 vs. 2018	%	2018 vs. 2017	%
	<i>In Thousand Pesos</i>						
Current Assets	4,695,448	3,474,416	3,823,022	1,221,032	66%	(348,606)	-195%
Noncurrent Assets	6,006,683	5,387,665	5,217,835	619,018	34%	169,830	95%
Total Assets	10,702,131	8,862,081	9,040,857	1,840,050	100%	(178,776)	-100%
Current Liabilities	1,493,425	961,271	1,805,529	532,154	29%	(844,258)	-472%
Noncurrent Liabilities	1,562,194	1,513,304	831,024	48,890	3%	682,280	382%
Equity	7,646,512	6,387,506	6,404,304	1,259,006	68%	(16,798)	-9%
Total Liabilities and Equity	10,702,131	8,862,081	9,040,857	1,840,050	100%	(178,776)	-100%

**Summary Consolidated Statements of Cash Flows**

	For the Years Ended December 31		
	2019	2018	2017
	<i>In Thousand Pesos</i>		
Net Cash Flows From (Used in):			
Operating Activities	1,839,583	1,345,821	1,890,644
Investing Activities	(909,726)	(1,138,813)	(344,540)
Financing Activities	(188,835)	(57,036)	(1,221,537)
Net Increase in Cash and Cash Equivalents	741,022	149,972	324,567
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(28,461)	12,145	10,057
Cash and Cash Equivalents at Beginning of Year	1,048,683	886,566	551,942
Cash and Cash Equivalents at End of Year	1,761,244	1,048,683	886,566

**RESULTS OF OPERATIONS**

***Year ended December 31, 2019 compared with year ended December 31, 2018***

*Export Revenues*

The Group's sale of nickel ore for the year ended December 31, 2019 generated total export revenues of ₱6,654.6 million compared to ₱5,486.6 million in the year ended December 31, 2018, an increase of ₱1,168.0 million or 21.3%. The increase was attributable to higher prices of nickel ore and increase in the volume shipped. The increase was offset by unfavorable exchange rate compared to the prior year.

The sale of nickel ore for the year ended December 31, 2019 was 5.890 million WMT, up by 0.181 million WMT or 3.2%, compared to 5.709 million WMT of nickel ore in the year ended December 31, 2018. The Group was able to ship 108 vessels of nickel ore during the year ended December 31, 2019 as against 103 vessels of nickel ore during the same period last year. The resulting product mix was 45% low-grade ore and 55% medium-grade ore in 2019 versus the previous year's mix of 47% low-grade ore and 53% medium-grade ore. These shipments sold solely to Chinese customers consisted of 2.660 million WMT low-grade nickel ore and 3.230 million WMT medium-grade nickel ore compared to 2.658 million WMT low-grade nickel ore and 3.051 million WMT medium-grade nickel ore of the same period in 2018.

The average realized nickel ore prices for 2019 were higher than 2018, specifically: (1) Low-grade ore was US\$17.89/WMT in 2019, 38.5% higher than 2018 price of US\$12.92/WMT; and (2) Medium-grade ore was US\$25.15/WMT, 11.5% higher than 2018 price of US\$22.56/WMT. The overall average realized nickel ore price for the year ended December 31, 2019 was US\$21.87/WMT compared to US\$18.07/WMT for the year ended December 31, 2018, higher by US\$3.80/WMT or 21.0%.

The average realized Peso over US\$ exchange rate for the Group's export revenues was ₱51.65 compared to ₱53.18 of the same period last year, lower by ₱1.53 or 2.9%.

#### Service Revenues

The service income earned for the LCT chartered by PGMC from its subsidiary, PCSSC, amounted to ₱100.4 million for the year ended December 31, 2019 as compared to ₱95.4 million for the year ended December 31, 2018.

#### Cost and Expenses

The cost and expenses include cost of sales, excise taxes and royalties, general and administrative expenses, and shipping and distribution. The cost and expenses amounted to ₱4,681.0 million for the year ended December 31, 2019 compared to ₱4,612.7 million for the year ended December 31, 2018, an increase of ₱68.3 million or 1.5%. The increase was primarily due to an increase in contractors' fee (see related discussion in the cost of sales section). The average cash operating cost per volume sold increased to ₱727.31 per WMT in 2019 from ₱717.34 per WMT, higher by ₱9.97 per WMT or 1.4%. For the year ended December 31, 2019, the total aggregate cash costs and total sales volume were ₱4,283.9 million and 5.890 million WMT, respectively. For the year ended December 31, 2018, the total aggregate cash costs and total sales volume were ₱4,095.3 million and 5.709 million WMT, respectively.

#### Cost of Sales

The cost of sales went up from ₱2,656.5 million for the year ended December 31, 2018 to ₱2,737.9 million for the same period this year, an increase by ₱81.4 million, or 3.1%, broken down mainly as follows: (a) increase in contract hire by ₱99.2 million (from ₱1,836.7 million in 2018 to ₱1,935.9 million in 2019), or 5.4%, due to increase of contractors' fee (from original 2019 contract) amounting to US\$0.50/WMT and an additional US\$0.50/WMT for vessel arrival starting August 1 and September 1, respectively. Also, there is an additional fee increase of US\$1.00/WMT (from 2019 original contract) for 1.60%-1.79% nickel ore grade for September arriving vessels; (b) increase in operation overhead by ₱19.8 million (from ₱13.2 million) or 150.4% due to completed confirmatory drilling services for operating CAGA 2 and CAGA 4; and (c) increase in personnel costs and community relations expense by ₱19.2 million or 12.1% and ₱17.0 million or 49.5%, respectively. The increase was offset by the decrease in depreciation, depletion and amortization by ₱73.0 million (from ₱413.6 million) or 17.6% due to lower depletion and amortization rates used because of the increase in ore reserves based on the latest Philippine Mineral Reporting Code (PMRC) Report (see Notes 8 and 10 of the consolidated financial statements).

#### Excise Taxes and Royalties

Excise taxes and royalties were ₱843.0 million and ₱727.5 million for the years ended December 31, 2019 and 2018, respectively. Since these expenses were computed and paid based on the percentage of revenues, the increase in nickel ore price and volume shipped consequently increased the excise taxes and royalties taken up.

#### General and Administrative

General and administrative expenses were ₱675.2 million in the year ended December 31, 2019 compared to ₱795.7 million in the year ended December 31, 2018, a decrease of ₱120.5 million, or 15.1%. The decrease was mainly attributable to the provision for impairment losses taken up by the Group in 2018 amounted to ₱79.7 million compared to nil in 2019. The Group's 2018 provision pertains to a disputed receivable from its previous contractor. In addition, taxes and licenses decreased by ₱57.6 million, or 31.7%. Furthermore, rentals decreased by ₱24.6 million with a corresponding increase in depreciation and amortization amounted to ₱26.4 million due to the adoption of PFRS 16, *Leases* effective January 1, 2019.

#### Shipping and Distribution

Shipping and loading costs were ₱424.8 million for the year ended December 31, 2019 compared to ₱432.9 million in the same period last year, down by ₱8.1 million, or 1.9%.

#### *Finance Costs*

Finance costs amounted to ₱83.1 million in the year ended December 31, 2019 compared to ₱76.9 million in the year ended December 31, 2018, an increase of ₱6.2 million, or 8.1%.

#### *Other Charges - net*

Net other charges amounted to ₱27.4 million in the year ended December 31, 2019 compared to ₱15.2 million in the year ended December 31, 2018, an increase of ₱12.2 million, or 80.3%. The difference pertains mainly to the net foreign exchange losses as a result of the rebooking of US\$ denominated accounts and the Group's net despatch revenues earned, net of demurrage and other adjustment.

#### *Provision for Income Tax - net*

The net provision for income tax was ₱528.1 million for the year ended December 31, 2019 compared to ₱276.9 million in the same period last year, an increase of ₱251.2 million or 90.7%. The Group's current provision for income tax represents regular corporate income tax for the years ended December 31, 2019 and 2018. The increase was due to the higher taxable income earned during the year compared to the prior year attributable to increase in revenues.

#### *Share in Net Loss of Associates*

The share in net loss of associates amounted to ₱41.5 million for the year ended December 31, 2019 compared to nil in 2018. This represents: (1) Equity take-up of deposits for future acquisition amounted to ₱42.9 million attributable to unrecognized share in net loss of SPNVI in accordance with Philippine Accounting Standards (PAS) 28; and (2) Share in net income on the investment in Seasia Nectar Port Services Inc. (SNPSI), an associate, amounted to ₱1.4 million applicable for the period December 1 to 31, 2019.

#### ***Total Comprehensive Income – net of tax***

#### *Currency Translation Adjustment*

The Group had recognized currency translation adjustment, net of tax amounted to (₱15.8 million) and ₱17.4 million for the years ended December 31, 2019 and 2018, respectively, which pertained to the exchange differences arising on the translation of a subsidiary's functional currency to the presentation currency of the Parent Company.

#### *Remeasurement Gain (Loss) on Retirement Obligation*

Remeasurement gain (loss) on retirement obligation - net of tax recognized in 2019 and 2018 amounted to ₱16.9 million and (₱9.7 million), respectively.

#### ***Year ended December 31, 2018 compared with year ended December 31, 2017***

#### *Export Revenues*

The Group's sale of nickel ore for the year ended December 31, 2018 generated total export revenues of ₱5,486.6 million compared to ₱5,815.6 million in the year ended December 31, 2017, a decrease of ₱329.0 million or 5.7%. The decline was attributable to lower volume of shipment in 2018 (than in 2017) and lower selling prices, which is mainly driven by external demand and supply. The decrease was offset by favorable exchange rate compared to the prior year.

The sale of nickel ore for the year ended December 31, 2018 was 5.709 million WMT, down by 0.262 million WMT or 4.4%, compared to 5.971 million WMT of nickel ore in the year ended December 31, 2017. The Group was able to ship 103 vessels of nickel ore during the year ended December 31, 2018 as against 109 vessels of nickel ore during the same period last year. The decrease in the number of vessels loaded and consequently in the volume of nickel ore shipped was mainly due to Management's decision to shift its focus towards higher-grade ores that entails more processing activities in order to maximize profitability. This resulted in a product mix of 47% low-grade ore and 53% medium-grade ore in 2018 versus the previous year's mix of 61% low-grade ore and 39% medium-grade ore, which led to an average revenue per vessel of ₱53.3 million, slightly lower by 0.2%

compared to 2017. The 53% medium-grade ore sold in 2018 included 11 shipments of 1.65% nickel ore grade that were not in the 2017 product offering. These shipments sold solely to Chinese customers consisted of 2.658 million WMT low-grade nickel ore and 3.051 million WMT medium-grade nickel ore compared to 3.641 million WMT low-grade nickel ore and 2.330 million WMT medium-grade nickel ore of the same period in 2017.

The average realized nickel ore prices for 2018 were lower than 2017, specifically: (1) Low-grade ore was US\$12.92/WMT in 2018, 18.4% lower than 2017 price of US\$15.83/WMT; and (2) Medium-grade ore, without considering the shipments of 1.65% nickel ore grade, was US\$20.51/WMT, 17.0% lower than 2017 price of US\$24.70/WMT. However, considering the 1.65% nickel ore grade shipments, the average realized ore price for medium-grade ore increased (from US\$20.51/WMT) to US\$22.56/WMT. Because of this, the Group was able to temper the overall average realized nickel ore price decline to only 6.3% (US\$18.07/WMT in 2018 versus US\$19.29/WMT in 2017).

The average realized Peso over US\$ exchange rate for the Group's export revenues was ₱53.18 compared to ₱50.49 of the same period last year, higher by ₱2.69 or 5.3%.

#### Service Revenues

The service income earned for the LCT chartered by PGMC from its subsidiary, PCSSC, amounted to ₱95.4 million for the year ended December 31, 2018 as compared to ₱89.9 million for the year ended December 31, 2017.

#### Cost and Expenses

The cost and expenses include cost of sales, excise taxes and royalties, general and administrative expenses, and shipping and distribution. The cost and expenses amounted to ₱4,612.7 million for the year ended December 31, 2018 compared to ₱4,704.8 million for the year ended December 31, 2017, a decrease of ₱92.1 million or 2.0%. The decrease was primarily due to lower contractor rates by US\$1 compared to the prior year. However, the average cash operating cost per volume sold increased to ₱717.34 per WMT in 2018 from ₱674.45 per WMT, higher by ₱42.89 per WMT or 6.4%. For the year ended December 31, 2018, the total aggregate cash costs and total sales volume were ₱4,095.3 million and 5.709 million WMT, respectively. For the year ended December 31, 2017, the total aggregate cash costs and total sales volume were ₱4,027.1 million and 5.971 WMT, respectively.

#### Cost of Sales

The cost of sales went down from ₱2,768.6 million for the year ended December 31, 2017 to ₱2,656.5 million for the same period this year, a decrease by ₱112.1 million, or 4.0%. The decline was mainly due to decrease in contract hire by ₱125.8 million (from ₱1,962.5 million in 2017 to ₱1,836.7 million in 2018), or 6.4% as a result of renegotiation of contract rates with Contractors (reduction by US\$1.0 per WMT). In addition, depreciation, depletion and amortization decreased by ₱12.1 million (from ₱425.7 million in 2017 to ₱413.6 million in 2018) due to reduction in depletion rates as a result of the increase in ore reserve based on the updated PMRC Report effective February 1 and November 1, 2018. On the other hand, repairs and maintenance, environmental protection costs, fuel and oil, and personnel costs increased by ₱16.7 million, ₱13.8 million, ₱8.8 million and ₱8.5 million, respectively.

#### Excise Taxes and Royalties

Excise taxes and royalties were ₱727.5 million and ₱714.2 million for the years ended December 31, 2018 and 2017, respectively. Since these expenses were computed and paid based on the percentage of revenues, it is expected that the decrease in nickel ore price and volume shipped should consequently decrease the excise taxes and royalties taken up. However, excise taxes and royalties increased due to the implementation of Tax Reform for Acceleration and Inclusion (TRAIN) Law this year increasing the applicable excise tax rate from two percent (2%) to four percent (4%). The increase in excise tax was offset by lower royalty fees paid to the claim-owner as Management was able to negotiate and entered into an Amended Royalty Agreement effective 2018 mining season, with the new rates ranging from two percent (2%) to five percent (5%) versus the previous rates of three percent (3%) to seven percent (7%).

#### *General and Administrative*

General and administrative expenses were ₱795.7 million in the year ended December 31, 2018 compared to ₱833.2 million in the year ended December 31, 2017, a decrease of ₱37.5 million, or 4.5%. The decrease was mainly attributable to the provision for impairment losses taken up by the Group in 2018 amounted to ₱79.7 million compared to ₱208.8 million in the prior year. The Group's 2018 provision pertains to a disputed receivable from its previous contractor while the 2017 provision pertains to long-outstanding trade receivables. The provision has no effect on cash and is less than 2% and 5% of the Group's revenues in 2018 and 2017, respectively. Also, the Group continues to take the necessary steps to collect at least a portion of the amount. On the other hand, taxes and licenses, personnel costs and consultancy fees increased by ₱40.9 million, ₱23.4 million and ₱19.0 million, respectively. The net increase in taxes and licenses is mainly attributable to the increase in local business tax in Claver amounted to ₱48.7 million due to the 100% increase in the corresponding tax rate (from 1% to 2%) and higher tax base (revenue was ₱5.8 billion in 2017 versus ₱3.8 billion in 2016). The increase in personnel costs is due to salary adjustments to eligible employees starting March 1 and minimum salary wage increase effective February 14 and May 1, 2018. Moreover, the increase in consultancy fees is mainly attributable to the professional fees incurred in relation to the completion of the Group's FOO in July.

#### *Shipping and Distribution*

Shipping and loading costs were ₱432.9 million for the year ended December 31, 2018 compared to ₱388.8 million in the same period last year, up by ₱44.1 million, or 11.3%. The increase was mainly due to payment of Philippine Port Authority (PPA) wharfage fees during the year versus none in the prior years since it is covered under the 10-year exemption of wharfage fees from the Board of Investments (BOI) which expired in 2016.

#### *Finance Costs*

Finance costs amounted to ₱76.9 million in the year ended December 31, 2018 compared to ₱68.7 million in the year ended December 31, 2017, an increase of ₱8.2 million, or 11.9%. The provision for mine rehabilitation and decommissioning cost increased in 2017 based on the latest FMRDP of the Group resulting to the increase in accretion interest expense (increase by ₱10.0 million, from ₱4.1 million in 2017) taken up by the Group at the start of the year.

#### *Other Income (Charges) - net*

Net other charges amounted to ₱15.2 million in the year ended December 31, 2018 compared to net other income amounted to ₱28.4 million in the year ended December 31, 2017, a decrease of ₱43.6 million, or 153.5%. The difference pertains mainly to the net foreign exchange losses during the year as a result of the rebooking of US\$ denominated accounts. This was offset by the net despatch revenues earned by the Group during the year.

#### *Provision for Income Tax - net*

The net provision for income tax was ₱276.9 million for the year ended December 31, 2018 compared to ₱297.5 million in the same period last year, a decrease of ₱20.6 million or 6.9%. The Group's current provision for income tax represents regular corporate income tax for the years ended December 31, 2018 and 2017. The decrease was due to the lower taxable income earned during the year compared to the prior year.

#### ***Total Comprehensive Income – net of tax***

#### *Currency Translation Adjustment*

The Group had recognized currency translation adjustment amounted to ₱17.4 million and ₱9.4 million for the years ended December 31, 2018 and 2017, respectively, which pertained to the exchange differences arising on the translation of a subsidiary's functional currency to the presentation currency of the Parent Company.

#### *Remeasurement Gain (Loss) on Retirement Obligation*

Remeasurement gain (loss) on retirement obligation - net of tax recognized in 2018 and 2017 amounted to (₱9.7 million) and ₱7.2 million, respectively.



***Year ended December 31, 2017 compared with year ended December 31, 2016***

**Export Revenues**

The Group's sale of nickel ore for the year ended December 31, 2017 generated total export revenues of ₱5,815.6 million compared to ₱3,773.7 million in the year ended December 31, 2016, an increase of ₱2,041.9 million or 54.1%. The increase was attributable to the increase in the volume shipped, higher prices of nickel ore and favorable exchange rate.

The sale of nickel ore for the year ended December 31, 2017 was 5.971 million WMT, up by 1.662 million WMT or 38.6%, compared to 4.309 million WMT of nickel ore in the year ended December 31, 2016. The Group were able to ship 109 vessels of nickel ore during the year ended December 31, 2017 as against 80 vessels of nickel ore during the same period last year. The increase in the number of vessels loaded and consequently in the volume of nickel ore shipped was mainly due to equipment productivity and improved business management during the year compared to prior year. The Group improved its organizational structure and processes within its teams which increased its connectivity and efficiency. This allowed the Group to act upon day-to-day weather conditions as well as other business information that support the execution of its long-term strategy. The shipments sold solely to Chinese customers consisted of 3.641 million WMT low-grade nickel ore and 2.330 million WMT medium-grade nickel ore compared to 2.396 million WMT low-grade nickel ore, 1.858 million WMT medium-grade nickel ore and 0.055 million WMT high-grade nickel ore of the same period in 2016.

The average realized nickel ore price for the year ended December 31, 2017 was US\$19.29/WMT compared to US\$18.36/WMT for the year ended December 31, 2016, higher by US\$0.93/WMT or 5.1%.

The average realized Peso over US\$ exchange rate for the Group's export revenues was ₱50.49 compared to ₱47.71 of the same period last year, higher by ₱2.78 or 5.8%.

**Service Revenues**

The service income earned for the LCT chartered by PGMC from its subsidiary, PCSSC, amounted to ₱89.9 million for the year ended December 31, 2017 as compared to ₱95.0 million for the year ended December 31, 2016.

**Cost and Expenses**

The cost and expenses include cost of sales, excise taxes and royalties, general and administrative expenses and shipping and distribution. The cost and expenses amounted to ₱4,704.8 million for the year ended December 31, 2017 compared to ₱3,562.8 million for the year ended December 31, 2016, an increase of ₱1,142.0 million or 32.1%. The increase was primarily due to higher tonnage produced and volume shipped compared to the prior year. However, the average cash operating cost per volume sold decreased to ₱674.45 per WMT in 2017 from ₱736.76 per WMT, lower by ₱62.13 per WMT or 8.5%. For the year ended December 31, 2017, the total aggregate cash costs and total sales volume were ₱4,027.1 million and 5.971 million WMT, respectively. For the year ended December 31, 2016, the total aggregate cash costs and total sales volume were ₱3,174.7 million and 4.309 WMT, respectively.

**Cost of Sales**

The cost of sales went up from ₱2,308.2 million for the year ended December 31, 2016 to ₱2,768.6 million for the same period this year, an increase by ₱460.4 million, or 19.9%. Contract hire increased by ₱414.2 million (from ₱1,548.3 million in 2016 to ₱1,962.5 million in 2017), or 26.7%. Depreciation, depletion and amortization increased by ₱55.2 million (from ₱370.4 million in 2016 to ₱425.6 million in 2017), or 14.9%. The increase in contract hire and depreciation, depletion and amortization was mainly due to increase in production volume in relation to the increase in volume shipped compared to prior year. The increase in depreciation, depletion and amortization due to volume was reduced by ₱17.2 million attributable to lower depletion and amortization rates used effective July 1, 2017. The change in depletion and amortization rates was due to the change in ore reserves estimate based on the latest PMRC Competent Person report dated October 15, 2017.

#### *Excise Taxes and Royalties*

The excise taxes and royalties were ₱714.2 million and ₱503.3 million for the years ended December 31, 2017 and 2016, respectively. Since these expenses were computed and paid based on the percentage of revenues, the increase in nickel ore price and volume shipped consequently increased the excise taxes and royalties taken up.

#### *General and Administrative*

The general and administrative expenses were ₱833.2 million in the year ended December 31, 2017 compared to ₱460.9 million in the year ended December 31, 2016, an increase of ₱372.3 million, or 80.8%. In the last quarter of 2017, the Group received a notice that a certain customer has filed bankruptcy. In view of this unexpected development, management deemed it prudent to take a conservative approach to the Group's financials. With this, the Group recognized a provision for doubtful long-outstanding trade receivables amounted to ₱208.8 million. The provision has no effect on cash, but such was included in the Group's general and administrative expenses. However, the provision is less than 5% of the Group's revenues and that the Group is taking the necessary steps to collect at least a portion of the amount. In addition, the Group recognized a provision for impairment losses on its other current and noncurrent assets (creditable withholding tax and claim for business tax refund carryover from 2013) amounted to ₱24.5 million. Furthermore, taxes and licenses increased by ₱92.8 million mainly due to the payment of additional tax assessments for the calendar/taxable years 2012 and 2013, and local business tax which was minimal in 2016 compared to 2017 as the Board of Investments (BOI) Income Tax Holiday of the Group's subsidiary, PGMCO, already expired. Moreover, the Group's personnel costs increased during the period as the Group hired additional manpower to complement the growing business requirements of the Group.

#### *Shipping and Distribution*

The shipping and loading costs were ₱388.8 million for the year ended December 31, 2017 compared to ₱290.4 million in the prior year, up by ₱98.4 million, or 33.9%. The increase was mainly due to the increase in production volume during the year.

#### Finance Costs

Finance costs amounted to ₱68.7 million in the year ended December 31, 2017 compared to ₱67.7 million in the year ended December 31, 2016, a minimal increase of ₱1.0 million, or 1.5%.

#### Other Income (Charges) - net

The net other income amounted to ₱28.4 million in the year ended December 31, 2017 compared to net other charges amounted to ₱32.4 million in the year ended December 31, 2016. The change in the account pertains mainly to the movement in the foreign exchange related transactions resulting to higher net foreign exchange gains during the year compared to the prior year. Also, the Group recognized a loss on disposal of property and equipment amounted to ₱24.3 million in 2016.

#### Provision for Income Tax

The net provision for income tax was ₱297.5 million for the year ended December 31, 2017 compared to ₱79.6 million in the same period last year, an increase of ₱217.9 million or 273.7%.

The current provision for income tax for the year ended December 31, 2017 was ₱373.8 million compared to ₱35.4 million in the same period last year, an increase of ₱338.4 million due to the higher taxable income earned during the year compared to the prior year.

#### *Net Income (Loss)*

The Group's consolidated net income reached ₱779.7 million in 2017 from ₱37.5 million in 2016 due to improved selling prices, operational efficiency and favorable foreign exchange impact.



Total Comprehensive Income - net of tax

*Currency Translation Adjustment*

The Group had recognized currency translation adjustment amounting to ₱9.4 million and (₱14.1 million) for the periods ended December 31, 2017 and 2016, respectively, which pertained to the exchange differences arising on the translation of a subsidiary's functional currency to the presentation currency of the Parent Company.

*Remeasurement Gain on Retirement Obligation*

Remeasurement gain on retirement obligation - net of tax recognized in 2017 and 2016 amounted to ₱7.2 million and ₱3.1 million, respectively.

**FINANCIAL POSITION**

***Year as at December 31, 2019 and 2018***

As at December 31, 2019, total assets of the Group stood at ₱10,702.1 million, an increase of ₱1,840.0 million or 20.8%, from ₱8,862.1 million as at December 31, 2018.

Current assets were ₱4,695.4 million as at December 31, 2019 compared to ₱3,474.4 million as at December 31, 2018, an increase of ₱1,221.0 million or 35.1%. The increase was mainly due to the increase in cash and trade and other receivables by ₱712.6 million or 67.9% and ₱98.2 million or 198.4% attributable to operating activities. In addition, the advances to related parties and inventories increased by ₱333.6 million or 16.0% and ₱75.0 million or 27.9%, respectively.

Noncurrent assets increased by ₱619.1 million or 11.5% from ₱5,387.6 million as at December 31, 2018 to ₱6,006.7 million as at December 31, 2019. The increase was mainly due to the: (1) increase in property and equipment by ₱242.8 million (from ₱1,736.6 million as at December 31, 2018) or 14.0% attributable to acquisitions during the year; and (2) investment in SNPSI in December 2019, an associate, amounted to ₱451.4 million, including equity taken up during the period.

Total liabilities of the Group stood at ₱3,055.6 million as at December 31, 2019, an increase of ₱581.0 million or 23.5%, from ₱2,474.6 million as at December 31, 2018. The increase was mainly due to the increase in: (1) trade and other payables amounted to ₱184.7 million (from ₱405.4 million as at December 31, 2018); and (2) advances from related parties amounted to ₱109.6 million (from ₱287.2 million as at December 31, 2018). Also, the Group recognized total lease liabilities amounted to ₱74.2 million as a result of the adoption of PFRS 16, *Leases* effective January 1, 2019. Furthermore, other noncurrent liabilities increased by ₱223.3 million (from ₱533.7 million as at December 31, 2018) mainly due to the subscription payable representing the remaining unpaid portion of the Parent Company's subscription to SNPSI.

***Year as at December 31, 2018 and 2017***

As at December 31, 2018, total assets of the Group stood at ₱8,862.1 million, a decrease of ₱178.8 million or 2.0%, from ₱9,040.9 million as at December 31, 2017.

Current assets were ₱3,474.4 million as at December 31, 2018 compared to ₱3,823.0 million as at December 31, 2017, a decrease of ₱348.6 million or 9.1%. The decline was mainly due to the decrease in trade and other receivables by ₱299.2 million or 85.8%, prepayments and other current assets by ₱192.3 million or 89.7%, and current portion of finance lease receivable by ₱73.8 million or 100.0%. The decrease in trade and other receivables was attributable to: (a) More than 90% of the trade receivables were collected as at December 31, 2018; and (b) A provision for doubtful accounts for disputed receivables amounted to ₱79.7 million was recognized during the year (see related discussion in the general and administrative section). The decrease in prepayments and other current assets was attributable to the reclassification of restricted cash to noncurrent (see related discussion below). In addition, the Group ended its lease agreement with Nickelbase, Inc. (NI) during the period in which the remaining balance would be settled by NI through procurement of equipment that led to the

derecognition of finance lease receivable. The decrease in accounts discussed was offset by the increase in cash and advances to related parties by ₱162.1 million and ₱72.5 million, respectively.

Noncurrent assets increased by ₱169.8 million or 3.3% from ₱5,217.8 million as at December 31, 2017 to ₱5,387.6 million as at December 31, 2018. The increase was mainly attributable to the increase in other noncurrent assets by ₱535.6 million (from ₱320.9 million as at December 31, 2017) or 166.9%. The increase in other noncurrent assets was attributable to the following: (a) increase in restricted cash amounted to ₱301.9 million due to reclassification from current assets based on the new terms of the loan entered with TCB during the year; (b) increase in mine rehabilitation fund amounted to ₱153.4 million mainly attributable to the updated FMRDP of the Group; and (c) increase in advances to suppliers amounted to ₱73.9 million. On the other hand, property and equipment, noncurrent portion of finance lease receivable (see related discussion in the current assets portion above) and mining rights decreased by ₱266.8 million, ₱86.8 million and ₱38.8 million, respectively. Property and equipment mainly decreased as a result of the additional depreciation and depletion during the year amounted to ₱398.9 million, net of ₱155.6 million acquisitions of machinery and other equipment, and others. Moreover, mining rights decreased due to the amortization during the year.

Total liabilities of the Group stood at ₱2,474.6 million as at December 31, 2018, a decrease of ₱161.9 million or 6.1%, from ₱2,636.5 million as at December 31, 2017. The decline was mainly due to the decrease in trade and other payables amounted to ₱171.7 million (from ₱577.1 million as at December 31, 2017).

## CASH FLOWS

### *Years ended December 31, 2019, 2018 and 2017*

#### *Cash Flows from Operating Activities*

The net cash flows from operating activities resulted in ₱1,839.6 million for the year ended December 31, 2019 compared to ₱1,345.8 million of the same period in 2018. The increase in the cash generated from operations was due to higher sale of ore during the year compared to the prior year as a result of the improved prices of nickel ore and increase in volume shipped.

The net cash flows from operating activities was ₱1,890.6 million for the year ended December 31, 2017, primarily comprising operating income before changes in working capital of ₱1,821.7 million adjusted for changes in working capital of ₱359.8 million, income taxes paid of ₱235.9 million, interest paid of ₱60.6 million and interest received of ₱5.6 million.

#### *Cash Flows from Investing Activities*

The net cash flows used in investing activities for the years ended December 31, 2019, 2018 and 2017 amounted to ₱909.7 million, ₱1,138.8 million and ₱344.5 million, respectively.

The net cash outflows in 2019 arise mainly from the net acquisitions of property and equipment amounted to ₱354.7 million, investment in an associate amounted to ₱225.0 million, additional advances to related parties amounted to ₱174.9 million and additional mine exploration costs amounted to ₱127.0 million.

The net cash outflows in 2018 arise mainly from the increase in other noncurrent assets by ₱506.9 million, additional advances to related parties amounted to ₱568.8 million and net acquisitions of property and equipment amounted to ₱69.7 million.

The net cash outflows in 2017 arise mainly from the net acquisition of property and equipment amounted to ₱103.4 million, additional mine exploration costs incurred amounted to ₱17.9 million, additional advances to related parties amounted to ₱397.5 million, decrease in finance lease receivable by ₱73.5 million and decrease in other noncurrent assets by ₱94.8 million.

### *Cash Flows from Financing Activities*

For the years ended December 31, 2019, 2018 and 2017, the net cash flows used in financing activities amounted to ₱188.8 million, ₱57.0 million and ₱1,221.5 million, respectively.

The net cash outflows in 2019 arise mainly from the proceeds from availment of bank loans amounted to ₱355.9 million, net of payments amounted to ₱451.2 million and repurchase of treasury shares amounted to ₱82.6 million.

The net cash outflows in 2018 arise mainly from the proceeds from availment of bank loans amounted to ₱1,559.1 million, net of payments amounted to ₱1,495.4 million and repurchase of treasury shares amounted to ₱636.9 million. In addition, proceeds from issuance of common stock arising from the Group's follow-on offering amounted to ₱517.5 million.

The net cash outflows in 2017 arise mainly from the proceeds from availment of bank loans amounted to ₱1,124.0 million, net of payments amounted to ₱1,382.6 million and repurchase of treasury shares amounted to ₱964.5 million.

### **Cash Dividends Payable and Treasury Stock Distributable as Dividends**

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 million to stockholders of record as at June 5, 2013, payable on June 12, 2013. In 2014, cash dividends declared and payable to certain shareholders on May 22, 2013 amounting to ₱20.3 million were returned as stale checks and presented as cash dividends payable and will be reissued to such investors subsequent to year-end. As at December 31, 2019 and 2018, dividends payable amounted to ₱20.2 million and ₱20.3 million, respectively.

On June 15, 2014, the 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. The dividends payable was offset against the cash advances to stockholders classified under "Advances to related parties".

On July 15, 2014, the 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.

On December 1, 2014, the BOD approved the adoption of a dividend policy of declaring dividends equivalent to at least twenty percent (20%) of the unrestricted retained earnings of GFHI for the preceding year as indicated in its audited financial statements.

On December 26, 2017, PGMC declared cash dividends of ₱480.00 per share to stockholders of record as of December 31, 2017 or for a total of ₱4,365,119,520.00 and paid its stockholders on January 15, 2018. On the same day, PGMC declared stock dividend amounting to ₱1,200,000,000.00 divided into 12,000,000 shares at the par value of ₱100.00 per share, or on or about 1.32 common shares for every common share held.

On March 14, 2018, the Board approved the declaration of property dividend consisting of FNI listed treasury shares at the ratio of 0.06 share for every FNI share to all shareholders of record by April 2, 2018 based on the March 14, 2018 listed price. On October 30, 2018, the SEC approved the Company's declaration of property dividend and payment to eligible shareholders was made on November 22, 2018.

On December 16, 2019, PGMC declared cash dividends of ₱85.00 per share to stockholders of record as of December 15, 2019 or for a total of ₱2,201,499,915.00 and paid its stockholders on or before January 2020.

## Capital Stock

The capital structure of the Parent Company as at December 31, 2019 and 2018 is as follows:

	2019	2018
Authorized shares	11,957,161,906	11,957,161,906
Par value	₱1.05	₱1.05
Total authorized capital stock	₱12,555,020,001.30	₱12,555,020,001.30
Issued shares	6,072,357,151	6,072,357,151
Total capital stock (amounts in thousand Pesos)	₱6,375,975	₱6,375,975

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

As discussed in the Corporate Information section, the BOD and stockholders of the Parent Company approved a capital restructuring through a reverse stock split. In relation to this, the Parent Company applied for an increase in its authorized capital stock which was approved by the SEC on November 7, 2016. Out of the increase in capital stock, an individual stockholder subscribed a total of ₱20,000.40 divided into 19,048 common shares at a par value of ₱1.05.

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

### *Parent Company Follow-on Offering*

On July 20, 2018, the Parent Company completed its 250,000,000 common shares follow-on offering at an offer price of ₱2.07 with total proceeds of ₱517.5 million. On the same date, all the 6,072,357,151 issued shares of the Parent Company, including the common shares issued in accordance with the Share Swap transaction approved by the SEC on December 22, 2014, private placement and follow-on offer shares, are listed in the PSE.

The issuance of the 250,000,000 common shares resulted in an increase in the common stock and recognition of additional paid-in capital amounted to ₱262.5 million and ₱239.0 million (net of transaction costs directly attributable to the issuance of new common shares), respectively.

The following table summarizes the track record of registrations of securities under the Securities Regulation Code.

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
Additional registration	Various	July 2018	2.07	250,000,000
				7,259,810,000

## **Treasury Stock**

The Parent Company has 598,147,322 shares amounting to ₱1,198.9 million and 547,391,385 shares amounting to ₱1,116.3 million in treasury shares as at December 31, 2019 and 2018, respectively.

In 2019 and 2018, the Parent Company purchased a total of 50,755,937 common shares amounting to ₱82.6 million and 306,058,144 common shares amounting to ₱636.9 million, respectively. As at December 31, 2019, the Company purchased a total of 725,731,414 common shares amounting to ₱1,701.8 million. This is pursuant to the Share Buyback Program which was approved by the BOD on June 29, 2016 and May 15, 2018. The estimated number of shares for re-purchase, approved and authorized by the BOD is up to 10% and an additional 5% of the total outstanding shares of the Parent Company, respectively.

## **Employee Stock Option Plan (ESOP)**

On June 29, 2016, the BOD and stockholders of the Parent Company approved the establishment of an ESOP (which covers the qualified employees of the subsidiaries of the Parent Company), the details of which shall be subject to the approval of the Compensation Committee. On May 9, 2017, the Compensation Committee and the BOD approved the Employee Stock Option Master Plan which is a share-based compensation plan. It also approved the granting of the First Tranche which comprised the 20,000,000 option grants to be vested over three (3) years at a strike price of ₱2.00 and 20,000,000 share/stock grants to be granted over two (2) years (i.e., 10,000,000 share/stock grants each year).

### *Special Stock Grant*

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

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

The second tranche of the Stock Grant was executed on December 28, 2018, the grant date, between the Parent Company and the grantees. A total of 9,900,000 treasury shares of the Parent Company was granted to PGMC, then subsequently issued and awarded by PGMC to its employees as recognition for their past services. The basic terms and conditions of the stock grant are the same as that of the 2017 Stock Grant.

## Key Performance Indicators (KPIs)

The Group identified the following KPIs:

<i>KPI</i>	<i>Formula</i>	<i>2019</i>	<i>2018</i>	<i>2017</i>
<b>Profitability</b>				
1. Return on Equity	Profit for the Year / Average Total Equity	18.6%	8.0%	12.0%
2. Return on Assets	Profit for the Year / Average Total Assets	13.3%	5.7%	8.4%
3. Earnings Per Share	Profit for the Year / Adjusted Weighted Average Number of Common Shares Outstanding	0.24	0.09	0.14
<b>Leverage</b>				
4. Debt-to-Equity Ratio	Total Liabilities / Total Equity	0.40:1	0.39:1	0.41:1
<b>Liquidity</b>				
5. Current Ratio	Current Assets / Current Liabilities	3.14:1	3.61:1	2.12:1

## Trends, Events or Uncertainties

### Recent Trends

The Nickel price is mainly dictated by the interaction of demand and supply in the market. For 2018, London Metals Exchange (LME) Nickel Index showed strong recovery due to the declining inventory of pure Nickel and the strong demand brought by the resilient stainless-steel industry. LME Pure Nickel inventory dropped by 43.6% year-on-year to 207k MT, which brought the average price of Nickel to jump to US\$ 13,118 or 26.0% year-on-year. On the other hand, Nickel ore prices were penalized due to the increasing China Nickel ore inventory after Indonesia temporarily lifted its Nickel ore export and ramp up its production. For 2018, Indonesia exported more than 20 million WMT of Nickel ores to China, from 4.1 million WMT of Nickel ore export in 2017, putting downward pressure on Nickel laterite ore prices.

Locally, Nickel ore supply declined for 2018 due to the closure of some local Nickel mining companies. Philippine 2018 Nickel ore production dropped by 4.5% year-on-year to 27.09 DMT with total value amounting to Php 55.18 million, up by 24.6% year-on-year.

### Outlook

With the declining supply of pure Nickel, the Company believes that the price of Nickel ore is positioned for a recovery for 2019. Given the strong demand coming from the growing stainless-steel business and the booming electronic vehicle (EV) production coupled with the declining local supply of Nickel ores due to the mine closures, the medium- to long-term price projections of Nickel ore prices remain positive.

### Uncertainties

There are no known significant uncertainties that will result in or that are reasonably likely to result in the Company's liquidity increasing or decreasing in a material way.

### Capital Expenditures

The Group does not have any outstanding commitment on capital expenditures as of December 31, 2019.

### Operational and Financial Requirements

The Group maintains liquid assets in order to meet future operational and financial requirements.

## Material Contingencies and Off-Balance Sheet Obligations

The Group is not aware of any significant commitment, guarantee, litigation or contingent liability during the reported period other than those discussed in this report and the audited consolidated financial statements.

## Events that will Trigger Direct or Contingent Financial Obligation

The group is not aware of any event that will trigger a direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation.

## Item 7. Financial Statements

A copy of the audited consolidated financial statements of the Company as at December 31, 2019 and 2018 and for the years ended December 31, 2019, 2018 and 2017 is attached hereto as **Annex “A”** and incorporated herein by reference.

*Statement of Management Responsibility* - See Statement of Management Responsibility for Financial Statements attached to the audited consolidated financial statements.

