A S 0 9 4 0 3 9 9 2

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)

7 F CORPORATE BUSINESS CENTER 151 PASEO DE ROXAS COR ARNAIZ ST MAKATI

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

**Atty. Noel Lazaro**

(Contact Person)

**(632) 5118229**

(Company Telephone Number)

*Month* *Day*

(Fiscal Year)

1 7 - Q

(Form Type)

*Month* *Day*

(Annual Meeting)

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

---

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

S T A M P S

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**SECURITIES AND EXCHANGE COMMISSION**

**SEC FORM 17-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER**

1. For the quarterly period ended - **JUNE 30, 2017**

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

3. BIR Tax Identification Number - **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 issuer's principal office Postal Code
   7th Floor Corporate Business Center, 151 Paseo de Roxas cor. Arnaiz St., Makati City 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 Code, or Sections 4 and 8 of the RSA

| | |
|---|---|
| Common Shares | 2,334,640,312 |
| Amount of Debt Outstanding | Not applicable |

11. Are any or all of the securities listed on a Philippine Stock Exchange?

    Yes [ X ] 2,334,640,312 Common Shares No [ ]

12. Has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 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 the registrant was required to file such reports)

    Yes [ X ] No [ ]

13. Has been subject to such filing requirements for the past ninety (90) days.

    Yes [ X ] No [ ]

August 8, 2017

**Mr. Jose Valeriano Zuño**
Disclosure Department
The Philippine Stock Exchange Inc.
Philippine Stock Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City

**Mr. Vicente Graciano Felizmenio Jr.**
Markets and Securities Regulation Department
Securities and Exchange Commission
SEC Bldg. EDSA, Greenhills
Mandaluyong City

Re: SEC Form 17-Q 2017 2nd Quarter Report

Dear Gentlemen:

We submit to you herewith a copy of our Company's SEC Form 17-Q Quarterly Report for the period ended June 30, 2017.

We trust everything is in order.

Very truly yours,

MARY BELLE D. BITUIN
SVP - Chief Finance Officer

Global Ferronickel Holdings, Inc.

7th 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 unaudited interim condensed consolidated financial statements (including the schedules attached therein), for periods ended June 30, 2017 and 2016, 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 unaudited interim condensed consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the unaudited interim condensed consolidated 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 unaudited interim condensed consolidated financial statements (including the schedules attached therein), and submits the same to the stockholders or members.

Signature: **JOSEPH C. SY**

*CHAIRMAN*

Signature: **DANTE R. BRAVO**

*PRESIDENT*

Signature: **MARY BELLE D. BITUIN**

*CHIEF FINANCE OFFICER*

Signed this 7th day of August 2017.

SUBSCRIBED AND SWORN to before me this AUG 0 7 2017 in MAKATI CITY, Philippines, affiant exhibiting their:

| | |
|---|---|
| Joseph C. Sy | TIN 189-795-219 |
| Dante R. Bravo | TIN 242-508-759 |
| Mary Belle D. Bituin | TIN 102-096-952 |

Doc No. 68;
Page No. 14;
Book No. 70;
Series of 2017.

ATTY. JOHN DOMINGO A. PONCE, JR.
NOTARY PUBLIC
APPOINTMENT No. M-202 / MAKATI CITY
UNTIL DECEMBER 31, 2018
PTR No. 5910004 /01-3-2017 / MAKATI CITY
IBP No. 1054197 / 12-19-2016 / RIZAL
MCLE COMPLIANCE No V-0023350 /08-03-2016
ROLL NO. 36452
Unit G-14 Makati Executive Tower 3
Sen. Gil Puyat Avenue, Plo del Pilar,
Makati City, Metro Manila

Global Ferronickel Holdings,Inc.

# 17-Q QUARTERLY REPORT
# JUNE 30, 2017

**Table of Contents** **Page Number**

## PART I - FINANCIAL INFORMATION

### Item 1. Consolidated Financial Statements

The Unaudited Interim Consolidated Financial Statements as at June 30, 2017 and for the six-month period ended June 30, 2017 and 2016 (with Comparative Audited Consolidated Statement of Financial Position as at December 31, 2016) are hereto attached.

The following tables set forth the summary financial information for the six-month period ended June 30, 2017 and 2016 and as at June 30, 2017 and December 31, 2016:

### 1.a. Summary Consolidated Statements of Financial Position

| | June 30, 2017 (Unaudited) | December 31, 2016 (Audited) | Increase/ (Decrease) | Percent Inc. (Dec.) |
|---|---|---|---|---|
| | *(In Thousand Pesos)* | | | |
| ASSETS | | | | |
| Current Assets | 3,961,214 | 3,632,772 | 328,442 | 9.0% |
| Noncurrent Assets | 5,373,743 | 5,793,922 | (420,179) | -7.3% |
| TOTAL ASSETS | 9,334,957 | 9,426,694 | (91,737) | -1.0% |
| LIABILITIES AND EQUITY | | | | |
| Current Liabilities | 2,042,665 | 2,227,747 | (185,082) | -8.3% |
| Noncurrent Liabilities | 659,220 | 652,388 | 6,832 | 1.0% |
| Total Liabilities | 2,701,885 | 2,880,135 | (178,250) | -6.2% |
| Equity | | | | |
| Attributable to equity holders of the Parent Company | 6,633,072 | 6,546,559 | 86,513 | 1.3% |
| TOTAL LIABILITIES AND EQUITY | 9,334,957 | 9,426,694 | (91,737) | -1.0% |

### 1.b. Summary Consolidated Statements of Comprehensive Income

| | For the Three Months Ended June 30 | | For the Six Months Ended June 30 | | Increase (Decrease) | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 | 3 Months | 6 Months |
| | *(In Thousand Pesos)* | | | | | |
| Revenues | 1,861,636 | 666,592 | 1,861,636 | 704,620 | 1,195,044 | 1,157,016 |
| Cost and Expenses | (1,505,267) | (951,395) | (1,628,833) | (1,078,276) | (553,872) | (550,557) |
| Finance Costs | (15,905) | (18,473) | (32,177) | (32,076) | 2,568 | (101) |
| Other Income (Charges) - net | 6,918 | 6,048 | 1,430 | (24,083) | 870 | 25,513 |
| Income (Loss) Before Income Tax | 347,382 | (297,228) | 202,056 | (429,815) | 644,610 | 631,871 |
| Provision for (Benefit from) Income Tax | 80,583 | (88,678) | 53,278 | (112,277) | 169,261 | 165,555 |
| **Net Income (Loss)** | **266,799** | **(208,550)** | **148,778** | **(317,538)** | 475,349 | 466,316 |
| Other Comprehensive Income (Loss) | (13,583) | 944 | 13,498 | 114 | (14,527) | 13,384 |
| **Total Comprehensive Income (Loss)** | **253,216** | **(207,606)** | **162,276** | **(317,424)** | 460,822 | 479,700 |
| Basic and Diluted Income (Loss) Per Share | 0.0459 | (0.0358) | 0.0256 | (0.0545) | 0.0817 | 0.0801 |

**1.c. Summary Consolidated Statements of Changes in Equity**

| | For the Period Ended June 30 | | For the Year Ended December 31 |
|---|---|---|---|
| | 2017 | 2016 | 2016 |
| | *(In Thousand Pesos)* | | |
| Capital Stock | | | |
| Common Stock | 6,113,475 | 6,113,455 | 6,113,475 |
| Remeasurement Gain on Retirement Obligation | 5,342 | 2,277 | 5,342 |
| Valuation Gain (Loss) on Available-for-sale Financial Assets | (464) | (843) | - |
| Cumulative Translation Adjustment | (144) | 957 | (14,106) |
| Retained Earnings | | | |
| Balance, Beginning | 459,654 | 422,160 | 422,160 |
| Income (Loss) for the Period | 148,778 | (317,538) | 37,494 |
| Balance, Ending | 608,432 | 104,622 | 459,654 |
| Treasury Stock - at cost | (93,569) | (18) | (17,806) |
| Non-controlling Interest | - | - | - |
| **Total Equity** | **6,633,072** | **6,220,450** | **6,546,559** |

**1.d. Summary Consolidated Statements of Cash Flows**

| | For the Three Months Ended June 30 | | For the Six Months Ended June 30 | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | *(In Thousand Pesos)* | | | |
| **NET CASH FLOWS FROM (USED IN):** | | | | |
| Operating activities | 340,976 | 38,742 | 412,649 | 178,578 |
| Investing activities | (213,865) | (140,391) | (487,508) | (639,092) |
| Financing activities | (179,848) | 234,827 | (168,252) | 216,608 |
| NET INCREASE (DECREASE) IN CASH | (52,737) | 133,178 | (243,111) | (243,906) |
| Effect of exchange rate changes on cash | (48,348) | (958) | (41,231) | 2,288 |
| **CASH AT BEGINNING OF PERIOD** | 368,685 | 129,038 | **551,942** | **502,876** |
| **CASH AT END OF PERIOD** | **267,600** | **261,258** | **267,600** | **261,258** |

**Basis of Preparation of Interim Consolidated Financial Statements**

The interim consolidated statements of financial position of Global Ferronickel Holdings, Inc. and Subsidiaries (the Group) as at June 30, 2017 and December 31, 2016, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the periods ended June 30, 2017 and 2016 were prepared in accordance with generally accepted accounting principles in the Philippines. All significant inter-company balances and transactions have been eliminated in the consolidated financial statements.