*Schedule of Financial Soundness Indicators* - The schedule was attached to the audited consolidated financial statements.

## Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

### SGV

The consolidated financial statements of the Company and Subsidiaries as of December 31, 2019 and 2018 and for the years ended December 31, 2019, 2018 and 2017 have been audited by SGV, a member firm of Ernst & Young Global Limited, independent auditors, as set forth in their reports appearing herein.

The following table sets out the aggregate fees billed for each of the last two years for professional services rendered by SGV.

	<b>For the year ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
	<b>(P thousands)</b>	
Audit and Audit-Related Fees <sup>(1)</sup>	6,759	6,977
Non-Audit Services <sup>(2)</sup>	4,050	3,912
Total	10,809	10,889

(1) *Audit and Audit-Related Fees.* This category includes the audit of annual financial statements, review of interim financial statements and services that are normally provided by the independent auditor in connection with statutory and regulatory filings or engagements for those calendar years.

*The fees presented above include out-of-pocket expenses incidental to the independent auditors' work, the amounts of which do not exceed 15.0% of the agreed-upon engagement fees.*

(2) *Non-Audit Services.* This category includes the tax advisory fees for the tax advisory services provided by SGV. The fees presented above include out-of-pocket expenses incidental to the work performed, the amounts of which do not exceed 15.0% of the agreed-upon engagement fees

There was no event in the past where SGV had any disagreement with the Company regarding any matter relating to accounting principles or practices or financial statement disclosure or auditing scope or procedure.

### **PART III – CONTROL AND COMPENSATION INFORMATION**

#### **Item 9. Directors and Executive Officers of the Issuer**

The following persons are the incumbent directors and officers of the Company who were elected at the Annual Meeting of the Board of Directors held on June 26, 2019, to serve as such until the election and qualification of their respective successors at the next Annual Meeting of the Stockholders:

#### **Directors and Executive Officers of the Company**

<u>Name</u>	<u>Age</u>	<u>Nationality</u>	<u>Position</u>
Joseph C. Sy	53	Filipino	Chairman
Dante R. Bravo	44	Filipino	President
Mary Belle D. Bituin	52	Filipino	Director, Senior Vice President and Chief Financial Officer
Noel B. Lazaro	50	Filipino	Senior Vice President for Legal and Regulatory Affairs and Corporate Information Officer
Ming Huat Chua	57	Malaysian	Director
Francis C. Chua	71	Filipino	Director
Dennis Allan T. Ang	43	Filipino	Director
Gu Zhi Fang	46	Chinese	Director
Edgardo G. Lacson	76	Filipino	Independent Director
Roberto C. Amores	67	Filipino	Independent Director
Carlo A. Matilac	47	Filipino	Senior Vice President for Operations
Eveart Grace Pomarin-Claro	39	Filipino	Corporate Secretary and Alternate Corporate Information Officer
Mario A. Nevado	65	Filipino	Compliance Officer

#### **Directors and Executive Officers of the Company**

##### **Joseph C. Sy**

*Chairman, and Director*

Mr. Sy became Chairman of the Board of Directors on August 6, 2015. He became president of PGMC and Company in July 2011 and on August 29, 2014, respectively. He is also a Director and Chairman of Iplan Nickel Corporation, Chairman and President of Ferrochrome Resources Inc. and the Director of Mining for the Philippine Chamber of Commerce and Industry. Mr. Sy has more than fourteen years of experience in managing and heading companies engaged in mining and mineral exploration and development.

##### **Dante R. Bravo**

*President and Director*

Mr. Bravo became the President of the Company on August 6, 2015. He previously served as Executive Vice President of the Company. He has been a Director, Executive Vice President and Corporate Secretary of PGMC since 2011. He was Chief Finance Officer of PGMC from 2011 to 2013. He is also an attorney-at-law and a Certified Public Accountant in the Philippines. Mr. Bravo served as a Director from 2004 to 2011 and a Senior Associate from 2002 to 2004 at SGV. He is a professor of law at San Beda College and a lecturer for the Mandatory Continuing Legal Education Program for lawyers. He was the Chief Political Affairs Officer of Congressman Mr. Narciso R. Bravo Jr. He holds a Bachelor of Laws degree from San Beda College and a Bachelor of Accountancy degree from the University of Santo Tomas. Mr. Bravo has more than 10 years of



corporate management experience. 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 November 2, 2015. Ms. Bituin holds a Bachelor of Science degree in Business Administration, major in accounting from Philippine School of Business Administration Manila. She is a Certified Public Accountant. She was Vice President for Business Transformation of Globe Telecom, Inc. She was the international auditor for the International Auditor for International Audits at the Cooperative for Assistance and Relief Everywhere (CARE), a leading international humanitarian organization fighting global poverty based in Atlanta, Georgia USA, from 1994 to 1998. She was also a senior auditor at SGV & Co. where she worked from 1988 to 1994.

**Noel B. Lazaro**

*Senior Vice President for Legal and Regulatory Affairs, Corporate Secretary and Corporate Information Officer*

Mr. Lazaro became the Corporate Secretary 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 PGMCO on August 1, 2014. He is a Director of INC and also a Director and Corporate Secretary of Southeast Palawan, PCSSC and SIRC. Mr. Lazaro served as a Partner for Siguion Reyna Montecillo & Ongsiako, an Associate at SyCip Salazar Hernandez & Gatmaitan, a Professorial Lecturer for the Lyceum of the Philippines College of Law, 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 degree from the University of the Philippines College of Law and placed 19<sup>th</sup> in the 1995 Philippine Bar Examinations.

**Ming Huat Chua**

*Director*

Mr. Chua became a Director of the Company on June 29, 2016 and Vice Chairman of the Board of Directors on July 28, 2016. Mr. Chua was former President of Genting Hong Kong Limited (“GHK”) and a director of Norwegian Cruise Line Holdings Ltd., a company listed on the NASDAQ Global Select Market. He held key management positions in various international securities companies in Malaysia, Singapore and Hong Kong, with extensive knowledge in the management of securities, futures and derivatives trading, asset and unit trust management, corporate finance and corporate advisory business. He was a Director and member of the Listing Committee of the MESDAQ market of Bursa Malaysia Securities Berhad. He has a Bachelor of Arts degree in Political Science and Economics from Carleton University in Ottawa, Canada.

**Francis C. Chua**

*Director*

Mr. Chua became a director of the Company on October 22, 2014. He is currently the Honorary Consulate General of the Republic of Peru and the honorary president of the Federation of Filipino Chinese Chamber of Commerce and Industry. He is also the president emeritus of the Chamber of Commerce of the Philippines Foundations. Mr. Chua also served as the special envoy on Trade and Investments on China. He holds 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.

**Gu Zhi Fang**

*Director*

Ms. Gu Zhi Fang became a director of the Company on October 22, 2014. She has been a director 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 holds a degree in International Trade from Suzhou University.

**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. since February 2009. He is the System Architect and Lead Programmer of Engagement Workflow System Architecture Development since July 2015. 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 holds a degree in Bachelor of Science in Management Information Systems from Ateneo de Manila University and a Masters degree in Business Administration from Asian Institute of Management.

**Roberto C. Amores**

*Independent Director*

Mr. Roberto C. Amores became a director of the Company on March 17, 2015. 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, the president of the Philippine Food Processors and Exporters Organization, Inc. and a council member and trustee of the Export Development Council – DTI. He holds a Bachelor of Arts degree from the University of the Philippines. Mr. Amores has more than 30 years of corporate management experience.

**Edgardo Gapuz Lacson**

*Independent Director*

Mr. Edgardo Gapuz Lacson became a Director of the Company on June 29, 2016. Mr. Lacson is a Director of the Philippine Stock Exchange and Puregold Price Club, Inc. He is also a Trustee of De La Salle University, Home Development Mutual Fund, ADR Institute for Strategic and International Studies and Philippine Disaster Recovery Foundation. Mr. Lacson is a President of MIS Maritime Corporation, Safe Seas Shipping Agency, Marine Industrial Supply Corporation and EML Realty. He is also a Trustee, Past President and Honorary Chairman of the Philippine Chamber of Commerce and Industry. He holds a Bachelor of Science in Commerce Major in Accountancy from the De La Salle College.

**OTHER EXECUTIVE OFFICERS**

**Carlo A. Matilac**

*Senior Vice President Operations*

Mr. Matilac became the Senior Vice President for Operations in August 1, 2014. In 1994, Mr. Matilac graduated Bachelor of Science in BS Mining Engineering in Cebu Institute of Technology in 1994 and thereafter passed the 1994 Mining Engineer Licensure Exam garnering 1<sup>st</sup> Place. Mr. Matilac has more than 19 years of technical and engineering experience in managing companies engaged in mining and mineral exploration development. Prior to his current position, Mr. Matilac served as a technical specialist for BHP Billiton and QNI, and a mine engineering superintendent for Manila Mining Corp. He also holds a Masters in Business Administration from the Saint Paul University.

**Eveart Grace Pomarin-Claro**

*Corporate Secretary and Alternate Corporate Information Officer*

Ms. Pomarin Claro became Corporate Secretary and Alternate Corporate Information Officer of the Company on August 24, 2018. Ms. Pomarin Claro was Assistant Corporate Secretary and Alternate Corporate Information Officer of the Company on September 10, 2014 to on August 24, 2018 and served as Corporate Secretary of the Company from February 1, 2014 to August 29, 2014. She is the Executive Legal Officer of PGMC. She is Assistant Corporate Secretary of PGMC, SIRC 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.

**Mario A. Nevado**  
*Compliance Officer*

Mr. Nevado became Compliance Officer of the Company on August 24, 2018. He has been with PGMC since 2007 and became the Assistant Vice President for Finance in 2011. He is a Certified Public Accountant. He has a solid background in the financial services by working in various reputable companies. He held various positions as Manager of Money Market Division, Purchasing Division of the Philippine National Bank (PNB), and of PNB Capital and Investment Corporation, a subsidiary of PNB. He also worked as Accountant of Philippine Bread House in New Jersey, USA.

**Involvement of Directors and Officers in Legal Proceedings**

The Company is not aware of any of the following events during the past five (5) years involving the directors or executive officers of the Company:

- (a) Any bankruptcy petition filed by or against any business of which any of the directors or executive officers was a general partner or executive officer either at the time of bankruptcy or within two (2) years prior to that time;
- (b) Any conviction by final judgment in a criminal proceeding, domestic or foreign, or any criminal proceeding, domestic or foreign, pending against any of the directors or executive officers except as those disclosed in the public domain;
- (c) Any order, judgment or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting the involvement of any of the directors or executive officers in any type of business, securities, commodities or banking activities, and
- (d) Any finding by a domestic or foreign court of competent jurisdiction (in a civil action), the SEC or comparable foreign body, or a domestic or foreign exchange or electronic marketplace or self-regulatory organization that any of the directors or executive officers has violated a securities or commodities law, and the judgment has not been reversed, suspended, or vacated.

**Family Relationships**

There are no family relationships between any director and any member of the Company's Senior Management except that Mr. Sy and Ms. Gu are husband and wife.

**Significant Employees**

No person, who is not a director or an executive officer, is expected to make a significant contribution to the business of the Company. Neither is the business highly dependent on the services of key personnel.

**Item 10. Executive Compensation**

**EXECUTIVE COMPENSATION SUMMARY**

**Compensation**

The following are the Company's Chairman of the Board of Directors, its President, and its two other executive officers as of the date of this report:

<b><u>Name</u></b>	<b><u>Position</u></b>
Joseph C. Sy	Chairman of the Board of Directors and Managing Director

Dante R. Bravo	President and Managing Director
Mary Belle D. Bituin	Treasurer/ Senior Vice President for Finance/ Human Resources Department/ Managing Director
Noel B. Lazaro	Senior Vice President for Legal and Regulatory Affairs, and Corporate Information Officer

The following table identifies and summarizes the aggregate compensation of the Company's Chairman and its three other executive officers of the Group for the years ended December 31, 2019 and 2018:

	<u>Year</u>	<u>Total<sup>(1)</sup></u> <u>(In million ₱)</u>
Chairman and the three most highly compensated executive officers named above	2018	70.74
	2019	108.86
Aggregate compensation paid to all other officers as a group unnamed	2018	81.74
	2019	122.84

*Note:*

(1) *Includes salary, bonuses and other income*

### **Standard Arrangements**

Other than payment of a fixed monthly director's fee of ₱200,000, there are no other standard arrangements pursuant to which directors of the Company are compensated, or were compensated, directly or indirectly, for any services provided as a director and for their committee participation or special assignments.

### **Other Arrangements**

There are no other arrangements pursuant to which any director of the Company was compensated, or to be compensated, directly or indirectly, for any services provided as a director.

### **Employment Contracts and Termination of Employment and Change-in-Control Arrangements**

- (a) There are no employment contracts between the Company and a named executive officer.
- (b) Neither is there a compensatory plan or arrangement, including payments to be received from the Company, with respect to a named executive officer, which plan or arrangement results or will result from the resignation, retirement or any other termination of such executive officer's employment with the Company and its subsidiaries or from a change-in-control of the Company or a change in the named executive officer's responsibilities following a change-in-control and the amount involved, including all periodic payments or installments, exceed ₱2,500,000.

**Item 11. Security Ownership of Certain Beneficial Owners and Management**

(1) Security Ownership of Certain Record and Beneficial Owners and Management as of **December 31, 2019**

<i>Title of Class</i>	<b>Name, Address of Record Owner and Relationship with Issuer</b>	<b>Name of Beneficial Owner and Relationship with Record Owner</b>	<b>Citizenship</b>	<b>No. of Shares Held</b>	<b>Percent of Ownership</b>
Common	Sohoton Synergy, Inc. 7 <sup>th</sup> Floor, Corporate Business Center, 151 Paseo de Roxas cor. Arnaiz St., Makati City Shareholder	Direct	Filipino	877,979,502	16.04%
Common	Huatai Investment Holding Pty, Ltd Auburn, Australia, Shareholder	Direct	Australian	137,316,347	02.51%
Common	Regulus Best Nickel Holdings, Inc. 7 <sup>th</sup> Floor, Corporate Business Center, 151 Paseo de Roxas cor. Arnaiz St., Makati City Shareholder	Direct	Filipino	523,154,841	09.56
Common	Ultimate Horizon Capital, Inc. 7 <sup>th</sup> Floor, Corporate Business Center, 151 Paseo de Roxas cor. Arnaiz St., Makati City Shareholder	Direct	Filipino	355,651,698	06.5%
Common	Blue Eagle Elite Venture, Inc. 7 <sup>th</sup> Floor, Corporate Business Center, 151 Paseo de Roxas cor. Arnaiz St., Makati City Shareholder	Direct	Filipino	348,769,779	06.37
Common	Bellatrix Star, Inc. 7 <sup>th</sup> Floor, Corporate Business Center, 151	Direct	Filipino	48,143,529	00.88%

	Paseo de Roxas cor. Arnaiz St., Makati City Shareholder				
Common	Alpha Centauri Fortune Group, Inc. 7 <sup>th</sup> Floor, Corporate Business Center, 151 Paseo de Roxas cor. Arnaiz St., Makati City Shareholder	Direct	Filipino	16,623,404	0.3%

The shares held by Huatai Investment Holding Pty. Ltd., Sohoton Synergy, Inc., Regulus Best Nickel Holdings, Inc., Blue Eagle Elite Venture, Inc., Ultimate Horizon Capital, Inc., Bellatrix Star, Inc., and Alpha Centauri Fortune Group, Inc. will be voted or disposed by the persons who shall be duly authorized by these records.

(2) Security Ownership of Management as of December 31, 2019:

Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Citizenship	% of Total Outstanding Shares
Common	Joseph C. Sy	2,353,912,416(directly and indirectly)	Filipino	43%
Common Common Common	Dante R. Bravo	25,271,947	Filipino	0.46%
Common	Mary Belle D. Bituin	1,630,524	Filipino	0.03%
Common	Carlo A. Matilac	1,933,227	Filipino	0.04%
Common	Noel B. Lazaro	2,037,733	Filipino	0.04%

(3) Voting Trust Holders of 5% Or More

No person holds at least 5% or more than 5% of a class of securities under a voting trust or similar agreement, other than those set forth above.

**Item 12. Certain Relationships and Related Transactions**

There are no transactions during the past two (2) years to which the Company or any of its subsidiaries was or is to be a party, and in which a director, executive officer, stockholder owning ten percent (10%) or more and members of their immediate family had or are to have a direct or indirect material interest, except as provided in Note 30 of the audited consolidated financial statements for the period ended December 31, 2018 (Annex A) provides information on the Company's significant transactions with related parties.

There are no transactions with parties that fall outside the definition of "related parties" under SFAS/IAS No. 24, with whom the Company or its related parties have a relationship that enables the parties to negotiate terms of material transactions that may not be available from other, more clearly independent parties on an arm's length basis.

**PART IV – EXHIBITS AND SCHEDULES**

**Item 13. Exhibits and Reports on SEC Form 17-C**

(a) Exhibits

Please see attached audited financial statements of the Company for the years ended December 31, 2018, 2017 and 2016 including schedules and supplementary schedules, as Annex A.

(b) Reports on SEC Form 17-C

The following reports on SEC Form 17-C and 17-Q were filed in 2018 and in the first quarter of 2019:

<b>Date</b>	<b>Results of BOD Meeting</b>
January 3, 2019	SEC FORM 17-C on change in number of outstanding shares due to issuance of share grants.
January 7, 2019	SEC Form 17-C on attendance to board meetings.
January 17, 2019	SEC Form 17-C on Platinum Group Metals Corporation's target on nickel ore shipment volume of 5.7 million wet metric tonnes (WMT)
January 17, 2019	SEC Form 17-C on Platinum Group Metals Corporation's renewal of purchase contract with Baosteel Resources International Co., Ltd.
March 13, 2019	SEC Form 17-C on Results of Regular Board Meeting dated March 13, 2019.
March 22, 2019	SEC Form on SEC Form 17-C on press release on revenue.
March 29, 2019	SEC Form 17-C on Global Ferronickel Holdings, Inc's venture in the steel business
April 4, 2019	SEC Form 17-C on press release on kicks off of 2019 mining season with an early Nickel ore shipment and an opening of new mine area
May 15, 2019	SEC Form 17-Q Quarterly results
May 30, 2019	SEC Form 17-C Certificate of Independent Director Edgardo Lacson
May 30, 2019	SEC Form 17-C Certificate of Independent Director Roberto Amores
June 28, 2019	SEC Form 17-C on press releases and results of the Annual Stockholders' Meeting
June 28, 2019	SEC Form 17-C on clarification of news reports
August 14, 2019	SEC Form 17-Q Quarterly results
August 14, 2019	SEC Form 17-C on press release entitled "Global Ferronickel Holdings, Inc. 1H2019 Net Income soars more than 25x to P105.3Mn"
September 10, 2019	SEC Form 17-C on update on case

October 11, 2019	SEC Form 17-C on updated company's telephone and fax numbers and that Platinum Group Metals Corporation (PMGC), has been issued its International Organization for Standardization (ISO) 14001:2015 Certification for Environmental Management System related to Management of Mining Operation of Nickeliferous Laterite Ore and Other Associated Minerals by INTERTEK-PHILLIPPINES (Intertek).
November 13, 2019	SEC Form 17-C on press release "GFNI 3rd Quarter net income up 35% to P805 million
November 15, 2019	SEC Form 17-C on attendance of Mr. Francis Chua in a Corporate Governance Seminar by SEC in partnership with PSE
November 20, 2019	SEC Form 17-C on press release "GFNI signs 1 million WMT purchase agreement with Baosteel Resources"
December 12, 2019	SEC Form 17-C on attendance of FNI Directors and Officers in a Corporate Governance Seminar conducted by PCCI
December 18, 2019	SEC Form 17-C on buyback transaction
December 19, 2019	SEC Form 17-C on subscription of 40% shareholding in SNPSI
December 19, 2019	SEC Form 17-C on press release on "GFNI acquires 40% shareholding in SNPSI"
January 6, 2020	SEC Form 17-C re Attendance of Directors to Board Meetings of GFNI
January 9, 2020	Press Release re PGMC ore reserves of 43.3M WMT
March 2, 2020	Buyback Transaction for March 2, 2020
March 3, 2020	Buyback Transaction for March 3, 2020
March 4, 2020	Annual Verification of MGB
March 9, 2020	Buyback Transaction for March 9, 2020
March 16, 2020	Buyback Transaction for March 16, 2020
March 16, 2020	Material Information/ Transaction on the Risk and Impact of COVID-19 and measures undertaken by the Company to mitigate its effects
March 23, 2020	Clarification of News Report



## **PART V – CORPORATE GOVERNANCE**

### **Compliance with the Manual of Corporate Governance**

In 2011, the Corporation adopted a Revised Manual on Corporate Governance pursuant to SEC Memorandum Circular No. 6, Series of 2009 and in amendment of its Manual on Corporate Governance dated August 21, 2002 as amended in June 2010.

By Certification dated January 7, 2013, the Corporate Secretary and Compliance Officer of the Company certified, as countersigned by the President, that to the best of her knowledge, information and belief, there is no material deviation from the Company's Revised Manual on Corporate Governance.

On December 1, 2014, the Board of Directors approved the Confirmation of Adoption of Manual of Corporate Governance of the Company.

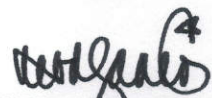
To ensure compliance with the Revised Manual on Corporate Governance, the Compliance Officer shall, among other things, (i) monitor compliance with the provisions and requirements of the Revised Manual on Corporate Governance, (ii) determine violations thereof and recommend possible penalties for violation for further review and approval of the Board, and (iii) identify, monitor, and control compliance risks. Further, not later than 30<sup>th</sup> day of January each year, the Compliance Officer shall issue a certification on the extent of the Company's compliance with its Revised Manual on Corporate Governance for the completed year and explain the reason/s for any deviation therefrom.

**SIGNATURE**


Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in Makati on JUN 30 2020


**GLOBAL FERRONICKEL HOLDINGS, INC.**  
Issuer

  
**DANTE R. BRAVO**  
President

  
**MARY BELLE D. BITUIN**  
Treasurer and Senior Vice President for Finance/HR/Admin

  
**EVEART GRACE P. CLARO**  
Corporate Secretary


  
**MARIO A. NEVADO**  
Assistant Vice President for Finance  
Compliance Officer

  
**JUNERLY E. SY**  
Financial Controller

SUBSCRIBED AND SWORN to before me this JUN 30 2020 in MAKATI CITY, Philippines, affiants exhibiting their:

Dante R. Bravo	TIN 242-508-759	Mario A. Nevado	TIN 109-938-352
Mary Belle D. Bituin	TIN 102-096-952	Junerly E. Sy	Passport EC8245186
Evert Grace P. Claro	TIN 933-345-567		

Doc No. 117 ;  
Page No. 37 ;  
Book No. 10 ;  
Series of 2020.

  
**ATTY. JOHN DOMINGO A. PONGS, JR.**  
NOTARY PUBLIC  
APPOINTMENT No. M-02 / MAKATI CITY  
UNTIL DECEMBER 31, 2020  
PTR No. #117220 / #1-2-2020 ABANATI CITY  
IBP No. : 90886 / 01-03-2020 / 10281  
NCLC COMPLIANCE No. VI-0027026 / 06-06-2019  
ROLL NO. 36402 / TIN No. 100-099-102-099  
Unit 0-14 Makati Executive Tower 3  
San. 011 Puyat Avenue, Pio del Roso,  
Makati City, Metro Manila

**Global Ferronickel Holdings, Inc. and  
Subsidiaries**

Consolidated Financial Statements  
as at December 31, 2019 and 2018  
and for the Years Ended December 31, 2019,  
2018 and 2017

and

Independent Auditor's Report

# COVER SHEET

for  
**AUDITED FINANCIAL STATEMENTS**

SEC Registration Number

A	S	O	9	4	0	0	3	9	9	2
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**COMPANY NAME**

G	L	O	B	A	L		F	E	R	R	O	N	I	C	K	E	L		H	O	L	D	I	N	G	S	,		I	
N	C	.		A	N	D		S	U	B	S	I	D	I	A	R	I	E	S											

**PRINCIPAL OFFICE** ( No. / Street / Barangay / City / Town / Province )

7	t	h		F	l	o	o	r	,		C	o	r	p	o	r	a	t	e		B	u	s	i	n	e	s	s		
C	e	n	t	e	r	,		1	5	1		P	a	s	e	o	d	e		R	o	x	a	s		c	o	r		
A	r	n	a	i	z		S	t	r	e	e	t	,		M	a	k	a	t	i		C	i	t	y					

Form Type

A	A	C	F	S
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Department requiring the report

C	R	M	D
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Secondary License Type, If Applicable

N	/	A
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**COMPANY INFORMATION**

Company's Email Address

**info@gfni.com.ph**

Company's Telephone Number

**(02) 8812-1494**

Mobile Number

**09178715156**

No. of Stockholders

**1,720**

Annual Meeting (Month / Day)

**6/26**

Fiscal Year (Month / Day)

**12/31**

**CONTACT PERSON INFORMATION**

The designated contact person **MUST** be an Officer of the Corporation

Name of Contact Person

**Ms. Mary Belle D. Bituin**

Email Address

[\*\*mdbituin@gfni.com.ph\*\*](mailto:mdbituin@gfni.com.ph)

Telephone Number/s

**(02) 8812-1494**

Mobile Number

**N/A**

**CONTACT PERSON'S ADDRESS**

**7th Floor, Corporate Business Center, 151 Paseo de Roxas cor Arnaiz Street, Makati City**

**NOTE 1:** In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

**2:** All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.





# Global Ferronickel Holdings, Inc.

7<sup>th</sup> Floor Corporate Business Center, 151 Paseo De Roxas corner Arnaiz Street, Makati City, 1228 Philippines  
Telephone No.:(632) 812 1494 & (632) 519 7888 Fax No.:(632) 812 0833 & (632)519 7999

## STATEMENT OF MANAGEMENT’S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Global Ferronickel Holdings, Inc. and Subsidiaries is responsible for the preparation and fair presentation of the audited consolidated financial statements including the schedules attached therein, for the years ended December 31, 2019 and 2018 in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company’s ability to continue as a going concern, disclosing, as applicable matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

The Board of Directors reviews and approves the audited consolidated financial statements including the schedules attached therein, and submits the same to the stockholders or members.

SyCip, Gorres, Velayo & Co., the independent auditor appointed by the stockholders, has audited the financial statements of the company in accordance with Philippine Standards on Auditing, and in its report to the stockholders or members, has expressed its opinion on the fairness of presentation upon completion of such audit.

**JOSEPH C. SY**  
Chairman

**DANTE R. BRAVO**  
President

**MARY BELLE D. BITUIN**  
Chief Finance Officer

Signed this 17th day of April 2020

SUBSCRIBED AND SWORN TO ME BEFORE THIS \_\_\_\_\_ DAY OF  
JUN 10 2020 IN CITY OF MAKATI METRO M.L.A. PHILIPPINE  
PLANT EXHIBITING HIS/HER COMPETENT ID \_\_\_\_\_  
SIGNED IN \_\_\_\_\_ ON \_\_\_\_\_

SEC. No. 304  
PAGE No. 63  
BOOK No. 07  
SERIES OF 2020

**ATTY. HERBERT A. LUZ**  
NOTARY PUBLIC  
Until December 31, 2021  
Appt. No. M-37 Makati City  
IBP #092865 for 2620 - RSM  
PTR #8112274, Jan 02, 2020-Makati  
S.C. Roll No. 59567  
MCLE Compliance No. VI-0025451 26 Aug. 2019  
Unit 301, 3<sup>rd</sup> Flr. Campos Rueda Bldg.  
101 Urban Ave., Brgy. Ipro del Pilar, Makati City

## INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders  
Global Ferronickel Holdings, Inc. and Subsidiaries

### Opinion

We have audited the consolidated financial statements of Global Ferronickel Holdings, Inc. and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2019 in accordance with Philippine Financial Reporting Standards (PFRSs).

### Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matter

Key audit matter, in our professional judgment, was that matter of most significance in our audit of the consolidated financial statements of the current period. This matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.



### *Recoverability of Deposits for Future Acquisition*

As at December 31, 2019, the Group's investment in an associate, Southeast Palawan Nickel Ventures, Inc. (SPNVI) includes deposits for future acquisition amounting to ₱2,174.5 million. The significant portion of these deposits will form part of the purchase price for the acquisition of additional interest in SPNVI. PAS 36 requires the Group to assess whether any internal or external indicators of impairment exist in relation to deposits for future acquisition. If an indicator exist, an impairment assessment is required to be performed by comparing the carrying value of the deposits for future acquisition to its recoverable amount to determine whether an impairment is required to be recognized. The recoverable amount is determined to be the higher of the fair value less cost of disposal and the value in use, determined by discounting future cash flows. SPNVI has a subsidiary, Ipilan Nickel Corporation (INC), which is still under exploration and evaluation stage and has pending legal cases. We considered this as a key audit matter because of the materiality of the amount involved and the significant management's judgment and estimations required in assessing whether there is an impairment such as ore reserves estimate, future capital requirements and production costs, as well as external input such as commodity prices, foreign exchange rates, price inflation and discount rate. Significant management's judgment is also required in assessing the feasibility and successful development of INC's exploration activities.

The Group's disclosures on deposits for future acquisition are included in Notes 3 and 29 to the consolidated financial statements.

### *Audit Response*

We obtained management's assessment on whether any events or circumstances exist that may indicate that the deposits for future acquisition may be impaired. We evaluated the methodologies and assumptions used in the impairment assessment which include ore reserves, future capital requirements, production costs, commodity prices, price inflation and foreign exchange rates. We involved our internal specialist in evaluating the discount rate, valuation methodologies used in the impairment assessment. We reviewed the specialist's report on the ore reserves and obtained an understanding of the nature, scope and objectives of his work, basis of the estimates including the changes in the reserves during the year and evaluated the significant factors considered by the specialist in preparing and producing the report. We compared the commodity prices, foreign exchange rates, price inflation and discount rate with externally published data. We also evaluated the future capital requirements and production costs by comparing these with historical information. We inquired the status of INC's exploration activities and reviewed the related budget for exploration costs, and the INC's projects and future business plans. We inspected the related permits of INC's exploration project to determine that the period for which INC has the right to explore in the specific area has not expired and has been applied for renewal. We discussed with management the status of INC's pending legal cases, and obtained and reviewed correspondences with the relevant authorities and opinions from the external legal counsel.

### **Other Information**

Management is responsible for the other information. The other information comprises the information included in the Securities and Exchange Commission (SEC) Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2019, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2019 are expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.



In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

### **Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures





are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

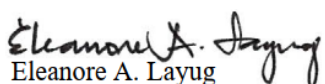
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

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

SYCIP GORRES VELAYO & CO.



Eleanore A. Layug

Partner

CPA Certificate No. 0100794

SEC Accreditation No. 1250-AR-2 (Group A),

February 28, 2019, valid until February 27, 2022

Tax Identification No. 163-069-453

BIR Accreditation No. 08-001998-97-2018,

February 2, 2018, valid until February 1, 2021

PTR No. 8125246, January 7, 2020, Makati City

April 17, 2020



## INDEPENDENT AUDITOR'S REPORT

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

### Opinion

We have audited the consolidated financial statements of Global Ferronickel Holdings, Inc. and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2019 in accordance with Philippine Financial Reporting Standards (PFRSs).

### Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matter

Key audit matter, in our professional judgment, was that matter of most significance in our audit of the consolidated financial statements of the current period. This matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.



### *Recoverability of Deposits for Future Acquisition*

As at December 31, 2019, the Group's investment in an associate, Southeast Palawan Nickel Ventures, Inc. (SPNVI) includes deposits for future acquisition amounting to ₱2,174.5 million. The significant portion of these deposits will form part of the purchase price for the acquisition of additional interest in SPNVI. PAS 36 requires the Group to assess whether any internal or external indicators of impairment exist in relation to deposits for future acquisition. If an indicator exist, an impairment assessment is required to be performed by comparing the carrying value of the deposits for future acquisition to its recoverable amount to determine whether an impairment is required to be recognized. The recoverable amount is determined to be the higher of the fair value less cost of disposal and the value in use, determined by discounting future cash flows. SPNVI has a subsidiary, Ipilan Nickel Corporation (INC), which is still under exploration and evaluation stage and has pending legal cases. We considered this as a key audit matter because of the materiality of the amount involved and the significant management's judgment and estimations required in assessing whether there is an impairment such as ore reserves estimate, future capital requirements and production costs, as well as external input such as commodity prices, foreign exchange rates, price inflation and discount rate. Significant management's judgment is also required in assessing the feasibility and successful development of INC's exploration activities.

The Group's disclosures on deposits for future acquisition are included in Notes 3 and 29 to the consolidated financial statements.

### *Audit Response*

We obtained management's assessment on whether any events or circumstances exist that may indicate that the deposits for future acquisition may be impaired. We evaluated the methodologies and assumptions used in the impairment assessment which include ore reserves, future capital requirements, production costs, commodity prices, price inflation and foreign exchange rates. We involved our internal specialist in evaluating the discount rate, valuation methodologies used in the impairment assessment. We reviewed the specialist's report on the ore reserves and obtained an understanding of the nature, scope and objectives of his work, basis of the estimates including the changes in the reserves during the year and evaluated the significant factors considered by the specialist in preparing and producing the report. We compared the commodity prices, foreign exchange rates, price inflation and discount rate with externally published data. We also evaluated the future capital requirements and production costs by comparing these with historical information. We inquired the status of INC's exploration activities and reviewed the related budget for exploration costs, and the INC's projects and future business plans. We inspected the related permits of INC's exploration project to determine that the period for which INC has the right to explore in the specific area has not expired and has been applied for renewal. We discussed with management the status of INC's pending legal cases, and obtained and reviewed correspondences with the relevant authorities and opinions from the external legal counsel.

### **Other Information**

Management is responsible for the other information. The other information comprises the information included in the Securities and Exchange Commission (SEC) Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2019, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2019 are expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.



In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

### **Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures to the date of our auditor's report.



However, future events or conditions may cause the Group to cease to continue as a going concern.

Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

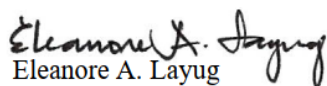
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

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

SYCIP GORRES VELAYO & CO.

  
Eleanore A. Layug

Partner

CPA Certificate No. 0100794

SEC Accreditation No. 1250-AR-2 (Group A),

February 28, 2019, valid until February 27, 2022

Tax Identification No. 163-069-453

BIR Accreditation No. 08-001998-97-2018,

February 2, 2018, valid until February 1, 2021

PTR No. 8125246, January 7, 2020, Makati City

April 17, 2020

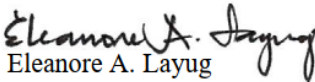


## **INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES**

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 in accordance with Philippine Standards on Auditing, the consolidated financial statements of Global Ferronickel Holdings, Inc. and Subsidiaries (the Group) as at December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019, included in this Form 17-A, and have issued our report thereon dated April 17, 2020. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Group's management. These schedules are presented for purposes of complying with the Revised Securities Regulation Code Rule 68 and are not part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

  
Eleanore A. Layug

Partner

CPA Certificate No. 0100794

SEC Accreditation No. 1250-AR-2 (Group A),

February 28, 2019, valid until February 27, 2022

Tax Identification No. 163-069-453

BIR Accreditation No. 08-001998-97-2018,

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PTR No. 8125246, January 7, 2020, Makati City

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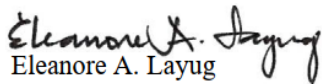


## **INDEPENDENT AUDITOR'S REPORT ON COMPONENTS OF FINANCIAL SOUNDNESS INDICATORS**

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

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Global Ferronickel Holdings, Inc. and Subsidiaries (the Group) as at December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019, and have issued our report thereon dated April 17, 2020. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplementary Schedule on Financial Soundness Indicators, including their definitions, formulas, calculation, and their appropriateness or usefulness to the intended users, are the responsibility of the Company's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRS) and may not be comparable to similarly titled measures presented by other companies. This schedule is presented for the purpose of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission, and is not a required part of the basic financial statements prepared in accordance with PFRS. The components of these financial soundness indicators have been traced to the Company's financial statements as at December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019 and no material exceptions were noted.

SYCIP GORRES VELAYO & CO.



Eleanore A. Layug

Partner

CPA Certificate No. 0100794

SEC Accreditation No. 1250-AR-2 (Group A),

February 28, 2019, valid until February 27, 2022

Tax Identification No. 163-069-453

BIR Accreditation No. 08-001998-97-2018,

February 2, 2018, valid until February 1, 2021

PTR No. 8125246, January 7, 2020, Makati City

April 17, 2020



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

	December 31	
	2019	2018
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 4)	P1,761,244	P1,048,683
Trade and other receivables (Note 5)	147,635	49,479
Advances to related parties (Note 29)	2,419,012	2,085,417
Inventories (Note 6)	343,656	268,687
Prepayments and other current assets (Note 7)	23,901	22,150
<b>Total Current Assets</b>	<b>4,695,448</b>	<b>3,474,416</b>
<b>Noncurrent Assets</b>		
Property and equipment (Note 8)	1,979,348	1,736,567
Deposits for future acquisition (Note 29)	2,174,462	2,217,354
Mine exploration costs (Note 11)	219,746	242,163
Mining rights (Note 10)	156,309	181,407
Deferred tax assets - net (Note 30)	146,310	153,703
Investment in associates (Note 9)	451,429	-
Other noncurrent assets (Note 12)	879,080	856,471
<b>Total Noncurrent Assets</b>	<b>6,006,684</b>	<b>5,387,665</b>
<b>TOTAL ASSETS</b>	<b>P10,702,132</b>	<b>P8,862,081</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Trade and other payables (Note 13)	P590,098	P405,437
Current portion of loans payable (Note 14)	212,175	98,588
Advances from related parties (Note 29)	396,755	287,194
Current portion of lease liabilities (Note 17)	27,331	-
Current portion of finance lease liabilities (Note 17)	-	5,777
Income tax payable	267,063	164,275
<b>Total Current Liabilities</b>	<b>1,493,422</b>	<b>961,271</b>
<b>Noncurrent Liabilities</b>		
Loans payable - net of current portion (Note 14)	484,853	690,112
Provision for mine rehabilitation and decommissioning (Note 15)	252,454	234,496
Retirement obligation (Note 16)	20,996	50,711
Lease liabilities - net of current portion (Note 17)	46,862	-
Finance lease liabilities - net of current portion (Note 17)	-	4,293
Other noncurrent liabilities (Note 18)	757,029	533,692
<b>Total Noncurrent Liabilities</b>	<b>1,562,194</b>	<b>1,513,304</b>
<b>Total Liabilities</b>	<b>3,055,616</b>	<b>2,474,575</b>
<b>Equity</b>		
Capital stock (Note 19)	6,375,975	6,375,975
Additional paid-in capital (Note 19)	239,012	239,012
Fair value reserve of financial asset at fair value through other comprehensive income (Note 12)	(5,692)	(4,891)
Remeasurement gain on retirement obligation (Note 16)	19,729	2,824
Cumulative translation adjustment	(3,135)	12,691
Retained earnings (Note 19)	2,185,561	878,235
Treasury shares (Note 19)	(1,198,909)	(1,116,340)
Equity attributable to the Parent Company	7,612,541	6,387,506
Non-controlling interest (NCI) (Note 19)	33,975	-
<b>Total Equity</b>	<b>7,646,516</b>	<b>6,387,506</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>P10,702,132</b>	<b>P8,862,081</b>

See accompanying Notes to Consolidated Financial Statements.





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

	Years Ended December 31		
	2019	2018	2017
<b>REVENUES</b>			
Revenue from contracts with customers (Note 33)	P6,654,626	P5,486,619	P-
Sale of nickel ore (Note 33)	-	-	5,815,596
	<b>6,654,626</b>	5,486,619	5,815,596
<b>COST OF SALES</b> (Note 21)	<b>2,737,893</b>	2,656,531	2,768,571
<b>GROSS PROFIT</b>	<b>3,916,733</b>	2,830,088	3,047,025
<b>OPERATING EXPENSES</b>			
Excise taxes and royalties (Note 23)	843,027	727,535	714,206
General and administrative (Note 22)	675,242	795,744	833,158
Shipping and distribution (Note 24)	424,802	432,903	388,843
	<b>1,943,071</b>	1,956,182	1,936,207
<b>FINANCE COSTS</b> (Note 27)	<b>(83,084)</b>	(76,938)	(68,741)
<b>FINANCE INCOME</b> (Notes 4, 12, and 16)	<b>9,951</b>	4,609	6,877
<b>SHARE IN NET LOSS OF INVESTMENT IN ASSOCIATES</b> (Note 9)	<b>(41,464)</b>	-	(116)
<b>OTHER INCOME (CHARGES)</b> - net (Note 28)	<b>(27,409)</b>	(15,170)	28,369
<b>INCOME BEFORE INCOME TAX</b>	<b>1,831,656</b>	786,407	1,077,207
<b>PROVISION FOR (BENEFIT FROM) INCOME TAX</b> (Note 30)			
Current	521,171	306,408	373,786
Deferred	6,930	(29,529)	(76,268)
	<b>528,101</b>	276,879	297,518
<b>NET INCOME</b>	<b>1,303,555</b>	509,528	779,689
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>			
<i>Items that may be reclassified to profit or loss in subsequent periods:</i>			
Valuation loss on available-for-sale financial asset (Note 12)	-	-	(464)
Currency translation adjustment	(22,609)	24,917	13,364
Income tax effect	6,783	(7,475)	(4,009)
	<b>(15,826)</b>	17,442	8,891
<i>Items that will not be reclassified to profit or loss in subsequent periods:</i>			
Remeasurement gain (loss) on retirement obligation (Note 16)	24,150	(13,910)	10,313
Income tax effect	(7,245)	4,173	(3,094)
	<b>16,905</b>	(9,737)	7,219
Fair value reserve of financial asset at fair value through other comprehensive income (Note 12)	(801)	(4,427)	-
	<b>16,104</b>	(14,164)	7,219
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>P1,303,833</b>	P512,806	P795,799

(Forward)



	<b>Years Ended December 31</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
<b>Net income attributable to:</b>			
Equity holders of the Parent Company	<b>₱1,307,772</b>	₱509,528	₱779,689
NCI in consolidated subsidiaries	<b>(4,217)</b>	-	-
	<b>₱1,303,555</b>	₱509,528	₱779,689
<b>Total comprehensive income attributable to:</b>			
Equity holders of the Parent Company	<b>₱1,308,050</b>	₱512,806	₱795,799
NCI in consolidated subsidiaries	<b>(4,217)</b>	-	-
	<b>₱1,303,833</b>	₱512,806	₱795,799
<b>Basic/Diluted Earnings Per Share (Note 20)</b>	<b>₱0.24</b>	₱0.09	₱0.14

*See accompanying Notes to Consolidated Financial Statements.*



**GLOBAL FERRONICKEL HOLDINGS, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

**FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017**

**(Amounts in Thousands)**

**Attributable to equity holders of the Parent Company**

	Capital Stock (Note 19)	Additional Paid-in Capital (Note 19)	Treasury Shares (Note 19)	Equity Reserve (Note 19)	Valuation Gain (Loss) on Available- for-sale Financial Assets (Note 12)	Fair Value Reserve of Financial Asset at Fair Value through Other Comprehensive Income (Note 12)	Remeasurement Gain (Loss) on Retirement Obligation	Cumulative Translation Adjustment	Retained Earnings (Note 19)	Total	NCI in Consolidated Subsidiaries	Total
Balances at December 31, 2016	₱6,113,475	₱-	(₱17,806)	₱-	₱-	₱-	₱5,342	(₱14,106)	₱459,654	₱6,546,559	₱-	₱6,546,559
Net income	-	-	-	-	-	-	-	-	779,689	779,689	-	779,689
Other comprehensive income (loss) - net of tax	-	-	-	-	(464)	-	7,219	9,355	-	16,110	-	16,110
Total comprehensive income (loss)	-	-	-	-	(464)	-	7,219	9,355	779,689	795,799	-	795,799
Purchase of treasury shares in relation to buyback program (Note 19)	-	-	(964,516)	-	-	-	-	-	-	(964,516)	-	(964,516)
Stock grant expense (Note 19)	-	-	-	26,462	-	-	-	-	-	26,462	-	26,462
Issuance of treasury shares in relation to stock grant (Note 19)	-	-	28,232	(26,462)	-	-	-	-	(1,770)	-	-	-
Balances at December 31, 2017	₱6,113,475	₱-	(₱954,090)	₱-	(₱464)	₱-	₱12,561	(₱4,751)	₱1,237,573	₱6,404,304	₱-	₱6,404,304



Attributable to equity holders of the Parent Company

	Capital Stock (Note 19)	Additional Paid-in Capital (Note 19)	Treasury Shares (Note 19)	Equity Reserve (Note 19)	Valuation Gain (Loss) on Available- for-sale Financial Assets (Note 12)	Fair Value Reserve of Financial Asset at Fair Value through Other Comprehensive Income (Note 12)	Remeasurement Gain (Loss) on Retirement Obligation (Note 16)	Cumulative Translation Adjustment	Retained Earnings (Note 19)	Total	NCI in Consolidated Subsidiaries (Note 19)	Total
Balances at December 31, 2017	₱6,113,475	₱-	(₱954,090)	₱-	(₱464)	₱-	₱12,561	(₱4,751)	₱1,237,573	₱6,404,304	₱-	₱6,404,304
Effect of adoption of Philippine Financial Reporting Standards 9, <i>Financial Instruments</i> (Notes 2 and 12)	-	-	-	-	464	(4,849)	-	-	4,385	-	-	-
Balances as at January 1, 2018 (As restated)	6,113,475	-	(954,090)	-	-	(4,849)	12,561	(4,751)	1,241,958	6,404,304	-	6,404,304
Net income	-	-	-	-	-	-	-	-	509,528	509,528	-	509,528
Other comprehensive income (loss) - net of tax	-	-	-	-	-	(42)	(9,737)	17,442	-	7,663	-	7,663
Total comprehensive income (loss)	-	-	-	-	-	(42)	(9,737)	17,442	509,528	517,191	-	517,191
Issuance of:												
Common stock (Note 19)	262,500	255,000	-	-	-	-	-	-	-	517,500	-	517,500
Treasury shares in relation to stock grant (Note 19)	-	-	29,823	(16,533)	-	-	-	-	(13,290)	-	-	-
Treasury shares in relation to property dividends (Note 19)	-	-	859,961	-	-	-	-	-	(859,961)	-	-	-
Transaction costs on issuance of shares (Note 19)	-	(15,988)	-	-	-	-	-	-	-	(15,988)	-	(15,988)
Purchase of treasury shares in relation to buyback program (Note 19)	-	-	(636,904)	-	-	-	-	-	-	(636,904)	-	(636,904)
Acquisition of treasury shares from shareholders in relation to declaration of property dividends (Note 19)	-	-	(415,130)	-	-	-	-	-	-	(415,130)	-	(415,130)
Stock grant expense (Note 19)	-	-	-	16,533	-	-	-	-	-	16,533	-	16,533
Balances at December 31, 2018	6,375,975	239,012	(1,116,340)	-	-	(4,891)	2,824	12,691	878,235	6,387,506	-	6,387,506

(Forward)



Balances at December 31, 2018	6,375,975	239,012	(1,116,340)	-	-	(4,891)	2,824	12,691	878,235	6,387,506	-	6,387,506
Net income	-	-	-	-	-	-	-	-	1,307,772	1,307,772	(4,217)	1,303,555
Other comprehensive income (loss) - net of tax	-	-	-	-	-	(801)	16,905	(15,826)	-	278	-	278
Total comprehensive income (loss)	-	-	-	-	-	(801)	16,905	(15,826)	1,307,772	1,308,050	(4,217)	1,303,833
Issuance of common stock (Note 19)	-	-	-	-	-	-	-	-	(446)	(446)	38,571	38,125
Purchase of treasury shares in relation to buyback program (Note 19)	-	-	(82,569)	-	-	-	-	-	-	(82,569)	-	(82,569)
Cash dividend (Note 19)	-	-	-	-	-	-	-	-	-	-	(379)	(379)
Balances at December 31, 2019	₱6,375,975	₱239,012	(₱1,198,909)	₱-	₱-	(₱5,692)	₱19,729	(₱3,135)	₱2,185,561	₱7,612,541	₱33,975	₱7,646,516

See accompanying Notes to Consolidated Financial Statements.



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

	Years Ended December 31		
	2019	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax	₱1,831,656	₱786,407	₱1,077,207
Adjustments for:			
Depreciation, depletion and amortization (Note 26)	391,130	437,735	444,367
Provision for impairment losses on:			
Trade and other receivables (Notes 5 and 22)	-	79,707	208,805
Other noncurrent assets (Notes 12 and 22)	-	1,030	20,798
Prepayments and other current assets (Notes 7 and 22)	-	-	3,684
Provision for inventory loss (Notes 6 and 22)	5,953	-	-
Interest expense (Note 27)	63,658	56,350	56,586
Net change in retirement obligation (Note 16)	14,121	18,334	10,828
Accretion interest on provision for mine rehabilitation and decommissioning (Notes 15 and 27)	11,739	14,064	4,077
Unrealized foreign exchange (gains) losses - net	(18,337)	(12,172)	2,025
Interest income (Notes 4, 12, and 16)	(9,951)	(4,609)	(6,877)
Levelization of rental expense	-	65	94
Share in net loss of investment in associates (Note 9)	41,464	-	116
Loss on disposal of property and equipment (Notes 8 and 29)	-	-	8
Operating income (loss) before working capital changes	2,331,433	1,376,911	1,821,718
Decrease (increase) in:			
Trade and other receivables	(98,610)	219,976	289,702
Prepayments and other current assets	(2,198)	189,757	53,138
Inventories	(80,923)	17,911	(10,615)
Increase (decrease) in trade and other payables	184,282	(80,919)	27,517
Net cash flows from (used in) operations	2,333,984	1,723,636	2,181,460
Income taxes paid	(421,459)	(288,324)	(235,868)
Interest paid	(57,071)	(57,916)	(60,592)
Contributions (Note 16)	(22,909)	(34,689)	-
Interest received	7,040	3,114	5,644
Net cash flows from (used in) operating activities	1,839,585	1,345,821	1,890,644
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Additions to:			
Property and equipment (Notes 8 and 36)	(354,712)	(69,674)	(103,354)
Mine exploration costs (Note 11)	(127,009)	(434)	(17,922)
Decrease (increase) in:			
Advances to related parties	(174,890)	(568,772)	(397,524)
Finance lease receivable	-	6,935	73,515
Other noncurrent assets	(28,114)	(506,868)	94,785
Proceeds from sale of property and equipment (Note 8)	-	-	5,960
Investment in associates	(225,000)	-	-
Net cash flows from (used in) investing activities	(909,725)	(1,138,813)	(344,540)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from:			
Availment of loans (Note 14)	355,931	1,559,090	1,124,017
Issuance of capital stock (Note 19)	-	517,500	-
Payments of loans (Note 14)	(451,181)	(1,495,417)	(1,382,576)
Purchase of treasury shares (Note 19)	(82,569)	(636,904)	(964,516)
Transaction costs related to issuance of shares (Note 19)	-	(15,988)	-
Issuance of common stock-NCI	38,125	-	-
Increase (decrease) in:			
Advances from related parties	(49,144)	17,464	3,954
Finance lease liabilities	-	(2,781)	(2,416)
Net cash flows from (used in) financing activities	(188,838)	(57,036)	(1,221,537)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>741,022</b>	<b>149,972</b>	<b>324,567</b>
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	<b>(28,461)</b>	<b>12,145</b>	<b>10,057</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>1,048,683</b>	<b>886,566</b>	<b>551,942</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)</b>	<b>₱1,761,244</b>	<b>₱1,048,683</b>	<b>₱886,566</b>

See accompanying Notes to Consolidated Financial Statements.



## **GLOBAL FERRONICKEL HOLDINGS, INC. AND SUBSIDIARIES**

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### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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#### **1. Corporate Information**

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

The registered and office address of the Parent Company is at 7th Floor, Corporate Business Center, 151 Paseo de Roxas cor Arnaiz Street, Makati City.

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

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

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

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

- Change in the Parent Company's name from Southeast Asia Cement Holdings, Inc. to Global Ferronickel Holdings, Inc.
- Change in the registered and principal address from Room 1104, Liberty Center Building, 104 H.V. dela Costa corner Leviste Streets, Salcedo Village, Makati City to 7th Floor, Corporate Business Centre, 151 Paseo De Roxas corner Arnaiz Street, Makati City
- Increase in the number of directors from nine to ten 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
- Change in the reporting period from June 30 to December 31

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



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

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

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

- Reverse stock split of the Parent Company's common stock at a ratio 1-for-3
- Amendment of the AOI to reflect an increase in the par value per share and a corresponding decrease in the total number of shares or a reverse stock split, whereby in effect, the authorized capital stock of the Parent Company is increased from ₱12,555.0 million divided into 35,871,428,572 common shares with par value of ₱0.35 per share to ₱12,555.0 million divided into 11,957,161,906 common shares with a par value of ₱1.05 per share, or an increase of ₱20.0 thousand.
- Amendment of the By-laws to include notice of regular or special meeting of the Board by electronic mail and attendance to board meetings by means of telephone, electronic, or other suitable electronic communication facilities, including telephone conference, videoconference, or the internet or any combination of those methods

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

On July 20, 2018, the Parent Company has completed the follow-on offering with total proceeds amounting to ₱517.5 million. On the same date, all the 6,072,357,151 issued shares of the Parent Company, including the common shares issued in accordance with the Share Swap transaction approved by the SEC on December 22, 2014, private placement and follow-on offer shares, are listed in the PSE.

*The Parent Company and PGMC Share-for-Share Swap (Share Swap) Transaction*

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

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

*Memorandum of Agreements (MOA)*

On November 27, 2014, the Parent Company entered into two MOAs with the following:

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





- The acquisition of FRI and SPNVI shares are still subject to the fulfillment of the pre-conditions as indicated in the MOA including the need to conduct a due diligence examination of FRI and SPNVI.

On February 26, 2015 during a special stockholders' meeting of the Parent Company, the 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 individuals for the acquisition of 100% interest of FRI due to the non-fulfillment of the conditions in the MOA.

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

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

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

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

*The Parent Company and Huarong Asia Limited Memorandum of Understanding (MOU)*

On October 10, 2018, the Parent Company entered an MOU with Huarong Asia, Limited, a corporation duly organized and existing under the laws of the Hong Kong, to incorporate FNI Steel Corporation (FSC) and FNI Steel Landholdings Corporation (FSLC) to build a Rebar Steel Rolling Plant in the Philippines which is estimated to have an annual output of 600,000 tons of bar.

The Subsidiaries

*PGMC*

PGMC was registered with the SEC on February 10, 1983. PGMC is 99.98% owned by the Parent Company and is primarily engaged in the exploration, mining and exporting nickel ore located in the municipality of Claver, Surigao del Norte.

PGMC has an Operating Agreement with Surigao Integrated Resources Corporation (SIRC) for the exclusive right and privilege to undertake mining activities within the area covered by the MPSA No. 007-92-X.

*Seasonality*

The Cagdianao Mine produces and exports nickel ores from April to October of each year, typically the dry and minimal sea swell season at the mine site. During the rainy season, mining operations in the mine site are suspended and there are no loading of ore onto ships. This seasonality results in quarter-to-quarter volatility in the operating results with more revenue being earned and more expenses being incurred during the second and third quarters compared to the first and fourth quarters.



*Increase in Authorized Capital Stock*

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

On April 22, 2015, the Parent Company subscribed for an additional 20,000,000,000 Class A common shares with a par value of ₱0.01 amounting to a total of ₱200.0 million and paid a total amount of ₱50.0 million out of the subscribed shares. There was no additional subscription of shares from the increase in authorized capital stock of PGMC by the non-controlling interest (NCI) which resulted to its dilution. As a result, the Parent Company's percentage of ownership to PGMC increased from 99.89% to 99.98%. On December 16, 2019, the Parent Company paid its remaining subscription payable to PGMC through offsetting its dividends receivable from PGMC amounting to ₱150.0 million.

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

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

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

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

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

*Certification for Value-Added Tax (VAT) Zero-Rated Status*

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

On January 28, 2019, the BOI issued the certification granting the renewal of PGMC's VAT zero-rated status. The certification is valid from January 1 up to December 31, 2019 unless sooner revoked by the BOI Governing Board.

*SIRC*

SIRC is a wholly-owned subsidiary of the Parent Company through PGMC and was registered with the SEC on July 16, 1999. Its primary purpose is 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 January 13, 1992, the Philippine Government and Case Mining Development Corporation (CMDC) entered into an MPSA No. 007-92-X, which allows CMDC to explore, develop and mine nickel ore within the Contract Area covering an area of approximately 4,376 hectares located at Cagdianao, Claver, Surigao del Norte.



On March 3, 2004, a Deed of Agreement was executed by and between the SIRC and CMDC wherein CMDC transfers, assigns and conveys to SIRC all the rights, titles and interests on the MPSA No. 007-92-X and SIRC assumes all the obligations of CMDC under the same MPSA.

On March 3, 2005, the said Assignment Agreement was duly registered with the Mines and Geosciences Bureau (MGB) and was approved and recorded the MPSA in the name of SIRC on July 20, 2005.

The MPSA was last renewed on June 21, 2016 for another 25 years from its initial term ending in 2017, or until February 14, 2042.

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

*PGMC-CNEP Shipping Services Corp. (PCSSC)*

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

*PGMC International Limited (PIL)*

On July 22, 2015, PIL, a wholly-owned subsidiary of the Parent Company through PGMC, was incorporated as a limited company under the Companies Ordinance of Hong Kong. Its primary purpose is to trade mineral products. It was established to facilitate relations with Chinese customers, to promote marketing, to collect accounts, to avail of offshore banking services such as loans, credit/discounting lines and other financing arrangements, and to do other services for PGMC.

*FSC*

FSC is a 51%-owned subsidiary of the Parent Company and was registered with the Philippine SEC on August 5, 2019. Its primary purpose is to engage in the business of buying, selling, dealing, at wholesale and retail, importing and manufacturing iron, steel and other ferrous or non-ferrous metal products, to be processed either by melting, rolling, casting, or forging to produce it in the form of ingots, billets, sections, bars, plates, strips, rods, tubes, pipes and other such form in demand in the market or industry; to import materials, machinery and equipment needed to manufacture such finished products; and to lease real properties such as land and buildings as needed.

*FSLC*

FSLC is a 60%-owned subsidiary of the Parent Company and was registered with the Philippine SEC on May 31, 2019. Its primary purpose is to engage in the business of managing real estate or interest therein, alone or in joint ventures with others and for this purpose acquire land by purchase, lease, donation, or otherwise, and to own, use, improve, subdivide, hold, administer, sell, convey, exchange, lease, mortgage, dispose of, work, develop, or otherwise deal in real property of any kind and interest or right therein and to construct, improve, manage, or otherwise dispose of buildings and other structures of whatever kind, together with their appurtenances whether for dwelling, commercial or industrial purposes. FSLC was incorporated to hold real properties of FSC.

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



FSC's registered address is at Lot 9 3rd Floor AFAB Administration Building, Freeport Area of Bataan Alasasin Mariveles, Bataan, Region III, Philippines 205.

The Associates

SPNVI

SPNVI is an associate of the Parent Company and was registered with SEC on July 11, 2014 primarily to engage to prospect, explore, locate, acquire, hold, work, develop, lease, operate and exploit mineral lands for nickel, chromite, copper, manganese, magnesite, silver, gold, and other precious and non-precious metals; to acquire and dispose of mining claims and rights, and to conduct and carry on the business of preparing, milling, concentrating, smelting, treating or preparing for market, and to market, sell at wholesale, exchange or otherwise deal in nickel, chromite, copper, manganese, magnesite, silver, gold and other mineral products. The registered office address of SPNVI is at 7th Floor, Corporate Business Centre, 151 Paseo De Roxas corner Arnaiz Street, Makati City, Philippines.

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

As a result of the above Deed of Assignment, the Parent Company acquired 37.50% of the common shares with voting rights and 0.47% of total shares. The Group assessed that it has a significant influence over SPNVI since it directly holds more than 20% of the voting power of SPNVI.

As at December 31, 2019 and 2018, SPNVI directly owns 99.76% of Ipilan Nickel Corporation (INC), respectively, a company registered with the SEC on July 22, 2005, for the primary purpose to explore, develop, mine, operate, produce, utilize, process and dispose of all the minerals and the products or by-products that may be produced, extracted, gathered, recovered, unearthed or found within the area of Sitio Ipilan, Mambalot, Municipality of Brooke's Point, Province of Palawan, consisting of 2,835 hectares and covered by MPSA No. 017-93-IV, Amended 2000, by the Government of the Republic of the Philippines through the Secretary of the Department of Environment and Natural Resources (DENR).

*Seasia Nectar Port Services Inc. (SNPSI)*

SNPSI is an associate of the Parent Company and was registered with SEC on July 11, 2014 primarily to engage to carry on the business of providing and rendering general services incidental to and necessarily connected with the operation and management of port terminals in the Philippines, which will involve the handling of containers, bulk liquid and dry cargoes, bagging of fertilizers, refrigerated warehousing facilities, warehousing and stevedoring, lightering, towing, and/or storing of cargo handled by the Company to and from port terminals in the delivery from abroad and/or for shipment abroad as may be necessary or incidental thereto.

SNPSI was formed as a result of a joint venture between Nectar Group Limited, Seasia Logistics Philippines, Inc., both with 40% ownership interest, and Webcast Technologies, Inc. with 20% ownership interest.

On December 19, 2019, the Parent Company and SNPSI entered into a Subscription Agreement wherein the Parent Company subscribed 1,670,000 common shares of SNPSI with a par value of ₱100.00 per share or 40% ownership interest in SNPSI for a total consideration of ₱450.0 million. As at December 31, 2019, the Parent Company had already paid ₱225.0 million with remaining subscription payable amounting to ₱225.0 million (see Note 9).

The registered office address of SNPSI is at Mariveles Multi-Purpose Terminal, Mariveles Diversion Road, Freeport Area if Bataan, Brgy. Sisiman, Mariveles, Bataan.



Authorization for Issue

The accompanying consolidated financial statements of GFHI and its subsidiaries (the Group) as at December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019 were authorized for issuance by the BOD on April 17, 2020.

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

Basis of Preparation

The accompanying financial statements have been prepared on a historical cost basis, except for the financial asset at fair value through other comprehensive income (FVOCI) in 2019 and 2018, which have been measured at fair value. The consolidated financial statements are presented in Philippine peso, which is the Group's presentation currency under the Philippine Financial Reporting Standards (PFRS). Based on the economic substance of the underlying circumstances relevant to the Group, the functional currency of the Parent Company and its subsidiaries is Philippine peso, except for PIL whose functional currency is Hong Kong Dollar (HK\$). All values are rounded to the nearest thousand (₱000), except number of shares, per share data, price per wet metric ton (WMT) and as indicated.

*Acquisition of PGMC Group*

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

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

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

The "Equity reserve" presented in the consolidated statements of changes in equity is the difference between the capital structure of PGMC Group and GFHI. 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" (see Note 19).



Basis of Consolidation

The consolidated financial statements as at December 31, 2019 and 2018 include the following:

Subsidiaries	Principal Place of Business	Principal Activities	Effective ownership
PGMC	Philippines	Mining	99.98%
SIRC <sup>(1)</sup>	Philippines	Mining	99.98%
PCSSC <sup>(1)</sup>	Philippines	Services	99.98%
PIL <sup>(1)</sup>	Hong Kong	Marketing, Trading and Services	99.98%
FSLC	Philippines	Landholdings	60.00%
FSC	Philippines	Manufacturing	51.00%

*(1) Indirect ownership through PGMC*

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

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

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

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

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

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

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

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



A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Parent Company loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any NCI
- Derecognizes the cumulative translation differences recorded in equity
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in the profit or loss
- Reclassifies the Parent Company's share of components previously recognized in the consolidated statement of comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Parent Company had directly disposed of the related assets or liabilities

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

#### Statement of Compliance

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

#### Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except that the Group has adopted the following new accounting pronouncements starting January 1, 2019:

- PFRS 16, *Leases*  
PFRS 16 supersedes PAS 17, *Leases*, Philippine Interpretation IFRIC 4, *Determining whether an Arrangement contains a Lease*, SIC -15, *Operating Leases-Incentives* and Philippine Interpretation SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize most leases on the balance sheet.

Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases. Therefore, PFRS 16 did not have an impact for leases where the Parent Company is the lessor.

The Group adopted PFRS 16 using the modified retrospective approach upon adoption of PFRS 16 in 2019 and elects to apply the standard to contracts that were previously identified as leases applying PAS 17 and Philippine Interpretation IFRIC-4. The Group will therefore not apply the standard to contracts that were not previously identified as containing a lease applying PAS 17 and Philippine Interpretation IFRIC-4.



The effect of adoption of PFRS 16 as at January 1, 2019 is as follows:

	Increase (decrease)
<i>Assets</i>	
Property and equipment	₱89.7
<i>Liabilities</i>	
Lease liabilities	101.5
Trade and other payables	(1.9)
Finance lease liabilities	(9.9)
Deferred tax asset	-

Upon adoption of PFRS 16, the Group applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. Refer to Note 3 for the accounting policy beginning January 1, 2019. The standard provides specific transition requirements and practical expedients, which have been applied by the Parent Company.

- Leases previously classified as finance leases*

The Group did not change the initial carrying amounts of recognized assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use assets and lease liabilities equal the lease assets and liabilities recognized under PAS 17). The requirements of PFRS 16 were applied to these leases from January 1, 2019.
- Leases previously accounted for as operating leases*

The Group recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for all leases were recognized based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

Based on the above, as at January 1, 2019:

- Property and equipment were recognized amounting to ₱89.7 million representing the amount of right-of-use assets set up on transition date.
- Total lease liabilities of ₱101.5 million were recognized.
- Trade and other payables of ₱1.9 million related to previous operating leases arising from straight lining and finance lease liabilities amounting to ₱9.9 million under PAS 17 were derecognized.
- The net effect of these adjustments has no impact on retained earnings.

The lease liabilities as at January 1, 2019 as can be reconciled to the operating lease commitments as at December 31, 2018 follows:

<b>Operating lease commitments as at December 31, 2018</b>	<b>₱103,965</b>
Weighted average incremental borrowing rate at January 1, 2019	6.3%
<b>Discounted operating lease commitments at January 1, 2019</b>	<b>93,558</b>
Less: Commitments relating to short term leases	(1,580)
Less: Commitments relating to leases of small assets	-
Add: Commitments relating to leases previously classified as finance leases	9,334
Add: Payments in optional extension periods not recognized at December 31, 2018	-
<b>Lease liabilities recognized at January 1, 2019</b>	<b>₱101,312</b>

Due to the adoption of PFRS 16, the Group's operating profit in 2019 will improve, while its interest expense will increase. This is due to the change in the accounting for rent expense related to leases that were classified as operating leases under PAS 17.





The adoption of PFRS 16 will not have an impact on equity in 2019, since the Group elected to measure the right-of-use assets at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the consolidated statement of financial position immediately before the date of initial application.

- *Amendments to PFRS 9, Prepayment Features with Negative Compensation*  
Under PFRS 9, a debt instrument can be measured at amortized cost or at FVOCI, provided that the contractual cash flows are “solely payments of principal and interest on the principal amount outstanding” (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from January 1, 2019, with earlier application permitted.

These amendments have no impact on the consolidated financial statements of the Group.

- *Amendments to PAS 19, Employee Benefits, Plan Amendment, Curtailment or Settlement*  
The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:
  - Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event
  - Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset)

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

The amendments have no impact on the consolidated financial statements of the Group as it did not have any plan amendments, curtailments, or settlements during the period.

- *Amendments to PAS 28, Long-term Interests in Associates and Joint Ventures*  
The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the ECL model in PFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying PFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying PAS 28, *Investments in Associates and Joint Ventures*.

These amendments had no impact on the consolidated financial statements as the Group’s long term interest in associates is classified as net investment in associates and accounted for under equity method.



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

The interpretation specifically addresses the following:

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

The entity is required to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and use the approach that better predicts the resolution of the uncertainty. The entity shall assume that the taxation authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes that it is not probable that the taxation authority will accept an uncertain tax treatment, it shall reflect the effect of the uncertainty for each uncertain tax treatment using the method the entity expects to better predict the resolution of the uncertainty.

Based on the Group's assessment, it has no material uncertain tax treatments, accordingly, the adoption of this Interpretation has no significant impact on the consolidated financial statements of the Group.

#### *Annual Improvements to PFRS 2015-2017 Cycle*

- **Amendments to PFRS 3, *Business Combinations*, and PFRS 11, *Joint Arrangements, Previously Held Interest in a Joint Operation***

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in PFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019 and to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted.

These amendments had no impact on the consolidated financial statements of the Group as there is no transaction where joint control is obtained.

- **Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity***

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, OCI or equity according to where the entity originally recognized those past transactions or events.

These amendments had no impact on the consolidated financial statements of the Group because dividends declared by the Group do not give rise to tax obligations under the current tax laws.



- Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted.

Since the Group's current practice is in line with these amendments, they had no impact on the consolidated financial statements of the Group.

#### Standards Issued but not yet Effective

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Group does not expect that the future adoption of the said pronouncements will have a significant impact on its financial statements. The Group intends to adopt the following pronouncements when they become effective.

#### *Effective beginning on or after January 1, 2020*

- Amendments to PFRS 3, *Definition of a Business*

The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

These amendments will apply on future business combinations of the Group.

- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*

The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements.

An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

#### *Effective beginning on or after January 1, 2021*

- PFRS 17, *Insurance Contracts*

PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.



The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted.

The new accounting standard is not expected to have any impact on the consolidated financial statements of the Group.

#### *Deferred effectivity*

- Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

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

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

The amendments are not expected to have any impact on the consolidated financial statements of the Group.

#### Summary of Significant Accounting Policies

##### Presentation of Consolidated Financial Statements

The Group has elected to present all items of recognized income and expense in a single consolidated statement of comprehensive income.

##### Current versus Noncurrent Classification

The Group presents assets and liabilities in the consolidated statement of financial position based on current/noncurrent classification. An asset is current when:

- It is expected to be realized or intended to be sold or consumed in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is expected to be realized within 12 months after the end of the reporting period; or
- It is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the end of the reporting period.

The Group classifies all other assets as noncurrent.



A liability is current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within 12 months after the end of the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least 12 months after the end of the reporting period.

The Group classifies all other liabilities as noncurrent.

Deferred tax assets and liabilities are classified as noncurrent assets and liabilities.

#### Cash and Cash Equivalents

Cash and cash equivalents represent cash on hand and in banks, and short-term cash investments. Cash in banks earn interest at the respective bank deposit rates. Short-term cash investments are highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from dates of acquisition. These earn interest at the respective short-term cash investment rates and are subject to an insignificant risk of changes in value.

#### Fair Value Measurement

The Group measures financial instruments, such as derivatives, and non-financial assets, at fair value at each reporting period.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest input that is significant to the fair value measurement is unobservable



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

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

### Financial Instruments

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

#### Financial Assets

##### *Initial Recognition, Classification and Measurement*

Financial assets are classified, at initial recognition, and subsequently measured at amortized cost, FVOCI, or fair value through profit or loss (FVTPL).

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under PFRS 15.

In order for a financial asset to be classified and measured at amortized cost or FVOCI, it needs to give rise to cash flows that are SPPI on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

##### *Subsequent Measurement*

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortized cost (debt instruments)
- Financial assets at FVOCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets at FVOCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at FVTPL

##### *Financial Assets at Amortized cost (Debt Instruments)*

This category is the most relevant to the Group. The Group measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.



The Group's financial assets at amortized cost include cash and cash equivalents, trade receivables, advances to contractors and interest receivables under "Trade and other receivables", advances to related parties and restricted cash previously under "Prepayments and other current assets" and currently under "Other noncurrent assets".

*Financial Assets at FVOCI (Debt Instruments)*

The Group measures debt instruments at FVOCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt instruments at FVOCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognized in the consolidated statement of comprehensive income and computed in the same manner as for financial assets measured at amortized cost. The remaining fair value changes are recognized in OCI. Upon derecognition, the cumulative fair value change recognized in OCI is recycled to profit or loss.

The Group does not have debt instruments at FVOCI.

*Financial Assets at FVOCI (Equity Instruments)*

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at FVOCI when they meet the definition of equity under PAS 32, *Financial Instruments: Presentation*, and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Group elected to classify irrevocably its quoted equity instrument under this category.

As at December 31, 2019, financial asset at FVOCI includes the Group's quoted equity instrument under "Other noncurrent assets".

*Financial Assets at FVTPL (Debt Instruments)*

Financial assets at FVTPL include financial assets held for trading, financial assets designated upon initial recognition at FVTPL, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at FVTPL, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at FVOCI, as described above, debt instruments may be designated at FVTPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at FVTPL are carried in the consolidated statement of financial position at fair value with net changes in fair value recognized in the consolidated statement of comprehensive income.

The Group does not have debt instruments at FVTPL.



*Impairment of Financial Assets (prior to adoption of PFRS 9)*

The Group assesses at each end of the reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred "loss event") has impact on the estimated future cash flows of the financial asset or the group of the financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

*Loans and Receivables*

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

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

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

*AFS Financial Asset*

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

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





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

*Impairment of Financial Assets* (upon adoption of PFRS 9)

Further disclosures relating to impairment of financial assets are also provided in the summary of significant accounting judgments, estimates and assumptions (see Note 3).

The Group recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at FVTPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original EIR. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

For cash and cash equivalents, interest receivable under “Trade and other receivables” and restricted cash under “Other noncurrent assets”, the Group applies the low credit risk simplification. The probability of default (PD) and loss given default (LGD) are publicly available and are considered to be low credit risk investments. It is the Group’s policy to measure ECLs on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. The Group uses the ratings from Standard and Poor’s, Moody’s and Bloomberg to determine whether the debt instruments have significantly increased in credit risk and to estimate ECLs.

For trade receivables under “Trade and other receivables”, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at the end of each reporting period. The Group has established a provision matrix that is based on historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For advances to related parties, ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

*Derecognition*

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

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the



extent of the Group's continuing involvement. 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.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to pay.

### Financial Liabilities

#### *Initial Recognition, Classification and Measurement*

Financial liabilities are classified, at initial recognition, as financial liabilities at FVTPL, loans and borrowings, trade and other payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

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

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

The Group's financial liabilities include trade and other payables (excluding statutory payables), loans payable, lease liabilities under PFRS 16, finance lease liabilities under PAS 17, advances from related parties and payable to Brooks Nickel Ventures Inc. (BNVI) and previous stockholders of CNMEC which are under "Other noncurrent liabilities". As at December 31, 2019 and 2018, the Group has no financial liabilities at FVTPL or as derivatives designated as hedging instruments in an effective hedge.

#### *Subsequent Measurement*

The measurement of financial liabilities depends on their classification, as described below:

#### *Financial Liabilities at FVTPL*

Financial liabilities at FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as at FVTPL.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by PFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognized in the consolidated statement of comprehensive income.

Financial liabilities designated upon initial recognition at FVTPL are designated at the initial date of recognition, and only if the criteria in PFRS 9 are satisfied. The Group has not designated any financial liability as at FVTPL.

#### *Financial Liabilities at Amortized Cost (Loans and Borrowings and Trade and Other Payables)*

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss 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 amortisation is included as "Finance costs" in the consolidated statement of comprehensive income.



#### *Derecognition*

A financial liability is derecognized when the associated obligation is discharged, cancelled or has expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability.

The difference in the respective carrying amounts of a financial liability extinguished or transferred to another party and the consideration paid, is recognized in the consolidated statement of comprehensive income.

#### Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to set-off the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously. The Group assesses that it currently has an 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 or net realizable value (NRV). Cost is determined by the moving average production cost during the year for nickel ore inventories exceeding a determined cut-off grade and moving average method for materials and supplies. This includes all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. The NRV of nickel ore inventories is the estimated selling price in the ordinary course of business, less estimated costs 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 insurance, creditable withholding taxes (CWT), prepaid taxes and licenses, restricted cash which is currently classified under "Other noncurrent assets" and others. Other noncurrent assets are composed of restricted cash, mine rehabilitation fund (MRF), input VAT, advances to suppliers, AFS financial asset which is currently classified as financial asset at FVOCI and others. These are classified as current when these are probable to be realized or consumed within one year from the end of the reporting period. Otherwise, these are classified as noncurrent assets.

#### *Input VAT*

Input VAT represents VAT imposed on the Group by its suppliers and contractors for the acquisition of goods and services required under Philippine taxation laws and regulations, net of output tax liabilities, if any, which may be recovered as tax credit against future tax liability of the Group upon approval by the Philippine Bureau of Internal Revenue (BIR) and/or the Philippine Bureau of Customs.

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

#### Property and Equipment

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



if the recognition criteria are satisfied. Land is carried at cost less any impairment in value. All other repairs and maintenance are recognized in profit or loss as incurred.

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

Effective January 1, 2019, it is the Group's policy to classify right-of-use assets as part of property and equipment. Prior to that date, the Group's operating leases in accordance with PAS 17 are not recorded in the statement of financial position. Refer to accounting policies of right-of-use assets in section "Lease (upon adoption to PFRS 16)".

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	2-5
Roads and bridges	5-10
Right-of-use asset – building	3-15
Right-of-use asset – equipment	2

Leasehold improvements included under "Building and land improvements" are amortized over the term of the lease or the estimated useful life of five to 10 years, whichever is shorter.

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

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

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

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

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



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

#### Deposits for Future Acquisition

This pertains to the advances made to related parties which were converted into deposits for future acquisition with the intention of applying the same as payment for future acquisition of stock. This is classified part of the net investment in associate accounted for using the equity method in which deposits for future acquisition is initially recognized at cost. The carrying amount is adjusted thereafter for the post-acquisition change in the Group's share in the net assets of the investee.

#### Mine Exploration Costs

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

#### Mining Rights

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

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

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

#### Investment in Associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. If an entity holds, directly or indirectly (e.g. through subsidiaries), 20% or more of the voting power of the investee, it is presumed that the entity has significant influence, unless it can be clearly demonstrated that this is not the case. Conversely, if the entity holds, directly or indirectly (e.g. through subsidiaries), less than 20% of the voting power of the investee, it is presumed that the entity does not have significant influence, unless such influence can be clearly demonstrated. A substantial or majority ownership by another investor does not necessarily preclude an entity from having significant influence.

The existence of significant influence by an entity is usually evidenced in one or more of the following ways:

- Representation on the board of directors or equivalent governing body of the investee;
- Participation in policy-making processes, including participation in decisions about dividends or other distributions;
- Material transactions between the entity and its investee;
- Interchange of managerial personnel; or
- Provision of essential technical information.



In addition, although there is a presumption that an investor that holds less than 20% of the voting power in an investee cannot exercise significant influence, where investments give rise to only slightly less than 20% careful judgment is needed to assess whether significant influence may still exist.

The Group identifies the acquisition date of an acquisition of associate acquired in the middle of the month as acquired in the beginning of the month.

The Group's investment in associates is accounted for using the equity method.

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

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

The aggregate of the Group's share of profit or loss of an associate is shown on the face of the consolidated statement of comprehensive income outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate. If the Group's share of losses of an associate equal or exceeds its interest in the associate, the Group discontinues recognizing its share of further losses.

The financial statements of the associates are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

#### Impairment of Non-Financial Assets

*Prepayments and Other Current and Noncurrent Assets, Property and Equipment, Deposits for Future Acquisition, Mining Rights, Mine Exploration Costs and Investment in Associates*

The Group assesses, at each end of the reporting period, whether there is an indication that an asset may be impaired. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If any such indication exists and where the carrying amount of an asset exceeds its recoverable amount, the asset cash generating unit (CGU) is written down to its recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value-in-use (VIU) and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. The fair value less cost to sell is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participant at the measurement date less the costs of disposal, while VIU is the present value of estimated future cash flows expected to arise from the continuing use of the asset and from its disposal at the end of its useful life. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses are recognized in "General and administrative expenses" in the consolidated statement of comprehensive income.

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

After application of the equity method for investment in an associate, the Group determines whether it is necessary to recognize an additional impairment loss on the Group's investment in an associate, including



long-term interests, that, in substance, form part of the Group's net investment in associate. The Group determines at the end of the reporting period whether there is any objective evidence that the investment in an associate is impaired. If this is the case, the Group calculates the amount of impairment as being the difference between the fair value of the associate and the acquisition cost and recognizes the amount in the consolidated statement of comprehensive income. Recoverable amount is determined as the higher between fair value less cost to sell and VIU.