The accounting principles followed in the preparation of the Group's most recent annual consolidated financial statements were similarly applied in the preparation of the interim consolidated financial statements. There were no significant changes in the Group's accounting policies, practices and methods of estimates from the Group's last annual consolidated financial statements.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

**Statement of Financial Condition**

As at June 30, 2017, total assets of the Group stood at ₱9,335.0 million, a decline of ₱91.7 million or 1.0%, from ₱9,426.7 million as at December 31, 2016. The decline was due to the net effect of the increase in current assets by ₱328.5 million or 9.0% and decrease in noncurrent assets by ₱420.2 million or 7.3%. The increase in current assets was mainly attributable to the increase in trade and other receivables by ₱373.3 million as some nickel ore buyers opted to pay through a 90-day letters of credit (LC) this year instead of the LC after sight credit in the prior year. In addition, restricted cash under prepayments and other current assets decreased by ₱59.6 million due to the application of the debt service reserve account as partial payment for the Taiwan Cooperative Bank loan in May 2017.

The decrease in noncurrent assets from ₱5,793.9 million to ₱5,373.7 million was mainly due to the sale of the Group's investment property amounting to ₱319.9 million to JSY6677 Landholdings, Inc. in March 2017. In addition, property and equipment decreased by ₱71.4 million as a result of the additional depreciation, depletion and amortization during the period amounting to ₱148.2 million, net of ₱83.1 million acquisitions of machineries and other equipment, and others.

Total liabilities of the Group stood at ₱2,701.9 million as at June 30, 2017, a decrease of ₱178.2 million or 6.2%, from ₱2,880.1 million as at December 31, 2016. The decrease was due to the repayment of bank loans amounting to ₱264.6 million, net of ₱73.5 million availments during the period, and decrease in amounts owed to related parties amounting to ₱347.3 million. However, this was partially offset by the increase in trade and other payables by ₱273.6 million and income tax payable by ₱41.1 million.

**Results of Operations**

*Export Revenues*

The Group's first half 2017 mining operations generated total export revenues of ₱1,861.6 million compared to ₱704.6 million in the six months ended June 30, 2016, an increase of ₱1,157.0 million or 164.2% due to the increase in the volume shipped, higher prices of nickel ore and weaker peso exchange rate compared to the same period in 2016.

The sale of nickel ore for the six months ended June 30, 2017 was 1.915 million wet metric tons (WMT), up by 0.825 million WMT or 75.6%, compared to 1.090 million WMT of nickel ore in the six months ended June 30, 2016. The Group were able to ship 35 vessels of nickel ore during the six months period ended June 30, 2017 as against 20 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 brought about by the generally good weather conditions during the period compared to the same period last year. These shipments sold solely to Chinese customers consisted of 1.216 million WMT low-grade nickel ore and 0.699 million WMT medium-grade nickel ore compared to 0.880 million WMT low-grade nickel ore and 0.210 WMT medium-grade nickel ore of the same period in 2016.

The average realized nickel ore price for the six months ended June 30, 2017 was United States dollar (US$)19.44/WMT compared to US$13.48/WMT of the same period last year, higher by US$5.96/WMT or 44.2%.

The average realized Peso over US$ exchange rate for the Group's export revenues was ₱49.99 compared to ₱46.80 of the same period last year, higher by ₱3.19 or 6.8%.

*Service Revenues*

The service income earned for the landing craft tanks (LCT) chartered by Platinum Group Metals Corporation (PGMC) from its subsidiary, PGMC-CNEP Shipping Services Corp., amounted to ₱37.4 million for the six months period ended June 30, 2017 as compared to ₱38.0 million for the same period last year.

*Cost and Expenses*

Cost and expenses includes cost of sales, excise taxes and royalties, general and administrative expenses and shipping and distribution. The cost and expenses amounted to ₱1,628.8 million for the six months ended June 30, 2017 compared to ₱1,078.3 million for the six months ended June 30, 2016, an increase of ₱550.5 million or 51.1%. The increase was primarily due to higher tonnage produced and volume shipped compared to the same period of last year. However, the average cash operating cost (which includes cost of sales, general and administrative expenses, and shipping and distribution) per volume sold decreased to ₱635.84 per WMT for the first half of 2017 from ₱762.07 per WMT, lower by ₱126.23 per WMT or 16.6%. For the six months period ended June 30, 2017, the total aggregate cash costs and total sales volume were ₱1,217.6 million and 1.915 million WMT,

respectively. For the six months period ended June 30, 2016, the total aggregate cash costs and total sales volume were ₱830.7 million and 1.090 WMT, respectively.

*Cost of Sales*
The cost of sales went up from ₱715.9 million for the six months ended June 30, 2016 to ₱996.8 million for the same period this year, an increase by ₱280.9 million, or 39.2%. Contract hire increased by ₱251.5 million (from ₱420.4 million in 2016 to ₱671.9 million in 2017), or 59.8%. The increase in cost of sales was mainly due to increase in production volume in relation to the increase in volume shipped compared to prior period.

*Excise Taxes and Royalties*
Excise taxes and royalties were ₱247.9 million and ₱85.6 million during the first half of 2017 and 2016, respectively. Since these expenses were computed and paid based on the percentage of the 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 ₱273.2 million in the first six months of 2017 compared to ₱207.3 million in the first half of 2016, an increase of ₱65.9 million, or 31.8%. The consultancy fees, marketing and entertainment and SEC and listing fees increased by ₱8.6 million, ₱12.9 million and ₱0.2 million, respectively, due to the additional costs incurred during the period in relation to the Group's planned follow-on offering. In addition, taxes and licenses increased by ₱35.3 million mainly due to the payment of additional tax assessment for the calendar year 2012, and local business tax which was minimal in 2016 compared to 2017 as the Board of Investments (BOI) Income Tax Holiday of its subsidiary, PGMC, 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*
Shipping and loading costs were ₱111.0 million for the six months ended June 30, 2017 compared to ₱69.5 million in the same period last year, up by ₱41.5 million, or 59.7%. The increase was due to the increase in production volume during the period.

*Finance Costs*
Finance costs amounted to ₱32.2 million in the first six months of 2017 compared to ₱32.1 million in the first six months of 2016, a minimal increase of ₱0.1 million, or 0.3%.

*Other Income (Charges) - net*
Other income amounted to ₱23.8 million in the six months ended June 30, 2017 compared to other charges of ₱26.8 million in the six months ended June 30, 2016. The change in the account pertains mainly to the movement in the foreign exchange related transactions resulting to foreign exchange gains amounted to ₱22.5 million in the first half of 2017 compared to foreign exchange losses amounted to ₱18.7 million in the same period last year.

*Provision for (Benefit from) Income Tax*
The net provision for income tax was ₱53.3 million for the six months ended June 30, 2017 compared to ₱112.3 million net benefit from income tax in the same period last year, an increase of ₱165.6 million or 147.5%.

The current provision for income tax for the first half of 2017 was ₱53.7 million compared to ₱1.8 million in the same period last year, an increase of ₱51.9 million due to the taxable income earned during the period compared to the taxable loss incurred in 2016.

The provision for income tax deferred amounted to ₱0.4 million and ₱114.1 million for the six months ended June 30, 2017 and 2016, respectively. The movement was mainly due to the net loss carry over (NOLCO) recognized in the first half of 2016 related to the taxable loss for the period while there was no NOLCO in the current period.

*Net Income (Loss)*

As a result of the foregoing, the Group's consolidated net income increased by ₱466.3 million, from ₱317.5 million consolidated loss for the first half of 2016 to ₱148.8 million consolidated net income for the same period of 2017.

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

*Cumulative Translation Adjustment*
The Group had recognized cumulative translation adjustment amounting to ₱0.1 million and ₱14.1 million as of June 30, 2017 and December 31, 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.

*Valuation Loss on AFS Financial Assets*
The Group had a net valuation loss on AFS financial assets amounting to ₱0.5 million and nil as of June 30, 2017 and December 31, 2016, respectively.

**Statement of Cash Flows**

*Cash Flows from Operating Activities*
The net cash flows from operating activities resulted to ₱412.6 million for the six months ended June 30, 2017 compared to ₱178.6 million of the same period last year. The increase in the cash generated from operations was due to higher sale of ore during the period compared to the prior period as a result of the increase in volume shipped and realized nickel price.