Upon loss of significant influence over the associate, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized in consolidated statement of comprehensive income.

#### *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 of the following conditions is met:

- The period for which the entity has the right to explore in the specific area has not expired during the period or will not expire in the near future, and is expected to be renewed
- Such costs are expected to be recouped in full through successful development and exploration of the area of interest or alternatively, by its sale or
- Exploration and evaluation activities in the area of interest have reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area are continuing, or planned for the future

#### Provisions

##### *General*

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each end of the reporting period and adjusted to reflect the current best estimate. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as "Finance costs" in the consolidated statement of comprehensive income.

##### *Provision for Mine Rehabilitation and Decommissioning*

The Group records the present value of estimated costs of legal and constructive obligations required to restore operating locations in the period in which the obligation is incurred. The nature of these restoration activities includes dismantling and demolition of infrastructures, removal of residual materials and remediation of disturbed areas. The obligation generally arises when the asset is installed or the ground/environment is disturbed at the production location. When the liability is initially recognized, the present value of the estimated cost is capitalized by increasing the carrying amount of the related mining assets. Over time, the discounted liability is increased for the change in present value based on the discount rates that reflect current market assessments. The periodic unwinding of the discount is recognized in "Finance costs" in the consolidated statement of comprehensive income. Additional disturbances or changes in rehabilitation costs will be recognized as additions or charges to the corresponding assets and provision for mine rehabilitation and decommissioning when they occur.

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



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

The ultimate cost of mine rehabilitation and decommissioning is uncertain and cost estimates can vary in response to many factors including changes to the relevant legal requirements, the emergence of new restoration techniques or experience. The expected timing of expenditure can also change, for example in response to changes in ore reserves or production rates. As a result, there could be significant adjustments to the provision for mine rehabilitation and decommissioning, which would affect future financial results.

MRF committed for use in satisfying environmental obligations is included under "Other Noncurrent Assets" in the consolidated statement of financial position.

#### OCI

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

#### Capital Stock and Additional Paid-in Capital (APIC)

Common shares are classified as equity.

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.

The APIC is reduced by the transaction costs directly incurred by the Group in relation to issuance of shares. The transaction costs include, but are not limited to, underwriting fees, legal, audit and other professional fees, documentary stamp tax, registration fees, prospectus design, and printing and publication costs, and others.

#### Treasury Shares

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

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

#### Share-based Payment Transactions

Employees (including senior executives) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions).

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model, further details of which are given in Note 19.

That cost is recognized in stock grant expense under "Personnel costs" (Note 25), together with a corresponding increase in equity (other capital reserves), over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognized for equity-settled transactions at each end of the reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity





instruments that will ultimately vest. The expense or credit in the statement of profit or loss for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

No expense is recognized for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

When the terms of an equity-settled award are modified, the minimum expense recognized is the grant date fair value of the unmodified award, provided the original vesting terms of the award are met. An additional expense, measured as at the date of modification, is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee. Where an award is cancelled by the Group or by the counterparty, any remaining element of the fair value of the award is expensed immediately through profit or loss.

#### Equity Reserve

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

#### NCI

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

#### Reverse Acquisition

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

#### Asset Acquisition

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

#### Earnings per Share (EPS)

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



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

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

#### Segment Reporting

For purposes of management reporting, the Group is organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit. The Group reports its primary segment information based on business segments. Financial information on segment reporting is presented in Note 37 to the consolidated financial statements.

#### Retained Earnings

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

Dividend distribution to the Group's stockholders is recognized as a liability and deducted from retained earnings when they are approved by the Group's BOD.

Property dividends are declared based on the fair value fixed by the BOD on the date of declaration. The excess of the cost over the fair value fixed by the BOD for the treasury shares distributed as property dividends 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.

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.

#### *Sale of Nickel Ore*

##### Revenue Recognition (prior to adoption of PFRS 15)

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.

##### Revenue from Contracts with Customers

The Group is principally engaged in the business of producing beneficiated nickel ore. Revenue from contracts with customers is recognized when the control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

##### *Identifying the Enforceable Contract*

The Group's primary document for a contract with a customer is a signed Individual Purchase & Sales Contract (IPSC). The Group made an irrevocable and firm commitment to sell nickel ore, while the buyer made an irrevocable and firm commitment to purchase quantity of the nickel ore under the terms and conditions specified and agreed upon in the IPSC. From time to time throughout the year and as necessary, the parties executed addendums to the IPSC to deliver nickel ore with quantity and specifications indicated therein.



*Performance Obligations*

The Group identifies performance obligations by considering whether the promised goods or services in the contract are distinct goods or services. A good or service is distinct when the customer can benefit from the good or service on its own or together with other resources that are readily available to the customer and the Group's promise to transfer the good or service to the customer is separately identifiable from the other promises in the contract.

The Group's performance obligation is the promise to transfer to the buyer the nickel ore that shall be satisfied at a point in time. It is capable of being distinct since the customers can benefit from it in conjunction with other readily available resources. It is distinct within the context of the sales contracts because it is not integrated, not highly interdependent on or highly interrelated with other promised services in the contract. The obligation is to transfer nickel ore which shall be satisfied once the control to the goods has been transferred to the buyer at a point in time.

*Timing of Satisfaction of the Sale of Ore*

Revenue is recognize when it satisfies an identified performance obligation by transferring a promised good or service to a customer. A good or service is considered to be transferred when the customer obtains control. The Group determines, at contract inception, whether it will transfer control of a promised good or service over time. If the Group does not satisfy a performance obligation over time, the performance obligation is satisfied at a point in time.

The sale of ore is satisfied at a point in time. All risk of loss, damage or destruction respective of the ore delivered shall progressively pass to the buyer at the time the ore passes over the rail and into the vessel.

The Group has generally concluded that it is the principal in its revenue contracts because it typically controls the goods or services before transferring them to the customer.

*Variable Consideration*

The Group's sale of ore allows price adjustment provision where final ore shall be based on the final results of the final assay exchange with customer. If the consideration in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognized will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

*Despatch*

Despatch is recognized in respect of the time by which the allowable loading laytime has been saved and this is collected from the buyer.

*Demurrage*

Demurrage is incurred by the Group in respect of the time by which the allowable loading laytime has been exceeded and this is reimbursed by the Group to the buyer.

*Contract Balances*

*Contract Assets*

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognized for the earned consideration that is conditional. The Group does not have any contract assets as performance and a right to consideration occurs within a short period of time and all rights to consideration are unconditional.

*Trade Receivables*

A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Refer to accounting policies of financial assets in section "Financial Assets (upon adoption of PFRS 9)".



#### *Contract Liabilities*

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognized when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when the Group performs under the contract.

From time to time, the Group recognizes contract liabilities in relation to its sale of ore whereby a portion of the cash may be received from the customer before the loading of ore is fully completed and which is before satisfaction of the performance obligation.

#### *Interest Income*

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

#### *Other Income*

Other income is recognized in the consolidated statement of comprehensive income as they are earned. This includes despatch and demurrage which are offset to arrive at the net amount.

#### Cost and Expense Recognition

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

#### *Cost of Sales*

Cost of sales is incurred in the normal course of business and is recognized when incurred. This mainly consists of contract hire, depreciation, depletion and amortization, personnel costs, environmental protection cost, repairs and maintenance, community relations, fuel, oil and lubricants, assaying and laboratory 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 expenses incurred in the direction and general administration of day-to-day operations of the Group, in excise taxes and royalties due to government and other third parties, and in shipping and distribution activities. These are generally recognized when the expenses arise.

#### Leases (prior to adoption of PFRS 16)

##### *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.

#### *Group as a Lessee*

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease. Finance leases are capitalized at the commencement of lease at the inception date at fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are



apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of liability. Finance charges are recognized in "Finance costs" in the consolidated statement of comprehensive income.

A leased asset is depreciated over the useful life of the asset. However, if there is reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognized as an operating expense in the consolidated statement of comprehensive income on a straight-line basis over the lease term.

*Group as a Lessor*

Leases in which the Group transfers substantially all the risks and rewards incidental to legal ownership. The Group recognizes assets held under a finance lease in the consolidated statement of financial position under "Finance lease receivable" at an amount equal to the net investment in the lease.

Leases (upon adoption to PFRS 16)

The Group assesses at contract inception, all arrangements to determine whether they are, or contain, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Group is not a lessor in any transactions, it is only a lessee.

*Group as a lessee*

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

*Right-of-use asset*

The Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are initially measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The initial cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, lease payments made at or before the commencement date less any lease incentives received and estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of their estimated useful life and lease term. Right-of-use assets are subject to impairment.

*Lease liabilities*

At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or



a change in the assessment to purchase the underlying asset.

*Short-term leases and leases of low-value assets*

The Group applies the short-term lease recognition exemption to its short-term leases of properties and machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the leases of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e. below ₱250,000). Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Retirement Benefits Costs

The Group has a funded, 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 plan meets the minimum requirement benefit specified under Retirement Pay Law (*Republic Act No. 7641*).

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected nit credit method. This method reflects service rendered by employees to the date of valuation and incorporates assumptions concerning the employees' projected salaries. These amounts are calculated periodically by independent qualified actuaries.

Defined benefit costs comprise the following:

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

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

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", respectively, in the consolidated statement of comprehensive income.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods. Remeasurements recognized in OCI after the initial adoption of Revised PAS 19 are retained in OCI which is presented as "Remeasurement gain (loss) on retirement obligation" under equity.

Plan assets are assets that are held by long-term employee benefit fund. 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 the assets (or, if they have no maturity, the expected period until the settlement of retirement 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.

#### Foreign Currency Transactions

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

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

#### Income Taxes

##### *Current income Tax*

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the end of the reporting period in the countries where the Group operates and generates taxable income.

##### *Deferred Tax*

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the end of the reporting period.

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

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, associates, and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

Deferred tax assets are recognized for all deductible temporary differences, and the carryforward of unused tax credits from excess minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO). Deferred tax assets are recognized to the extent that it is probable that sufficient future taxable income will be available against which the deductible temporary differences, and the current income tax relating to items in equity carryforward of unused tax credits and unused tax losses can be utilized except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss



- In respect of deductible temporary differences associated with investments in subsidiaries, associates, and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable income will be available against which the temporary differences can be utilized.

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

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

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

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

#### Contingencies

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

#### Events After the End of the Reporting Period

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

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

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

Accounting 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.

Other disclosures relating to the Group's exposure to risk and uncertainties include financial risk management, policies, sensitivity analyses disclosures and capital management (see Note 31).

#### 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:





#### *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
- 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.

#### *Defining Default and Credit-Impaired Financial Assets*

Upon adoption of PFRS 9, the Group defines a financial instrument as in default, which is fully aligned with the definition of credit impaired, when it meets one or more of the following criteria:

- *Quantitative Criteria.* The borrower is more than 90 days past due on its contractual payments, which is consistent with the Group's definition of default.
- *Qualitative Criteria.* The borrower meets unlikelihood to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where:
  - a. The borrower is experiencing financial difficulty or is insolvent;
  - b. The borrower is in breach of financial covenant(s);
  - c. An active market for that financial assets has disappeared because of financial difficulties;
  - d. Concessions have been granted by the Group, for economic or contractual reasons relating to the borrower's financial difficulty;
  - e. It is becoming probable that the borrower will enter bankruptcy or other financial reorganization;  
or
  - f. Financial assets are purchased or originated at a deep discount that reflects the incurred credit losses.

The criteria above have been applied to all financial instruments held by the Group and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the PD, LGD and EAD throughout the Group's ECL calculation.

An instrument is no longer in default (i.e. to have cured) when it no longer meets any of the default criteria.

#### *Identifying Forward-looking Information*

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL.

In the Group's ECL models, it relies on forward looking information as economic inputs such as dollar index and inflation rates.

Predicted relationship between the key indicators and default and loss rates on portfolios of financial assets have been developed based on analyzing historical data. The methodologies and assumptions, including any forecasts of future economic conditions, are reviewed regularly.



The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the end of the reporting period. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

#### *Determining Significant Increase in Credit Risk*

The criteria for determining whether credit risk has increased significantly vary and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency.

Using its expert credit judgement and, where possible, relevant historical experience, the Group may determine that an exposure has undergone a significant increase in credit risk based on qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis. As a backstop, the Group considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the related party/customer.

The Group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria can identify significant increase in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

Exposures that have not deteriorated significantly since origination, or where the deterioration remains within the Group's investment grade criteria, or which are less than 30 days past due, are considered to have a low credit risk. The provision for ECLs for these financial assets is based on a 12-month ECL. The low credit risk exemption has been applied on debt investments that meet the investment grade criteria of the Group from the time of origination.

An exposure will migrate through the ECL stages as asset quality deteriorates. If, in a subsequent period, asset quality improves and also reverses any previously assessed significant increase in credit risk since origination, then the loss allowance measurement reverts from lifetime ECL to 12-months ECL.

#### *Determining Functional Currency*

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

#### *Assessing Existence of Significant Influence*

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

As at December 31, 2019 and 2018, the Group assessed that it has significant influence over SPNVI and SNPSI and has accounted for the investment as an investment in associates (see Note 9).

#### *Determination of Lease Term of Contracts with Renewal and Termination Options (upon adoption to PFRS 16)*

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.



The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate.

The renewal period for lease of the properties and machineries and equipment is not included as part of the lease term as this is not reasonably certain to be exercised. Furthermore, the periods covered by termination options are included as part of the lease term only when they are reasonably certain not to be exercised.

#### Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

#### *Estimating the Incremental Borrowing Rate - Leases (upon adoption to PFRS 16)*

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as lease term and the Group's stand-alone credit rating).

The Group's lease liabilities amounted to ₱74.2 million as at December 31, 2019 (see Notes 2 and 17). The IBR used to recognized right-of-use asset amounted to 2.5% to 7.3%.

#### *Estimating Ore Reserves*

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

Effective July 1, 2017, there was a change in the ore reserves used in calculating the depletion rates used for the depletion and amortization of mining properties and mining rights. The change was based on the latest PMRC-CP Technical Report dated October 15, 2017 (as of June 23, 2017 cut-off reserve) compared to the PMRC-CP Technical Report dated September 15, 2016 (as of June 30, 2016 cut-off reserve) with proven and probable ore reserves of 23.1 million WMT and 25.6 million WMT, respectively, for operating CAGAs 2 and 4, out of the total proven and probable ore reserves of 36.3 million WMT and 35.5 million WMT, respectively, for CAGAs 1 to 5.

Effective November 1, 2018, there was a change in the ore reserves used in calculating the depletion rates used for the depletion and amortization of mining properties and mining rights. The change was based on



the latest PMRC-CP Technical Report dated December 15, 2018 (as of October 20, 2018 cut-off reserve) compared to the PMRC-CP Technical Report dated October 15, 2017 (as of June 23, 2017 cut-off reserve) with proven and probable ore reserves of 25.1 million WMT and 23.1 million WMT, respectively, for operating CAGAs 2 and 4, out of the total proven and probable reserves of 43.9 million WMT and 36.3 million WMT, respectively, CAGAs 1 to 5 (see Notes 8 and 10).

Effective November 1, 2019, there was a change in the ore reserves used in calculating the depletion rates used for the depletion of mining properties. The change was based on the latest PMRC-CP Technical Report dated December 15, 2019 (as of October 15, 2019 cut-off reserve) compared to the PMRC-CP Technical Report dated December 15, 2018 (as of October 15, 2018 cut-off reserve) with proven and probable ore reserves of 32.7 million WMT and 34.1 million WMT, respectively, for operating CAGAs 2, 3 and 4 in 2019 and CAGAs 2 and 4 in 2018, out of the total proven and probable reserves of 43.4 million WMT and 43.9 million WMT, respectively, for CAGAs 1 to 5 (see Notes 8 and 10).

The change in estimates during the year resulted to lower depletion of mining properties and amortization of mining rights from 2018 to 2019 amounting to ₱44.0 million and ₱0.2 million, respectively and a lower depletion of mining properties and amortization of mining rights from 2017 to 2018 amounting to ₱7.9 thousand and ₱1.8 thousand, respectively..

#### *Assessing Recoverability of Mining Rights and Mine Exploration Costs*

The application of the Group's accounting policy for mining rights and mine exploration costs requires judgment in determining whether it is likely that future economic benefits are certain. Mining rights and exploration costs shall be assessed for impairment when facts and circumstances suggest that the carrying amounts exceed the recoverable amounts. Estimates and assumptions made may change if new information becomes available. The ability of the Group to recover its mine exploration costs would depend on the viability of ore reserves. 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.

As at December 31, 2019 and 2018, mining rights amounted to ₱156.3 million and ₱181.4 million, respectively. Allowance for impairment losses on mining rights amounted to nil as at December 31, 2019 and 2018 (see Note 10).

As at December 31, 2019 and 2018, mine exploration costs amounted to ₱219.7 million and ₱242.2 million, respectively. Allowance for impairment losses on mine exploration costs amounted to nil as at December 31, 2019 and 2018 (see Note 11).

#### *Assessing Recoverability of Deposits for Future Acquisition*

The Group assesses whether any internal or external indicators of impairment exist in relation to deposits for future acquisition. This is whenever events or changes in circumstances indicate that the carrying amount of deposits for acquisition may not be recoverable. If an indicator exist, the Group performs an impairment assessment by comparing the carrying value of the deposits for future acquisition to its recoverable amount to determine whether an impairment loss would be recognized. The recoverable amount is determined to be the the value in use, determined by discounting expected future cash flows.

An impairment loss is recognized and charged to earnings if the discounted expected future cash flows are less than the carrying amount. Fair value is estimated by discounting the expected future cash flows using a discount factor that reflects the market rate for a term consistent with the period of expected cash flows. In estimating the fair value, the significant assumptions being considered by the Group include ore reserves estimate, future capital requirements, production costs, commodity prices, foreign exchange rates, price inflation and discount rate.



As at December 31, 2019 and 2018, deposits for future acquisition amounted to ₱2,174.5 million and ₱2,217.4 million, respectively. Allowance for impairment losses on deposits for future acquisition amounted to nil as at December 31, 2019 and 2018 (see Note 29).

*Estimating Allowance for ECL on Cash and Cash Equivalents, Trade and Other Receivables, Advances to Related Parties and Restricted Cash under "Noncurrent Assets"*

The Group uses a provision matrix to calculate ECLs for trade and other receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns.

The provision matrix is initially based on the Group's historical observed default rates. The Group calibrates the matrix to adjust the historical credit loss experience with forward-looking information. At every end of the financial reporting period, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade and other receivables is disclosed in Note 5.

ECLs are derived from unbiased and probability-weighted estimates of expected loss. The ECLs for the Group's financial assets which are not credit-impaired at the reporting period are measured as the present value of all cash shortfalls over the expected life of the financial asset discounted by the EIR. The cash shortfall is the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive.

For the Group's advances to related parties, the ECL is based on the 12-month ECL. The 12-month ECL is the proportion of lifetime ECL that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment including forward-looking information.

As at December 31, 2019 and 2018, total financial assets of the Group amounted to ₱4,819.4 million and ₱3,781.4 million, respectively. Allowance for ECL on financial assets amounted to ₱305.9 million as at December 31, 2019 and 2018 (see Notes 4, 5, 12, and 29).

*Estimating Allowance for Inventory Losses*

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

As at December 31, 2019 and 2018, inventories amounted to ₱343.7 million and ₱268.7 million, respectively. Allowance for impairment losses on inventories amounted to ₱6.0 million and nil as at December 31, 2019 and 2018, respectively (see Note 6).

*Assessing Recoverability of Property and Equipment*

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



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

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

An impairment loss would be recognized whenever evidence exists that the carrying value is not recoverable. For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

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

As at December 31, 2019 and 2018, property and equipment amounted to ₱1,979.3 million and ₱1,736.6 million, respectively. Allowance for impairment losses on property and equipment amounted to nil as at December 31, 2019 and 2018 (see Note 8).

#### *Estimating Provision for Mine Rehabilitation and Decommissioning*

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

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

As at December 31, 2019 and 2018, the Group adjusted its provision for mine rehabilitation and decommissioning to reflect the current discount rates and expenditures required to settle the expected mined out areas of the Group, which resulted to a change in estimate amounting to ₱6.2 million and ₱25.0 million, respectively. As at December 31, 2019 and 2018, provision for mine rehabilitation and decommissioning amounted to ₱252.5 million and ₱234.5 million, respectively (see Note 15).

#### *Assessing Recoverability of Deferred Tax Assets*

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



The Group has deferred tax assets amounting to ₱194.6 million and ₱204.4 million as at December 31, 2019 and 2018, respectively. The Group's NOLCO amounted to ₱325.0 million, ₱327.9 million and ₱422.9 million as at December 31, 2019, 2018 and 2017, respectively. The Group has excess MCIT amounting to nil as at December 31, 2019, 2018 and 2017. No deferred tax assets on NOLCO and excess MCIT were recognized as at December 31, 2019 and 2018 (see Note 30).

#### 4. Cash and Cash Equivalents

	2019	2018
Cash on hand	₱712	₱743
Cash in banks	1,689,277	556,727
Short-term cash investments	71,255	491,213
	<b>₱1,761,244</b>	<b>₱1,048,683</b>

Interest income earned on cash in banks amounted to ₱3.4 million, ₱2.2 million and ₱2.0 million in 2019, 2018 and 2017, respectively.

Short-term cash investments earn interest at the respective short-term cash investment rates. These are made for varying periods of up to three months, depending on the immediate cash requirements of the Group. Interest income earned on short-term cash investments amounted to ₱1.0 million, ₱0.7 million and nil was earned on short-term cash investments in 2019, 2018 and 2017, respectively.

The Group has US\$-denominated cash and cash equivalents amounting to US\$13.1 million and US\$4.0 million as at December 31, 2019 and 2018, respectively, and HK\$-denominated cash and cash equivalents amounting to HK\$121.1 million and HK\$22.4 million as at December 31, 2019 and 2018, respectively (see Note 31).

#### 5. Trade and Other Receivables

	2019	2018
Trade	₱365,478	₱261,234
Advances to:		
Contractors	80,111	79,707
Officers, employees and others	7,877	13,915
Interest receivable	40	494
	<b>453,506</b>	<b>355,350</b>
Less allowance for ECL	<b>305,871</b>	<b>305,871</b>
	<b>₱147,635</b>	<b>₱49,479</b>

##### *Trade Receivables*

Trade receivables arising from shipment of nickel ore are noninterest-bearing and generally collectible within 30 to 90 days. No provision for impairment losses on trade receivables was recognized in 2019 and 2018. Provision for impairment losses on trade receivables amounted to ₱204.5 million in 2017. Allowance for impairment losses on trade receivables amounted to ₱221.9 million as at December 31, 2019 and 2018, respectively.

The Group has US\$-denominated trade receivables as at December 31, 2019 and 2018 amounting to US\$3.2 million and US\$5.3 million, respectively, and HK\$-denominated trade receivables amounting to HK\$8.5 million and HK\$2.1 million as at December 31, 2019 and 2018, respectively (see Note 31).

##### *Advances to Contractors*

Advances to contractors are cash advances to mining contractors which are collectible in cash or advanced payments for future contract hire fees. Advances to contractors which are collectible in cash amounted to ₱79.7 million as at December 31, 2019 and 2018. Advances to contractors which pertain to advanced payments for future contract billings amounted to ₱0.4 million and nil as at December 31, 2019 and 2018, respectively. Provision for ECL on advances to contractors amounted to nil and ₱79.7 million in 2019 and



2018, respectively. Allowance for ECL on advances to contractors amounted to ₱79.7 million as at December 31, 2019 and 2018. Advances to contractors are expected to be realized within 12 months after the reporting period.

*Advances to Officers, Employees and Others*

The Group provides cash advances to its officers and employees for various business related expenses incurred which are subject for liquidation generally within 30 days. Other advances include advances to third party companies which are collectible upon demand. No provision for impairment losses on advances to third party companies was recognized in 2019 and 2018. Provision for impairment losses on advances to third party companies amounted to ₱4.3 million in 2017. Allowance for impairment losses on advances to third party companies amounted to ₱4.3 million as at December 31, 2019 and 2018.

*Interest Receivable*

Interest receivable pertains to the accrued interest income derived from short-term cash investments with various interest rates placed in local banks. This would be collectible upon maturity.

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

	2019	2018
Beginning balance	₱305,871	₱226,164
Provision for ECL (see Note 22)	-	79,707
Ending balance	₱305,871	₱305,871

## 6. Inventories

	2019	2018
Beneficiated nickel ore (at cost)	₱276,537	₱202,949
Materials and supplies (NRV)	67,119	65,738
	₱343,656	₱268,687

*Beneficiated Nickel Ore*

The amount of inventoriable cost charged to cost of sales in the consolidated statements of comprehensive income amounted to ₱1,935.9 million, ₱1,836.7 million and ₱1,962.5 million in 2019, 2018 and 2017, respectively (see Notes 21 and 33).

*Materials and Supplies*

Materials and supplies consist of tires, spare parts, and fuel and lubricants which were valued at cost. Provision for inventory losses amounted to ₱6.0 million in 2019, and nil in 2018 and 2017, respectively. Allowance for inventory losses amounting ₱6.0 million and nil as at December 31, 2019 and 2018, respectively (see Note 22).

## 7. Prepayments and Other Current Assets

	2019	2018
Prepaid rent	₱14,180	₱14,818
Prepaid insurance	7,643	6,087
CWTs	3,684	3,684
Prepaid taxes and licenses	1,818	1,145
Others	260	100
	27,585	25,834
Less allowance for impairment losses	3,684	3,684
	₱23,901	₱22,150





Prepayments and other current assets are expected to be realized within 12 months after the end of reporting period.

*Prepaid Rent*

Prepaid rent represents the advance payment made for the rental of the properties classified as short-term lease.

*CWTs*

CWTs pertain to the amount withheld by the Group which can be applied against income tax payable.

*Prepaid Insurance*

Prepaid insurance represents advance payments made for the insurance of the Group's property and equipment.

*Prepaid Taxes and Licenses*

Prepaid taxes and licenses represent advance payments made to the MGB and BIR for the processing of shipments.

*Others*

Others pertain to prepayments for third party barging and shipping expenses and others.

Provision for impairment losses on the other current assets amounted to nil in 2019 and 2018 and ₱3.7 million in 2017. Allowance for impairment losses on the other current assets amounted to ₱3.7 million as at December 31, 2019 and 2018.



## 8. Property and Equipment

	2019										
	Land	Building and Land Improvements	Machineries and Other Equipment	Furniture and Fixtures	Equipment and Supplies	Mining Properties	Roads and Bridges	Right of Use Asset-Building (see Note 17)	Right of Use Asset-Equipment (see Note 17)	CIP	Total
<b>Cost:</b>											
Beginning balances, as previously reported	₱10,435	₱79,914	₱1,139,594	₱13,690	₱6,322	₱1,557,024	₱832,790	₱-	₱-	₱15,186	₱3,654,955
Effect of adoption of PFRS 16	-	-	(12,314)	-	-	-	-	89,699	12,314	-	89,699
Beginning balances, as restated	10,435	79,914	1,127,280	13,690	6,322	1,557,024	832,790	89,699	12,314	15,186	3,744,654
Additions	172,179	-	151,059	3,379	224	149,426	-	-	-	33,444	509,711
Disposals	-	-	(10,651)	-	-	-	-	-	-	-	(10,651)
Currency translation adjustment	-	-	(1,130)	(107)	(31)	-	-	-	-	-	(1,268)
Reclassifications	-	12,483	-	1,642	-	-	-	-	-	(14,125)	-
Adjustment to capitalized cost of mine rehabilitation (see Note 15)	-	-	-	-	-	6,219	-	-	-	-	6,219
Ending balances	182,614	92,397	1,266,558	18,604	6,515	1,712,669	832,790	89,699	12,314	34,505	4,248,665
<b>Accumulated depreciation and depletion:</b>											
Beginning balances	-	39,589	620,782	10,270	5,006	1,003,450	239,291	-	-	-	1,918,388
Depreciation and depletion	-	8,566	154,907	1,905	727	119,155	51,739	25,183	-	-	362,182
Reclassifications	-	-	(205)	-	-	-	-	-	205	-	-
Disposals	-	-	(10,284)	-	-	-	-	-	-	-	(10,284)
Currency translation adjustment	-	-	(607)	(79)	(16)	-	-	(267)	-	-	(969)
Ending balances	-	48,155	764,593	12,096	5,717	1,122,605	291,030	24,916	205	-	2,269,317
<b>Net book values</b>	<b>₱182,614</b>	<b>₱44,242</b>	<b>₱501,965</b>	<b>₱6,508</b>	<b>₱798</b>	<b>₱590,064</b>	<b>₱541,760</b>	<b>₱64,783</b>	<b>₱12,109</b>	<b>₱34,505</b>	<b>₱1,979,348</b>



	2018								
	Land	Building and Land Improvements	Machineries and Other Equipment	Furniture and Fixtures	Equipment and Supplies	Mining Properties	Roads and Bridges	CIP	Total
<b>Cost:</b>									
Beginning balances	₱10,435	₱70,696	₱1,006,249	₱12,316	₱6,010	₱1,574,857	₱832,790	₱ 9,693	₱3,523,046
Additions	-	3,735	132,314	1,208	269	7,142	-	10,976	155,644
Disposals	-	-	(758)	-	-	-	-	-	(758)
Currency translation adjustment	-	-	1,789	166	43	-	-	-	1,998
Reclassifications	-	5,483	-	-	-	-	-	(5,483)	-
Adjustment to capitalized cost of mine rehabilitation (see Note 15)	-	-	-	-	-	(24,975)	-	-	(24,975)
<b>Ending balances</b>	<b>10,435</b>	<b>79,914</b>	<b>1,139,594</b>	<b>13,690</b>	<b>6,322</b>	<b>1,557,024</b>	<b>832,790</b>	<b>15,186</b>	<b>3,654,955</b>
<b>Accumulated depreciation and depletion:</b>									
Beginning balances	-	31,911	447,039	8,759	4,168	840,300	187,552	-	1,519,729
Depreciation and depletion	-	7,678	174,100	1,438	828	163,150	51,739	-	398,933
Disposals	-	-	(758)	-	-	-	-	-	(758)
Currency translation adjustment	-	-	401	73	10	-	-	-	484
<b>Ending balances</b>	<b>-</b>	<b>39,589</b>	<b>620,782</b>	<b>10,270</b>	<b>5,006</b>	<b>1,003,450</b>	<b>239,291</b>	<b>-</b>	<b>1,918,388</b>
<b>Net book values</b>	<b>₱10,435</b>	<b>₱40,325</b>	<b>₱518,812</b>	<b>₱3,420</b>	<b>₱1,316</b>	<b>₱553,574</b>	<b>₱593,499</b>	<b>₱15,186</b>	<b>₱1,736,567</b>



The Group disposed various assets under “Machineries and equipment” and “Equipment and supplies” with cash proceeds amounting to ₱0.4 million and nil in 2019 and 2018, respectively, which were recorded as receivable from employee. The Group recorded a loss amounting to nil in 2019 and 2018 and ₱8.0 thousand in 2017 (see Note 28).

In 2019, the Group reclassified from “CIP” to “Building and land improvements” and “Furniture and fixtures” the costs of the completed office building located at the mine site and furniture and fixtures amounted to ₱12.5 million and ₱1.6 million, respectively.

The CIP balance in the books of the Group pertains to the construction of materials and supplies warehouse, roads, fences and improvements in the mine site. The remaining balance of CIP is 62.5% and 58.2% completed as at December 31, 2019 and 2018, respectively.

In November 2018, the Group and Caterpillar Financial Services Philippines Inc. (CFSPI) executed a lease agreement with a lease term of two years, in which the Group has determined that the lease transfers substantially all the risks and rewards incidental to the ownership of the equipment upon final payment at the end of the lease term. The lease agreement is classified as finance lease under PAS 17. Upon adoption to PFRS 16, the Company reclassified the carrying amount of the finance leased asset recognized under “Machineries and Other Equipment” to “Right-of-use asset” amounted to ₱12.3 million.

In 2019, the Group availed two chattel mortgage loans from CFSPI for the acquisition of transportation and heavy equipment. The loans are payable within two years at interest rates ranging from 5.97% to 6.31% per annum and payable in monthly installments. The carrying amount of the assets mortgaged included under “Machineries and other Equipment” as at December 31, 2019 amounted to ₱26.8 million (see Note 14).

On July 5, 2019, the Group availed long-term loan from SBM Leasing for the acquisition of transportation equipment. The loans are payable within two years and bear annual interest rate of 9.50% per annum. The carrying amount of the transportation equipment included under “Machineries and Other equipment” as at December 31, 2019 amounted to ₱11.4 million (see Note 14).

In May 2019, the Group started the commercial operation of CAGA 3 and reclassified all the exploration and evaluation costs incurred and capitalized under “Mine exploration costs” to “Mining asset” amounted to ₱149.4 million (see Note 11).

The rates used by the Company in computing depletion were ₱16.25 per WMT for the period November 1, 2018 to December 31, 2018 and ₱23.42 per WMT for the period February 1, 2018 to October 31, 2018, and ₱28.61 per WMT for the period July 1, 2017 to January 31, 2018. Starting November 1, 2018, the rate used was based on the latest PMRC-CP Technical Report dated December 15, 2018 with proven and probable reserves of 25.1 million WMT for CAGAs 2 and 4.

The rates used by the Company in computing depletion were ₱16.25 per WMT for the period January 1, 2019 to October 31, 2019 and ₱13.51 per WMT for the period November 1, 2019 to December 31, 2019 for CAGAs 2 and 4. For CAGA 3, the rate used by the Company in computing the depletion were ₱16.54 per WMT for the period April 2019 to October 31, 2019 and ₱15.89 per WMT for the period November 1, 2019 to December 31, 2019. Starting November 1, 2019, the rate used was based on the latest PMRC-CP Technical Report dated December 15, 2019 with proven and probable reserves of 24.2 million WMT and 8.5 million WMT for CAGAs 2 and 4 and CAGA 3, respectively. The change in ore reserves resulted to lower depletion rate.

The gross carrying amount of fully depreciated property and equipment that is still in use by the Group amounted to ₱358.1 million and ₱163.5 million as at December 31, 2019 and 2018, respectively.

No property and equipment were pledged as at December 31, 2019 and 2018 except machineries and other equipment subject to chattel mortgage (see Note 14).



## 9. Investment in Associates

	2019	2018
SPNVI	P-	P-
SNPSI	451,429	-
	<b>P451,429</b>	<b>P-</b>

### SPNVI

On September 1, 2016, the Parent Company entered into a Deed of Assignment with SPNVI, a related party, wherein the Parent Company assigned, transferred and conveyed in favor of SPNVI P0.3 million of its advances as payment for the subscription to the 300,000 unissued common shares out of 800,000 common shares of SPNVI with a par value of P1.00 per share.

As a result of the above Deed of Assignment, the Parent Company acquired 37.50% of the common shares with voting rights and 0.47% of total shares. The Group assessed that it has a significant influence over SPNVI since it directly holds more than 20% of the voting power of SPNVI.

Details of investment in SPNVI are as follows:

	2019	2018
Acquisition cost	P300,000	P300,000
Accumulated equity in net loss:		
Beginning of year	(300,000)	(300,000)
Share in loss	-	-
End of year	(300,000)	(300,000)
	<b>P-</b>	<b>P-</b>

The Group recognized share in net loss of SPNVI amounting to P42.9 million and nil in 2019 and 2018, respectively. As at December 31, 2019 and 2018, the Group's accumulated share in net loss of SPNVI charged to its net investment in SPNVI are as follows:

	2019	2018
Investment in associates	P300	P300
Deposits for future acquisition	42,892	-
Total recognized in net loss	<b>P43,192</b>	<b>P300</b>

Details of the summarized consolidated financial assets of SPNVI and subsidiaries as at December 31, 2019 and 2018 are as follows:

	2019	2018
Current assets	P220,785	P356,484
Noncurrent assets	5,837,557	5,771,022
Current liabilities	479,964	273,929
Noncurrent liabilities	1,881,358	2,161,332
Equity	P3,697,020	P3,692,245
Proportion of Group's ownership	37.5%	37.5%
Group's share in identifiable net liabilities	1,386,383	1,384,592
Unrecognized share in net losses	-	44,683
Carrying amount of the net investment:		
Investment in associate	-	-
Deposits for future acquisition	2,174,461	2,217,354
Goodwill	<b>(P788,078)</b>	<b>(P877,445)</b>



	2019	2018
Cost and expenses	<b>₱4,740</b>	₱64,247
Net loss	<b>4,740</b>	64,247
Other comprehensive income	-	-
Total comprehensive loss	<b>4,740</b>	64,247
Group's share in total comprehensive loss	<b>₱1,778</b>	₱24,093

As at December 31, 2019 and 2018, the Parent Company has 37.50% of the common shares with voting rights and 0.47% of total shares of SPNVI.

#### SNPSI

On December 19, 2019, the Parent Company subscribed to 1,670,000 shares in SNPSI valued at ₱100 per share for a total consideration of ₱450.0 million. The transaction resulted to the Parent Company owning 40% of SNPSI. SNPSI operates the first purpose-built Dry Bulk Terminal located within the Freeport Area of Bataan in Mariveles. The terminal handles shipments of coal, clinker, silica sand and cement raw materials, as well as steel, fertilizer and other dry bulk cargoes.

Details of investment in SNPSI are as follows:

	2019
Acquisition cost	<b>₱450,000</b>
Accumulated equity in net earnings:	
Beginning of year	-
Share in net income	<b>1,429</b>
End of year	<b>1,429</b>
	<b>₱451,429</b>

Details of the summarized financial information of SNPSI as at December 31, 2019 and 2018 are as follows:

	2019	2018
Current assets	<b>₱1,061,988</b>	₱414,346
Noncurrent assets	<b>1,417,420</b>	1,782,482
Current liabilities	<b>669,707</b>	388,386
Noncurrent liabilities	<b>1,094,476</b>	1,224,447
Equity	<b>₱715,225</b>	₱583,995
Proportion of Group's ownership	<b>40.0%</b>	-
Group's share in identifiable net assets	<b>286,090</b>	-
Carrying amount of the investment	<b>451,429</b>	-
Goodwill	<b>(₱165,339)</b>	₱-

	2019	2018
Revenue	<b>₱416,510</b>	₱376,295
Cost and expenses	<b>287,692</b>	295,955
Net income	<b>128,818</b>	80,340
Other comprehensive income	-	-
Group's share in total comprehensive income	<b>₱1,429</b>	₱-

As at December 31, 2019, the Parent Company's subscription payable to SNPSI amounted to ₱225.0 million.

The Group recognized total share in net loss of investments in associates amounting to ₱41.5 million, nil and ₱0.1 million in 2019, 2018 and 2017, respectively.



## 10. Mining Rights

	2019	2018
Cost	<b>₱396,500</b>	₱396,500
Accumulated amortization:		
Beginning balance	<b>215,093</b>	176,291
Amortization	<b>25,098</b>	38,802
Ending balance	<b>240,191</b>	215,093
Net book value	<b>₱156,309</b>	₱181,407

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

The rates used by the Company in computing amortization were ₱3.63 per WMT for the period November 1 to December 31, 2019, ₱4.14 per WMT for the period February 1 to October 31, 2019 and for the period November 1 to December 31, 2018, ₱6.90 per WMT for the period February 1 to October 31, 2018.

Starting November 1, 2019, the rate used was based on the latest PMRC-CP Technical Report dated December 15, 2019 with proven and probable ore reserves of 43.4 million WMT for CAGAs 1 to 5 as at October 15, 2019.

No provision for impairment losses on mining rights was recognized in 2019, 2018 and 2017. Allowance for impairment losses on mining rights amounted to nil as at December 31, 2019 and 2018.

## 11. Mine Exploration Costs

	2019	2018
Beginning balance	<b>₱242,163</b>	₱241,729
Exploration expenditures incurred	<b>127,009</b>	434
Reclassification to mining properties (Note 8)	<b>(149,426)</b>	-
Ending balance	<b>₱219,746</b>	₱242,163

The Company operates the Cagdianao mineral tenements by virtue of the 25-year Operating Agreement executed by and between the Company and SIRC (see Note 33).

In April 2019, the Company started the commercial operation of CAGA 3 and reclassified all the exploration and evaluation costs incurred and capitalized under "Mine exploration costs" to "Mining asset" amounting to ₱149.4 million (see Note 8).