*Cash Flows from Investing Activities*
The net cash flows used in investing activities for the six months ended June 30, 2017 and 2016 amounted to ₱487.5 million and ₱639.1 million, respectively. The net cash outflows in 2017 arise mainly to the net acquisitions of property and equipment amounted to ₱84.8 million, additional mine exploration costs incurred amounted to ₱29.4 million, additional advances to related parties amounted to ₱244.1 million, increase in other noncurrent assets by ₱59.3 million and repurchase of treasury shares amounted to ₱75.8 million. The net cash outflows in 2016 arise mainly to the net acquisitions of property and equipment amounted to ₱256.9 million, additional mine exploration costs incurred amounted to ₱28.9 million, additional advances to related parties amounted to ₱216.4 million and increase in other noncurrent assets amounted to ₱142.0 million.

*Cash Flows from Financing Activities*
For the six months ended June 30, 2017 and 2016, the net cash flows generated from (used in) financing activities amounted to (₱168.3 million) and ₱216.6 million, respectively. The net cash outflows in 2017 arise mainly to payments of bank loans amounted to ₱264.6 million, net of ₱73.5 million proceeds from availment of bank loans. The net cash inflows in 2016 arise mainly from the proceeds from availment of bank loans amounted to ₱701.9 million, net of payments of bank loans amounted to ₱503.9 million.

**Material Off-balance Sheet Transactions**

The Group is not aware of any material off-balance sheet transaction, arrangement, obligation (including contingent obligation), and other relationship of the Group with unconsolidated entities or other persons created during the reported period other than those discussed in this report and in disclosures under Form 17-C.

**Material Commitments for Capital Expenditures**

The Group does not have any outstanding commitment for capital expenditures as at June 30, 2017.

**Known Trends, Events and Uncertainties**
There are no known significant trends, demands, commitments, or uncertainties that will result in or that are reasonably likely to result in the Group's liquidity increasing or decreasing in a material way. There were no other significant elements of income or loss that did not arise from the Group's continuing operations.

## PART II - FINANCIAL SOUNDNESS INDICATORS

The Group considers the following as the significant Key Performance Indicators as at June 30, 2017 and 2016:

| Indicators | Formula | 2017 | 2016 |
|---|---|---|---|
| Earnings Per Share | Profit for the Period/Weighted Average Number of Shares Outstanding | 0.0256 | (0.0545) |
| Debt-to-Equity Ratio | Total Liabilities/Total Equity | 0.41:1 | 0.44:1 |
| Asset-to-Equity Ratio | Total Assets/Total Equity | 1.41:1 | 1.44:1 |
| Current Ratio | Current Assets/Current Liabilities | 1.94:1 | 1.63:1 |

## PART III - OTHER INFORMATION

No disclosures were made other than the following made under Form 17-C.

## SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Registrant: **GLOBAL FERRONICKEL HOLDINGS, INC.**

Signature and Title: **ATTY. DANTE R. BRAVO**
President

Date: August 8, 2017

Signature and Title: **MARY BELLE D. BITUIN**
SVP - Chief Finance Officer

Date: August 8, 2017

Annex A

**Aging of Trade and Other Receivables***
As at June 30, 2017
(In Thousand Pesos)

| | Days Outstanding | | | | | |
|---|---|---|---|---|---|---|
| | **1-90** | **91-180** | **181-270** | **271-360** | **Over 360** | **Total** |
| Trade | 864,029 | - | 1,572 | 11,259 | 208,851 | 1,085,711 |
| Advances to Contractors | 31,967 | - | - | - | 107,919 | 139,886 |
| Advances to Officers, Employees and Others | 6,878 | 196 | - | - | 5,163 | 12,237 |
| Total | **902,874** | **196** | **1,572** | **11,259** | **321,933** | **1,237,834** |
| Less: Allowance for Doubtful Accounts | | | | | | 17,359 |
| **NET RECEIVABES** | | | | | | **1,220,475** |

**PGMC and PIL Related Transactions*

**GLOBAL FERRONICKEL HOLDINGS, INC.**
**SEC FORM 17-Q**
**INDEX TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**
**JUNE 30, 2017**

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

## GLOBAL FERRONICKEL HOLDINGS, INC. AND SUBSIDIARIES
**(Formerly Southeast Asia Cement Holdings, Inc. and Subsidiaries)**
## INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
**(Amounts in Thousands)**

| | **June 30, 2017** | December 31, 2016 |
|---|---|---|
| | **(Unaudited)** | (Audited) |
| **ASSETS** | | |
| **Current Assets** | | |
| Cash (Note 4) | **₱267,600** | ₱551,942 |
| Trade and other receivables (Note 5) | **1,220,475** | 847,175 |
| Current portion of finance lease receivable (Note 18) | **96,208** | 72,282 |
| Advances to related parties (Note 29) | **1,884,964** | 1,614,084 |
| Inventories - at cost (Note 6) | **221,943** | 275,983 |
| Prepayments and other current assets (Note 7) | **270,024** | 271,306 |
| **Total Current Assets** | **3,961,214** | 3,632,772 |
| **Noncurrent Assets** | | |
| Property and equipment (Note 8) | **2,040,561** | 2,111,973 |
| Deposits for future acquisition (Note 29) | **2,217,354** | 2,217,354 |
| Mining rights (Note 9) | **249,872** | 264,888 |
| Finance lease receivable - net of current portion (Note 18) | **123,764** | 160,670 |
| Investment property (Note 10) | **–** | 319,865 |
| Mine exploration costs (Note 11) | **253,228** | 223,807 |
| Deferred tax assets - net (Note 30) | **52,773** | 58,310 |
| Investment in an associate (Note 1) | **42** | 116 |
| Other noncurrent assets (Note 12) | **436,149** | 436,939 |
| **Total Noncurrent Assets** | **5,373,743** | 5,793,922 |
| **TOTAL ASSETS** | **₱9,334,957** | ₱9,426,694 |
| | | |
| **LIABILITIES AND EQUITY** | | |
| **Current Liabilities** | | |
| Trade and other payables (Note 13) | **₱821,859** | ₱548,229 |
| Current portion of bank loans (Note 14) | **820,574** | 998,695 |
| Amounts owed to related parties (Note 29) | **319,167** | 666,481 |
| Provision for future stock grant payable (Note 19) | **25,600** | – |
| Current portion of finance lease liabilities (Note 18) | **2,489** | 2,416 |
| Income tax payable | **52,976** | 11,926 |
| **Total Current Liabilities** | **2,042,665** | 2,227,747 |
| **Noncurrent Liabilities** | | |
| Bank loans - net of current portion (Note 14) | **128** | 713 |
| Provision for mine rehabilitation and decommissioning (Note 15) | **69,161** | 67,123 |
| Retirement obligation (Note 16) | **54,477** | 47,882 |
| Finance lease liabilities - net of current portion (Note 18) | **1,874** | 3,137 |
| Other noncurrent liabilities (Note 17) | **533,580** | 533,533 |
| **Total Noncurrent Liabilities** | **659,220** | 652,388 |
| **Total Liabilities** | **2,701,885** | 2,880,135 |
| **Equity** | | |
| Capital stock (Note 19) | **6,113,475** | 6,113,475 |
| Valuation loss on AFS financial assets (Note 12) | **(464)** | – |
| Cumulative translation adjustment | **(144)** | (14,106) |
| Gain on remeasurement of retirement obligation | **5,342** | 5,342 |
| Retained earnings | **608,432** | 459,654 |
| Treasury stock (Note 19) | **(93,569)** | (17,806) |
| Equity attributable to the Equity holders of Global Ferronickel Holdings, Inc. (GFHI; the Parent Company) | **6,633,072** | 6,546,559 |
| **Total Equity** | **6,633,072** | 6,546,559 |
| **TOTAL LIABILITIES AND EQUITY** | **₱9,334,957** | ₱9,426,694 |

*See accompanying Notes to Unaudited Consolidated Financial Statements.*

## GLOBAL FERRONICKEL HOLDINGS, INC. AND SUBSIDIARIES
**(Formerly Southeast Asia Cement Holdings, Inc. and Subsidiaries)**
## INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
**FOR THE THREE MONTHS PERIOD ENDED JUNE 30, 2017 AND 2016**
**FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2017 AND 2016**
**(Amounts in Thousands, Except Earnings per Share)**

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | (Unaudited) | | | |
| SALE OF ORE | ₱1,861,636 | ₱666,592 | ₱1,861,636 | ₱704,620 |
| COST OF SALES (Note 21) | 996,790 | 700,426 | 996,790 | 715,910 |
| GROSS PROFIT | 864,846 | (33,834) | 864,846 | (11,290) |
| OPERATING EXPENSES | | | | |
| Excise taxes and royalties (Note 22) | 247,670 | 80,705 | 247,926 | 85,615 |
| General and administrative (Note 23) | 151,488 | 101,579 | 273,155 | 207,266 |
| Shipping and distribution (Note 24) | 109,319 | 68,685 | 110,962 | 69,485 |
| TOTAL OPERATING EXPENSES | 508,477 | 250,969 | 632,043 | 362,366 |
| FINANCE COSTS (Note 27) | (15,905) | (18,473) | (32,177) | (32,076) |
| PROVISION FOR STOCK GRANT (Note 19) | (25,600) | – | (25,600) | – |
| FINANCE INCOME | 1,594 | 1,057 | 3,259 | 2,740 |
| SHARE IN NET LOSS OF AN ASSOCIATE (Note 1) | 11 | – | (74) | – |
| OTHER INCOME (CHARGES) - net (Note 28) | 30,913 | 4,991 | 23,845 | (26,823) |
| INCOME (LOSS) BEFORE INCOME TAX | 347,382 | (297,228) | 202,056 | (429,815) |
| PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 30) | | | | |
| Current | 52,975 | 1,215 | 53,725 | 1,840 |
| Deferred | 27,608 | (89,893) | (447) | (114,117) |
| | 80,583 | (88,678) | 53,278 | (112,277) |
| NET INCOME (LOSS) | 266,799 | (208,550) | 148,778 | (317,538) |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | | | |
| *Item that may be reclassified to profit or loss in subsequent periods:* | | | | |
| Valuation loss on AFS financial assets (Note 12) | 379 | (421) | (464) | (843) |
| Currency translation adjustment - net of tax | (13,962) | 1,365 | 13,962 | 957 |
| *Item that will not be reclassified to profit or loss in subsequent periods:* | | | | |
| Remeasurement gain on retirement obligation | – | – | – | – |
| | (13,583) | 944 | 13,498 | 114 |
| **TOTAL COMPREHENSIVE INCOME (LOSS)** | ₱253,216 | (₱207,606) | ₱162,276 | (₱317,424) |
| **Net Income (Loss) Attributable To:** | | | | |
| Equity holders of the Parent Company | ₱266,799 | (₱208,550) | ₱148,778 | (₱317,538) |
| Non-controlling Interest (NCI) | – | – | – | – |
| | ₱266,799 | (₱208,550) | ₱148,778 | (₱317,538) |
| **Total Comprehensive Income (Loss) Attributable To:** | | | | |
| Equity holders of the Parent Company | ₱253,216 | (₱207,606) | ₱162,276 | (₱317,424) |
| NCI | – | – | – | – |
| | ₱253,216 | (₱207,606) | ₱162,276 | (₱317,424) |
| **Basic/Diluted Earnings (Loss) per Share** (Note 20) | | | | |
| **Attributable to Equity Holders of the Parent Company** | ₱0.0459 | (₱0.0358) | ₱0.0256 | (₱0.0545) |

*See accompanying Notes to Unaudited Consolidated Financial Statements.*

**GLOBAL FERRONICKEL HOLDINGS, INC. AND SUBSIDIARIES**
**(Formerly Southeast Asia Cement Holdings, Inc. and Subsidiaries)**
**INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**
**FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2017 AND 2016**
**(Amounts in Thousands)**

| | Capital Stock (Note 19) | Treasury Stock (Note 19) | Valuation Loss on AFS Financial Assets (Note 12) | Remeasurement Gain on Retirement Obligation | Cumulative Translation Adjustment | Retained Earnings | Total Equity |
|---|---|---|---|---|---|---|---|
| Balances at December 31, 2016 (Audited) | ₱ 6,113,475 | ₱ (17,806) | ₱ - | ₱ 5,342 | ₱ (14,106) | ₱ 459,654 | ₱ 6,546,559 |
| Net income for the period | - | - | - | - | - | 148,778 | 148,778 |
| Other comprehensive income (loss) - net of tax | - | - | (464) | - | 13,962 | - | 13,498 |
| Total comprehensive income (loss) - net of tax | - | - | (464) | - | 13,962 | 148,778 | 162,276 |
| Purchase of treasury shares | - | (75,763) | - | - | - | - | (75,763) |
| Balances at June 30, 2017 (Unaudited) | ₱ 6,113,475 | ₱ (93,569) | ₱ (464) | ₱ 5,342 | ₱ (144) | ₱ 608,432 | ₱ 6,633,072 |
| | | | | | | | |
| Balances at December 31, 2015 (Audited) | ₱ 6,113,455 | ₱ (18) | ₱ - | ₱ 2,277 | ₱ - | ₱ 422,160 | ₱ 6,537,874 |
| Net loss for the period | - | - | - | - | - | (317,538) | (317,538) |
| Other comprehensive income (loss) - net of tax | - | - | (843) | - | 957 | | 114 |
| Total comprehensive income (loss) - net of tax | - | - | (843) | - | 957 | (317,538) | (317,424) |
| Balances at June 30, 2016 (Unaudited) | ₱ 6,113,455 | ₱ (18) | ₱ (843) | ₱ 2,277 | ₱ 957 | ₱ 104,622 | ₱ 6,220,450 |

*See accompanying Notes to Unaudited Consolidated Financial Statements.*

## GLOBAL FERRONICKEL HOLDINGS, INC. AND SUBSIDIARIES
**(Formerly Southeast Asia Cement Holdings, Inc. and Subsidiaries)**
## INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
**FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2017 AND 2016**
**(Amounts in Thousands)**

| | **2017** | 2016 |
|---|---|---|
| | (Unaudited) | |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Income (loss) before income tax | **₱202,056** | (₱429,815) |
| Adjustments for: | | |
| Depreciation, depletion and amortization (Note 26) | **163,269** | 162,006 |
| Interest expense (Note 27) | **28,564** | 29,967 |
| Provision for stock grant (Note 19) | **25,600** | |
| Unrealized foreign exchange losses (gains) - net | **(14,098)** | 305 |
| Interest income | **(3,259)** | (2,740) |
| Retirement benefits costs (Note 16) | **5,192** | 4,684 |
| Accretion interest on provision for mine rehabilitation and decommissioning (Note 27) | **2,038** | 701 |
| Share in net loss of an associate (Note 1) | **74** | – |
| Levelization of rental expense | **47** | 274 |
| Loss on acquisition of a subsidiary | **–** | 7,356 |
| Operating income (loss) before changes in working capital | **409,483** | (227,262) |
| Decrease (increase) in: | | |
| Trade and other receivables | **(117,537)** | 209,766 |
| Inventories - at cost | **54,040** | 257,834 |
| Prepayments and other current assets | **(5,521)** | (37,158) |
| Increase (decrease) in: | | |
| Trade and other payables | **112,634** | (2,194) |
| Net cash generated from operations | **453,099** | 200,986 |
| Interest paid | **(31,034)** | (21,324) |
| Income taxes paid | **(12,675)** | (1,634) |
| Interest received | **3,259** | 550 |
| Net cash flows from operating activities | **412,649** | 178,578 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Additions to: | | |
| Property and equipment | **(84,847)** | (256,873) |
| Mine exploration costs | **(29,421)** | (28,901) |
| Proceeds from sale of property and equipment | **5,976** | – |
| Decrease (increase) in: | | |
| Advances to related parties | **(244,132)** | (216,410) |
| Other noncurrent assets | **(59,321)** | (141,964) |
| Repurchase of shares | **(75,763)** | – |
| Cash inflow from acquisition of net assets of a subsidiary | **–** | 5,056 |
| Net cash flows used in investing activities | **(487,508)** | (639,092) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Payments of bank loans | **(264,627)** | (503,948) |
| Proceeds from availment of bank loans | **73,521** | 701,884 |
| Increase (decrease) in: | | |
| Finance lease receivables | **12,980** | – |
| Finance lease liabilities | **(1,190)** | (7,399) |
| Amounts owed to related parties | **11,064** | 26,071 |
| Net cash flows from (used in) financing activities | **(168,252)** | 216,608 |
| NET DECREASE IN CASH | **(243,111)** | (243,906) |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH | **(41,231)** | 2,288 |
| **CASH AT BEGINNING OF PERIOD** | **551,942** | 502,876 |
| **CASH AT END OF PERIOD** | **₱267,600** | ₱261,258 |