In November 2019, the Company started the exploration activities in the limestone area.

CAGAs 1, 5, 6, 7 and limestone area are all under exploration activities.



## 12. Other Noncurrent Asset

	2019	2018
MRF	P295,249	P235,836
Input VAT	192,546	186,722
Restricted cash	190,321	301,902
Advances to suppliers	139,764	143,358
Intangible asset	41,724	-
Subscription receivable	30,625	-
Financial asset at FVOCI	3,163	3,964
Others	26,997	25,998
	<b>920,389</b>	<b>897,780</b>
Less allowance for impairment losses	<b>41,309</b>	<b>41,309</b>
	<b>P879,080</b>	<b>P856,471</b>

### *MRF*

Pursuant to Section 181 of the Implementing Rules and Regulations of the Republic Act (RA) No. 7492, better known as the *Philippine Mining Act of 1995*, mining companies have to maintain MRF deposits with any government bank. The Group has deposits for MRF at the Development Bank of the Philippines - Surigao City Branch. The funds are to be used for physical and social rehabilitation, reforestation and restoration of areas and communities affected by mining activities, pollution control and integrated community development. The funds earned interest based on the prevailing market rate. Interest income earned on MRF amounted to P2.1 million in 2019 and P0.6 million in 2018 and 2017.

### *Input VAT*

Input VAT represents the VAT paid on purchases of applicable goods and services and capital assets, net of output tax liabilities, if any, which may be recovered as tax credit against future tax liability of the Group upon approval by the BIR and/or the Philippine Bureau of Customs. Provision for impairment losses on input VAT amounted to nil, P1.0 million and nil in 2019, 2018 and 2017, respectively. Allowance for impairment losses on input VAT amounted to P20.5 million as at December 31, 2019 and 2018.

### *Restricted Cash*

Restricted cash pertains to the Debit Service Reserve Account (DSRA) with TCB which acts as collateral or security for the TCB loan. The amount maybe reduced proportionately as the Group pays the principal and its interest by express agreement of the parties.

The Group has US\$-denominated and HK\$-denominated restricted cash currently classified under "Other noncurrent assets" amounting to US\$0.1 million and HK\$29.3 million and US\$0.1 million and HK\$45.1 million as at December 31, 2019 and 2018, respectively (see Note 31).

Interest income earned related to the restricted cash classified under "Other noncurrent assets" amounted to nil, P0.1 million and nil in 2019, 2018 and 2017, respectively.

### *Advances to Suppliers*

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

### *Intangible Asset*

Intangible asset pertains to membership debenture obtained by the Group pursuant to the contract of sale executed with Avic Joy Holdings, Limited and the Group on July 16, 2019 to purchase Clearwater Bay and Golf Country Club membership and to be amortized for 10 years. The amortization of the intangible asset amounted to P3.6 million in 2019.





*Subscription receivable*

Subscription receivable pertains to unpaid portion of the subscription of Huarong Asia Limited to FSC and FSLC as at December 31, 2019.

*Financial Asset at FVOCI*

As at December 31, 2019 and 2018, the Group holds 4,216,100 shares of stock of Oriental Peninsula Resources Group, Inc. (OPRGI), a publicly listed company in the Philippines. There was no disposal of shares in 2019 and 2018 and the shares are valued based on the exit market price amounting to ₱0.75 and ₱0.94 per share as at December 31, 2019 and 2018, respectively.

The table below reconciles the carrying amount of AFS financial asset, from previous measurement category in accordance with PAS 39, to the new measurement category upon transition to PFRS 9 on January 1, 2018:

Movements in the “Fair value reserve of the financial asset at FVOCI” are as follows:

	2019	2018
Beginning balance	₱4,891	₱464
Effect of adoption of PFRS 9	-	4,385
Fair value reserve	801	42
Ending balance	₱5,692	₱4,891

On January 1, 2018, upon adoption to PFRS 9, the Company reclassified ₱4.4 million valuation loss on available-for-sale financial asset previously recognized under PAS 39, *Financial Instruments*, to “Fair value reserve of financial asset at fair value through other comprehensive income”.

No dividend income was earned by the Group in 2019, 2018 and 2017 from the financial asset at FVOCI.

In 2019 and 2018, no impairment loss was recognized by the Group since financial asset at FVOCI is not subject to impairment assessment (see Note 28). Impairment loss recognized in 2017 amounted to nil as a result of a significant and prolonged decline in the fair value of the shares held by the Group.

*Others*

Others represent claim for business tax refund and performance bond. Provision for impairment losses on claim for business tax refund amounted to nil in 2019 and 2018 and ₱20.8 million in 2017. Allowance for impairment losses on claim for business tax refund amounted to ₱20.8 million as at December 31, 2019 and 2018. For the performance bond, it pertains to the minimum amount required to be annually posted by the Group in a duly licensed bonding entity to guarantee compliance and implementation of the temporary revegetation and/or the progressive rehabilitation of the disturbed areas beyond the maximum disturbed limit in accordance with the Administrative Order No. 2018-19 issued by the DENR.

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

	2019	2018
Beginning balance	₱41,309	₱40,279
Provision for impairment losses (see Note 22)	-	1,030
Ending balance	₱41,309	₱41,309



### 13. Trade and Other Payables

	2019	2018
Trade	<b>₱258,201</b>	₱186,747
Advances from Huarong Asia Limited	<b>149,134</b>	-
Accrued expenses and taxes	<b>148,037</b>	84,221
Dividends payable	<b>20,238</b>	20,260
Nontrade	<b>13,240</b>	34,454
Advances from customers	<b>1,248</b>	79,755
	<b>₱590,098</b>	₱405,437

#### *Trade*

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

#### *Advances from Huarong Asia Limited*

Advances from Huarong Asia Limited pertains to advances given by Huarong Asia Limited as support to the operations of FSC and FSLC. The advances are noninterest bearing and payable on demand.

#### *Accrued Expenses and Taxes*

Details of the accrued expenses and taxes are as follows:

	2019	2018
Excise taxes and royalties payable (see Note 23)	<b>₱74,769</b>	₱36,415
Provision for Social Development and Management Program (SDMP) and Indigenous Cultural Communities (ICC)	<b>40,250</b>	22,318
Business and other taxes	<b>13,878</b>	20,151
Accrued payroll	<b>13,316</b>	1,493
Others	<b>5,824</b>	3,844
	<b>₱148,037</b>	₱84,221

#### *Excise Taxes and Royalties Payable*

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

#### *Business and Other Taxes*

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

#### *Provision for SDMP and ICC*

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



Breakdown of Provision for SDMP and ICC are as follows:

	2019	2018
Beginning Balance	P19,899	P7,505
Additions	61,299	73,127
Payments	(40,948)	(60,733)
Unused accrual	-	-
Ending Balance	P40,250	P19,899

*Accrued Payroll*

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

*Others*

Others include outside services such as accrual of audit and legal fees, and purchases of supplies which are usual in the business operations of the Group.

*Advances from Customers*

Advances from customers pertain to the amounts received by the Group from its customers before goods have been shipped to them.

*Dividends Payable*

On May 22, 2013, the BOD of the Parent Company approved the declaration of cash dividends in the amount of P1.656 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 stockholders on May 22, 2013 amounting to P20.2 million, were returned as stale checks and presented as cash dividends payable as at December 31, 2019 and 2018.

*Nontrade*

Nontrade payables pertain to payable to third party companies which are non-interest bearing, payable on demand/or generally settled within 30 days.

The Group has US\$-denominated trade and other payables amounting to US\$2.2 million and US\$2.9 million as at December 31, 2019 and 2018, respectively, and HK\$-denominated trade and other payables amounting to HK\$4.3 million and HK\$2.8 million as at December 31, 2019 and 2018, respectively (see Note 31).

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**14. Loans Payable**

	2019	2018
Long term loans	P680,808	P788,700
Chattel mortgage loans	16,220	-
	697,028	788,700
Less current portion:		
Long term loans	201,656	98,588
Chattel mortgage loans	10,519	-
Loans payable - current portion	212,175	98,588
Noncurrent portion	P484,853	P690,112



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

	2019	2018
Beginning balance	<b>₱788,700</b>	₱749,669
Availments	<b>388,375</b>	1,559,090
Payments	<b>(451,181)</b>	(1,495,417)
Effect of changes in foreign currency exchange rates (see Note 28)	<b>(28,866)</b>	(24,642)
<b>Ending balance</b>	<b>₱697,028</b>	₱788,700

Long-term loans

TCB

On June 28, 2018, the Group was granted by TCB a loan facility in the aggregate principal amount not exceeding US\$15.0 million for the same general corporate purposes, with the same terms and conditions.

a) Tranche A: loan facility of US\$10.0 million

- Available for lump sum drawdown before December 31, 2018
- Maturity date on December 31, 2018

b) Tranche B: loan facility of US\$15.0 million

- Available for drawing before May 25, 2019
- Maturity date on 36 months after the first drawdown date for payment as follows:

Months from the first drawdown date	Repayment installment from outstanding principal at the end of availability period (%)
18	12.50%
24	12.50%
30	12.50%
36	62.50%

The interest shall be payable quarterly in arrears. The interest rate for the loan is the aggregate of the reference rate plus spread of 3.50% per annum. The reference rate is the applicable London Interbank Offered Rate (LIBOR) displayed on the Bloomberg and Reuters' page for the three-month yield as of approximately 11:15 am on the interest rate setting date. In the event that the LIBOR will be replaced by a new benchmark as determined by the Banker's Association of the Philippines or the Banko Sentral ng Pilipinas, the new benchmark may be adopted as the new reference rate upon mutual agreement of the parties.

The other conditions of the agreement are as follows:

- a. The Group shall maintain a waterfall account with TCB wherein all amounts collected by TCB from the buyers of nickel ore shall be deposited.
- b. The security required by TCB shall consist of only three kinds, as follows:
  - i. Accounts receivables from the Group's customers or client.
  - ii. Import letters of credit (LC) issued in favor of the Group by its customers and clients or pledgor.
  - iii. Demand Deposit Account which shall be opened and set-up by the collateral provider acceptable to TCB amounting to at least 25% of the drawdown.
  - iv. Guarantee issued by any individual, juridical person or any combination thereof acceptable to TCB.
- c. TCB is irrevocably appointed as the collecting agent for the account receivables from the Group's export orders of nickel ore and as a collecting and advising bank for the import LC opened by the



- buyers of the nickel ore of the Group. The amount collected shall be deposited in the waterfall account of the Group.
- d. The Group may, at its option, prepay the loan in part or in full, together with accrued interest thereon.
  - e. If the Group fails to make payment when due of any sum (whether at the stated maturity, by acceleration or otherwise), the Group shall pay penalty on such past due and unpaid amount/s at the rate of 18% per annum, in addition to the interest rate from due date until the date of payment in full. The penalty shall be payable from time to time and upon demand by TCB.
  - f. A DSRA shall be opened by the Group which shall have a deposit amounting to US\$3.75 million. The amount in said account may be reduced proportionately as the Group pays the principal and its interest by express agreement of the parties.

The Group has complied with the terms of the loan as at December 31, 2019 and 2018.

Pursuant to the follow-on offering which was completed on July 20, 2018, the net proceeds amounting to ₱480.6 million has been infused by the Parent Company to the PGMC through additional subscription of shares. This was subsequently used by the Company to pay part of its outstanding TCB loan on August 3, 2018. The net proceeds from the follow-on offering has been fully utilized as at December 31, 2018.

On December 27, 2019, the Group made the first draw payment of tranche B amounting to \$1.8 million or ₱95.3 million. The carrying amount of the long-term loan, net of current portion, amounted to \$9.4 million or ₱474.7 million and \$13.1 million or ₱690.1 million as at December 31, 2019 and 2018, respectively. Interest expense related to TCB loan amounted to ₱51.6 million, ₱52.3 million and ₱50.7 million in 2019, 2018 and 2017, respectively (see Note 27).

#### SBM Leasing

On July 5, 2019, the Group availed long-term loan from SBM Leasing for the acquisition of transportation equipment. The loans are payable within two years and bear annual interest rate of 9.50% per annum. The noncurrent portion of the long-term loan as at December 31, 2019 amounted to ₱4.4 million. The carrying amount of the transportation equipment included under "Machineries and Other equipment" as at December 31, 2019 amounted to ₱11.4 million (see Note 8). Interest expense related to the loans amounted to ₱0.8 million in 2019 (see Note 27).

#### Short-term loan

##### BDO

The Group is annually granted by BDO a revolving US\$20.0 million Export Packing Credit Line for working capital purposes. For the year 2019, the Group availed from this Line amounting to ₱343.9 million which is payable within three to six months and bear interest of 4.5% per annum. As at December 31, 2019 and 2018, the remaining balance is nil.

Interest expense related to BDO loan amounted to ₱1.9 million, ₱1.0 million and ₱2.8 million in 2019, 2018 and 2017, respectively (see Note 27).

#### Chattel mortgage loans

In 2019, the Group availed two chattel mortgage loans from Caterpillar Financial Services Philippines Inc. for the acquisition of transportation equipment. The loans are payable within two years at interest rates ranging from 5.97% to 6.31% per annum and payable in monthly installments. The noncurrent portion of the chattel mortgage loans as at December 31, 2019 amounted to ₱5.7 million. The carrying amount of the assets mortgaged included under "Machineries and Other equipment" as at December 31, 2019 amounted to ₱26.8 million (see Note 8). Interest expense incurred in relation to the chattel mortgage amounted to ₱0.7 million in 2019 (see Note 27).



### 15. Provision for Mine Rehabilitation and Decommissioning

	2019	2018
Beginning balance	P234,496	P245,407
Accretion interest (see Note 27)	11,739	14,064
Effect of change in estimate (see Note 8)	6,219	(24,975)
Ending balance	P252,454	P234,496

The provision for mine rehabilitation and decommissioning was adjusted in 2019 to reflect the latest discount rates and current expenditures required to settle the expected mined out areas of the Company based on the latest Final Mine Rehabilitation and Decommissioning Plan (FMRDP) submitted to the MGB on July 13, 2018.

### 16. Retirement Obligation

The GFHI Group of Companies Multiemployer Retirement Plan (the Retirement Plan) is jointly established by PGM, PCSSC, INC and the Parent Company, and other affiliate companies that may adopt the said plan. The Retirement Plan is a non-contributory defined benefit retirement plan covering all of the Group's regular employees effective January 1, 2018.

The funding of the Retirement Plan shall be determined by the actuarial advisor and payment of the benefits thereunder shall be provided through the medium of a fund held by the Trustee Bank under the Trust Agreement.

The latest actuarial valuation report of the retirement plan is as at December 31, 2019.

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

Details of the retirement benefits costs in the consolidated statements of comprehensive income are as follows:

	2019	2018	2017
Current service cost (see Note 25)	P14,121	P9,926	P10,828
Past service cost - plan amendment (see Note 25)	-	8,408	-
Interest cost on retirement obligation (see Note 27)	6,587	2,954	2,806
Interest income on plan assets	(3,365)	(1,001)	-
	P17,343	P20,287	P13,634

Current and past service costs are recognized under "Retirement benefits costs".

In 2019, there was no Retirement Plan amendment, curtailment nor settlement.

The Group has 172 and 158 regular employees as at December 31, 2019 and 2018, respectively.



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

	2019	2018
Beginning balance	<b>₱85,547</b>	₱51,203
Current service cost (see Note 25)	<b>14,121</b>	9,926
Past service cost - plan amendments (see Note 25)	-	8,408
Interest cost on retirement obligation (see Note 27)	<b>6,587</b>	2,954
Remeasurement loss (gain) arising from:		
Financial assumptions	<b>15,664</b>	(22,581)
Demographic assumptions	<b>(30,408)</b>	-
Experience adjustments	<b>(10,215)</b>	35,637
Benefits paid	<b>(5,181)</b>	-
Ending balance	<b>₱76,115</b>	₱85,547

Changes in the fair value of plan assets are as follows:

	2019	2018
Beginning balance	<b>₱34,836</b>	₱-
Contributions	<b>22,909</b>	34,689
Actual return on plan assets:		
Interest income on plan assets	<b>3,365</b>	1,001
Remeasurement loss - return on plan assets excluding interest income	<b>(810)</b>	(854)
Benefits paid	<b>(5,181)</b>	-
Ending balance	<b>₱55,119</b>	₱34,836

Net retirement obligation recognized in the consolidated statements of financial position are as follows:

	2019	2018
Present value of retirement obligation	<b>₱76,115</b>	₱85,547
Fair value of plan assets	<b>55,119</b>	34,836
	<b>₱20,996</b>	₱50,711

The fair value of plan assets by each class as at the end of the reporting period are as follows:

	2019	2018
Cash and cash equivalents:		
Savings deposit	<b>₱4</b>	₱9,421
Time deposit	-	1,910
Investment in government securities	<b>40,045</b>	-
Investment in equity securities	<b>12,925</b>	23,420
Investment in debt securities	<b>1,996</b>	-
Others:		
Interest receivables - net of trust fees	<b>208</b>	4
Market gain (loss) - investment in equity securities	<b>(59)</b>	81
	<b>₱55,119</b>	₱34,836



The main categories of plan assets as a percentage of the fair value of total plan assets are as follows:

	2019	2018
Investment in government securities	72.65%	0.00%
Investment in equity securities	23.45%	67.23%
Investment in debt securities	3.62%	0.00%
Cash and cash equivalents	0.01%	32.53%
Others	0.27%	0.24%
	<b>100.00%</b>	100.00%

Investment in debt securities pertains to investment in bonds. Investment in equity securities pertains to unit investment trust funds. Cash and cash equivalents consist of savings and time deposits. Others are in the form of interest receivables and market gain in unit investment trust funds.

Details of the investment in equity securities are as follows:

	December 31, 2019			December 31, 2018
	Carrying Amount	Fair Value	Unrealized gain	
Investment in equity securities	₱12,925	₱12,866	(₱59)	₱23,420

The retirement trust fund assets are valued by the fund manager at fair value using market-to-market valuation. The principal assumptions used in determining retirement obligation for the defined retirement plan are shown below:

	2019	2018	2017
Discount rate	5.61%	7.70%	5.77%
Salary increase rate	10.00%	10.00%	10.00%
Turnover rate	8.33% at age 19 decreasing to 3.03% 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

Assumptions regarding future mortality rate and disability rate are based on the 2001 CSO Table - Generational and Disability Study Period 2 Benefit 5, respectively, developed by the Society of Actuaries, which provides separate rates for males and females.

The Retirement Plan Trustee has no specific matching strategy between the plan assets and the plan liabilities.

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)	2019	2018
Discount rate	+100 basis points	(₱8,137)	(₱9,712)
	-100 basis points	9,585	11,619
Salary increase rate	+100 basis points	₱9,082	₱11,242
	-100 basis points	(7,903)	(9,606)

The Group expects to contribute at least ₱22.9 million to the defined benefit plan in 2020.





Shown below is the maturity analysis of the undiscounted benefit payments as at December 31, 2019 and 2018:

	2019	2018
Less than one year	P4,340	P6,381
More than one year to five years	7,108	10,555
More than five years to 10 years	75,498	82,766
	<b>P86,946</b>	<b>P99,702</b>

The average duration of the defined retirement benefits obligation as at December 31, 2019 and 2018 is 11.6 years and 12.5 years, respectively.

## 17. Leases

The Group has lease contracts for various properties and equipment used in its operations. Leases of properties generally have lease terms between three and 13 years while the equipment has a lease term of one year (see Note 8). The Group's obligations under its leases are secured by the lessor's title to the leased assets. In some contracts, the Group is restricted from assigning and subleasing the leased assets.

The Group also has certain lease of office spaces and machineries and equipment with lease terms of 12 months or less. The Group applies the 'short-term lease' recognition exemptions for these leases.

The following are the amounts recognized in statement of comprehensive income:

	2019
Depreciation expense of right-of-use assets included in property and equipment (see Note 8)	P25,183
Interest expense on lease liabilities (see Note 27)	3,271
Expenses relating to short-term leases (see Notes 21 and 22)	5,324
Variable lease payments	-
Total amount recognized in consolidated statement of comprehensive income	<b>P33,778</b>

The rollforward analysis of lease liabilities follows:

	2019
As at January 1, 2019, as previously reported	P9,876
Effect of adoption of PFRS 16	91,625
At January 1, 2019, as restated (see Note 2)	101,501
Additions	-
Interest expense	3,271
Payments	(30,579)
As at December 31, 2019	<b>P74,193</b>

The current and noncurrent portion of the lease liabilities as at December 31, 2019, discounted using incremental borrowing rate are as follows:

Current portion	P27,331
Noncurrent portion	46,862
Lease liability	<b>P74,193</b>



Shown below is the maturity analysis of the undiscounted lease payments as at December 31, 2019:

	2019
one year	P24,658
more than one year to two years	24,548
more than two years to three years	20,143
more than three years to four years	745
more than five years	4,147

In November 2018, the CFSPI executed a lease agreement with a lease term of two years, in which the Company has determined that the lease transfers substantially all the risks and rewards incidental to the ownership of the equipment upon final payment at the end of the lease term. The lease agreement is classified as finance lease under PAS 17. Upon adoption to PFRS 16, the Group reclassified the carrying amount of the "Finance lease liabilities" to "Lease liabilities" amounted to P9.8 million. The carrying amount of the finance leased asset recognized under "Machineries and Other Equipment" and reclassified to "Right-of-use asset" upon adoption to PFRS 16 amounted to P12.5 million (see Note 8).

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

Future minimum lease payments are as follows:

Category	2019	2018
Within one year	P-	P5.5
After one year but not more than five years	-	11.1

Rent payable reported under "Other noncurrent liabilities" amounted to nil and P1.7 million as at December 31, 2019 and 2018, respectively (see Note 18).

Total rent expense incurred amounted to P5.3 million, P34.2 million, and P35.4 million in 2019, 2018 and 2017, respectively (see Notes 21 and 22). Prepaid rent reported under "Prepayments and other current assets" in relation to these lease agreements amounted to P14.1 million and P14.8 million as at December 31, 2019 and 2018, respectively (see Note 7).

## 18. Other Noncurrent Liabilities

	2019	2018
Previous stockholders of CNMEC	P366,463	P366,463
BNVI	165,566	165,566
Subscription payable	225,000	-
Others	-	1,663
	<b>P757,029</b>	<b>P533,692</b>

### *Payable to Previous Stockholders of CNMEC and BNVI*

In 2016, the Parent Company, SPNVI and the stockholders of SPNVI executed a Deed of Assignment wherein SPNVI assigned its payable to the previous stockholders of CNMEC and BNVI to the Parent Company amounting to P532.0 million. This is pursuant to the Contract to Sell executed on August 6, 2015 (see Note 1). This is noninterest bearing and payable on the first shipment of INC.

### *Subscription Payable*

Subscription Payable pertains to the remaining unpaid portion of the Parent Company's subscription to SNPSI.



*Others*

Others pertain to the rent payable of the Group for the lease of its Makati office premises (see Note 33).

**19. Equity**

Capital Stock

The Parent Company's authorized and issued capital stock as at December 31, 2019 and 2018 are as follows:

	<b>2019</b>	2018
Par value	<b>₱1.05</b>	₱1.05
Authorized shares	<b>11,957,161,906</b>	11,957,161,906
Total authorized capital stock	<b>₱12,555,020,001.30</b>	₱12,555,020,001.30
Issued shares	<b>6,072,357,151</b>	6,072,357,151
Total capital stock (amounts in thousand)	<b>₱6,375,975</b>	₱6,375,975

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

*Increase in Authorized Capital Stock*

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

As discussed in Note 1, the BOD and stockholders of the Parent Company approved a capital restructuring through a reserve stock split. In relation to this, the Parent Company applied for an increase in its authorized capital stock which was approved by the SEC on November 7, 2016. Out of the increase in capital stock, an individual stockholder subscribed a total of ₱20,000.4 divided into 19,048 common shares at a par value of ₱1.05.

*Follow-on Offering*

On July 20, 2018, the Parent Company has completed its follow-on offering of 250,000,000 common shares which resulted to an increase in capital stock amounting to ₱262.5 million. On the same date, all the 6,072,357,151 issued shares of the Parent Company, including the common shares issued in accordance with the Share Swap transaction approved by the SEC on December 22, 2014, private placement and follow-on offer shares, 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
Additional registration	Various	July 2018	2.07	250,000,000
				<b>7,259,810,000</b>



## APIC

### *Follow-on Offering*

The completion of the Parent Company's follow-on offering of 250,000,000 common shares resulted to the recognition of APIC amounting to ₱255.0 million. The offer price and par value per share amounted to ₱2.07 and ₱1.05, respectively. The transactions costs directly attributable to the issuance of new common shares from the follow-on offering amounting to ₱16.0 million were deducted from the APIC.

### Special Stock Grant

The stock grant agreement in relation to the Employee Stock Option Master Plan was executed on December 28, 2018 and December 27, 2017, the grant dates, between the Parent Company and the grantees. The fair value of the shares on December 28, 2018 and December 27, 2017 was ₱1.67 and ₱2.62, respectively, taking into consideration the terms and conditions of the stock grant. A total of 20,000,000 treasury shares of the Parent Company consisting of 9,900,000 and 10,100,000 treasury shares was granted to PGMC in 2018 and 2017, respectively. The treasury shares were subsequently issued by PGMC to its employees as recognition for their past services. The basic terms and conditions of the stock grant are as follows:

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

Stock grant expense recognized by PGMC amounted to nil, ₱16.5 million and ₱26.5 million in 2019, 2018 and 2017, respectively (see Note 25).

### Retained Earnings

On March 14, 2018, the BOD of the Parent Company approved the declaration of property dividends consisting of the treasury shares of the Parent Company at the ratio of 0.06 share for every GFHI share held by the stockholders of record as at April 2, 2018. The property dividends amounting to ₱850.4 million was taken out of the unrestricted earnings of the Parent Company as at December 31, 2017. There was also a decrease in retained earnings amounting to ₱9.6 million which was recognized based on the difference between the fair value of treasury shares fixed by the BOD at ₱2.61 per share and the cost of treasury shares upon reacquisition. The property dividends were fully settled on November 22, 2018.

On December 16, 2018, PGMC's stockholders and BOD declared a cash dividend of ₱480.00 per share to stockholders of record as at December 31, 2018 and stock dividend amounting to ₱1,200.0 million divided into 12,000,000 shares at the par value of ₱100.00 per share to be issued out of the increase in the authorized capital stock of PGMC on December 29, 2018. The cash and stock dividends declared by PGMC were taken out of its unrestricted retained earnings as at December 31, 2016. Portion of the cash dividends payable was settled on December 29, 2017 by offsetting the cash advances to stockholders classified under "Advances to related parties". As at December 31, 2019, the cash dividends payable was fully settled.

On December 16, 2019, PGMC's BOD and stockholders approved the declaration of cash dividends amounting to ₱85 per share to stockholders of record as at December 15, 2019 to be paid not later than January 2020 amounting to ₱2,201.5 million. The dividends were settled by offsetting PGMC's subscription receivable amounting to ₱150.0 million and cash advances to stockholders under "Advances to related parties" amounted to ₱2,051.2 million. Cash dividends payable arising from the transaction amounted to ₱0.3 million as at December 31, 2019.



Retained earnings include the accumulated equity in undistributed net earnings of subsidiaries and associates amounting to ₱1,155.6 million which is not available for dividend declaration by the Parent Company until declared by the investee companies.

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

In accordance with Revised SRC 68, Annex 68-C, the Parent Company's retained earnings available for dividend declaration amounted to ₱5,288.0 million and ₱3,209.2 million as at December 31, 2019 and 2018, respectively.

NCI

<b>2019</b>				
	<b>FSC</b>	<b>FSLC</b>	<b>PGMC</b>	<b>Total</b>
Percentage of ownership	<b>49.00%</b>	<b>40.00%</b>	<b>0.02%</b>	
Issuance of capital stock	<b>₱30,625</b>	<b>₱7,500</b>	<b>₱446</b>	<b>₱38,571</b>
Total comprehensive income attributable to NCI	(3,032)	(1,462)	277	(4,217)
Cash dividend	-	-	(379)	(379)
<b>Total</b>	<b>₱27,593</b>	<b>₱6,038</b>	<b>₱344</b>	<b>₱33,975</b>

The dividend declared attributable to PGMC's NCI in relation to its dividend declaration on December 16, 2019 amounted to ₱0.4 million.

Treasury Shares

In 2019 and 2018, the Parent Company purchased a total of 50,755,937 common shares amounting to ₱82.6 million and 306,058,144 common shares amounting to ₱636.9 million, respectively. This is pursuant to the Share Buyback Program which was approved by the BOD on June 29, 2016 and May 15, 2018. The estimated number of shares for re-purchase, approved and authorized by the BOD is up to 10% and an additional 5% of the total outstanding shares of the Parent Company, respectively. As at December 31, 2019 and 2018, the Parent Company repurchased about 1% and 6% of its total outstanding shares, respectively.

The cost of treasury shares issued in relation to the property dividends on November 22, 2018 amounted to ₱850.4 million based on the market prices upon declaration. A total number of 325,836,713 treasury shares was declared and distributed by the Parent Company. A decrease in retained earnings amounting to ₱9.6 million was recognized in 2018 based on the difference between the fair value of treasury shares fixed by the BOD at ₱2.61 per share and the cost of treasury shares upon reacquisition. In addition, the Parent Company withheld the total of 32,099,503 treasury shares, amounting to ₱83.8 million, representing the applicable final withholding taxes and fractional shares.

On December 7, 2018, the Parent Company reacquired and received from certain stockholders the total of 186,150,699 shares, amounting to ₱331.3 million, representing partial settlement of the stockholders' cash advances from the Parent Company (see Note 29).

The cost of treasury shares issued in relation to the special stock grant on December 28, 2018 and December 27, 2017 amounted to ₱29.8 million and ₱28.2 million, respectively. A decrease in retained earnings amounting to ₱13.3 million and ₱1.8 million was recognized in 2019 and 2018, respectively, based on the difference between the fair value of the treasury shares at the date of grant and the cost of treasury shares upon reacquisition.

The Parent Company has 598,147,322 shares amounting to ₱1,198.9 million and 547,391,385 shares amounting to ₱1,116.3 million in treasury shares as at December 31, 2019 and 2018, respectively.



### Equity Reserve

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

Below is the summary of the movements of the “Equity reserve” account:

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

## 20. EPS

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

	2019	2018	2017
Net income attributable to common shareholders (amounts in thousands)	₱1,307,772	₱509,528	₱779,689
Weighted average number of common shares outstanding for basic EPS	5,512,298,886	5,459,946,222	5,700,801,394
Basic/diluted EPS	₱0.24	₱0.09	₱0.14

As at December 31, 2019, 2018 and 2017, there are no potentially dilutive common shares.

## 21. Cost of Sales

	2019	2018	2017
Contract hire (see Notes 6 and 33)	₱1,935,940	₱1,836,680	₱1,962,517
Depreciation, depletion and amortization (see Note 26)	340,652	413,595	425,648
Personnel costs (see Note 25)	177,724	158,539	150,065
Environmental protection costs	53,083	56,232	42,405
Community relations	51,343	34,345	41,588
Fuel, oil and lubricants	39,309	29,619	20,785
Operations overhead	32,994	13,176	21,044
Assaying and laboratory	29,359	22,019	28,394
Repairs and maintenance	23,967	37,105	20,430
Manning services	21,130	21,017	22,155
Rentals (see Note 17)	3,273	7,611	9,414
Other charges	29,119	26,593	24,126
	₱2,737,893	₱2,656,531	₱2,768,571



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

Operations overhead includes, but are not limited to, materials and supplies, travel and transportation expense and other miscellaneous charges.

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

## 22. General and Administrative

	2019	2018	2017
Personnel costs (see Note 25)	<b>₱251,563</b>	₱260,745	₱237,308
Taxes and licenses	<b>124,089</b>	181,633	140,763
Consultancy fees	<b>58,784</b>	57,074	38,106
Depreciation (see Note 26)	<b>50,478</b>	24,140	18,719
Outside services	<b>50,221</b>	52,515	45,495
Marketing and entertainment	<b>38,785</b>	28,464	24,596
Travel and transportation	<b>23,384</b>	14,829	15,106
Repairs and maintenance	<b>18,128</b>	14,836	12,325
Insurance	<b>6,633</b>	2,441	1,499
Fuel, oil and lubricants	<b>7,545</b>	7,621	5,275
Provision for inventory losses (see Note 6)	<b>5,953</b>	-	-
Power and utilities	<b>5,499</b>	1,837	1,552
Office supplies	<b>5,255</b>	7,784	5,440
Membership and subscription	<b>5,173</b>	4,332	3,001
Communication	<b>4,790</b>	5,154	6,057
SEC and listing fees	<b>1,016</b>	6,895	683
Rentals (see Note 17)	<b>2,051</b>	26,625	26,030
Trainings, seminars and meetings	<b>844</b>	823	663
Provision for ECL/impairment losses on trade and other receivables (see Note 5)	-	79,707	208,805
Provision for impairment losses on:			
Other noncurrent assets (see Note 12)	-	1,030	20,798
Prepayments and other current assets (see Note 7)	-	-	3,684
Other charges	<b>15,051</b>	17,259	17,253
	<b>₱675,242</b>	₱795,744	₱833,158

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

## 23. Excise Taxes and Royalties

	2019	2018	2017
Royalties to:			
Government	<b>₱305,475</b>	₱267,480	₱255,896
Claim-owners (see Note 33)	<b>230,099</b>	191,947	296,571
ICC	<b>63,072</b>	53,855	59,381
Excise taxes	<b>244,381</b>	214,253	102,358
	<b>₱843,027</b>	₱727,535	₱714,206



The Group is paying royalty fees to CMDC equivalent to 2% to 5% of the gross receipts in 2019 and 2018 and 3% to 7% of gross receipts in 2017. The decrease in royalty base rates resulted from the Amended Royalty Agreement executed by and between CMDC and the Group on April 17, 2018 (see Note 33). The Group is also paying royalty fees to ICC equivalent to a minimum of 1% of the gross output from the mining operations.

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 5% of the market value of the gross output of the minerals/mineral products extracted or produced from its Surigao mines to DENR-MGB
- An excise tax of 4%, 4%, and 2% in 2019, 2018 and 2017 of the market value of the gross output of the minerals/mineral products extracted or produced from its Surigao mines to the BIR

As at December 31, 2019 and 2018, excise taxes and royalties payable amounted to ₱74.8 million and ₱36.4 million, respectively (see Note 13).

#### 24. Shipping and Distribution

	2019	2018	2017
Barging charges	<b>₱298,502</b>	₱316,338	₱280,881
Stevedoring charges and shipping expenses	<b>47,881</b>	40,288	61,072
Government fees	<b>31,673</b>	31,504	35
Personnel costs (see Note 25)	<b>24,874</b>	23,544	27,728
Fuel, oil and lubricants	<b>19,986</b>	18,975	15,503
Repairs and maintenance and others	<b>990</b>	875	293
Supplies	<b>896</b>	1,379	3,331
	<b>₱424,802</b>	₱432,903	₱388,843

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

#### 25. Personnel Costs

	2019	2018	2017
Salaries and wages	<b>₱398,809</b>	₱363,760	₱340,663
Retirement benefits costs (see Note 16)	<b>14,121</b>	18,334	10,828
Stock grant (see Note 19)	-	16,533	26,462
Other employee benefits	<b>41,231</b>	44,201	37,148
	<b>₱454,161</b>	₱442,828	₱415,101

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

Personnel costs were distributed as follows:

	2019	2018	2017
Cost of sales (see Note 21)	<b>₱177,724</b>	₱158,539	₱150,065
General and administrative (see Note 22)	<b>251,563</b>	260,745	237,308
Shipping and distribution (see Note 24)	<b>24,874</b>	23,544	27,728
	<b>₱454,161</b>	₱442,828	₱415,101





## 26. Depreciation, Depletion and Amortization

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

	2019	2018	2017
Cost of sales (see Notes 8, 10, 12 and 21)	<b>₱340,652</b>	₱413,595	₱425,648
General and administrative (see Notes 8 and 22)	<b>50,478</b>	24,140	18,719
	<b>₱391,130</b>	₱437,735	₱444,367

## 27. Finance Costs

	2019	2018	2017
Interest expense (see Notes 14, 16 and 17)	<b>₱63,658</b>	₱56,350	₱56,586
Accretion interest on provision for mine rehabilitation and decommissioning (see Note 15)	<b>11,739</b>	14,064	4,077
Bank charges	<b>7,687</b>	6,524	8,078
	<b>₱83,084</b>	₱76,938	₱68,741

## 28. Other Income (Charges) - net

	2019	2018	2017
Foreign exchange gains (losses) - net	<b>(₱12,487)</b>	(₱40,044)	₱28,235
Despatch (demurrage) - net	<b>(14,936)</b>	24,874	-
Loss on disposals of property and equipment (see Note 8)	-	-	(8)
Others	<b>14</b>	-	142
	<b>(₱27,409)</b>	(₱15,170)	₱28,369

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

	2019	2018	2017
Net realized foreign exchange gains (losses)	<b>(₱32,998)</b>	(₱52,635)	₱32,753
Unrealized foreign exchange gains (losses) on:			
Cash	<b>(9,675)</b>	(12,772)	4,473
Trade and other receivables	<b>(3,720)</b>	(2,480)	(3,658)
Advances to related parties	-	28	(2,199)
Prepayments and other current assets	-	-	10
Other noncurrent assets	<b>(854)</b>	271	-
Loans payable (see Note 14)	<b>28,866</b>	24,642	(4,300)
Trade and other payables	<b>5,894</b>	2,902	1,156
	<b>(₱12,487)</b>	(₱40,044)	₱28,235

Despatch (demurrage) - net represents the amount received by the Group from the buyer when shipment loading is completed ahead of the allowable laytime.



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**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.

Set out on the next page are the Group's transactions with related parties in 2019, 2018 and 2017, including the corresponding assets and liabilities arising from the said transactions as at December 31, 2019 and 2018. In considering each related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.



Category	Amount/ Volume	Advances to related parties	Advances from related parties	Terms	Conditions
<b>Stockholders</b>					
2019	<b>₱889,034</b>	<b>₱2,165,876</b>	<b>₱9,070</b>	<b>(A), (B)</b>	<b>(C)</b>
2018	382,226	₱1,812,415	₱59,070	(A), (B)	(C)
<b>Affiliates with common officers, directors and stockholders</b>					
2019	<b>84,919</b>	<b>161,337</b>	<b>387,685</b>	<b>(A), (B)</b>	<b>(C)</b>
2018	106,657	181,203	228,124	(A), (B)	(C)
<b>Associates</b>					
2019	-	<b>91,799</b>	-	<b>(A)</b>	<b>(C)</b>
2018	-	91,799	-	(A)	(C)
<b>Total</b>	<b>₱973,953</b>	<b>₱2,419,012</b>	<b>₱396,755</b>		
Total	₱488,883	₱2,085,417	₱287,194		

Intercompany transactions below are eliminated in the consolidated financial statements.

Category	Amount/ Volume	Trade and other payables	Barging charges	Sale of nickel ore	Trade and other receivables	Advances to related parties	Advances from related parties	Terms	Conditions
<b>Subsidiaries</b>									
<b>PGMC</b>									
2019	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱123,919</b>	<b>₱-</b>	<b>(A)</b>	<b>(C)</b>
2018	739,699	-	-	-	-	739,699	-	(A)	(C)
<b>PCSSC</b>									
2019	-	<b>55,968</b>	<b>100,396</b>	-	-	-	-	<b>(B)</b>	<b>(C)</b>
2018	95,431	64,697	95,431	-	-	-	-	(B)	(C)
<b>SIRC</b>									
2019	-	-	-	-	-	-	<b>3,118</b>	<b>(B)</b>	<b>(C)</b>
2018	-	-	-	-	-	-	3,320	(B)	(C)
<b>PIL</b>									
2019	<b>8,850</b>	<b>27,674</b>	-	<b>2,681,651</b>	<b>27,673</b>	-	-	<b>(A)</b>	<b>(C)</b>
2018	1,509,428	18,824	-	1,136,501	18,872	-	-	(A)	(C)
<b>FSC</b>									
2019	<b>122,407</b>	-	-	-	-	-	<b>122,407</b>	<b>(B)</b>	<b>(C)</b>
<b>FSLC</b>									
2019	<b>8,902</b>	-	-	-	-	-	<b>8,902</b>	<b>(B)</b>	<b>(C)</b>
<b>Total</b>	<b>₱140,159</b>	<b>₱83,642</b>	<b>₱100,396</b>	<b>₱2,681,651</b>	<b>₱27,673</b>	<b>₱123,919</b>	<b>₱134,427</b>		
Total	₱2,344,558	₱83,521	₱95,431	₱1,136,501	₱18,872	₱739,699	₱3,320		

(A) On demand; noninterest-bearing; collectible in cash

(B) On demand; noninterest-bearing; payable in cash

(C) Unsecured; with guarantee



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

- a. On January 21, 2016, the Parent Company acquired PIL through the purchase of its 10,000 shares at HK\$1.0 par value amounting to HK\$10.0 thousand or ₱61.0 thousand. The transaction was considered by the Parent Company as an asset acquisition. The assets and liabilities of PIL mostly consist of financial instruments with a net liability amounting to ₱7.3 million. A loss on acquisition amounting to ₱7.4 million was recognized based on the difference between the consideration paid and the fair values of the assets acquired and liabilities assumed.

PIL entered into several ore supply sales agreement with PGMC for the purchase of nickel ore amounting to ₱2,681.7 million, ₱1,136.5 million and ₱2,340.7 million in 2019, 2018 and 2017, respectively.

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

In 2016, the Parent Company, PGMC, SPNVI and the stockholders of SPNVI executed another Deed of Assignments wherein SPNVI assigned its payable to BNVI, payable to the previous stockholders of CNMEC and the remaining payable to stockholders of SPNVI, to the Parent Company amounting to ₱589.3 million.

As at December 31, 2019 and 2018, these advances amounted to ₱2,174.5 million and ₱2,217.4 million, respectively. A portion of these advances will form part of the purchase price for the acquisition of SPNVI pursuant to the Contract to Sell executed on August 6, 2015 and are recorded under “Deposits for future acquisition” (see Note 1).

- c. In the first quarter of 2018, PGMC entered into a Time Charter Agreement with PCSSC for the use of five LCTs at ₱2.6 million each per month. This Agreement covers a period of seven months on/about April 1, 2018 to October 31, 2018, subject to renewal upon mutual agreement of the parties. In 2019, the parties signed a memorandum indicating that the terms and conditions of the previous TCA shall remain the same for 2019 and shall be deemed effective unless one of the contracting parties has breached, terminated, or revoked the provisions of the contract. The charter fee incurred amounted to ₱100.4 million, ₱95.4 million and ₱89.9 million in 2019, 2018, and 2017, respectively.
- d. On November 22, 2018, the Parent Company reacquired the total of 32,099,503 treasury shares, amounting to ₱83.8 million, representing the applicable final withholding taxes and fractional shares related to the property dividends (see Note 19).

On December 7, 2018, the Parent Company reacquired and received from certain stockholders the total of 186,150,699 shares, which amounted to ₱331.3 million, representing partial settlement of the stockholders’ cash advances from the Parent Company (see Note 19).

- e. On November 9, 2016, the Parent Company entered into a Deed of Guarantee with Baiyin International Investment Ltd. (BIIL) to serve as a guarantor for the loan made by Ipilan Nickel Corporation (INC), a subsidiary of SPNVI, with BIIL. As guarantor, the Parent Company, irrevocably and conditionally, jointly and severally guarantees to BIIL the due and punctual payment and performance of INC in all secured obligations. Also, the Parent Company, undertakes to pay principal obligation of INC, if INC fails to pay its principal obligation and any of the secured obligations, as if it was the principal obligor (see Note 1).



- f. On December 16, 2019, the Parent Company executed various Deed of Assignments of intercompany balances as follows:
- Deed of assignment executed with INC wherein INC assigned all its rights, titles, and interests on its advances to SSI in favor of the Parent Company amounting to ₱158.7 million.
  - Deed of assignment executed with PGMC wherein PGMC assigned all its rights, titles, and interests on its advances in favor of the Parent Company amounting to ₱934.2 million.
- g. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any director (whether executive or otherwise) of the Group. The short-term benefits of key management personnel of the Group in 2019, 2018 and 2017 amounted to ₱97.1 million, ₱81.7 million and ₱61.3 million, respectively, exclusive of cost of share-based payment amounting to nil, ₱11.4 million and ₱17.9 million, respectively. The post-employment benefits of key management personnel of the Group amounted to ₱32.2 million, ₱32.2 million and ₱19.0 million in 2019, 2018 and 2017, respectively.

### 30. Income Taxes

The current provision for income tax represents RCIT in 2019 and 2018 and MCIT in 2017. It also represents amounts which are expected to be paid to different taxation authorities, the BIR and the Inland Revenue Department (IRD) in HK.

For the BIR, the reconciliation between income before income tax computed at the statutory income tax rate and the provision for income tax at the effective income tax rate as shown in the consolidated statements of comprehensive income is as follows:

	2019	2018	2017
Income before tax computed at statutory income tax rate	<b>₱414,473</b>	₱220,937	₱132,730
Add (deduct) tax effects of:			
Expiration of deferred tax asset on NOLCO	<b>35,952</b>	57,624	4,132
Change in unrecognized deferred tax assets	<b>(16,232)</b>	(28,169)	36,484
Nondeductible expenses:			
Share in net loss of investment in associates	<b>12,439</b>	-	-
Nondeductible taxes	<b>5,399</b>	10,696	18,004
Interest	<b>813</b>	283	185
Marketing and entertainment	<b>427</b>	5,264	4,820
Others	<b>156</b>	2,926	393
Interest income already subjected to final tax	<b>(1,842)</b>	(874)	(1,968)
Application of excess MCIT	<b>-</b>	-	2,787
	<b>₱451,585</b>	₱268,687	₱197,567



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

	2019	2018	2017
Income before tax computed at HK profits tax rates* of:			
8.25% (First HK\$ 2.0 million)	<b>₱1,089</b>	₱1,108	₱-
16.5% (Over HK\$ 2.0 million)	<b>73,707</b>	6,026	104,737
Add (deduct) tax effects of:			
Nondeductible expenses	<b>2,160</b>	1,479	887
Depreciation allowances	<b>(248)</b>	(385)	(2,062)
Nontaxable income	<b>(60)</b>	(37)	(20)
Overprovision of tax in prior year	<b>(132)</b>	-	(3,591)
	<b>₱76,516</b>	₱8,191	₱99,951

\*The two-tiered profits tax rates regime was implemented by the IRD commencing from the year of assessment 2018/19. Under the regime, the first HK\$ 2.0 million of profits has been taxed at 8.25% while the remaining profits continued to be taxed at the existing 16.5% tax rate.

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

	2019	2018
Deferred tax assets:		
Allowance for impairment losses on trade and other receivables	<b>₱91,761</b>	₱91,761
Provision for mine rehabilitation and decommissioning	<b>75,736</b>	70,349
Retirement obligation recognized in profit or loss	<b>14,754</b>	16,423
Unrealized foreign exchange losses - net	<b>5,224</b>	16,677
Accrued taxes	<b>3,380</b>	8,719
Allowance for impairment losses on inventories	<b>1,786</b>	-
Cumulative translation adjustment directly recognized in OCI	<b>1,343</b>	-
Depreciation of right-of-use asset	<b>613</b>	-
Rent payable	-	499
	<b>₱194,597</b>	₱204,428
Deferred tax liabilities:		
Undepleted asset retirement obligation	<b>₱39,831</b>	₱44,077
Cumulative translation adjustment directly recognized in OCI	-	5,439
Retirement obligation directly recognized in OCI	<b>8,456</b>	1,209
	<b>48,287</b>	50,725
Deferred tax assets - net	<b>₱146,310</b>	₱153,703

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

Year Incurred	Year of Expiration	NOLCO
2019	2022	₱116,941
2018	2021	97,153
2017	2020	110,947
		<b>₱325,041</b>



NOLCO	2019	2018	2017
Beginning balance	<b>₱327,937</b>	₱422,865	₱311,918
Addition	<b>116,941</b>	97,153	110,947
Expiration	<b>(119,837)</b>	(192,081)	-
Application	-	-	-
NOLCO incurred during the income tax holiday period	-	-	-
<b>Ending balance</b>	<b>₱325,041</b>	₱327,937	₱422,865

MCIT	2019	2018	2017
Beginning balance	<b>₱-</b>	₱-	₱2,787
Addition	-	-	-
Application	-	-	(2,787)
Expiration	-	-	-
<b>Ending balance</b>	<b>₱-</b>	₱-	₱-

The Group has availed of the itemized deductions method in claiming its deductions in 2019, 2018 and 2017.

### 31. Financial Risk Management Objectives and Policies and Capital Management

The Group's financial instruments mainly consist of cash equivalents, trade receivables, advances to contractors and interest receivables under "Trade and other receivables", advances to related parties and restricted cash previously under "Prepayments and other current assets" and currently under "Other noncurrent assets", trade and other payables (excluding statutory payables), loans payable, lease liabilities under PFRS 16, finance lease liabilities under PAS 17, advances from related parties and payable to Brooks Nickel Ventures Inc. (BNVI) and previous stockholders of CNMEC which are under "Other noncurrent liabilities". 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 receivables and interest receivable under "Trade and other receivables", restricted cash previously under "Prepayments and other current assets" and currently under "Other noncurrent assets", trade and other payables and advances from related parties, which directly arise from its operations.

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

#### Market Risk

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

#### *Foreign Exchange Risk*

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

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

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 Bankers Association of the Philippines for US\$-denominated accounts and Bangko Sentral ng Pilipinas for HK\$-denominated accounts.



The Group's foreign currency-denominated financial assets and liabilities and their Philippine Peso equivalents as at December 31, 2019 and 2018 are as follows:

	2019			2018		
	US\$ Amount	HK\$ Amount	Peso Equivalent	US\$ Amount	HK\$ Amount	Peso Equivalent
<b>Financial Assets:</b>						
Cash in banks	US\$13,112	HK\$121,062	₱1,450,895	US\$3,954	HK\$22,448	₱358,527
Short-term cash investments	-	-	-	8,000	-	420,640
Trade receivables	3,221	8,490	218,296	5,301	2,083	292,704
Restricted cash previously under "Prepayment and other current assets" and currently under "Other noncurrent assets"	1	29,264	190,267	1	45,066	302,445
Advances to related parties	-	-	-	-	15,659	105,072
	<b>US\$16,334</b>	<b>HK\$158,816</b>	<b>₱1,859,458</b>	<b>US\$17,256</b>	<b>HK\$85,256</b>	<b>₱1,479,388</b>
	2019			2018		
	US\$ Amount	HK\$ Amount	Peso Equivalent	US\$ Amount	HK\$ Amount	Peso Equivalent
<b>Financial Liabilities:</b>						
Trade and other payables	2,236	4,256	140,895	2,878	2,810	170,180
Loans payable	13,125	-	664,650	15,000	-	788,700
	<b>15,361</b>	<b>4,256</b>	<b>805,545</b>	<b>17,878</b>	<b>2,810</b>	<b>958,880</b>
<b>Net Financial Assets (Liabilities)</b>	<b>US\$973</b>	<b>HK\$154,560</b>	<b>₱1,053,913</b>	<b>(US\$622)</b>	<b>HK\$82,446</b>	<b>₱520,508</b>

The exchange rates used for the conversion of US\$1.00 to peso equivalent were ₱50.64 and ₱52.58 as at December 31, 2019 and 2018, respectively. The exchange rates used for the conversion of HK\$1.00 to peso equivalent were ₱6.50 and ₱6.71 as at December 31, 2019 and 2018, respectively.

The following table demonstrates the sensitivity to a reasonably possible change in the US\$ and HK\$ exchange rates, with all other variables held constant, of the Group's income before income tax (due to changes in revaluation of financial assets and liabilities) for the years ended December 31, 2019, 2018 and 2017.

	US\$	Effect on Income	HK\$	Effect on Income
	Appreciates/ Depreciates by	Before Income Tax US\$	Appreciates/ Depreciates by	Before Income Tax HK\$
<b>December 31, 2019</b>	<b>(0.63)</b>	<b>₱31,042</b>	<b>(0.07)</b>	<b>₱70,325</b>
	<b>0.61</b>	<b>(29,934)</b>	<b>0.08</b>	<b>(80,371)</b>
December 31, 2018	(0.66)	(₱21,746)	(0.07)	₱38,725
	0.43	14,143	0.07	(38,725)
December 31, 2017	2.00	₱795,220	0.06	₱6,938
	(2.00)	(795,220)	(0.09)	(6,938)

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

*Interest Rate Risk*

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





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

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

The terms and maturity profile of the interest-bearing financial assets and liabilities as at December 31, 2019 and 2018, together with their corresponding nominal interest rate and carrying values are shown in the following table:

	Nominal Interest Rate	Less than 6 Months	6 to 12 Months	1 to 2 Years	More than 2 Years	Total
<b>2019</b>						
Cash in banks	Various	₱1,689,277	₱-	₱-	₱-	₱1,689,277
Short-term cash investments	1.5%-6%	71,255	-	-	-	71,255
Loans Payable	6.3% to 9.5%	5,136	5,383	5,701	-	16,220
	9.5 %	2,875	8,900	4,449	-	16,224
	LIBOR plus 3.5%	94,940	94,941	474,703	-	664,584
<b>2018</b>						
Cash in banks	Various	₱556,727	₱-	₱-	₱-	₱556,727
Short-term cash investments	1.5%-6%	491,213	-	-	-	491,213
Loans Payable	10.50%-14.00%; LIBOR plus 3.50%	-	98,588	98,588	591,524	788,700

The following table sets forth, for the year indicated, the impact of a reasonably possible change in interest rate for the years ended December 31, 2019, 2018 and 2017 in the consolidated statements of comprehensive income (through the impact of floating rate borrowings):

	Increase/Decrease in Basis Points	Effect on Income Before Income Tax
<b>December 31, 2019</b>	<b>+100</b>	<b>(₱6,646)</b>
	<b>-100</b>	<b>₱6,646</b>
December 31, 2018	+100	(₱7,887)
	-100	₱7,887
December 31, 2017	+100	(₱7,490)
	-100	₱7,490

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

#### Equity Price Risk

Equity price risk is the risk to earnings or capital arising from changes in stock prices relating to the Group's quoted equity instrument in OPRGI which is traded in the PSE and previously classified as "AFS financial asset" and currently classified as "Financial asset at FVOCI" under "Other noncurrent assets".

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

The table below shows the sensitivity to a reasonably possible change in equity prices on quoted equity instrument as at December 31, 2019 and 2018. 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
<b>2019</b>	<b>(4.77%)</b> <b>4.77%</b>	<b>73</b> <b>(73)</b>
2018	(4.23%) 4.23%	(67) 67

#### Credit Risk

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

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

#### *Credit Risk Exposure*

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

	Notes	2019	2018
Cash and cash equivalents:			
Cash in banks	4	<b>₱1,689,277</b>	₱556,727
Short-term cash investments	4	<b>71,255</b>	491,213
Trade and other receivables:			
Trade receivables	5	<b>365,478</b>	261,234
Advances to contractors	5	<b>80,111</b>	79,707
Interest receivable	5	<b>40</b>	494
Advances to related parties:	29		
Stockholders		<b>2,165,876</b>	1,812,415
Affiliates with common officers, directors and stockholders		<b>161,337</b>	181,203
Associate		<b>91,799</b>	91,799
Restricted cash under "Other noncurrent assets"	12	<b>190,321</b>	301,902
Financial asset at FVOCI under "Other noncurrent assets"	12	<b>3,163</b>	3,964
		<b>₱4,818,657</b>	<b>₱3,780,658</b>

#### *Credit Quality of Financial Assets*

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



Accordingly, the Group has assessed the credit quality of the following financial assets:

- Cash in banks, short-term cash investments, interest receivable and restricted cash are considered high grade since these are deposited in/or to be received from local and foreign banks.
- Trade receivables, which mainly pertain from sale of nickel ore, are assessed as high grade since the customers have good financial capacity. Trade receivables which are not foreseen to be collected have already been impaired and are classified as substandard grade.
- Advances to contractors are currently assessed as substandard grade since these have no repayment dates and these have already been impaired.
- Advances to related parties are assessed as substandard grade since these have no repayment dates.
- Financial asset at FVOCI previously classified as “AFS financial asset” under “Other noncurrent assets” is an investment that can be traded to and from companies with good financial capacity, making the investment secured and realizable. Management assessed the quality of this asset 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 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, 2019 and 2018 based on contractual undiscounted payments.

2019	On Demand	Less than 3 Months	3 to 6 Months	6 to 12 Months	1 to 2 Years	More than 2 Years	Total
Loans Payable	₱-	₱3,969	₱98,982	₱109,224	₱484,853	₱-	₱697,028
Trade and other payables:							
Trade*	258,201	-	-	-	-	-	258,201
Advances from customers	1,248	-	-	-	-	-	1,248
Advances from Huarong	149,134	-	-	-	-	-	149,134
Accrued expenses*	31,417	-	-	-	-	-	31,417
Nontrade	13,240	-	-	-	-	-	13,240
Dividends payable	20,238	-	-	-	-	-	20,238
Advances from related parties	396,755	-	-	-	-	-	396,755
Other noncurrent liabilities:							
Payable to stockholders of CNMEC	-	-	-	-	-	366,463	366,463
Payable to BNVI	-	-	-	-	-	165,566	165,566
<b>Total</b>	<b>₱870,233</b>	<b>₱3,969</b>	<b>₱98,982</b>	<b>₱109,224</b>	<b>₱484,853</b>	<b>₱532,029</b>	<b>₱2,099,290</b>

\*Excluding payables to government



2018	On Demand	Less than 3 Months	3 to 6 Months	6 to 12 Months	1 to 2 Years	More than 2 Years	Total
Loans payable	₱-	₱-	₱-	₱98,588	₱98,588	₱591,524	₱788,700
Trade and other payables:							
Trade*	186,747	-	-	-	-	-	186,747
Advances from customers	79,775	-	-	-	-	-	79,775
Accrued expenses*	27,655	-	-	-	-	-	27,655
Nontrade Dividends payable	5,280	-	-	-	-	-	5,280
Advances from related parties	20,260	-	-	-	-	-	20,260
Other noncurrent liabilities:							
Payable to stockholders of CNMEC	287,194	-	-	-	-	-	287,194
Payable to BNVI	-	-	-	-	-	366,463	366,463
	-	-	-	-	-	165,566	165,566
<b>Total</b>	<b>₱606,911</b>	<b>₱-</b>	<b>₱-</b>	<b>₱98,588</b>	<b>₱98,588</b>	<b>₱1,123,553</b>	<b>₱1,927,640</b>

\*Excluding payables to government

The tables below summarize the maturity profile of the financial assets used by the Group to manage its liquidity risk as at December 31, 2019 and 2018.

2019	On Demand	Less than 3 Months	3 to 6 Months	6 to 12 Months	1 to 2 Years	More than 2 Years	Total
<b>Cash and cash equivalents:</b>							
Cash on hand	₱712	₱-	₱-	₱-	₱-	₱-	₱712
Cash in banks	1,689,277	-	-	-	-	-	1,689,277
Short-term cash investments	71,255	-	-	-	-	-	71,255
<b>Trade and other receivables:</b>							
Trade receivable	365,478	-	-	-	-	-	365,478
Advances to contractors	80,111	-	-	-	-	-	80,111
Interest receivable	40	-	-	-	-	-	40
<b>Advances to related parties:</b>							
Stockholders	2,165,876	-	-	-	-	-	2,165,876
Affiliates with common officers, directors and stockholders	161,337	-	-	-	-	-	161,337
Associate	91,799	-	-	-	-	-	91,799
<b>Restricted cash under "Other noncurrent asset"</b>							
	-	-	-	-	-	190,321	190,321
<b>Financial asset at FVOCI under "Other noncurrent assets"</b>							
	3,163	-	-	-	-	-	3,163
<b>Total</b>	<b>₱4,629,048</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱190,321</b>	<b>₱4,819,369</b>



2018	On Demand	Less than 3 Months	3 to 6 Months	6 to 12 Months	1 to 2 Years	More than 2 Years	Total
Cash and cash equivalents:							
Cash on hand	₱743	₱-	₱-	₱-	₱-	₱-	₱743
Cash in banks	556,727	-	-	-	-	-	556,727
Short-term cash investments	491,213	-	-	-	-	-	491,213
Trade and other receivables:							
Trade receivable	261,234	-	-	-	-	-	261,234
Advances to contractors	79,707	-	-	-	-	-	79,707
Interest receivable	494	-	-	-	-	-	494
Advances to related parties:							
Stockholders	1,812,415	-	-	-	-	-	1,812,415
Affiliates with common officers, directors and stockholders	181,203	-	-	-	-	-	181,203
Associate	91,799	-	-	-	-	-	91,799
Restricted cash under Other noncurrent asset"	-	-	-	-	301,902	-	301,902
Financial asset at FVOCI under "Other noncurrent assets"	3,964	-	-	-	-	-	3,964
<b>Total</b>	<b>₱3,479,499</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱301,902</b>	<b>₱-</b>	<b>₱3,781,401</b>

### 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 stockholders' 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 stockholders' advances to augment capital, (b) issue new shares, and (c) return capital to stockholders if and when feasible. No changes were made in the objectives, policies or processes in 2019 and 2018.

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

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

### **32. Fair Value Measurement**

*Cash and cash equivalents, Trade receivables, Advances to contractors and Interest receivables under "Trade and other receivables" and Trade and other payables*

The carrying amounts of cash and cash equivalents, trade receivables, advances to contractors and interest receivable under "Trade and other receivables" and trade and other payables approximate their fair values due to the short-term nature of these accounts.

*Restricted cash under "Other noncurrent assets"*

The carrying amounts approximate their fair values since these are restricted cash in banks which earn interest based on prevailing market rates repriced monthly.



*Financial asset at FVOCI under "Other noncurrent assets"*

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

*Advances to and from related parties and Payable to previous stockholders of CNMEC and BNVI under "Other noncurrent liabilities"*

Advances to and from related parties and payable to previous stockholders of CNMEC and BNVI do not have fixed repayment terms. As such, their carrying amounts approximate their fair values.

*Loans Payable*

The fair value of loans payable 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 liabilities (prior to adoption of PFRS 16)*

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

*Lease Liabilities (upon adoption of PFRS 16)*

The carrying amount of lease liabilities are carried at present value due to the long-term nature of the account. The fair value of lease liabilities was computed by discounting the expected cash flows within EIR ranging from 2.5% to 7.3%. The computed fair value approximates its carrying amount.

**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:

<b>2019</b>	<b>Carrying Amount</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b><i>Asset measured at fair value:</i></b>					
<b>Financial asset at FVOCI</b>	<b>₱3,163</b>	<b>₱3,163</b>	<b>₱-</b>	<b>₱-</b>	<b>₱3,163</b>
<b><i>Liabilities for which fair values are disclosed:</i></b>					
<b>Loans payable</b>	<b>₱697,028</b>	<b>₱-</b>	<b>₱-</b>	<b>₱697,028</b>	<b>₱697,028</b>
<b>Lease liabilities</b>	<b>74,193</b>	<b>-</b>	<b>-</b>	<b>74,193</b>	<b>74,193</b>
	<b>₱771,221</b>	<b>₱-</b>	<b>₱-</b>	<b>₱771,221</b>	<b>₱771,221</b>
<b>2018</b>					
	<b>Carrying Amount</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b><i>Asset measured at fair value:</i></b>					
<b>Financial asset at FVOCI</b>	<b>₱3,964</b>	<b>₱3,964</b>	<b>₱-</b>	<b>₱-</b>	<b>₱3,964</b>
<b><i>Liabilities for which fair values are disclosed:</i></b>					
<b>Loans payable</b>	<b>₱788,700</b>	<b>₱-</b>	<b>₱-</b>	<b>₱788,700</b>	<b>₱788,700</b>
<b>Finance lease liabilities</b>	<b>10,070</b>	<b>-</b>	<b>-</b>	<b>10,070</b>	<b>10,070</b>
	<b>₱798,770</b>	<b>₱-</b>	<b>₱-</b>	<b>₱798,770</b>	<b>₱798,770</b>

There were no transfers between levels of fair value measurement as at December 31, 2019 and 2018.



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### 33. Significant Agreements

#### Deed of Guarantee

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

#### Ore Supply Agreements

##### *Prior to January 1, 2018*

The Group has ore supply agreements with Chinese customers, each for a fixed tonnage at specific nickel grades and iron content. The fixed tonnage of ore is generally the volume expected delivery within a few months. Revenue from Chinese customers amounted to ₱5,815.6 million in 2017.

##### *Beginning January 1, 2018*

Revenue from contracts with customers is recognized when the Company satisfies an identified performance obligation by transferring the promised goods to a customer. The performance obligation is satisfied at point in time when the beneficiated nickel ore passes the rail of the vessel since all risk of loss, damage and/or destruction to the ore delivered is borne by the customer upon loading. Revenue from contracts with Chinese customers excluding the net demurrage amounted to ₱6,654.6 million and ₱5,486.6 million in 2019 and 2018, respectively.

#### Operating Agreements

##### *SIRC*

On September 15, 2006, PGMC entered into an operating agreement with SIRC, subsidiary and holder of rights to the mining tenements located in the Surigao provinces. SIRC grants PGMC exclusive privilege and right to occupy, explore, develop, utilize, mine, mill, beneficiate and undertake activities within the areas in the Cagdianao mining tenement covered under MPSA No. 007-92-X for a period of 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 3% to 7% of gross receipts determined through freight on board price from the sale of nickel ore mined and produced from the Cagdianao mining properties.

On April 17, 2018, the BOD approved the renegotiation of royalty fees as agreed under the Royalty Agreement dated November 17, 2010, executed by and between CMDC and the Group, with conformity of SIRC. This resulted into an Amended Royalty Agreement, by mutual consent of both parties, containing the lower royalty base rates equivalent to 2% to 5%.

Total royalty fees incurred to CMDC amounted to ₱230.1 million, ₱191.9 million and ₱296.6 million in 2019, 2018 and 2017, respectively (see Note 23).

#### Service Contract - CAGA 2, 3 and 4

In 2019, the Group entered into service contracts with Best Trucking & Transport Phil. Inc., Landstar Earthmoving Corporation, Anseca Dev't Corporation, CTB Engineering Construction, Pazifik Ventures Trucking Service, Inc., Cagdianao Konstruct Development, Inc., MRMJ Earth Movers Corporation, E.Z Mining Enterprises, Inc. to operate the mining activities within CAGA 2, 3 and 4 in Surigao, wherein the Group will pay the contractors on a per metric ton based on the grade of the ore shipped.

Total contract hire incurred for CAGAs 2, 3 and 4 amounted to ₱1,935.9 million, ₱1,836.7 million and ₱1,962.5 million in 2019, 2018 and 2017, respectively (see Notes 6 and 21).



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### 34. Other Matters

#### Tax Reform for Acceleration and Inclusion Act (TRAIN)

RA No.10963 or the TRAIN was signed into law on December 19, 2017 and took effect on January 1, 2018, making it the new tax law enacted as of the reporting period. Although the TRAIN changes the existing tax law and includes several provisions that will generally affect businesses on a prospective basis, management assessed that the same will not have any significant impact on the financial statement balances as of the reporting period.

#### Mercantile Insurance Co., Inc. (MIC)

On November 6, 2017, the Regional Trial Court of Makati ordered MIC to pay ₱183.3 million in relation to the insurance policy covering PGMC's property and equipment which were destroyed and deemed totally lost on October 3, 2011 due to an armed group which simultaneously raided and seized control of PGMC's mining complex. On December 11, 2017, PGMC and MIC filed a Motion for Partial Reconsideration and a Motion for Reconsideration, respectively. On December 18, 2017, MIC filed a Motion to Inhibit which was granted on January 11, 2018. As at March 27, 2020, the case is still pending with the Court of Appeals.

In a Resolution dated May 9, 2018, the trial court: (a) affirmed the Decision dated November 6, 2017, which ordered Mercantile to pay PGMC the amount of ₱183.3 million; (b) denied Mercantile's Motion for Reconsideration; and (c) granted PGMC's Motion for Partial Reconsideration, ordering Mercantile to pay the following additional amounts: (i) interest at 6% per annum from the date of filing of the case on 30 August 2013 until the obligation is fully paid; (ii) ₱18.0 million by way of attorney's fees; and (iii) ₱4.5 million as costs of suit. Mercantile has filed a Notice of Appeal, which was approved by the lower court. On August 8, 2018, Mercantile filed its Appellant's Brief. On October 30, 2018, PGMC filed its Appellee's Brief. On January 7, 2019, PGMC's counsel received defendant's Reply-Brief dated December 27, 2018. On January 22, 2019, PGMC's counsel received CA's Resolution granting Mercantile's requests for extension and noting its Reply-Brief. In a Decision dated December 4, 2019, the CA granted Mercantile's Appeal, setting aside the decision of the RTC. PGMC filed a Motion for Reconsideration on January 2, 2020. No further briefing exchanges are scheduled.

#### Tax Assessment and Cases

On March 17, 2017, a Petition for Review against PGMC was filed by the Municipal Treasurer of Claver, Surigao del Norte before the Court of Tax Appeals. The petitioner sought for the reversal of the decision of the Regional Trial Court (RTC) of Surigao City on February 14, 2017 declaring as void the assessed local business taxes of PGMC for the years 2014 and 2015 amounting to ₱84.0 million and ₱61.8 million, respectively. On August 9, 2018, the Court of Appeals (CA) issued a resolution reversing the decision of the RTC and holding PGMC liable to pay the taxes for the years 2014 and 2015. On September 6, 2018, PGMC filed a motion for reconsideration. On May 27, 2019, PGMC received the amended decision which granted PGMC's motion for reconsideration, reversed and set aside the CA's decision on August 9, 2018 and cancelled the notice of assessment issued against PGMC for the years 2014 and 2015. On June 3, 2019 the Municipality of Claver, Surigao del Norte filed a motion for reconsideration. On August 30, 2019, the CTA denied the motion for reconsideration.

On June 4, 2018, PGMC received the Letter of Authority (LOA) from the BIR requesting all documents and accounting books and records for all internal revenue taxes including documentary stamp tax and other taxes for the taxable year 2017. As at September 30, 2019, PGMC paid the deficiency taxes amounting to ₱11.0 million. The report of investigation has been closed and filed.

On August 15, 2018, the PGMC received the Letter of Authority (LOA) from the BIR requesting all documents and accounting books and records for all internal revenue taxes including documentary stamp tax and other taxes for the taxable year 2015. As at February 28, 2019, PGMC paid the deficiency taxes amounting to ₱17.0 million. The report of investigation has been closed and filed.

On June 25, 2019, PGMC received the LOA from the BIR requesting all documents and accounting books and records for all internal revenue taxes including documentary stamp tax and other taxes for the taxable





year 2018. On July 12, 2019, PGMG send a letter for deferment of the tax assessment for 2018 and was accepted by the BIR.

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### **35. Events After the End of the Reporting Period**

#### Buyback Transactions

From January 1 to April 17, 2020, the Parent Company purchased from the market, a total of 9,035,000 common shares at the average price of ₱0.86 per share, pursuant to the approved buy-back program. The cumulative number of shares purchased from the date when the share buy-back program commenced is 73,476,414 shares with a total amount of shares repurchased of ₱1,709.5 million.

#### Registration with the BOI

On February 12, 2020, the BOI issued PGMG the certification granting the renewal of its VAT zero-rated status. The certification is valid from January 1, 2020 up to December 31, 2020 unless sooner revoked by the BOI Governing Board.

#### MPSA of SIRC

On January 31, 2020, MGB sent a letter to the SIRC informing the latter's lack of compliance to the requirements on the application of expansion of its mining tenement covered by MPSA No. 07-92-X-Amended annexing the area covered by the exploration permit application denominated as EXPA-000101-XIII.

On February 17, 2020, the SIRC sent its reply to MGB's letter dated January 31, 2020, stating that all the requirements in relation to the application of expansion of its mining tenement covered by MPSA No. 07-92-X-Amended has been submitted to the MGB and SIRC is waiting for MGB's issuance of order of payment. To date, SIRC has not yet received any response from MGB.

On March 2, 2020, MGB approves the area expansion of SIRC's MPSA from 4,376 hectares to 5,219.56 hectares by annexing the area covered by the application for expansion permit EXPA-000101-XIII. MGB redenominated SIRC's MPSA from MPSA No. 07-92-X-SMR to MPSA No. 07-92-X-SMR (Amended I).

#### Corona Virus Disease 2019 (COVID-19)

In a move to contain the COVID-19 outbreak, on March 13, 2020, the Office of the President of the Philippines issued a Memorandum directive to impose stringent social distancing measures in the National Capital Region effective March 15, 2020.

On March 16, 2020, Presidential Proclamation No. 929 was issued, declaring a State of Calamity throughout the Philippines for a period of six months and imposed an enhanced community quarantine throughout the island of Luzon until April 12, 2020, which was subsequently extended to April 30, 2020. These measures are expected to result to disruptions to businesses and economic activities.

The Group anticipates a slowdown in the mining operations and shipment if COVID-19 continues because of the quarantine measures and the limited mobility of people, equipment and other resources. As liquidity dries up and access to credit becomes tight, The Group also anticipate delays in collections. The adjustment in working schedules and schemes is also expected to affect preparation and productivity in the Group's operations, particularly the continuity and sufficiency of its supplies, spare parts and the like.

The Group will have to contend with government issuances that seek to regulate the movement of foreign vessels in the mine site. The Group is appealing to their reasonableness and exerting extraordinary diligent efforts to arrest unnecessary costs.

On the upside, there is a demand shock in China as the stockpile inventory is rapidly declining and the prices of ore have been steady and relatively higher than last year. The prices are expected to spike up in the coming weeks. The low prices of oil would benefit The Group including its contractors and barging



operations and compensate for their increasing costs and shipping freights. The depreciating peso is also favoring the exporters as this will stem the costs of purchases of local supplies and services.

The mitigating measures The Group put in place have been to enforce strict personal hygiene and social distancing protocols, flexible working arrangements and post quarantine approach.

The Group considers the measure taken by the government as a non-adjusting subsequent event, which does not impact its financial position and performance as at and for the year ended December 31, 2019. However, it could have a material impact on its 2020 consolidated financial results and even periods thereafter. Considering the evolving nature of this outbreak, The Group cannot determine at this time the impact to its financial position, performance and cash flows. The Group will continue to monitor the situation.

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### 36. Supplemental Disclosure to Consolidated Statements of Cash Flows

Noncash financing and investing activities as at December 31, 2019 pertain to the following:

- a. Net increase in property and equipment as a result of the following transactions:
  - Reclassification from mine exploration costs to "Mining assets" upon commercial operations of CAGA 3 amounting to ₱149.4 million
  - Acquisition of machineries and transportation equipment through chattel mortgage and bank financing amounting to ₱32.4 million
  - Recognition of right-of-use asset amounting to ₱74.2 million, net of the reclassification of finance lease liability previously recognized under PAS 17 amounting to ₱10.0 million and derecognition of accrued rent from straight line levelization under PAS 17 amounting to ₱1.7 million
  - Change in estimated capitalized cost of mine rehabilitation amounting to ₱6.2 million
  - Currency translation adjustment on PIL's property and equipment amounting to ₱0.3 million
- b. Increase in advances to related parties and advances from related parties amounting to ₱158.7 million due to the assignment of advances to related parties of INC to the Parent Company.
- c. Net increase in investment in associate as a result of the following:
  - Acquisition of 40% share in SNPSI amounting to ₱450.0 million to which ₱225.0 million is payable as at December 31, 2019
  - Recognition of share in net income of SNPSI amounting to ₱1.4 million
- d. Decrease in deposits for future acquisition due to recognition of share in net loss of SPNVI amounting to ₱42.9 million

Noncash financing and investing activities as at December 31, 2018 pertain to the following:

- e. Net increase in property and equipment as a result of the following transactions:
  - Procurement of equipment made by NI in relation to the settlement of finance lease receivable amounting to ₱57.8 million
  - Change in estimated capitalized cost of mine rehabilitation amounting to ₱24.5 million
  - Purchases made on account amounting to ₱20.0 million
  - Acquisition of equipment through finance lease agreement with CFSPI amounting to ₱9.7 million
- f. Advances from related parties decreased due to the following transactions:
  - Assignment of liabilities effected among PGMC, JLI and Sohoton Synergy Inc. (SSI), in which the liability of PGMC to JLI amounting to ₱41.3 million has been transferred to SSI as consideration of SSI's financial obligation to PGMC



- Issuance of treasury shares in relation to the special stock grant on December 28, 2018 which amounted to ₱16.5 million, resulting to a decrease in retained earnings amounting to ₱13.3 million which pertains to the difference between the fair value of the treasury shares at the date of grant and the cost of treasury shares upon reacquisition
- g. Advances to related parties reduced due to the following transactions:
- Reacquisition of treasury shares distributed as property dividends amounting to ₱331.3 million to the stockholders on December 7, 2018, to partially settle the cash advances obtained by the stockholders from the Parent Company
  - Reacquisition of treasury shares on November 22, 2018 representing the applicable final withholding taxes and fractional shares related to the property dividends amounting to ₱83.8 million,
  - Assumption of liability by a PGMC stockholder of PGMC's obligations to its various creditors amounting to ₱39.8 million
- h. Reclassification of restricted cash from "Prepayments and other current assets" to "Other noncurrent assets" amounting to ₱187.4 million

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

- a. Additions to property and equipment as a result of purchases on account amounting to ₱5.4 million and change in estimated capitalized cost of mine rehabilitation amounting to ₱174.2 million
- b. Issuance of treasury shares in relation to the special stock grant on December 27, 2017 which amounted to ₱28.2 million, resulting to a decrease in retained earnings amounting to ₱1.8 million which pertains to the difference between the fair value of the treasury shares at the date of grant and the cost of treasury shares upon reacquisition
- c. Sale of investment property to a related party amounting to ₱319.9 million which was offset against the outstanding advances from a related party

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### 37. Operating Segment Information

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

The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

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

- The mining segment is engaged in the exploration, mining and exporting of nickel saprolite and limonite ore;
- The services segment is engaged in the chartering out of LCTs by PCSSC to PGMC; and
- The manufacturing segment pertains to the newly incorporated entities of the Group, FSC which is engaged in the manufacturing of iron steel bars and FSLC which is engaged in holding the real properties of FSC.

The Group's core business is the sale of nickel ore to external customers which accounted for the Group's total revenue. Accordingly, the Group's mining segment operates in two geographical locations, Philippines and Hong Kong. The Group's manufacturing segment is incorporated to build a rebar steel rolling plant in Bataan, Philippines. Noncurrent assets of the Group comprising property and equipment,



deposits for future acquisition, mine exploration costs, mining rights, and other noncurrent assets are located in the Philippines and Hong Kong.

The Group has revenues from external customers in China amounting to ₱6,654.6 million, ₱5,486.6 million and ₱5,815.6 million in 2019, 2018 and 2017, respectively.