*See accompanying Notes to Unaudited Consolidated Financial Statements.*

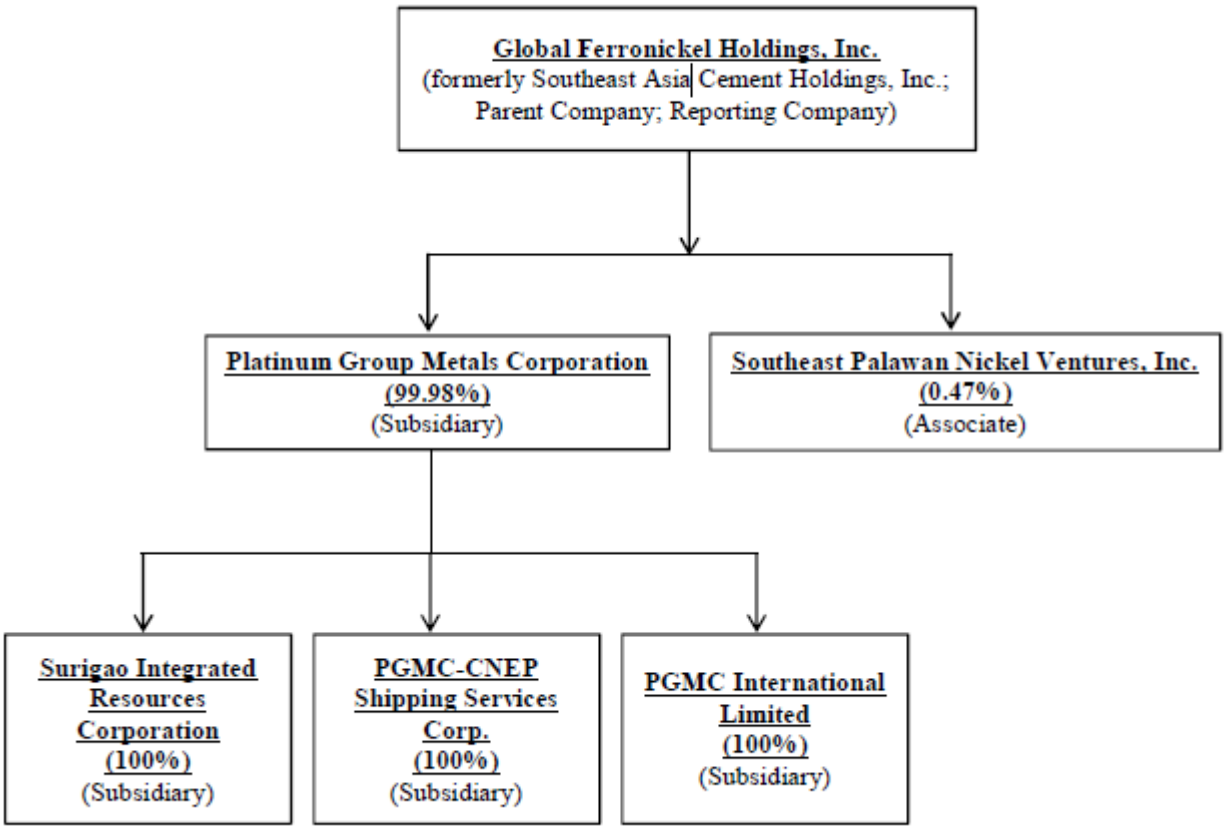
**GLOBAL FERRONICKEL HOLDINGS, INC. AND SUBSIDIARIES**
**(Formerly Southeast Asia Cement Holdings, Inc. and Subsidiaries)**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

## 1. Corporate Information

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

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

The following is the map of relationships of the Companies within the Group:



The Parent Company's principal stockholders as at June 30, 2017 are as follows:

List of Top 20 Stockholders

| Name | Citizenship | Holdings | Percentage |
|---|---|---|---|
| PCD NOMINEE CORP. - FILIPINO | Filipino | 1,585,902,170 | 27.24% |
| HUATAI INVESTMENT PTY. LTD | Australian | 974,476,713 | 16.74% |
| SOHOTON SYNERGY, INC. | Filipino | 761,037,313 | 13.07% |
| PCD NOMINEE CORP. - NON-FILIPINO | Foreign | 616,408,380 | 10.59% |
| REGULUS BEST NICKEL HOLDINGS INC. | Filipino | 523,154,668 | 08.99% |
| BLUE EAGLE ELITE VENTURE INC. | Filipino | 348,769,779 | 05.99% |
| ULTIMATE HORIZON CAPITAL, INC. | Filipino | 348,769,779 | 05.99% |
| BELLATRIX STAR, INC. | Filipino | 187,952,034 | 03.23% |
| ALPHA CENTAURI FORTUNE GROUP INC. | Filipino | 187,952,034 | 03.23% |
| ANTARES NICKEL CAPITAL, INC. | Filipino | 91,342,805 | 01.57% |
| RED LION FORTUNE GROUP INC. | Filipino | 57,588,866 | 00.99% |
| WEI TING | Chinese | 49,595,062 | 00.85% |
| GREAT SOUTH GROUP VENTURES INC. | Filipino | 32,644,851 | 00.56% |
| GLOBAL FERRONICKEL HOLDINGS, INC.* | Filipino | 18,333,333 | 00.31% |
| DANTE R. BRAVO | Filipino | 13,950,791 | 00.24% |
| SENG GAY CHAN | Singaporean | 10,463,093 | 00.18% |
| ORION-SQUIRE CAPITAL, INC. A/C-0459 | Filipino | 2,153,874 | 00.04% |
| SQUIRE SECURITIES, INC | Filipino | 818,244 | 00.01% |
| GEORGE L. GO | Filipino | 511,531 | 00.01% |
| KUOK PHILIPPINES PROPERTIES INC. | Filipino | 437,692 | 00.01% |
| GABRIEL TONG | Filipino | 396,400 | 00.01% |

Total Top 20 Shareholders: 5,812,263,012 99.83%
Total Issued Shares 5,822,357,151
**These are treasury shares acquired pursuant to the Company's buyback program.*

The Subsidiaries

*PGMC*

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

*Seasonality*

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

*Certification for Value-added tax (VAT) Zero-Rated Status*

PGMC has been certified by BOI as a qualified enterprise for the purpose of VAT zero-rating of its transactions pursuant to the terms and conditions set forth by the BOI. On January 19, 2017, the BOI issued to PGMC the certification granting the renewal of PGMC's VAT zero-rated status. The certification is valid from January 1 up to December 31, 2017 unless sooner revoked by the BOI Governing Board.

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

*SURIGAO INTEGRATED RESOURCES CORPORATION (SIRC)*

SIRC is a 99.98%-owned subsidiary of the Parent Company through PGMC and 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 Mineral Production Sharing Agreement (MPSA) No. 007-92-X located in Cagdianao, Claver, Surigao del Norte. On November 16, 2015, SIRC applied for the renewal of its MPSA and was approved for another twenty-five (25) year term on June 21, 2016. The renewed MPSA is valid until June 20, 2041.

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

*PGMC-CNEP Shipping Services Corp. (PSSC)*
On June 4, 2013, PGMC incorporated PSSC, its wholly owned subsidiary. It 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 tanks (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 was incorporated under the Companies Ordinance of Hong Kong, and is a limited company. It was established to facilitate relations with Chinese customers, to promote marketing, to collect accounts, to avail of offshore banking services such as loans, credit/discounting lines and other financing arrangements, and to do other services for PGMC.

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

The Associate
Southeast Palawan Nickel Ventures, Inc. (SPNVI) is 0.47%-owned 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 Center, 151 Paseo de Roxas cor. Arnaiz St., Makati City, Philippines.

On September 1, 2016, SPNVI and the 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 37.5% of the common shares with voting rights. The Group assessed that it has a significant influence over SPNVI since it directly holds more than twenty percent (20%) of the voting power of SPNVI.

As at June 30, 2017, SPNVI directly owns ninety-four percent (94%) of Ipilan Nickel Corporation, a company registered with the Philippine 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 granted on August 5, 1993 by the Government of the Republic of the Philippines through the Secretary of the Department of Environment and Natural Resources (DENR).

The Group's share in net loss of SPNVI amounted to ₱0.07 million and nil for the periods ended June 30, 2017 and 2016, respectively.

## 2. Basis of Preparation, Statement of Compliance and Basis of Consolidation

Basis of Preparation

The accompanying interim consolidated financial statements have been prepared on a historical cost basis, except for quoted AFS financial assets, which are carried at fair value. The consolidated financial statements are presented in Philippine peso, which is the Group's presentation currency under the Philippine Financial Reporting Standards (PFRS). Based on the economic substance of the underlying circumstances relevant to the Group, the functional currencies of the Parent Company and subsidiaries is Philippine peso, except for PIL whose functional currency is Hong Kong Dollar (HKD). All values are rounded to the nearest thousand (000), except number of shares, per share data and as indicated. Further, the unaudited interim consolidated financial statements do not include all the information and disclosure required in the annual consolidated financial statements, and should be read in conjunction with the audited Group's annual consolidated financial statements as at December 31, 2016.

Statement of Compliance

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

Basis of Consolidation

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

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except that the Group has adopted the following new accounting pronouncements starting January 1, 2017. Adoption of these pronouncements did not have any significant impact on the Group's financial position or performance unless otherwise indicated.

- *Amendment to PFRS 12, Clarification of the Scope of the Standard (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)*
- *Amendments to Philippine Accounting Standards (PAS) 7, Statement of Cash Flows, Disclosure Initiative*
- *Amendments to PAS 12, Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses*

Standards Issued but not yet Effective

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

*Effective beginning on or after January 1, 2018*

- *Amendments to PFRS 2, Share-based Payment, Classification and Measurement of Share-based Payment Transactions*

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

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

- *Amendments to PFRS 4, Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4*

  The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the forthcoming insurance contracts standard. They allow entities to choose between the overlay approach and the deferral approach to deal with the transitional challenges. The overlay approach gives all entities that issue insurance contracts the option to recognize in OCI, rather than profit or loss, the volatility that could arise when PFRS 9 is applied before the new insurance contracts standard is issued. On the other hand, the deferral approach gives entities whose activities are predominantly connected with insurance an optional temporary exemption from applying PFRS 9 until the earlier of application of the forthcoming insurance contracts standard or January 1, 2021. The overlay approach and the deferral approach will only be available to an entity if it has not previously applied PFRS 9.