Financial information on the operation of the various business segments for the years ended December 31, 2019, 2018 and 2017 are as follows:

	2019				
	Mining	Manufacturing	Services	Elimination	Total
External customers	P6,654,626	P-	P-	P-	P6,654,626
Intersegment revenues	2,681,651	-	100,396	(2,782,047)	-
<b>Total revenues</b>	<b>9,336,277</b>	<b>-</b>	<b>100,396</b>	<b>(2,782,047)</b>	<b>6,654,626</b>
Cost of sales	5,340,477	-	78,981	(2,681,565)	2,737,893
Excise taxes and royalties	843,027	-	-	-	843,027
Shipping and distribution	525,198	-	-	(100,396)	424,802
<b>Segment operating earnings</b>	<b>2,627,575</b>	<b>-</b>	<b>21,415</b>	<b>(86)</b>	<b>2,648,904</b>
General and administrative	653,902	9,687	11,653	-	675,242
Finance costs	(83,079)	(2)	(3)	-	(83,084)
Finance income	9,213	3	735	-	9,951
Share in net loss of investment in associates	(41,464)	-	-	-	(41,464)
Other charges - net	(27,339)	(156)	-	86	(27,409)
Provision for income tax	525,173	-	2,928	-	528,101
<b>Segment net income</b>	<b>1,305,831</b>	<b>(9,842)</b>	<b>7,566</b>	<b>-</b>	<b>1,303,555</b>
Net income attributable to NCI	277	(4,494)	-	-	(4,217)
<b>Segment net income attributable to equity holders</b>	<b>P1,305,554</b>	<b>(5,348)</b>	<b>P7,566</b>	<b>P-</b>	<b>P1,307,772</b>
Segment assets	P20,846,650	P353,281	P373,151	(P11,017,260)	P10,555,822
Deferred tax assets - net	146,310	-	-	-	146,310
<b>Total assets</b>	<b>P20,992,960</b>	<b>P353,281</b>	<b>P373,151</b>	<b>(P11,017,260)</b>	<b>P10,702,132</b>
Segment liabilities	P3,256,388	P281,874	P1,463	(P484,109)	P3,055,616
Capital expenditures	P421,897	P174,438	P3,075	P-	P599,410
Investment in associate (Note 9)	P-	P-	P451,429	P-	P451,429
Depreciation, depletion and amortization	P355,500	P188	P35,442	P-	P391,130



	2018			Total
	Mining	Service	Elimination	
External customers	₱5,486,619	₱-	₱-	₱5,486,619
Intersegment revenues	1,136,501	95,431	(1,231,932)	-
Total revenues	6,623,120	95,431	(1,231,932)	5,486,619
Cost of sales	3,721,248	74,712	(1,139,429)	2,656,531
Excise taxes and royalties	727,535	-	-	727,535
Shipping and distribution	528,334	-	(95,431)	432,903
Segment operating earnings	1,646,003	20,719	2,928	1,669,650
General and administrative	(784,045)	(11,699)	-	(795,744)
Finance costs	(76,933)	(5)	-	(76,938)
Finance income	4,491	118	-	4,609
Other charges - net	(12,242)	-	(2,928)	(15,170)
Provision for income tax	(274,174)	(2,705)	-	(276,879)
Net income	₱503,100	₱6,428	₱-	₱509,528
Segment assets	₱19,678,856	₱365,665	(₱11,336,143)	₱8,708,378
Deferred tax assets - net	153,703	-	-	153,703
Total assets	₱19,832,559	₱365,665	(₱11,336,143)	₱8,862,081
Segment liabilities	₱3,462,316	₱1,545	(₱989,286)	₱2,474,575
Capital expenditures	₱154,749	₱895	₱-	₱155,644
Depreciation, depletion and amortization	₱403,072	₱34,663	₱-	₱437,735



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



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**SCHEDULE I**  
**GLOBAL FERRONICKEL HOLDINGS, INC.**  
**RECONCILIATION OF RETAINED EARNINGS AVAILABLE**  
**FOR DIVIDEND DECLARATION**  
**PURSUANT TO THE REVISED SRC RULE 68 AND**  
**SEC MEMORANDUM CIRCULAR NO. 11**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**  
**(Amounts in Thousands)**

<b>Unappropriated Retained Earnings, beginning</b>		<b>₱4,309,218</b>
Net income in the prior year closed to retained earnings		64,483
Share in net loss from associates		-
Dividend declaration in the prior period		850,434
Adjustment to RE due to property dividend		9,527
Adjustment of RE due to ESOP		13,290
Treasury shares		162,249
<b>Unappropriated Retained Earnings, as adjusted, beginning</b>		<b>3,209,235</b>
Add: Net income during the period closed to retained earnings	2,119,928	
Less: Non-actual/unrealized income net of tax		
Recognized DTA	-	
Unrealized actuarial gain	-	
Unrealized foreign exchange loss - net except attributable to cash	-	
Fair value adjustment of investment property resulting to gain	-	
Adjustment due to deviation from PFRS/GAAP - gain	-	
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS	-	
Subtotal	-	-
Add: Non-actual losses		
Unrealized foreign exchange loss - net (except those attributable to cash and cash equivalents)	-	
Recognized DTA	-	
Depreciation on revaluation increment (after tax)	-	
Adjustment due to deviation from PFRS/GAAP-loss	-	
Loss on fair value adjustment of investment property (after tax)	-	
Share in net loss of investment in associates	41,464	
Subtotal	41,464	
<b>Net Income Actual/Realized</b>		<b>2,161,392</b>
Add (Less):		
Dividend declarations during the period	-	
Appropriations of retained earnings	-	
Reversals of appropriations	-	
Effects of prior period adjustments	-	
Treasury shares	82,569	82,569
<b>Unappropriated Retained Earnings, as adjusted, ending</b>		<b>₱5,288,058</b>

**SCHEDULE III**  
**GLOBAL FERRONICKEL HOLDINGS, INC. AND SUBSIDIARIES**  
**SUPPLEMENTARY SCHEDULES UNDER ANNEX 68-E**  
**PURSUANT TO REVISED SRC RULE 68,**  
**AS AT DECEMBER 31, 2019**  
**(Amounts in Thousands; Except Number of Shares)**

**Schedule A. Financial Assets**

Name of Issuing Entity and Description of Each Issue	Number of Shares or Principal Amount of Bonds and Notes	Amount Shown in the Statement of Financial Position	Income Received and Accrued
Cash on hand and in banks	N/A	₱1,689,989	₱3,434
Short-term cash investments	N/A	71,255	1,012
Trade and other receivables:			
Trade receivables	N/A	365,478	-
Interest receivable	N/A	40	-
Advances to contractors	N/A	80,111	-
Restricted cash under			
"Other noncurrent assets"	N/A	190,321	-
Financial asset at FVOCI under			
"Other noncurrent assets"	4,216,100 shares	3,163	-
Advances to related parties	N/A	2,419,012	-
		<b>₱4,819,369</b>	<b>₱4,446</b>

**Schedule B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)**

Name and designation of debtor	Balance at beginning of period	Additions	Amounts collected/ assigned	Amounts written-off/ reclassified	Current	Non current	Balance at end of period
Various stockholders	₱1,812,415	₱888,923	₱535,462	₱-	₱2,165,876	₱-	₱2,165,876
Southeast Palawan							
Nickel Ventures, Inc.	91,799	-	-	-	91,799	-	91,799
Swift Glory Int'l Holdings, Inc.	70,119	-	-	-	70,119	-	70,119
Ipilan Nickel Corporation	35	83,103	-	-	83,138	-	83,138
Ferrochrome Resources, Inc.	3	-	3	-	-	-	-
GHGC Holdings Ltd.	104,893	-	104,893	-	-	-	-
Bravo Cement, Inc.	5,548	1,805	-	-	7,353	-	7,353
Sohoton Eco-tourism Development, Inc.	599	111	-	-	710	-	710
Cagdianao Lateritic Nickel Mining, Inc.	6	11	-	-	17	-	17
	<b>₱2,085,417</b>	<b>₱973,953</b>	<b>₱640,358</b>	<b>₱-</b>	<b>₱2,419,012</b>	<b>₱-</b>	<b>₱2,419,012</b>

**Schedule C. Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements**

Name and designation of debtor	Balance at beginning of period	Additions	Amounts collected	Amounts reclassified	Current	Non current	Amount eliminated
PGMC-CNEP Shipping Services Corp.	₱64,697	₱-	₱8,729	₱-	₱55,968	₱-	₱55,968
Surigao Integrated Resources Corporation	3,320	-	202	-	3,118	-	3,118
FNI Steel Landholdings, Corp.	-	8,902	-	-	8,902	-	8,902
FNI Steel Corp.	-	122,407	-	-	122,407	-	122,407
PGMC International Limited	18,824	8,850	-	-	27,674	-	27,674
	<b>₱86,841</b>	<b>₱140,159</b>	<b>₱8,931</b>	<b>₱-</b>	<b>₱218,069</b>	<b>₱-</b>	<b>₱218,069</b>

**Schedule D. Intangible Assets - Other Assets**

Description	Beginning balance	Additions at cost	Charged to cost and expenses	Charged to other accounts	Other charges additions (deductions)	Ending balance
Mining rights	₱181,407	₱-	₱25,098	₱-	₱-	₱156,309
Golf membership	-	45,575	3,851	-	-	41,724

**Schedule E. Long-Term Debt**

Title of issue and type of obligation	Amount authorized by indenture	Amount shown as Current	Amount shown as Noncurrent
Taiwan Cooperative Bank	₱-	₱189,881	₱474,703
SBM Leasing	-	11,775	4,449
Caterpillar	-	10,519	5,701
	<b>₱-</b>	<b>₱212,175</b>	<b>₱484,853</b>

**Schedule F. Indebtedness to Related Parties (Long-Term Loans from Related Companies)**

Name of related party	Beginning balance	Ending balance
	<b>Not Applicable</b>	

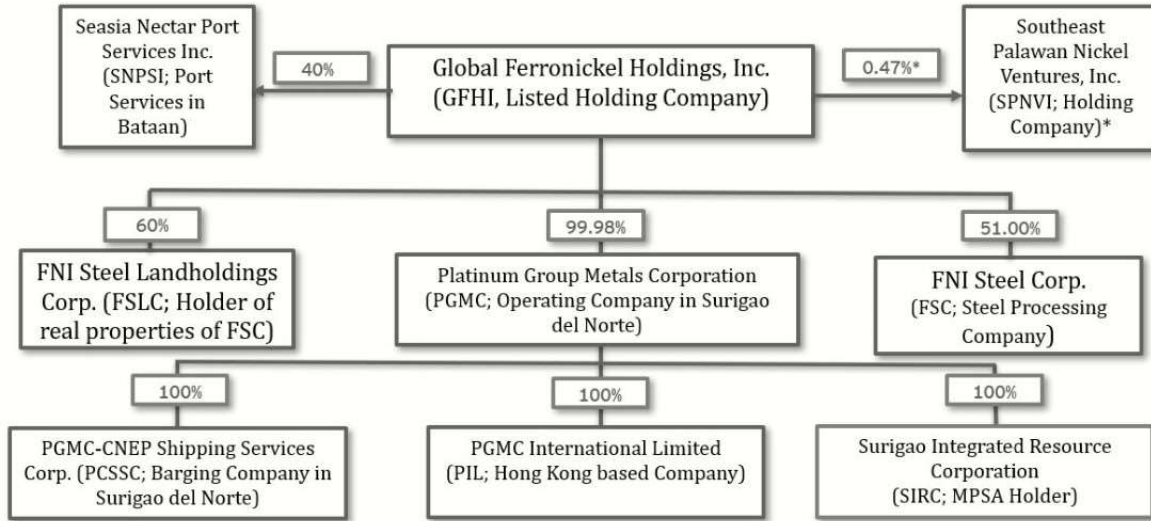
**Schedule G. Guarantees of Securities of Other Issuers**

Name of issuing entity of securities guaranteed by the Group for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding	Amount owned by a person for which statement is filed	Nature of guarantee
	<b>Not Applicable</b>			

**Schedule H. Capital Stock**

Title of issue	Number of shares authorized	Number of shares issued and outstanding as shown under related financial condition caption	Number of shares reserved for options, warrants, conversion and other rights	No of shares held by		
				Affiliates	Directors and Officers	Others
Common shares	11,957,161,906	5,512,298,886	-	-	148,931,967	5,363,366,919

**SCHEDULE IV  
GLOBAL FERRONICKEL HOLDINGS, INC. AND SUBSIDIARIES  
MAP OF THE RELATIONSHIPS OF THE COMPANIES  
WITHIN THE GROUP  
PURSUANT TO REVISED SRC RULE 68  
AS AT DECEMBER 31, 2019**



\*0.47% represents the ownership of GFHI on SPNVI's all classes of outstanding shares, preferred and common. GFHI owns 37.5% of the outstanding common shares of SPNVI with voting power.

**SCHEDULE V**  
**GLOBAL FERRONICKEL HOLDINGS, INC. AND SUBSIDIARIES**  
**SCHEDULE SHOWING FINANCIAL SOUNDNESS INDICATORS**  
**PURSUANT TO SRC RULE 68, AS AMENDED**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

	<b>Years Ended December 31</b>		
	<b>2019</b>	2018	2017
Profitability ratios:			
Return on assets	<b>13.33%</b>	5.69%	8.44%
Return on equity	<b>18.58%</b>	7.97%	12.04%
Net profit margin	<b>19.59%</b>	9.29%	13.41%
Solvency and liquidity ratios:			
Current ratio	<b>3.14:1</b>	3.61:1	2.12:1
Debt to equity ratio	<b>0.40:1</b>	0.39:1	0.41:1
Quick ratio	<b>2.90:1</b>	3.31:1	1.84:1
Asset to equity ratio	<b>1.40:1</b>	1.39:1	1.41:1

# Sustainability Report Disclosures

## Contextual Information

Company Details	
Name of Organization	Global Ferronickel Holdings, Inc. (FNI)
Location of Headquarters	7th Floor Corporate Business Center, 151 Paseo de Roxas corner Arnaiz Street, Makati City
Location of Operations	Brgy. Cagdianao, Claver, Surigao del Norte
Report Boundary: Legal entities included in this report	Platinum Group Metals Corporation (PGMC)
Business Model, including Primary Activities, Brands, Products, and Services	Production of nickel ores
Reporting Period	January 1 to December 31, 2019
Highest Ranking Person responsible for this report	Dante R. Bravo President



## Materiality Process

**Explain how you applied the materiality principle (or the materiality process) in identifying your material topics.<sup>1</sup>**

A Materiality Assessment was conducted at the PGMC mine site which was participated in by representatives from different departments. Through this exercise, the Company was able to identify highly critical or essential topics related to economic and environmental factors, governance, and community development. Each aspect was weighed for both its impact on the business and its impact on stakeholders' relationship with the Company.

The resulting matrix reveals that the topics our stakeholders consider material are those that are closely related to the Company's mission of "delivering 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."



The table on the next page shows the summary of the identified material topics, their level of criticality, and the corresponding GRI Standard. The Company has also aligned its contribution to the UN Sustainable Development Goals (SDGs).

Level of Criticality	Material Topic	Relevant GRI Standard	Contributing SDGs
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<sup>1</sup> See [GRI 102-46\(2016\)](#) for more guidance.

High	Revenue and Income	GRI 201: Economic Performance	8: Decent Work and Economic Growth
High	Fluctuation in Metal Prices	-	-
High	Leadership and Governance	-	16: Peace and Justice
High	Employee Relations and Labor Practices	GRI 402: Labor Management Relations	8: Decent Work and Economic Growth
High	Water Pollution/Impact on Water Sources	GRI 303: Water and Effluents	6: Clean Water and Sanitation 14: Life Below Water
High	Exploration Activities	GRI 307: Environmental Compliance	-
High	Land Rehabilitation and Management	GRI 307: Environmental Compliance	13: Climate Action 15: Life on Land
High	Settling Pond Management	GRI 303: Water and Effluents	6: Clean Water and Sanitation 14: Life Below Water
High	Geological Risk Assessment	GRI 307: Environmental Compliance GRI 403: Occupational Health and Safety	-
High	Community Development	GRI 413: Local Communities	1: No Poverty 2: Zero Hunger 3: Good Health and Well-being 4: Quality Education 6: Clean Water and Sanitation
Medium	Facility Security	GRI 410: Security Practices	-
Medium	Waste Management	GRI 306: Effluents and Waste	12: Responsible Consumption and Production
Medium	Health and Safety Performance	GRI 403: Occupational Health and Safety GRI 416: Customer Health and Safety	3: Good Health and Well-being 8: Decent Work and Economic Growth
Medium	Biodiversity and Ecosystem	GRI 304: Biodiversity	14: Life Below Water 15: Life on Land

	Management		
Medium	Fuel Consumption - Transportation	GRI 302: Energy GRI 305: Emissions 2016	7: Affordable and Clean Energy 12: Responsible Consumption and Production 13: Climate Action
Medium	Emergency Preparedness	-	11: Sustainable Cities and Communities
Medium	Water Consumption and Recycling	GRI 303: Water and Effluents	6: Clean Water and Sanitation 12: Responsible Consumption and Production
Medium	Electricity Generation and Consumption	GRI 302: Energy	7: Affordable and Clean Energy 12: Responsible Consumption and Production
Medium	Local Employment	GRI 401: Employment	8: Decent Work and Economic Growth
Low	Chemicals Management	GRI 306: Effluents and Waste GRI 307: Environmental Compliance	12: Responsible Consumption and Production

## ECONOMIC

### Economic Performance

#### Direct Economic Value Generated and Distributed

Disclosure	Amount (in millions)	Units
Direct economic value generated (revenue)	6,655	PhP
Direct economic value distributed:	2,610	
a. Operating costs	824	PhP
b. Employee wages and benefits	454	PhP
c. Payments to suppliers, other operating costs	3,002	PhP
d. Dividends given to stockholders and interest payments to loan providers	56	PhP
e. Taxes given to government	1295	PhP
• Excise taxes	843	PhP
• Net income tax	452	PhP
f. Investments to community (e.g. donations, CSR)	38	PhP

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
<p>As of 2019, PGMC is the second-largest nickel ore producer in the Philippines by the total volume of nickel shipped and by the total value of shipment from 2014 to 2019, accounting for 10.9% and 15.2%, respectively, according to the data obtained from MGB's website.</p> <p>For the year 2019, PGMC's nickel production reached 6 million wet</p>	<p>Stockholders/Investors, Government (Local and National), Contractors, Suppliers</p>	<p>PGMC has achieved excellent results by continuously recalibrating its operations, particularly on the hauling and shipping of ore. Its continuous operation on a scale of more than five million tonnes brought about a significant change in its overall productivity as it enabled the Company to sell more medium-grade ore compared to previous years. Additionally, PGMC still maximizes cost efficiency in</p>

<p>metric tons, with a total of 108 shipments. This accounts for 18.5% of the total nickel production in the Philippines, based on the estimated value of shipped ore.</p> <p>For FNI, the financial highlights in 2019 are:</p> <ul style="list-style-type: none"> <li>● Php 6,655 million of total export revenue is from the sale of nickel ore</li> <li>● Php 425 million was spent for shipping and distribution with lower barging costs at Php 299 million compared to Php 316 million in 2018</li> <li>● excise taxes and royalties were Php 843 million and Php 728 million, respectively. The increase in nickel ore price and volume shipped consequently increased the excise taxes and royalties taken up</li> <li>● Php 528 million net provision for income tax, a significant increase from 2018's Php 251 million. This is due to the higher taxable income or increase in revenues in 2019 compared to the prior year</li> </ul>		<p>different areas and improves operational capability.</p> <p>Given that mining operations are highly dependent on weather conditions, PGMC has to adopt operational changes to maintain productivity. One of the measures implemented was to shorten the duration of mining activities. Mining operations start in April or earlier and conclude in October, which is before the start of the rainy season in the mine site. Continuous operations beyond October would not be efficient nor beneficial for the Company because of declining nickel ore price and less dry days for loading of ore.</p>
<p>The Company recorded expenses of Php 674 million in 2019 or a 15.0% decrease in general and administrative items. Notable savings were also recorded in taxes and licenses, office supplies, communication, and rentals.</p> <p>Meanwhile, there was an increase in personnel costs by Php 19 million or 12.1%.</p>	<p>Employees</p>	<p>For mine site personnel, PGMC considers hiring locals and IPs from host community Barangay Cagdianao, neighboring Barangay Hayanggabon, and within the Municipality of Claver, Surigao del Norte.</p> <p>Due to the good Company performance in 2019, employees were able to enjoy more personal income that led to the 12.1% increase in personnel costs in 2019.</p> <p>The Company also introduced back-office improvements like a new</p>

		<p>accounting system to make more timely and accurate reports which helps the employees to perform their jobs well.</p>
<p>There was an increase in community relations expenses, PGMC's funding for its Social Development and Management Program (SDMP), by Php 10 million or 33.8% in 2019.</p> <p>PGMC has spent a total of Php 38 million on programs, projects, and activities under its SDMP that helped improve the living conditions and open doors of opportunity to its beneficiaries.</p>	<p>Host Barangay Cagdianao, neighboring Barangay Hayanggabon, and within the Municipality of Claver, Surigao del Norte (Local Community)</p>	<p>For SDMP, aside from education and health, there is now a greater focus on developing the entrepreneurial skills of the local community. The ultimate goal of the Company is for the local community to become self-reliant and continue to prosper even after the cessation of mining operations in the area.</p> <p>The most notable livelihood programs implemented are handicraft making, egg production, chip making, and the establishment of the Grow Negosyo Center.</p>
<p>Almost Php 54 million in 2019 was allocated for programs to uplift the lives of the Indigenous People (IP) who reside within the impact communities. It represents the IP's 1.0% royalty from the Company's gross revenue of the sale of minerals as mandated by the Indigenous Peoples Rights Act (IPRA). The IPs have received close to Php 600 million since the Company began operations in 2006.</p>	<p>Mamanwa and Manobo tribal communities</p>	<p>Under PGMC's Memorandum of Agreement with the IPs, the benefits to be provided by the Company include facilities that provide immediate health services with free medicines; new school buildings, classrooms, educational materials, and scholarship programs; assistance to cultural organizations and support for traditional events; provision of transportation such as ambulance, cargo truck, and motorcycles; and providing computers. With these benefits, the tribes' respective villages are now organized with facilities catering to their health, educational, and socio-cultural needs.</p>

What are the Risk/s Identified?	Which stakeholders are affected?	Management Approach
<p>Possible changes in the policies of the government may involve stricter regulations. This would entail operational changes and additional expenses for the Company.</p>	<p>Government, Suppliers, Contractors, Local Community</p>	<p>PGMC adheres to the principles and practices of sustainable development. In addition, its mining operations are subject to stringent and extensive environmental regulations. As such, the Company is deeply committed to implementing best practices in managing the environmental impact of its operations, from exploration to rehabilitation. Upon cessation of its mining operations, PGMC plans to restore its mining properties to their pre-mining conditions or to develop alternative productive land uses for the benefit of the affected communities.</p> <p>The risks of more stringent policies in the future are managed through:</p> <ul style="list-style-type: none"> <li>● ISO 14001 certification ensures that the Company’s systems and policies on environmental compliance have passed international standards</li> <li>● continuous compliance with the policies, rules, and regulations of the Philippine Mining Act and the terms and conditions of its issued Environmental Compliance Certificate (ECC). This means that the Company would just need to continue and continuously improve the implementation of its environmental protection and enhancement measures including safety and housekeeping, and implementation of progressive rehabilitation of mined-out areas; and</li> <li>● Preserve the social acceptability of its mine operations through</li> </ul>

		the proper implementation of its social development projects
<p>Inherent risks such as natural catastrophes could lead to a stoppage of operations, and damage to life, property, and equipment.</p>		<p>The Company mitigates its exposure to these risks by exercising prudent management and using up-to-date technology. PGMC also maintains a disaster response team which it can dispatch to assist its personnel located in the CAGA Mine as well as to assist the communities affected by the natural catastrophes.</p>
<p>The volatility of nickel prices could affect the Company's revenue.</p>		<p>To manage this risk, the Company constantly reviews its contracts and maintains good relationships with its service contractors.</p>
<p>The Company relies significantly on the service of its third-party contractors which may affect the Company's performance and attainment of targets.</p>		<p>To mitigate this risk, the Company regularly reviews the performance of its service contractors.</p> <p>It also maintains several contractors to avoid dependence on a single contractor and so that other contractors may step in and take over the services of any outgoing contractor.</p>
<p>Ore reserves are non-renewable which provides a finite timeframe for the Company's mine operations.</p>		<p>The Company continuously evaluates opportunities for value-added processes, including but not limited to acquiring or entering into further mining agreements and/or joint ventures, as well as downstream processing/vertical integration opportunities.</p> <p>The Company's long-term objective is to increase the scale and scope of its operations and to expand the variety of its ores potentially further.</p> <p>The Company believes that it and its contractors have the technological know-how to exploit additional</p>





of establishing a steel plant in Mariveles, Bataan to produce steel rebars, which will be supported by the acquisition of a 40% stake in the port operator of the Freeport Area of Bataan (FAB).		
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## Climate-related risks and opportunities<sup>2</sup>

<b>Governance</b> Disclose the organization’s governance around climate-related risks and opportunities	
a. Describe the board’s oversight of climate-related risks and opportunities	Supported by the Audit and Board Risk Oversight Committee, Corporate Internal Audit, SVP for Legal and Compliance, SVP for Operations, and SVP for Finance, the Board has the responsibility of supervising the overall risk management within the Company. This ensures that all risks are identified, measured, and managed effectively and continuously through the Enterprise Risk Management (ERM) system.
b. Describe management’s role in assessing and managing climate-related risks and opportunities	The management is primarily responsible for overseeing all risks to the Company and maintaining communication with the Board and stakeholders on the performance of its ERM system. Consequently, an ERM core team is assigned to help the management assess the effectiveness of the Company’s Risk Management System and, therefore, identify opportunities for improvement.
<b>Strategy</b> Disclose the actual and potential impacts <sup>3</sup> of climate-related risks and opportunities on the organization’s businesses, strategy, and financial planning where such information is material	
a. Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term	Because of their capability to greatly affect the day-to-day operations of PGMC, energy shortage, natural disasters such as extreme typhoons and flooding, as well as occupational injuries and ill health due to gradual increase in temperature are the priority risks that have been identified.
b. Describe the impact of climate-related risks and opportunities on the	Energy shortage could result in an increase in generator use or interruption in the Company’s operations while extreme typhoons and flooding could bring disruptions to mining activities as well as facility and equipment damage. Occupational injuries and ill health caused by

<sup>2</sup> Adopted from the Recommendations of the Task Force on Climate-Related Financial Disclosures. The TCFD Recommendations apply to non-financial companies and financial-sector organizations, including banks, insurance companies, asset managers and asset owners.

<sup>3</sup> For this disclosure, impact refers to the impact of climate-related issues on the company.

<p>organization’s businesses, strategy, and financial planning</p>	<p>extreme heat, on the other hand, could lead to a significant reduction in manpower, delay in the production, and various additional costs.</p>
<p>c. Describe the resilience of the organization’s strategy, taking into consideration different climate-related scenarios including a 2° C or lower scenario</p>	<p>PGMC’s Enterprise Risk Management considers risks in all levels and areas of the organization, including energy shortage, natural disasters, and occupational injuries/fatalities caused by natural disasters, as mentioned above. It plans to consider additional measures for specific climate-related risk events within 2020.</p>
<p><b>Risk Management</b> Disclose how the organization identifies, assesses, and manages climate-related risks</p>	
<p>a. Describe the organization’s processes for identifying and assessing climate-related risks</p>	<p>The Company’s risk management process is as follows:</p> <ol style="list-style-type: none"> <li>1. Assess <ol style="list-style-type: none"> <li>1.1 Assess risk management framework</li> <li>1.2 Identify and prioritize risks</li> <li>1.3 Source and analyze risks</li> </ol> </li> <li>2. Improve <ol style="list-style-type: none"> <li>2.1 Develop risk management strategies</li> <li>2.2 Develop risk management action plans</li> </ol> </li> <li>3. Monitor <ol style="list-style-type: none"> <li>3.1 Develop risk monitoring process</li> <li>3.2 Develop risk reports</li> </ol> </li> </ol>
<p>b. Describe the organization’s processes for managing climate-related risks</p>	<p>Using the established risk management process detailed above, the Company regularly monitors and maintains control of the priority climate-related risks identified.</p>
<p>c. Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization’s overall risk management</p>	<p>Climate-related risks are accounted for in the ERM as with other risks that may affect the Company. The Company plans to consider additional climate-related risk events within 2020 to be more comprehensive in our strategies.</p>
<p><b>Metrics and Targets</b></p>	

Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material

<p>a. Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process</p>	<ul style="list-style-type: none"> <li>● Hours of generator use</li> <li>● Frequency of interruptions in mining activities</li> <li>● Heat index</li> <li>● Number and frequency of occupational injuries and ill health caused by extreme heat</li> <li>● Number of days that operations had stopped or been interrupted due to climate-related risks</li> </ul>
<p>b. Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets</p>	<ul style="list-style-type: none"> <li>● Use of electricity and other forms of energy: constant monitoring and reporting to address current and future needs</li> <li>● Stability of facilities and equipment</li> <li>● Consistency of manpower and health of employees</li> </ul>

Procurement Practices

Proportion of spending on local suppliers

Disclosure	Quantity	Units
Percentage of procurement budget used for significant locations of operations that is spent on local suppliers	more than 95%*	%

\*Estimated value. Most of the Company's suppliers are local save for recommended foreign partners of its local suppliers. FNI will improve its data collection on local spending in 2020.

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
<p>The Company makes an effort to source the majority of its supplies from suppliers in the Philippines or, if possible, in local communities.</p> <p>Purchases from suppliers abroad are made mainly because of the recommendation of local partners when supplies for purchase are not in stock or not available in the Philippines.</p>	Suppliers, Local Community, Government	The Company engages with its suppliers through annual vendors' meeting, vendors' accreditation, and ocular inspection. These activities allow the Company to easily coordinate with them on issues such as timely delivery and payments. In turn, the Company put in place fair accreditation policies and the conduct of a transparent accreditation process.
What are the Risk/s Identified?	Which stakeholders are affected?	Management Approach
<p>Procuring from local suppliers has a risk of low-quality products as suppliers abroad may have access to more advanced technology for supplies procured.</p> <p>The quality of supplies procured affects the Company's operational efficiency in its business and mining operations.</p>	Customers, Employees	PGMC familiarizes itself with the acquired supplies' quality to assess if local purchases meet global standards.
What are the Opportunity/ies Identified?	Which stakeholders are affected?	
Purchasing from local suppliers provides the opportunity of contributing to the local economy and the benefits of timely delivery of supplies and easy coordination with suppliers.	Suppliers, Local Community, Government	

## Anti-corruption

### Training on Anti-corruption Policies and Procedures

Disclosure	Quantity	Units
Percentage of employees to whom the organization's anti-corruption policies and procedures have been communicated to	100	%
Percentage of business partners to whom the organization's anti-corruption policies and procedures have been communicated to	100	%
Percentage of directors and management that have received anti-corruption training	100	%
Percentage of employees that have received anti-corruption training	0	%

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
PGMC commits to encouraging trustworthy decision-making and prudent behavior in its directors, employees, stockholders, future investors, customers, business partners, local communities, and government/regulators for ethical, moral, and legal business conduct.	Board of Directors, Employees, Suppliers. Customers, Local Community, Government	<p>Applicable to PGMC are the following company policies:</p> <ol style="list-style-type: none"> <li>1. FNI board-approved Anti-Bribery Policy dated December 16, 2014</li> <li>2. FNI board-approved Conflict of Interest Policy dated April 29, 2015</li> <li>3. FNI board-approved Related Party Transactions Policy dated April 29, 2015 and subsequently amended as FNI Material Related Party Transactions dated October 31, 2019</li> <li>4. FNI board-approved Whistle Blowing Policy dated April 29, 2015</li> </ol> <p>Contracts and agreements entered into also include adherence to these policies.</p>
What are the Risk/s Identified?	Which stakeholders are affected?	Management Approach

An act that involves the corruption of any representative of PGMC may prejudice the reputation of the Company.	Board of Directors, Employees, Suppliers, Customers	Contracts and agreements entered into by PGMC include adherence to the Company's anti-corruption policies and violation of which is a ground for suspension/termination of the contract.
<b>What are the Opportunity/ies Identified?</b>	<b>Which stakeholders are affected?</b>	
PGMC recognizes the potential of all its stakeholders to contribute to the culture of good corporate governance of the Company.	Board of Directors, Employees, Suppliers, Customers	<p>Meanwhile, employees are communicated with anti-corruption policies through reminders sent in internal emails.</p> <p>The Board of Directors and Senior Management are reminded of anti-corruption policies through the Annual Corporate Governance Seminar.</p>

Incidents of Corruption

Disclosure	Quantity	Units
Number of incidents in which directors were removed or disciplined for corruption	0	%
Number of incidents in which employees were dismissed or disciplined for corruption	0	%
Number of incidents when contracts with business partners were terminated due to incidents of corruption	0	%

<b>What is the impact and where does it occur? What is the organization's involvement in the impact?</b>	<b>Which stakeholders are affected?</b>	<b>Management Approach</b>
As PGMC did not record any incident of corruption in 2019, there are no impacts identified.		
<b>What are the Risk/s Identified?</b>	<b>Which stakeholders are affected?</b>	<b>Management Approach</b>
Incidents of corruption would affect the Company's financial resources, business development, and reputation. It could also result	Employees, Investors, Community, Customers	PGMC strictly implements its anti-corruption policies.

in a loss of trust from the customers, investors, and the community.		
<b>What are the Opportunity/ies Identified?</b>	<b>Which stakeholders are affected?</b>	<b>Management Approach</b>
There is no significant opportunity identified.		



# ENVIRONMENT

## Resource Management

### Energy consumption within the organization

Disclosure	Quantity	Units
Energy consumption (renewable sources)	N/A	GJ
Energy consumption (gasoline)	N/A	GJ
Energy consumption (LPG)	N/A	GJ
Energy consumption (diesel)	13,859,231	L
• In-house	2,587,108	L
• Contractors	11,272,123	L
Energy consumption (electricity)	1,224,846	kWh
• In-house	833,345	kWh
• Contractors	391,501	kWh

### Reduction of energy consumption

Disclosure	Quantity	Units
Energy consumption (renewable sources)	N/A	GJ
Energy consumption (gasoline)	N/A	GJ
Energy consumption (LPG)	N/A	GJ
Energy consumption (diesel)	119,615*	L
• In-house	(425,204)**	L
• Contractors	544,819***	L
Energy consumption (electricity)	10,563*	kWh
• In-house	(36,941)**	kWh
• Contractors	47,504***	kWh

\*Overall decrease (contractors – inhouse)

\*\*Increase in consumption from 2018

\*\*\*Decrease in consumption from 2018

<b>What is the impact and where does it occur? What is the organization's involvement in the impact?</b>	<b>Which stakeholders are affected?</b>	<b>Management Approach</b>
<p>PGMC was able to reduce its overall fuel consumption from 2018 despite a 35% increase in its total ore production.</p>	<p>Employees, Contractors</p>	<p>The 0.9% reduction in fuel consumption is mostly from the Company's contractors that achieved a 4.6% reduction compared to 2018. Their reduction can be attributed to the utilization of new equipment which is more fuel-efficient.</p> <p>PGMC implements the following initiatives and programs to manage or reduce its fuel consumption:</p> <ul style="list-style-type: none"> <li>● routine check-up and regular maintenance of equipment and vehicles</li> <li>● consolidation of Equipment Utilization Reports (EUR)</li> <li>● monitoring of vehicles odometer to monitor the actual distance traveled</li> <li>● carpooling and eliminating unnecessary trips</li> <li>● strict enforcement of 20-25 kph allowable speed limit at the mine site</li> <li>● recording and monitoring of the frequency of the brown-out and the utilization of back-up generators</li> <li>● regular employee orientations and visual reminders for fuel conservation</li> <li>● monthly monitoring, evaluation, and analysis of fuel consumption performance for each vehicle.</li> </ul>
<p>Meanwhile, PGMC recorded a 4.6% increase in in-house electricity usage in 2019. Significant increases were observed in the peak of the mining season, July to October, until the last quarter of the year.</p>		<p>The Company's electricity conservation initiatives include:</p> <ul style="list-style-type: none"> <li>● installation of additional electric meters for effective monitoring</li> <li>● continuous replacement of ordinary bulbs into the LED type</li> </ul>

Other reasons for the increase include the construction of additional buildings, an 11.1% increase in manpower, a 5.7% increase in man-hours worked, and an increase in water extraction using a high capacity water motor pump.		<ul style="list-style-type: none"> <li>● purchase of energy-efficient appliances and equipment</li> <li>● regular employee orientations and visual reminders for energy conservation</li> <li>● monthly monitoring, evaluation, and analysis of electricity consumption performance</li> <li>● conduct of electrical inspections</li> </ul>
<b>What are the Risk/s Identified?</b>	<b>Which stakeholders are affected?</b>	<b>Management Approach</b>
PGMC undertook several projects to improve its environmental programs which led to an increase in in-house fuel usage.	Employees, Contractors	<p>In-house fuel consumption recorded an increase of 19.7%, which can be attributed to the use of heavy equipment for the establishment of additional environmental facilities, for the Riverbank Stabilization Program, and extension of mining activities.</p> <p>However, this is offset by the 6.1% decrease in overall fuel intensity, computed as fuel consumed in L/material movement in WMT. This shows that even with the increase in projects and material movement in 2019, PGMC was successful in managing its fuel consumption.</p>
<b>What are the Opportunity/ies Identified?</b>	<b>Which stakeholders are affected?</b>	<b>Management Approach</b>
PGMC considers utilizing renewable energy sources for some of its energy supplies.	Employees, Contractors	The Company plans to convert its conventional streetlights to solar-powered ones in 2020.

### Water consumption within the organization

Disclosure	Quantity	Units
Water withdrawal	378,073	Cubic meters
Water consumption*	180	Cubic meters
Water recycled and reused	0	Cubic meters

\*Water consumed for drinking. PGMC will start monitoring its contractors' water consumption in 2020.

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
<p>The Company sources its water from a shallow well, deep well, and surface water. There were no water sources that were significantly affected by the Company's withdrawal of water.</p>	<p>Employees, Local Community</p>	<p>Despite the 34.5% increase in PGMC's water withdrawal in 2019 due to several factors such as the growing demand for water in its dust control activities, high temperature and evaporation rates, and an increase in manpower, the Company employs various strategies to ensure an efficient water consumption throughout its operations. PGMC conducts regular inspections of water pumps, pipes, and faucets as well as monthly monitoring and evaluation of its water consumption. The Company had also installed a cistern solely to capture and store rainwater. Employees also receive regular orientation and visual reminders on the importance of water conservation.</p>
What are the Risk/s Identified?	Which stakeholders are affected?	Management Approach
<p>PGMC understands that there is always a risk of untreated water seeping and contaminating the soil. For this reason, the Company had taken appropriate measures to prevent such from happening.</p>	<p>Employees, Local Community, Regulatory Bodies</p>	<p>PGMC had constructed and designated a watertight tank to partially treat raw domestic sanitary wastewater. It also has an established EMS guideline for the design and construction of septic tanks and in the extraction, collection, and disposal of domestic waste sludge and septage.</p>
What are the Opportunity/ies Identified?	Which stakeholders are affected?	Management Approach

PGMC is prepared anytime that water recycling and reuse is needed should water from surface water sources be not enough.	Employees, Regulatory Bodies	The Company's EMS guideline outlines the instruction for utilizing clean water contained in settling ponds and other detention ponds for water spraying and other purposes.
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Materials used by the organization

Disclosure	Quantity	Units
Materials used by weight or volume		
a. renewable	N/A	kg/liters
b. non-renewable	N/A	kg/liters
Percentage of recycled input materials used to manufacture the organization's primary products and services	N/A	%

<b>What is the impact and where does it occur? What is the organization's involvement in the impact?</b>	<b>Which stakeholders are affected?</b>	<b>Management Approach</b>
As PGMC's operations do not require the use of raw materials, this disclosure is deemed immaterial to the Company. Thus, there are no significant impacts identified.		
<b>What are the Risk/s Identified?</b>	<b>Which stakeholders are affected?</b>	<b>Management Approach</b>
There are no significant risks identified.		
<b>What are the Opportunity/ies Identified?</b>	<b>Which stakeholders are affected?</b>	<b>Management Approach</b>
There are no significant opportunities identified.		

Ecosystems and biodiversity (whether in upland/watershed or coastal/marine)

Disclosure	Quantity	Units
Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	None	

Habitats protected or restored	50 (CAGA 5)	ha
IUCN <sup>4</sup> Red List species and national conservation list species with habitats in areas affected by operations	<p>Trees:</p> <ul style="list-style-type: none"> <li>● Apitong (<i>Dipterocarpus grandiflorus</i>)</li> <li>● Reb Lauan (<i>Shorea negrosensis</i>)</li> <li>● Tangile (<i>Shorea polysperma</i>)</li> <li>● Yakal (<i>Shorea astylosa</i>)</li> <li>● Tiga (<i>Tristania micratha</i>)</li> <li>● Mangkono (<i>Xanthostemon vergugonianus</i>)</li> <li>● Myrtaceae family</li> <li>● Dipterocarpaceae family</li> </ul> <p>Animals:</p> <ul style="list-style-type: none"> <li>● Snake (<i>Serpentis</i>)</li> <li>● Banog Bird (<i>Accipitrinae</i>)</li> <li>● Wild pig (<i>Sus scrofa</i>)</li> <li>● Uwak (<i>Corvus</i>)</li> </ul> <p>Plants:</p> <ul style="list-style-type: none"> <li>● Wild orchids (<i>Neotinea tridentata</i>)</li> <li>● Pitcher plant (<i>Nepenthes</i>)</li> </ul>	

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
The Company's operations are not located near areas of high biodiversity value. However, it still exerts effort to preserve the biodiversity of the area, especially after its mining operations.	Local Community, Regulatory Bodies	<p>PGMC has an integrated biodiversity management program for flora and fauna biodiversity conservation and has allotted 50 hectares of CAGA 5 for Biodiversity Conservation. This closely monitored area will serve as the major source of seeds and planting materials for future rehabilitation projects.</p> <p>Other efforts on biodiversity conservation include:</p>

<sup>4</sup> International Union for Conservation of Nature

		<ul style="list-style-type: none"> <li>● Establishment of a three-hectare Botanical Garden to preserve and showcase existing plant species within the MPSA area. As of 2019, it houses 82 plant species.</li> <li>● Construction of Clonal Facility to propagate rare, endemic, and/or indigenous tree species within the MPSA area</li> <li>● Establishment of Biodiversity Conservation Nursery to supply the needed seedlings for rehabilitation and National Greening Program activities</li> <li>● Vermiculture Project which increases the quality of trees, crops, and soil structure by restoring the soil nutrient</li> <li>● Establishment of 3,000-square meter Natural Forest Nursery in CAGA 2 and 4</li> </ul>
<b>What are the Risk/s Identified?</b>	<b>Which stakeholders are affected?</b>	<b>Management Approach</b>

<p>PGMC's operations, specifically in its mine pit areas, may result in loss of vegetation and wildlife habitats in mining areas.</p>	<p>Local Community, Regulatory Bodies</p>	<p>PGMC provides buffer zone plantation, mangrove enrichment, plantation maintenance, and nursery operation. Mined-out areas also undergo rehabilitation which is divided into three activities: reshaping and backfilling topsoil incorporation, and progressive rehabilitation. For 2019, it was able to reshape and backfill 40 hectares of newly declared mined-out areas for progressive rehabilitation.</p> <p>Aside from the Progressive Rehabilitation Program, the Company supports the National Greening Program (NGP) and Mining Forest Program for land development activities with the goal of improving the macro- and micro-nutrient status of soil in the mined-out areas. These are eco-friendly approaches to improve root growth, nutrient absorption, and soil nutrients. It also provides livelihood opportunities for the host community as they produce the seedlings needed in these programs.</p>
<p><b>What are the Opportunity/ies Identified?</b></p>	<p><b>Which stakeholders are affected?</b></p>	<p><b>Management Approach</b></p>
<p>As part of its Annual Environmental Protection and Enhancement Program (AEPEP), the Company conducts research studies relevant to its operations, as recommended by the Mines and Geo-sciences Bureau (MGB) and Department of Environmental and Natural Resources (DENR).</p>	<p>Local Community, Regulatory Bodies</p>	<p>For 2019, it conducted the following studies:</p> <ul style="list-style-type: none"> <li>● Trial Planting of Selected Dipterocarp Species in Mined-out Areas of Platinum Group Metals Corporation</li> <li>● Plantation Establishment of Selected Bamboo Species with economic value</li> </ul> <p>These studies helped the Company in identifying new strategies for its land rehabilitation and national greening programs.</p>



<p>PGMC has supported the local government of Cagdianao, Surigao del Norte in declaring portions of Lambason island's reef area as a marine sanctuary for protection and enhancement. The island's reefs are under stress from destructive fishing methods.</p>	<p>Local Community</p>	<p>PGMC included the rehabilitation of Lambason island's reef area as part of its AEPEP. Its Coastal Resource Management Plan aims to sustainably manage the marine resources in the area. The Company's technical team worked alongside local fisherfolks in conducting coral transplantation of about 50 coral fragments.</p> <p>With this initiative, the Company is looking forward to setting up a coral nursery, where corals can be reproduced and can sustain to provide naturally grown corals for the recovery of biodiversity in the Lambason Island marine sanctuary.</p>
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## Environmental Impact Management

### Air Emissions

#### GHG

Disclosure	Quantity	Units
Direct (Scope 1) GHG Emissions	37,434	Tonnes CO <sub>2</sub> e
Energy indirect (Scope 2) GHG Emissions	755	Tonnes CO <sub>2</sub> e
Emission of ozone-depleting substances (ODS)	No data	Tonnes CO <sub>2</sub> e

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
<p>PGMC was able to maintain a similar level of GHG emissions from 2018 even with an increase in production from 2019.</p>	<p>Employees</p>	<p>The Company monitors its GHG emissions constrained by its pre-defined organizational and operational boundaries. Emissions are accounted for all phases of operations where PGMC has full authority to introduce and implement policies. These operations include ore</p>

		production & barging, ancillary activities, transportation, power generation, and facilities usage.
<b>What are the Risk/s Identified?</b>	<b>Which stakeholders are affected?</b>	<b>Management Approach</b>
PGMC still has operational equipment using HCFC-22 and R-22, the most common refrigerants for air-conditioning systems that are now phased-out.	Employees, Local Community	Simultaneous with the enhancement being done by the Company in its facilities and structures is the improvement of its technology. As of 2019, it was able to replace 28% of its operational air conditioning equipment with air conditioners using R-410A, a non-ozone-depleting alternative refrigerant.
<b>What are the Opportunity/ies Identified?</b>	<b>Which stakeholders are affected?</b>	<b>Management Approach</b>
PGMC can contribute to the reduction of the mining sector's GHG emissions through decarbonization of its operations and increased carbon sequestration through its mine forest.	Employees, Local Community, Regulatory Bodies	<p>PGMC aims to control and reduce its GHG emissions resulting from its operations and is strictly enforcing the implementation of the following initiatives:</p> <ul style="list-style-type: none"> <li>● target reduction in electricity and fuel consumption by 0.5% and 1% respectively for 2019. Targets are subject to change for succeeding years depending on changes in operations and activities</li> <li>● regular assessment and preventive maintenance of all equipment and vehicles</li> <li>● the gradual phasing out of old vehicles and equipment</li> <li>● observance of maximum limit on equipment use: 12,000 hours for heavy equipment and 80,000km mileage for dump truck units</li> </ul> <p>The Company's Progressive Rehabilitation Program, Mine Forest Program, and participation in NGP activities also contribute to GHG reduction through carbon sequestration.</p>

Air Pollutants

Disclosure	Quantity	Units
NO <sub>x</sub>	N/A	kg
SO <sub>x</sub>	N/A	kg
Persistent organic pollutants (POPs)	N/A	kg
Volatile organic compounds (VOCs)	N/A	kg
Hazardous air pollutants (HAPs)	N/A	kg
Total Suspended Particulates (TSP)*		
Contractors Camp	6	µg/Ncm
Punta Naga Basketball Court	5	µg/Ncm
Cagdianao Barangay Hall	11	µg/Ncm
Platinum Heights	9	µg/Ncm
Admin Building	20	µg/Ncm
<b>DENR Standard</b>	<b>230</b>	µg/Ncm

\*Average ambient air quality per station in 2019

<b>What is the impact and where does it occur? What is the organization's involvement in the impact?</b>	<b>Which stakeholders are affected?</b>	<b>Management Approach</b>
<p>PGMC is able to suppress and control its dust emission. From its air quality monitoring in five sampling stations within the mine site and in the host community, the total suspended particulates are well within the regulatory limits of DENR's ambient air standard.</p>	<p>Employees, Local Community, Regulatory Bodies</p>	<p>For dust suppression and control, the Company implements intensified water spraying, street sweeping, and regular road maintenance.</p> <p>Water spraying is done on main and secondary haulage roads using pressurized water trucks. For 2019, the Company has increased the number of water trucks to increase its capacity to suppress and control dust.</p> <p>Meanwhile, street sweeping is done on the National Highway. For 2019, 2,957 man-days were devoted solely for this purpose.</p> <p>PGMC conducts monthly air quality monitoring to ensure that its measures to contain dust are adequate. For 2019, 45 sampling activities were conducted. The Company ensures that its air quality monitoring produces accurate results through the annual calibration of the air sampling devices by a third-party service provider.</p>
<b>What are the Risk/s Identified?</b>	<b>Which stakeholders are affected?</b>	<b>Management Approach</b>
<p>The risks identified are potential excessive noise and dust emissions of project equipment using the roads.</p>	<p>Employees, Local Communities, Regulatory Bodies</p>	<p>The Company mitigates these risks through regulating vehicle speed of project equipment, performing regular maintenance, and monitoring and ensuring that their noise level at night is within the DENR standard. For 2019, 96</p>

		<p>sampling activities were conducted to measure noise quality. It also implements ballasting and graveling of haul roads to prevent disturbance of unpaved roads which would lead to increased dust emissions. For 2019, at least 4km of its main haul road was properly maintained to ensure the success of this measure.</p> <p>Another measure used by the Company is the establishment of buffer zones through its reforestation programs. These buffer zones serve as dust and erosion control. For 2019, it has established 8.9 hectares of buffer zones along riverbanks and haul roads.</p>
<b>What are the Opportunity/ies Identified?</b>	<b>Which stakeholders are affected?</b>	<b>Management Approach</b>
<p>There are no significant opportunities identified as the Company's regular air quality monitoring shows that its emissions are within regulatory standards.</p>		

## Solid and Hazardous Wastes

### Solid Waste

<b>Disclosure</b>	<b>Quantity</b>	<b>Units</b>
Total solid waste generated	49,445	kg
Recyclable	8,620	kg
Composted	17,955	kg
Incinerated	N/A	kg
Residuals/Landfilled	22,870	kg

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
<p>In 2019, the Company was able to reduce its overall solid waste generation by 32.9% through the effective implementation of its Solid Waste Management (SWM) Program. This impacts three aspects: environmental, social, and economic.</p> <p>Reducing the solid waste generation as well as the associated pollution with its disposal can improve environmental aesthetics and reduce the spread of diseases.</p> <p>It can also improve community relations through the establishment of partnerships in the execution of environmental commitments.</p> <p>It also reduces the cost for the collection, storage, and disposal of all generated waste, as well as the maintenance of the Material Recovery Facility. The Company can also reduce costs in the procurement of new materials because of its reusing and recycling activities.</p>	<p>Employees, Regulatory Bodies, Local Community</p>	<p>PGMC's SWM Program includes the practice of 4Rs: Refuse, Reduce, Reuse, and Recycle.</p> <p><b>Refuse</b> - in-house and contractors' employees are discouraged to use disposable plastic bags as food packaging. PaperLess Program is also implemented</p> <p><b>Reduce</b> - the Company is gradually refraining from purchasing and distributing disposable plastic water bottles intended for visitors</p> <p><b>Reuse</b> - papers are reused for office operations</p> <p><b>Recycle</b> - waste materials are used for site beautification while PET bottles and cellophane wrappers are donated to LGU Claver Recycling Plant</p> <p>PGMC spreads environmental awareness to its in-house and contractors' employees through orientations and visual reminders, monitoring, evaluation, analysis, and monthly cascading of waste generation performance.</p>
What are the Risk/s Identified?	Which stakeholders are affected?	Management Approach
<p>Improper handling of solid waste could affect nearby communities and water bodies.</p>	<p>Employees, Regulatory Bodies, Local Community</p>	<p>PGMC ensures the proper implementation of its solid waste management system through the following initiatives:</p> <ul style="list-style-type: none"> <li>● it conducts regular training of all workers on proper waste management</li> </ul>

		<ul style="list-style-type: none"> <li>● it provides suitable waste containment and treatment facilities at key areas</li> <li>● it regularly collects waste from all its facilities</li> <li>● it strictly enforces its Environment Policy</li> </ul>
<b>What are the Opportunity/ies Identified?</b>	<b>Which stakeholders are affected?</b>	<b>Management Approach</b>
PGMC was able to compost almost 18 tons of biodegradable waste. The resulting compost is used for revegetation purposes.	Employees, Regulatory Bodies	PGMC has a Temporary Revegetation Program (TRP) which aims to provide short term vegetation growth to prevent soil erosion in areas that are currently inactive. 46.30 hectares of TRP areas were properly maintained in 2019 through watering, replanting, and applying fertilizer which was derived from the composting process. Maintaining this program contributes to the reduction of the Company's carbon footprint.

### Hazardous Waste

Disclosure	Quantity	Units
Total weight of hazardous waste generated		
<ul style="list-style-type: none"> <li>● Used batteries, busted bulbs, used filters</li> </ul>	10,776	pcs
<ul style="list-style-type: none"> <li>● Cooking oil</li> </ul>	239.75	L
<ul style="list-style-type: none"> <li>● Used oil</li> </ul>	62,084	L
Total weight of hazardous waste transported	101,604*	L

*\*Only used oil was disposed of through the DENR accredited transporter in 2019.*

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
<p>A total of 101,604 L of hazardous waste has been disposed of to a DENR Accredited Transporter in 2019. These wastes have been properly managed through the Company's Hazardous Waste Management Program.</p>	<p>Employees, Regulatory Bodies, Local Community</p>	<p>The decrease in hazardous waste generation is related to the decrease in mining equipment used in 2019 compared to that of 2018. Most of the running equipment and vehicles are new and operate within the standards set by the Company's Mechanical and Maintenance Department which leads to lesser maintenance activities, thus generating less used oil.</p> <p>The Company manages its hazardous wastes through proper collection and storage of hazardous wastes generated by PGMC and its general contractors, for eventual collection and disposal through a DENR Accredited Waste Transporter and Treater.</p>
What are the Risk/s Identified?	Which stakeholders are affected?	Management Approach
<p>The Company's third party hazardous waste transporters experienced delays in the processing of their relevant permits. This affected the Company in the amount of hazardous waste that could be disposed of properly within 2019.</p>	<p>Regulatory Bodies</p>	<p>Because of these delays, there was a decrease in the amount of used oil that was disposed of. To resolve this, the remaining volume of used oil stored at the central hazardous waste facility was rescheduled for disposal in 2020.</p>
What are the Opportunity/ies Identified?	Which stakeholders are affected?	Management Approach
<p>The Company has increased its capacity to temporarily store its hazardous waste by 300%.</p>	<p>Regulatory Bodies</p>	<p>As mentioned in the previous section, a new central solid and hazardous waste facility was constructed in 2019.</p>



## Effluents

Disclosure	Quantity	Units
Total volume of water discharges	377,893	Cubic meters
Percent of wastewater recycled	0	%

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
<p>PGMC aims to maintain and improve the quality of its wastewater discharges to prevent the pollution of nearby water bodies. It monitors the water quality of the water bodies receiving effluents from the settling ponds. The total suspended solids (TSS) analysis of the wastewater samples showed that the effluents' TSS are within regulatory limits.</p>	<p>Employees, Regulatory Bodies, Local Community</p>	<p>PGMC's main strategy to improve the quality of its wastewater is to focus on stormwater drainage management and stabilization of environmental structures.</p> <p>Established drainage systems serve as chain waterways, connecting to constructed environmental structures such as collector sumps, in-pit check dams, check dams, and settling ponds. These structures allow the retention and settlement of suspended solids before the discharge of excess wastewater to the receiving water bodies.</p> <p>As of December 2019, the Company has 93 settling ponds, 41 check dams, and 32 collector sumps with a total capacity of 814,309 cubic meters.</p>
<p>PGMC also maintains the water quality of water bodies near the mine site through preventing erosion and sedimentation which could affect their turbidity and biodiversity.</p>	<p>Employees, Regulatory Bodies, Local Community</p>	<p>The Company implements riverbank stabilization along barren river channels. As of December 2019, PGMC had stabilized a total of 20,093 cubic meters of riverbanks.</p> <p>The Company's rehabilitation, reforestation, and temporary re-vegetation efforts are also initiatives to reduce the possibility of soil erosion.</p>

		PGMC also does dredging to remove the silt that accumulated in rivers with the use of mechanical and slurry pumps. For 2019, it was able to recover 57,174 cubic meters of silt.
<b>What are the Risk/s Identified?</b>	<b>Which stakeholders are affected?</b>	<b>Management Approach</b>
The risks identified concerning water pollution is the improper handling of the Company's and its clients' domestic and industrial wastes and bilge water from its clients' ships. When these wastes contaminate nearby water bodies, it may lead to elevated coliforms, biochemical oxygen demand, and oil and grease.	Employees, Regulatory Bodies, Local Community	To prevent this risk PGMC ensures that it has an effective solid and hazardous waste management in place, as discussed in the previous sections. It also conducts monthly spillage monitoring to ensure that its clients follow the Company's solid and hazardous waste policies in place.
<b>What are the Opportunity/ies Identified?</b>	<b>Which stakeholders are affected?</b>	<b>Management Approach</b>
When necessary, the Company practices recycling water for its dust control activities.	Employees, Regulatory Bodies, Local Community	PGMC reuses water from its settling ponds when the surface water sources do not have sufficient supply.

## Environmental Compliance

### Non-compliance with Environmental Laws and Regulations

<b>Disclosure</b>	<b>Quantity</b>	<b>Units</b>
Total amount of monetary fines for non-compliance with environmental laws and/or regulations	0	Php
No. of non-monetary sanctions for non-compliance with environmental laws and/or regulations	0	#
No. of cases resolved through dispute resolution mechanism	0	#

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
<p>PGMC was able to properly implement all major commitments and programs stated in its Environmental Protection and Enhancement Program (EPEP) for 2019. Also, there was no Notice of Violations for the reporting year.</p>	<p>Employees, Regulatory Bodies, Local Community</p>	<p>PGMC's environmental commitments stated in its EPEP are the following:</p> <ul style="list-style-type: none"> <li>● To comply with control measures stipulated in its EPEP/Potential Environmental Impact Report (PEIR)</li> <li>● To comply with control measures stipulated in its AEPEP</li> <li>● To utilize its Resource Capital Funds and/or Monitoring Trust Fund</li> <li>● To undertake research recommended by the regulatory bodies</li> </ul>
What are the Risk/s Identified?	Which stakeholders are affected?	Management Approach
<p>Consistent non-compliance may lead to temporary if not permanent, stoppage of PGMC's operations. This may also lead to significant damage to the Company's reputation in the industry.</p>	<p>Employees, Regulatory Bodies</p>	<p>The Company ensures that all aspects of its operations are compliant with relevant rules and regulations through regular monitoring and management of air quality, wastewater quality, and solid and hazardous waste generation and disposal. This also includes following through on the plans stated in the Company's AEPEP such as the conduct of reforestation activities, temporary revegetation, and conduct of research studies.</p>
What are the Opportunity/ies Identified?	Which stakeholders are affected?	Management Approach
<p>There are no significant opportunities identified.</p>		

## SOCIAL

### Employee Management

#### Employee Hiring and Benefits

##### Employee Data

Disclosure	Quantity	Units
Total number of employees <sup>5</sup>		
a. Number of female employees	215	#
b. Number of male employees	1,452	#
Attrition rate <sup>6</sup>	4.25%	%
Ratio of lowest paid employee against minimum wage	1:1	ratio

##### Employee Benefits

List of Benefits	Y/N	% of female employees who availed for the year	% of male employees who availed for the year
SSS (sickness and loan)	Y	8%	10%
PhilHealth (CSF confinement)	Y	1%	2%
Pag-IBIG (HDMF loan)	Y	9%	31%
Parental leaves	Y	0%	2%
Vacation leaves*	Y	5%	6%
Sick leaves*	Y	5%	2%
Medical Benefits* (aside from PhilHealth)	Y	5%	2%
Retirement fund (aside from SSS)	Y	0%	0%
Further education support	Y	0%	0%
Company stock options	Y	5%	1.3%

<sup>5</sup> Employees are individuals who are in an employment relationship with the organization, according to national law or its application (GRI Standards 2016 Glossary)

<sup>6</sup> Attrition rate = (no. of new hires – no. of turnover)/(average of total no. of employees of previous year and total no. of employees of current year)

Telecommuting	Y	15%	2%
Flexible-working Hours	Y	0%	1%

*\*Regular employees only*

<b>What is the impact and where does it occur? What is the organization's involvement in the impact?</b>	<b>Management Approach</b>
As mining operations are conducted during the dry season, the Company employs seasonal rank and file workers.	The Company's seasonal workers are provided benefits such as SSS, HDMF, 13th-month pay, and incentives.
<b>What are the Risk/s Identified?</b>	<b>Management Approach</b>
The Company has a low attrition rate of 4.25%. However, there is still a risk of good employees leaving, which are commonly caused by redundancy, opportunities abroad, and further studies.	PGMC aims to capture the loyalty of its employees through its comprehensive HR programs and policies designed to sustain employee engagement. This includes competitive salaries and benefits such as the provision of health insurance, meals, uniforms, and bonuses.  Capturing the employees' loyalty would also benefit the Company by not having to continuously spend time, money, and energy in recruiting new employees. It could focus its resources to provide more training and development to its loyal employees instead.
<b>What are the Opportunity/ies Identified?</b>	<b>Management Approach</b>
PGMC has an opportunity to provide employment opportunities to the local communities within its scope.	The Company prioritizes applicants from its neighboring communities in the employment process.

### Employee Training and Development

Disclosure	Quantity	Units
Total training hours provided to employees		
a. Female employees	849	hours
b. Male employees	1,571	hours
Average training hours provided to employees		
a. Female employees	16.3	hours/employee

b. Male employees	19.6	hours/employee
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<b>What is the impact and where does it occur? What is the organization's involvement in the impact?</b>	<b>Management Approach</b>
By providing trainings, PGMC ensures that its employees are updated on recent developments in their respective lines of discipline. The Company benefits from increased employee productivity, increased employee retention, and fulfillment of company goals and production targets.	PGMC develops an Annual Training Schedule based on the Training Request Forms filled up by Department Heads every end of the year. Some of the topics covered are personality development, technical, mechanical, environmental, occupational health and safety, quality control, radiation protection, and mental health awareness. Compliance-related trainings stipulated in the Annual Health and Safety Plan and AEPEP are prioritized.
<b>What are the Risk/s Identified?</b>	<b>Management Approach</b>
A risk identified by the Company is when its employees are undertrained and underdeveloped. This could result in low production rates, high turnover rates, unsafe environment, and ineffective staff management.	To mitigate this risk, PGMC aims to continuously develop its employees' skills, talent, and knowledge for their growth and development. All employees receive basic training during their onboarding, continuous training during their tenure, and for every phase of their work assignments.
<b>What are the Opportunity/ies Identified?</b>	<b>Management Approach</b>
PGMC recognizes the need to evaluate and reward the excellent performance of its employees.	The Company has a program for its employees' performance evaluation namely Performance, Planning, and Evaluation. Through this program, the Company identifies the equivalent bonus for the performance of its employees.  Another way it rewards employees is through the provision of incentives for each successful project undertaken. It also provides loyalty awards and salary increments to continuously motivate its employees into staying with the Company.

## Labor-Management Relations

Disclosure	Quantity	Units
% of employees covered with Collective Bargaining Agreements	0	%
Number of consultations conducted with employees concerning employee-related policies	4	#

<p><b>What is the impact and where does it occur? What is the organization's involvement in the impact?</b></p>	<p><b>Management Approach</b></p>
<p>PGMC currently has no Employee Unions and no Collective Bargaining Agreements but it ensures a good working environment for its employees through proper implementation of employment policies and work rules.</p>	<p>PGMC, FNI's operating subsidiary, has a Company Code of Conduct and Employees Manual that all employees are required to abide by. Management is responsible for the proper implementation of these rules.</p>
<p><b>What are the Risk/s Identified?</b></p>	<p><b>Management Approach</b></p>
<p>One risk identified by the Company is talent retention.</p>	<p>Management attends to the sentiments of its employee through the following venues:</p> <ul style="list-style-type: none"> <li>● <u>regular performance review</u> - to provide feedback on the employees' performance and contribute to their personal and professional growth</li> <li>● <u>monthly employee bulletins</u> - to ensure that employees are updated on the Company's activities and achievements</li> <li>● <u>employee activities and events</u> - to promote the overall wellness of employees and to increase their participation</li> </ul>
<p><b>What are the Opportunity/ies Identified?</b></p>	<p><b>Management Approach</b></p>
<p>PGMC encourages employee participation and cooperation through engagement programs.</p>	<p>The Company's employee engagement programs include town hall meetings, information drives, and Company events and celebrations. Town Hall meetings provide an avenue for updates and employee consultations on policies and issues. Information drives include regular email advisories, social media posting, and use of other instant messaging platforms to inform employees of activities and updates. While Company events and celebrations show the Company's</p>

	appreciation to its employees, which is a vital part of its success.
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## Diversity and Equal Opportunity

Disclosure	Quantity	Units
% of females in the workforce	13%	%
% of males in the workforce	87%	%
Number of employees from indigenous communities and/or vulnerable sector*	18	%

\*Vulnerable sector includes, elderly, persons with disabilities, vulnerable women, refugees, migrants, internally displaced persons, people living with HIV and other diseases, solo parents, and the poor or the base of the pyramid (BOP; Class D and E).

<b>What is the impact and where does it occur? What is the organization's involvement in the impact?</b>	<b>Management Approach</b>
The number of females is lower compared to the number of males in PGMC. This is mainly due to the mining industry being a male-dominated industry.	The Company has a non-discrimination policy in its recruitment process. This ensures that everyone, regardless of their gender, race, religion, ethnicity, or educational attainment, is given the same opportunity as long as they are qualified for the position.
<b>What are the Risk/s Identified?</b>	<b>Management Approach</b>
There are no significant risks identified.	
<b>What are the Opportunity/ies Identified?</b>	<b>Management Approach</b>
The Company recognizes the opportunity to employ indigenous people within its scope.	PGMC identifies the various groups of indigenous peoples within its scope and offers them employment opportunities in its mine sites.

## Workplace Conditions, Labor Standards, and Human Rights

### Occupational Health and Safety

Disclosure	Quantity	Units
Safe Man-Hours	7,260,500	Man-hours
No. of work-related injuries/illnesses	6	#



No. of work-related fatalities	0	#
No. of safety drills	5	#

<b>What is the impact and where does it occur? What is the organization's involvement in the impact?</b>	<b>Management Approach</b>
<p>PGMC's operations generate dust which could impact the health of its workers and nearby communities.</p>	<p>The Company has several policies about occupational health and safety, namely:</p> <ul style="list-style-type: none"> <li>● Issuance of Personal Protective Equipment (PPE)</li> <li>● No PPE, No Work policy</li> <li>● No work under the influence of liquor</li> <li>● No safety and health orientation, no job</li> <li>● No badge identification, no work</li> <li>● No unauthorized driving</li> </ul> <p>It also conducts health surveillance through lectures and information drive campaigns conducted by the Health section. It also provides trainings and walk-a-talks to help the company in achieving its commitment towards a zero accident/illness program.</p> <p>The Company has a Work Environment Measurement program which identifies the level of air pollutants, water, and noise, and determines if it is in the tolerable range. It also established environment structures to mitigate the negative effects of its operations, and it provides medicines to workers through its health practitioners.</p>
<b>What are the Risk/s Identified?</b>	<b>Management Approach</b>
<p>The risks identified are:</p> <ul style="list-style-type: none"> <li>● Hauling of ore in ascending/descending roads</li> <li>● Over speeding of drivers</li> <li>● Generation of dust</li> <li>● Poor maintenance of equipment</li> <li>● Unmitigated open burning</li> <li>● Poor fire truck utilization</li> <li>● Other work-related hazards</li> </ul>	<p>These are resolved through the following initiatives:</p> <ul style="list-style-type: none"> <li>● Enforcement of two-driver or operator policy to consider the work-time limit of workers and avoid worker exhaustion which might lead to accidents</li> <li>● Establishment of safety rules and regulations for driving to prevent over speeding and accidents from lack of discipline</li> </ul>

	<ul style="list-style-type: none"> <li>● Provision of guidelines on the proper usage of fire trucks in case of emergency</li> <li>● Observance of safety signages, restrictions, and warnings to promote awareness on work-related hazards</li> </ul>
<b>What are the Opportunity/ies Identified?</b>	<b>Management Approach</b>
PGMC has realized an opportunity to provide its employees with awareness on safe work practices and a healthy lifestyle.	<p>Walk-a-talk is a regular activity being done to communicate the safety risks associated with the employees' work.</p> <p>Before hiring, PGMC conducts safety and health orientation to its new hires. During the regular conduct of work, a toolbox meeting is conducted prior to each shift to remind the employees of safety protocols.</p>

### Labor Laws and Human Rights

Disclosure	Quantity	Units
No. of legal actions or employee grievances involving forced or child labor	0	#

Do you have policies that explicitly disallow violations of labor laws and human rights (e.g. harassment, bullying) in the workplace?

Topic	Y/N	If Yes, cite reference in the company policy
Forced labor	Y	The Company only hires employees that went through the application and interview process as found in the Employees' Manual.
Child labor	Y	The Company only hires applicants that are 18 years old and above as indicated in the Employees' Manual.
Human Rights	Y	The Company requires that its employees treat each other humanely and civilly in accordance with the Company's Code of Conduct.

<b>What is the impact and where does it occur? What is the organization's involvement in the impact?</b>	<b>Management Approach</b>
PGMC condemns and strictly forbids forced and child labor in all its location of operations.	The Company sternly implements the following laws and policies to ensure adherence to the rights of its employees: 1. Republic Act 7877 or the Anti-Sexual Harassment Act of 1995 2. Republic Act 10627 or the Anti-Bullying Act of 2013 3. DOLE Department Order 174 4. Republic Act 7610 5. Labor Standards
<b>What are the Risk/s Identified?</b>	<b>Management Approach</b>
There are no specific risks identified for the reporting year.	
<b>What are the Opportunity/ies Identified?</b>	<b>Management Approach</b>
There are no significant opportunities identified as the Company complies with Labor Laws and Human Rights Policies.	

## Supply Chain Management

Do you have a supplier accreditation policy? If yes, please attach the policy or link to the policy:

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Do you consider the following sustainability topics when accrediting suppliers?

Topic	Y/N	If Yes, cite reference in the company policy
Environmental performance	Y	Independent Mining Contractor Agreements entered into by PGMC include adherence to company Environmental Policy. In evaluating each contractor, one key performance indicator item is 100% compliance with environmental laws and regulations.
Forced labor	Y	Contracts and agreements entered into by PGMC include adherence to social and labor laws. In evaluating each contractor, one key performance indicator item is compliance with social and labor laws and the target metrics include zero issues and
Child labor	Y	
Human Rights	Y	

		complaints and 100% compliance to DOLE and other relevant government regulations.
Bribery and corruption	Y	Contracts and agreements entered into by PGMC include adherence to company anti-corruption policies.

<b>What is the impact and where does it occur? What is the organization's involvement in the impact?</b>	<b>Management Approach</b>
PGMC conducts supplier accreditation to ensure that it conducts business with trustworthy and reliable suppliers that would help the Company in attaining its targets.	In the deliberation of suppliers of products and/or services, the Company looks into an applicant's past performance.  PGMC also requires the suppliers' commitment to abide by the company policies by including it in the contract/agreement. Violation of this requirement is a ground for termination of contract.
<b>What are the Risk/s Identified?</b>	<b>Management Approach</b>
There are no significant risks identified.	
<b>What are the Opportunity/ies Identified?</b>	<b>Management Approach</b>
There are no significant opportunities identified.	

## Relationship with Community

### Significant Impacts on Local Communities

Operations with significant (positive or negative) impacts on local communities (exclude CSR projects; this has to be business operations)	Location	Vulnerable groups (if applicable)*	Does the particular operation have impacts on indigenous people (Y/N?)	Collective or individual rights that have been identified that or particular concern for the community	Mitigating measures (if negative) or enhancement measures (if positive)
PGMC Mining Operations	Sitio Baybay, Cagdianao, Claver, Surigao del Norte	35 households which are considered as informal settlers	Y	Health and safety risks as the area is prone to big waves/sea rising and dust from nearby mine/ causeway operation	Relocated the residents to a safer location in close coordination with Barangay and LGU officials

*\*Vulnerable sector includes, elderly, persons with disabilities, vulnerable women, refugees, migrants, internally displaced persons, people living with HIV and other diseases, solo parents, and the poor or the base of the pyramid (BOP; Class D and E).*

For operations that are affecting IPs, indicate the total number of Free and Prior Informed Consent (FPIC) undergoing consultations and Certificate Preconditions (CPs) secured and still operational and provide a copy or link to the certificates if available: \_\_\_\_\_

Certificates	Quantity	Units
FPIC process is still undergoing	1	#
CP secured	1	#

What are the Risk/s Identified?	Management Approach
Interruption of the supply of freshwater to the communities and disruption to the water system because of the Company's operations	PGMC oversees the periodic delivery of clean and potable water to its neighboring communities.
Improper waste disposal of PGMC's contractors that may significantly affect the people's health	The Company has a solid waste management plan and policy in place that are disseminated and mandated across all levels of the organization, including its contractors.
The Company's operations may take a toll on the health of the local communities, especially IPs.	PGMC provides medical assistance and support in the form of medicines, supplies, and equipment
What are the Opportunity/ies Identified?	Management Approach
Through the SDMP, PGMC is able to provide educational support programs and projects.	<ol style="list-style-type: none"> <li>1. Financial assistance to 45 scholars, 6 volunteer teachers, 1 school guard, 1 school bus driver</li> <li>2. Provision of College Assistance Grant to 71 students, 9 of which are full scholars</li> <li>3. Participation in the 2019 graduation rites of 15 schools</li> <li>4. Purchase of <i>Brigada Eskwela</i> 2019 materials for 23 schools</li> <li>5. Purchase of 2 units mini school bus with financial support for fuel</li> <li>6. Equipment assistance to 2 daycare centers, 11 elementary schools, and 2 national high schools</li> <li>7. Materials and supplies assistance to 1 elementary school</li> </ol>
The Company also provides access to basic health services and facilities.	<ol style="list-style-type: none"> <li>1. Provision of medicines and medical supplies and equipment</li> <li>2. Assistance to 28 <i>Barangay</i> health workers</li> <li>3. Participation in medical missions, nutrition month celebration, and feeding programs</li> <li>4. Emergency medical assistance and burial assistance to 14 recipients</li> <li>5. Support to the Dengue Prevention and Control Program and Nutrition and Feeding Program in partnership with DOH and LGU</li> <li>6. Provision of construction materials for 163 household toilets</li> <li>7. Community Assistance for the 20th National Assembly of the Philippine League of Government and Private Midwives, Inc.</li> </ol>

	8. Purchase of 1 unit microscope for the Municipal Health Unit of Claver
PGMC can also provide support for the communities' livelihood development.	<ol style="list-style-type: none"> <li>1. Financial assistance to the training and procurement of materials for handicraft making, construction of CAMAHAWELA and HAWELA production buildings, expansion of the Egg Laying project</li> <li>2. Provision of skills development training on HEO - Off-Highway Dump truck NCII and Hydraulic Excavator NCII for 76 beneficiaries and training workshop on project management for Philippine Bizcamp</li> <li>3. Assistance to the feasibility studies on the <i>Punta Naga</i> Water System project</li> <li>4. Rice subsidy</li> <li>5. Ongoing projects: <ul style="list-style-type: none"> <li>● Tourist passenger boat</li> <li>● Lemongrass plantation/production</li> <li>● General merchandising</li> <li>● Auto services, supplies, and accessories</li> <li>● Candle making</li> <li>● <i>Malunggay</i> production project</li> <li>● Mushroom production</li> <li>● Vegetable farming</li> <li>● <i>Lambaklad</i> fishing</li> <li>● Biochar production</li> </ul> </li> </ol>
The Company is also able to assist the communities' infrastructure expansion.	<ol style="list-style-type: none"> <li>1. Construction of 2-story school buildings, Mangrove Trail (tourist destination that can also be a source of livelihood), and elevated water tanks (ongoing)</li> <li>2. Embankment for the SSCT Campus construction</li> <li>3. Financial assistance for the establishment of Grow <i>Negosyo</i> Center and appliances</li> </ol>

## Customer Management

### Customer Satisfaction

Disclosure	Score	Did a third party conduct the customer satisfaction study? (Y/N)
Customer Satisfaction	N/A	N/A

<b>What is the impact and where does it occur? What is the organization's involvement in the impact?</b>	<b>Management Approach</b>
Being a mining company, PGMC does not transact with customers, hence, customer satisfaction is of no concern to the Company. This disclosure, therefore, is not deemed applicable to the PGMC.	
<b>What are the Risk/s Identified?</b>	<b>Management Approach</b>
There are no significant risks identified.	
<b>What are the Opportunity/ies Identified?</b>	<b>Management Approach</b>
There are no significant opportunities identified.	

### Health and Safety

<b>Disclosure</b>	<b>Quantity</b>	<b>Units</b>
No. of substantiated complaints* on product or service health and safety	N/A	#
No. of complaints addressed	N/A	#

*\*Substantiated complaints include complaints from customers that went through the organization's formal communication channels and grievance mechanisms as well as complaints that were lodged to and acted upon by government agencies.*

<b>What is the impact and where does it occur? What is the organization's involvement in the impact?</b>	<b>Management Approach</b>
As previously mentioned, PGMC has no direct contact with customers and, therefore, its products do not pose any threat to their health and safety. This topic is not applicable to the Company.	
<b>What are the Risk/s Identified?</b>	<b>Management Approach</b>
There are no significant risks identified.	
<b>What are the Opportunity/ies Identified?</b>	<b>Management Approach</b>
There are no significant opportunities identified.	



## Marketing and Labelling

Disclosure	Quantity	Units
No. of substantiated complaints on marketing and labelling*	N/A	#
No. of complaints addressed	N/A	#

*\*Substantiated complaints include complaints from customers that went through the organization's formal communication channels and grievance mechanisms as well as complaints that were lodged to and acted upon by government agencies.*

<b>What is the impact and where does it occur? What is the organization's involvement in the impact?</b>	<b>Management Approach</b>
PGMC is not involved in any marketing and labelling activities. There are no impacts identified as this disclosure is not deemed applicable to the Company.	
<b>What are the Risk/s Identified?</b>	<b>Management Approach</b>
There are no significant risks identified.	
<b>What are the Opportunity/ies Identified?</b>	<b>Management Approach</b>
There are no significant opportunities identified.	

## Customer privacy

Disclosure	Quantity	Units
No. of substantiated complaints on customer privacy*	N/A	#
No. of complaints addressed	N/A	#
No. of customers, users, and account holders whose information is used for secondary purposes	N/A	#

*\*Substantiated complaints include complaints from customers that went through the organization's formal communication channels and grievance mechanisms as well as complaints that were lodged to and acted upon by government agencies.*

<b>What is the impact and where does it occur? What is the organization's involvement in the impact?</b>	<b>Management Approach</b>
As PGMC does not deal with customers, it also does not gather information, much more sensitive ones, from them. Thus, this topic is not applicable to the Company.	
<b>What are the Risk/s Identified?</b>	<b>Management Approach</b>
There are no significant risks identified.	

<b>What are the Opportunity/ies Identified?</b>	<b>Management Approach</b>
There are no significant opportunities identified.	

### Data Security

<b>Disclosure</b>	<b>Quantity</b>	<b>Units</b>
No. of data breaches, including leaks, thefts and losses of data	0	#

<b>What is the impact and where does it occur? What is the organization's involvement in the impact?</b>	<b>Management Approach</b>
PGMC commits to the protection of privacy and security of personal information.	To continuously maintain ZERO (0) occurrence of data breaches, the Company actively implements controls and comes up with policies that will ensure privacy of personal information.
<b>What are the Risk/s Identified?</b>	<b>Management Approach</b>
One risk identified by the Company is when its personnel are not aware of the existing and new control procedures for data protection.	To ensure that employees are aware of the control procedures, Management regularly issues memos to provide advice to employees.
<b>What are the Opportunity/ies Identified?</b>	<b>Management Approach</b>
To increase the Company's data security measures, it continues to Identify solutions that can provide additional security for information.	PGMC continuously seeks for solution providers that can provide the additional services identified.

## UN SUSTAINABLE DEVELOPMENT GOALS

### Product of Service Contribution to UN SDGs

Key products and services and its contribution to sustainable development.

Key Products and Services	Societal Value / Contribution to UN SDGs	Potential Negative Impact of Contribution	Management Approach to Negative Impact
Nickel Ore	<p>#9 Industry, Innovation, and Infrastructure</p> <p>Nickel ores sold by the Company are mainly used to produce intermediate products for the manufacture of stainless steel, nickel pig iron and the production of nickel cathodes</p>	<p>Serving as a raw material for products and processes of other industries, nickel, in itself, does not have a negative impact. The effects of mining and production of nickel were discussed in the previous sections.</p>	

*\*None/Not Applicable is not an acceptable answer. For holding companies, the services and products of its subsidiaries may be disclosed.*