The amendments are not applicable to the Group since none of the entities within the Group have activities that are predominantly connected with insurance or issue insurance contracts.

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

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

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

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

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

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

*Effective beginning on or after January 1, 2019*

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

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

*Deferred effectivity*

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

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

## 3. Significant Accounting Judgments, Estimates and Assumptions

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

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

Judgments

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

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

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

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

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

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

*Assessing Existence of Significant Influence*
In assessing whether significant influence still exists, the Parent Company considered not only its percentage ownership but other factors such as the board seat representations it has in the associate's governing body and its interchange of managerial personnel with the associate, among others. As at June 30, 2017, the Parent Company assessed that it has significant influence over SPNVI and has accounted for the investment as an associate (see Note 1).

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

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

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

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

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

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

Trade and other receivables amounted to ₱1,220.5 million and ₱847.2 million as at June 30, 2017 and December 31, 2016, respectively (see Note 5). Allowance for impairment losses on trade and other receivables amounted to ₱17.4 million as at June 30, 2017 and December 31, 2016. There were no impairment losses recognized for the periods ended June 30, 2017 and 2016.

Advances to related parties amounted to ₱1,885.0 million and ₱1,614.1 million as at June 30, 2017 and December 31, 2016, respectively. There were no allowance for impairment losses on advances to related parties as at June 30, 2017 and December 31, 2016 (see Note 29).

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

As at June 30, 2017 and December 31, 2016, the carrying value of prepayments and other current assets, excluding restricted cash, amounted to ₱80.6 million and ₱22.2 million, respectively (see Note 7). The carrying values of other noncurrent assets, excluding MRF and AFS financial assets, amounted to ₱350.0 million and ₱358.2 million as at June 30, 2017 and December 31, 2016, respectively. Allowance for impairment losses on input VAT amounted to ₱19.5 million as at June 30, 2017 and December 31, 2016 (see Note 12).

*Estimating Impairment Losses on AFS Financial Assets*
The Group follows the guidance of PAS 39 in determining when an AFS financial asset is other-than-temporarily impaired. The determination of what is significant or prolonged requires judgment. The Group treats "Significant" generally as twenty percent (20%) or more and "Prolonged" as greater than six (6) months. Also, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance and operational and financing cash flow. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities. The fair value of AFS financial assets amounted to ₱4.0 million and ₱4.5 million as at June 30, 2017 and December 31, 2016, respectively (see Note 12).

*Assessing Recoverability of Mining Rights and Mine Exploration Costs*
The application of the Group's accounting policy for mining rights and mine exploration costs requires judgment in determining whether it is likely that future economic benefits are certain, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after mining rights and mine exploration costs are capitalized, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalized is written-off in the consolidated statement of comprehensive income in the period when the new information becomes available. An impairment loss is recognized when the carrying value of these assets do not exceed their fair value. The Group has no provision for impairment loss on mining rights and mine exploration costs for the periods ended June 30, 2017 and 2016. As at June 30, 2017 and December 31, 2016, the carrying values of mining rights amounted to ₱249.9 million and ₱264.9 million, respectively (see Note 9). As at June 30, 2017 and December 31, 2016, mine exploration costs amounted to ₱253.2 million and ₱223.8 million, respectively (see Note 11).

*Assessing Recoverability of Deferred Tax Assets*
The Group reviews the carrying amounts of deferred tax assets at each end of the reporting period and reduces deferred tax assets to the extent that it is probable that sufficient future taxable income will be available against which these can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of sufficient future taxable income together with future tax planning strategies. The Group has net deferred tax assets amounting to ₱52.8 million and ₱58.3 million as at June 30, 2017 and December 31, 2016, respectively (see Note 30).

*Estimating Provision for Mine Rehabilitation and Decommissioning*
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. Significant estimates and assumptions are made in determining the provision for mine rehabilitation and decommissioning as there are numerous factors that will affect the provision. These factors include estimates of the extent and costs of rehabilitation activities, technological changes, regulatory changes, cost increases, and changes in discount rates. In addition, the expected timing of expenditure can also change, for example in response to changes in mineral reserves or production rates. Those uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision at end of the reporting period represents management's best estimate of the present value of the future rehabilitation costs required. Changes to estimated future costs are recognized in the consolidated statement of financial position by adjusting the rehabilitation asset and liability. Provision for mine rehabilitation and decommissioning amounted to ₱69.2 million and ₱67.1 million as at June 30, 2017 and December 31, 2016, respectively (see Note 15).

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

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

## 4. Cash

| Amount in thousands | June 30, 2017 (Unaudited) | December 31, 2016 (Audited) |
|---|---|---|
| Cash on hand | ₱894 | ₱897 |
| Cash with banks | 266,706 | 551,045 |
| | ₱267,600 | ₱551,942 |

Cash with banks earn interest at the respective bank deposit rates. Interest income earned on cash with banks amounted to ₱0.7 million and ₱0.6 million for the six months ended June 30, 2017 and 2016, respectively.

## 5. Trade and Other Receivables

| Amount in thousands | June 30, 2017 (Unaudited) | December 31, 2016 (Audited) |
|---|---|---|
| Trade | ₱1,085,661 | ₱725,912 |
| Advances to: | | |
| Contractors | 118,809 | 117,078 |
| Officers, employees and others | 33,364 | 21,544 |
| | 1,237,834 | 864,534 |
| Less allowance for impairment losses | 17,359 | 17,359 |
| | ₱1,220,475 | ₱847,175 |

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

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

The Group provides cash advances to its officers and employees for various business related expenses incurred which are subject for liquidation. Other advances include advances to third party companies which are collectible upon demand and advances to claim-owners which are deductible from the royalty payments from shipments.

There was no provision for impairment losses for the periods ended June 30, 2017 and December 31, 2016.

## 6. Inventories - at cost

| Amount in thousands | June 30, 2017 (Unaudited) | December 31, 2016 (Audited) |
|---|---|---|
| Beneficiated nickel ore | ₱127,739 | ₱196,092 |
| Materials and supplies | 94,204 | 79,891 |
| | ₱221,943 | ₱275,983 |

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

## 7. Prepayments and Other Current Assets

| Amount in thousands | June 30, 2017 (Unaudited) | December 31, 2016 (Audited) |
|---|---|---|
| Restricted cash | ₱189,413 | ₱249,059 |
| Prepaid insurance and others | 30,122 | 3,396 |
| Prepaid taxes and licenses | 41,732 | 4,708 |
| Prepaid rent | 8,757 | 14,143 |
| | ₱270,024 | ₱271,306 |

Restricted cash pertains to the Debt Service Reserve Account (DSRA) with Taiwan Cooperative Bank (TCB) which will be utilized for application against the Group's outstanding loans for principal, interest and fees with the bank.

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

Prepaid insurance, rent and others represent advance payments made for the insurance of the Group's property and equipment and for the rent of the Group's registered office address.

## 8. Property and Equipment

As at June 30, 2017 and 2016, property and equipment amounted to ₱2,040.6 million and ₱2,112.0 million, respectively. During the six-month period ended June 30, 2017 and 2016, the Group acquired assets with a cost of ₱83.1 million and ₱226.5 million, respectively, including construction in-progress. As of June 30, 2017 and 2016, the Group disposed its machineries and other equipment with an aggregate cost of ₱6.8 million and ₱52.1 million, respectively.

Depreciation, depletion and amortization expense for the six-month period ended June 30, 2017 and 2016 amounted to ₱148.3 million and ₱151.0 million, respectively (see Note 26). As of June 30, 2017 and 2016, total accumulated depreciation, depletion and amortization amounted to ₱1,283.2 million and ₱940.9 million, respectively.

The rates used by the Group in computing depletion were ₱31.71 per WMT and ₱60.48 per WMT for the six months ended June 30, 2017 and 2016, respectively. Starting July 1, 2016, the rate used was based on the latest PMRC-CP Technical Report dated September 15, 2016 with an indicated mineral reserve estimate of 25.6 million WMT for CAGAs 2 and 4.

## 9. Mining Rights

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 MPSA from Case Mining Development Corporation (CMDC) to SIRC, a subsidiary, under the Deed of Assignment executed on March 3, 2004. Pursuant to the Deed of Assignment, CMDC transferred to SIRC all its rights, interest and obligations relating to the MPSA.

As at June 30, 2017 and December 31, 2016, the carrying value of mining rights amounted to ₱249.9 million and ₱264.9 million, respectively. Accumulated amortization of mining rights amounted to ₱146.6 million and ₱131.6 million as at June 30, 2017 and December 31, 2016, respectively. Amortization expense pertaining to the mining rights amounted to ₱15.0 million and ₱11.0 million for the six months ended June 30, 2017 and 2016, respectively.

The rates used by the Group in computing amortization were ₱8.9 per WMT and ₱9.59 per WMT for the six months ended June 30, 2017 and 2016, respectively. Starting July 1, 2016, the rate used was based on the latest PMRC-CP Technical Report dated September 15, 2016.

There was no provision for impairment loss on mining rights recognized for the six months period ended June 30, 2017 and 2016.

## 10. Investment Property

Portal Holdings, Inc. (PHI)
In June 2012, the Group acquired a parcel of land (Aseana Property) from PHI amounting to ₱319.9 million located in Paranaque. The land was held for capital appreciation. The balance of the related borrowing amounting to ₱40.0 million was fully paid in January 2016.

On March 1, 2017, the Group entered into a Deed of Absolute Sale agreement with JSY6677 Landholdings, Inc. for the sale of the Aseana property amounting to ₱319.9 million. Total investment property amounted to nil and ₱319.9 million as at June 30, 2017 and December 31, 2016.

There was no income earned from the investment property for the periods ended June 30, 2017 and 2016. Interest expense related to bank loan and real property tax incurred related to the investment property for the periods ended June 30, 2017 and 2016 amounted to ₱0.5 million and ₱0.7 million, respectively.

## 11. Mine Exploration Costs

| Amount in thousands | June 30, 2017 (Unaudited) | December 31, 2016 (Audited) |
|---|---|---|
| Beginning balance | ₱223,807 | ₱140,790 |
| Exploration expenditures incurred | 29,421 | 83,017 |
| Ending balance | ₱253,228 | ₱223,807 |

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

CAGA 2 and 4 are operating areas while CAGA 1, 3 and 5 are under exploration activities. The Group is yet to conduct its exploration activities for CAGA 6 and 7.

## 12. Other Non-current Assets

| Amount in thousands | June 30, 2017 (Unaudited) | December 31, 2016 (Audited) |
|---|---|---|
| Input VAT | ₱169,123 | ₱165,499 |
| Advances to suppliers | 160,076 | 171,873 |
| Mine rehabilitation fund (MRF) | 82,147 | 74,299 |
| AFS financial assets | 4,006 | 4,470 |
| Others | 20,797 | 20,798 |
| | ₱436,149 | ₱436,939 |

*Input VAT*
Input VAT represents the VAT paid on purchases of applicable goods and services, net of output tax liabilities, if any, which may be recovered as tax credit against future tax liability of the Group upon approval by the Philippine BIR and/or the Philippine Bureau of Customs. Allowance for impairment losses on input VAT amounted to ₱19.5 million as at June 30, 2017 and December 31, 2016.

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

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

*AFS Financial Assets*
As at June 30, 2017 and December 31, 2016, the Group holds 4,216,100 shares of stock of Oriental Peninsula Resources Group, Inc. (OPRGI), a publicly listed company in the Philippines. There was no disposal of shares for the periods ended June 30, 2017 and December 31, 2016. The fair value of quoted equity instrument is based on the exit market price as at June 30, 2017 and December 31, 2016.

Movements in fair value of quoted equity instrument follow:

| Amount in thousands | June 30, 2017 (Unaudited) | December 31, 2016 (Audited) |
|---|---|---|
| Beginning balance | ₱4,470 | ₱5,903 |
| Impairment loss on AFS financial assets | – | (1,433) |
| Valuation loss | (464) | – |
| Ending balance | ₱4,006 | ₱4,470 |

There was no dividend income earned from the quoted equity instrument for the periods ended June 30, 2017 and 2016. Impairment loss recognized amounted to nil and ₱1.4 million for the periods June 30, 2017 and December 31, 2016, respectively, 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 related to the Parent Company.

## 13. Trade and Other Payables

| Amount in thousands | June 30, 2017 (Unaudited) | December 31, 2016 (Audited) |
|---|---|---|
| Trade | ₱388,410 | ₱262,040 |
| Accrued expenses and taxes | 120,794 | 115,071 |
| Advances from customers | 239,846 | 92,682 |
| Nontrade | 47,869 | 49,623 |
| Dividends payable | 20,287 | 20,287 |
| Interest payables | 4,653 | 8,526 |
| | ₱821,859 | ₱548,229 |

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

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

| Amount in thousands | June 30, 2017 (Unaudited) | December 31, 2016 (Audited) |
|---|---|---|
| Excise taxes and royalties payable | ₱70,881 | ₱74,762 |
| Business and other taxes | 32,351 | 25,083 |
| Government dues | 1,514 | 1,509 |
| Provision for Social Development and Management Program (SDMP) and Indigenous Cultural Communities (ICC) | 13,140 | 6,197 |
| Accrued payroll | 1,402 | 1,022 |
| Accrued professional fees | 227 | 5,400 |
| Others | 1,279 | 1,098 |
| | ₱120,794 | ₱115,071 |

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

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

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

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

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

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

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

*Non-trade*
Non-trade payables are normally settled within thirty (30) to ninety (90)-day term. This account includes purchases of machineries and equipment.

*Dividends Payable*
On May 22, 2013, the BOD of the Parent Company approved the declaration of cash dividends in the amount of ₱1.656 per outstanding common share or ₱10,500.0 million to stockholders of record as at June 5, 2013, payable on June 12, 2013. In 2014, cash dividends declared and paid to certain shareholders on May 22, 2013 amounting to ₱20.3 million were returned as stale checks and presented as cash dividends payable as at June 30, 2017 and December 31, 2016 and for re-issuance to investor claimants subsequently.

*Interest Payables*
Interest payables arise from bank loans and finance lease obligations of the Group.

## 14. Bank Loans

| Amount in thousands | June 30, 2017 (Unaudited) | December 31, 2016 (Audited) |
|---|---|---|
| TCB | ₱757,050 | ₱994,400 |
| Banco de Oro (BDO) | 63,652 | 5,008 |
| | 820,702 | 999,408 |
| Less current portion | | |
| TCB | 757,050 | 994,400 |
| BDO | 63,524 | 4,295 |
| Total current portion | 820,574 | 998,695 |
| Bank loan - noncurrent portion | ₱128 | ₱713 |

TCB

On May 17, 2017, the Group repaid the US$20.0 million loan extended by TCB on April 17, 2016.

On May 17, 2017, the Group was re-granted by TCB a one-year loan facility in the reduced amount of US$15.0 million or ₱757.0 million for the same general corporate purposes, with the same terms and conditions.

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

The other conditions of the agreement follow:

1) The Group shall maintain a waterfall account with TCB wherein all amounts collected by TCB from the buyers of nickel ore shall be deposited.
2) The security is of two (2) kinds and shall amount to an aggregate value, in any combination, at least equal or twice (2x) the amount or equivalent to US$30.0 million as follows:
   i. Accounts receivables from the PGMC's customer.
   ii. Import letters of credit (LC) issued in favor of PGMC by its customers and clients.
   iii. Demand Deposit Account which shall be opened and set-up by the collateral provider or pledger acceptable to TCB.
   iv. Guarantee issued by any individual, juridical person or any combination thereof acceptable to TCB.
3) 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.
4) If the Group fails to make payment when due of any sum (whether at the stated maturity, by acceleration or otherwise), the Group shall pay penalty on such past due and unpaid amount/s at the rate of eighteen percent (18%) per annum, in addition to the interest rate from due date until the date of payment in full. The penalty shall be payable from time to time and upon demand by the bank.
5) A DSRA shall be opened by the Group which shall have in deposit an amount of US$3.75 million. The amount in said account maybe reduced proportionately as the Group pays the principal and its interest by express agreement of the parties.

BDO

The Group has an existing US$20.0 million export packing line for working capital purposes. As at June 30, 2017 and December 31, 2016, the remaining balance is US$1.21 million or ₱61.1 million, and nil, respectively.

The Group also entered into several service vehicle loans with BDO with a 3-year term at an interest rate ranging from seven percent to nine percent per annum.

## 15. Provision for Mine Rehabilitation and Decommissioning

| Amount in thousands | June 30, 2017 (Unaudited) | December 31, 2016 (Audited) |
|---|---|---|
| Beginning balance | ₱67,123 | ₱58,259 |
| Accretion interest | 2,038 | 1,401 |
| Effect of change in estimate | – | 7,463 |
| Ending balance | ₱69,161 | ₱67,123 |

As at December 31, 2016, the Group adjusted its provision for mine rehabilitation and decommissioning to reflect the current discount rates which resulted to a change in estimate.

## 16. Retirement Obligation

The Group has an unfunded, non-contributory defined benefit retirement plan covering substantially all of its regular employees. The Group does not have an established retirement plan and only conforms to the minimum regulatory benefit under the Republic Act (RA) 7641, *Retirement Pay Law* which is of the defined benefit type and provides a retirement benefit equal to twenty-two and a half (22.5) days' pay for every year of credit service. The regulatory benefit is paid in lump sum upon retirement. There was no plan termination, curtailment or settlement as at June 30, 2017 and December 31, 2016.

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

As at June 30, 2017 and 2016, retirement obligation amounted to ₱54.5 million and ₱47.9 million, respectively. The retirement benefits costs amounted to ₱5.2 million and ₱4.7 million for the six months period ended June 30, 2017 and 2016, respectively (see Note 25). The interest cost on retirement obligation amounted to ₱1.4 million and ₱1.1 million for the six months period ended June 30, 2017 and 2016, respectively.

The Group does not have any plan assets as at June 30, 2017 and December 31, 2016.

The Group is contemplating to put up a defined benefit retirement plan in 2017 that is non-contributory to its members and to be administered by a Trustee Bank to be engaged for this purpose. The Group does not currently employ any asset-liability matching.

The Group (GFHI, PGMC and PSSC) has one hundred seventy-one (171) regular employees, fifteen (15) employees under a probationary period, and one thousand five hundred ninety-seven (1,597) on a fixed term as at June 30, 2017.

## 17. Other Noncurrent Liabilities

| Amount in thousands | June 30, 2017 (Unaudited) | December 31, 2016 (Audited) |
|---|---|---|
| Previous stockholders of Celestial Nickel Mining Exploration Corporation (CNMEC | ₱366,463 | ₱366,463 |
| Brookes Nickel Ventures, Inc. (BNVI) | 165,566 | 165,566 |
| Others | 1,551 | 1,504 |
| | ₱533,580 | ₱533,533 |

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

## 18. Finance Lease

Finance Lease Receivable

The Group entered into an agreement with its contractors that resulted into a finance lease of the Group's transportation and handling equipment.

Finance lease receivables as at June 30, 2017 and December 31, 2016 consist of:

| Amount in thousands | June 30, 2017 (Unaudited) | | December 31, 2016 (Audited) | |
|---|---|---|---|---|
| | Minimum lease payments | Present value of minimum lease payments | Minimum lease payments | Present value of minimum lease payments |
| Within one (1) year | ₱102,841 | ₱96,208 | ₱77,214 | ₱72,282 |
| After one (1) year but not more than five (5) years | 127,547 | 123,764 | 166,154 | 160,670 |
| Total minimum lease payments | 230,388 | 219,972 | 243,368 | 232,952 |
| Less amount representing finance charge | 10,416 | – | 10,416 | – |
| Present value of minimum lease payments | ₱219,972 | ₱219,972 | ₱232,952 | ₱232,952 |

Finance Lease Liabilities

In 2013, the Group entered into finance lease agreements with its suppliers of heavy equipment. These are included as part of "Machineries and other equipment" category under "Property and equipment" as at June 30, 2017 and December 31, 2016.

Future annual minimum lease payments under the lease agreements, together with the present value of the minimum lease payments as at June 30, 2017 and December 31, 2016 are as follows:

| Amount in thousands | June 30, 2017 (Unaudited) | | December 31, 2016 (Audited) | |
|---|---|---|---|---|
| | Minimum lease payments | Present value of minimum lease payments | Minimum lease payments | Present value of minimum lease payments |
| Within one (1) year | ₱2,684 | ₱2,489 | ₱2,886 | ₱2,416 |
| After one (1) year but not more than five (5) years | 1,932 | 1,874 | 3,274 | 3,137 |
| Total minimum lease payments | 4,616 | 4,363 | 6,160 | 5,553 |
| Less amount representing finance charge | 253 | – | 607 | – |
| Present value of minimum lease payments | ₱4,363 | ₱4,363 | ₱5,553 | ₱5,553 |

Interest expense related to finance lease is reported under "Finance costs".

## 19. Equity

Capital Stock

The Parent Company has 11,957,161,906 authorized shares at ₱1.05 par value as at June 30, 2017 and December 31, 2016. Out of the total authorized shares of the Parent Company, 5,822,357,151 shares are issued amounting to ₱6,113,475 as at June 30, 2017 and December 31, 2016.

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

*Increase in Authorized Capital Stock*

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

All issued shares of GFHI, except for the 10,463,093,371 common shares issued in accordance with the Share Swap transaction approved by the SEC on December 22, 2014, are listed in the PSE. 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 |
| | | | | 7,009,810,000 |

Treasury Stock

The Parent Company has 36,357,752 shares amounting to ₱93.6 million and 6,335,752 shares amounting to ₱17.8 million in treasury stock as at June 30, 2017 and December 31, 2016, respectively.

As at June 30, 2017, the Parent Company purchased a total of 30,022,000 common shares at an average price of ₱2.52 per share. As at December 31, 2016, the Parent Company purchased a total of 6,333,333 common shares at an average price of ₱2.81 per share. The estimated number of shares for repurchase, approved and authorized by the BOD on June 29, 2016 is up to ten percent (10%) of the total outstanding shares of the Parent Company.

Employee Stock Option Plan (ESOP)

On June 29, 2016, the BOD and stockholders of the Parent Company approved the establishment of an ESOP, 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 1st Tranche which comprised of 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). As of June 30, 2017, only the list of eligible employees for the stock option grant and stock grant were drawn, but the allocation to the grantees are yet to be finalized. The Group recognized a provision for future stock grant and the corresponding payable amounted to ₱25.6 million for the 10,000,000 approved stock grant as this grant pertains to the services rendered in the past. However, the Group has not allocated compensation expense to be recognized for the stock option grant as of June 30, 2017 as these option grants are not yet communicated to the qualified employees. The related stock option grant compensation expense will be recognized once the compensation scheme is already communicated to the employees as this is the time regarded as rendering of service as allowed in PFRS 2.

## 20. Earnings (Loss) Per Share

The following reflects the income and share data used in the earnings (loss) per share computation for the six months period ended June 30:

| | 2017 | 2016 |
|---|---|---|
| | (Unaudited) | |
| Net income attributable to equity holders of the Parent Company (amounts in thousands) | ₱148,778 | (₱317,538) |
| Number of shares: | | |
| Common shares outstanding at beginning of the year | 5,822,357,150 | 5,822,335,684 |
| Effect of buyback during the period | 17,357,819 | – |
| Adjusted weighted average number of common shares outstanding | 5,804,999,331 | 5,822,335,684 |
| Basic/Diluted Earnings (Loss) per Share | ₱0.0256 | (₱0.0545) |

As at June 30, 2017 and 2016, there are no potentially dilutive common shares.

## 21. Cost of Sales

| | For the six months period ended June 30 | |
|---|---|---|
| Amount in thousands | 2017 | 2016 |
| | (Unaudited) | |
| Contract hire | ₱671,902 | ₱420,415 |
| Depreciation and depletion (see Note 26) | 154,213 | 153,371 |
| Personnel costs (see Note 25) | 56,467 | 54,983 |
| Operation overhead | 20,491 | 9,881 |
| Community relations | 18,477 | 19,509 |
| Environmental protection costs | 16,425 | 11,867 |
| Repairs and maintenance | 11,512 | 4,106 |
| Manning services | 10,747 | 10,037 |
| Assaying and laboratory | 9,748 | 6,674 |
| Fuel and oil | 8,843 | 3,745 |
| Rentals | 2,019 | 5,387 |
| Other charges | 15,946 | 15,935 |
| | ₱996,790 | ₱715,910 |

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

Operation overhead relates to the necessary expenses incurred in the Surigao minesite operations. These expenses include, but not limited to, communication, consultancy and service fee, supplies and travel and transportation expense.

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

## 22. Excise Taxes and Royalties

| Amount in thousands | For the six months period ended June 30 2017 | 2016 |
|---|---|---|
| | (Unaudited) | |
| Royalties to claim - owners | ₱103,397 | ₱28,914 |
| Royalties to government | 89,374 | 32,813 |
| Royalties to indigenous people (IP) | 19,406 | 10,743 |
| Excise taxes | 35,749 | 13,145 |
| | ₱247,926 | ₱85,615 |

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

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

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

As at June 30, 2017 and December 31, 2016, excise taxes and royalties payable amounted to ₱70.9 million and ₱74.8 million, respectively (see Note 13).

## 23. General and Administrative

| Amount in thousands | For the six months period ended June 30 2017 | 2016 |
|---|---|---|
| | (Unaudited) | |
| Personnel costs (see Note 25) | ₱95,353 | ₱88,078 |
| Taxes and licenses | 61,923 | 26,630 |
| Consultancy fees | 24,319 | 15,767 |
| Outside services | 20,477 | 15,840 |
| Marketing and entertainment | 18,330 | 5,421 |
| Rentals | 12,420 | 12,203 |
| Depreciation (see Note 26) | 9,056 | 8,635 |
| Travel and transportation | 7,854 | 14,038 |
| Repairs and maintenance | 5,163 | 4,965 |
| Office supplies | 3,192 | 2,400 |
| Communication | 3,029 | 2,581 |
| Fuel, oil and lubricants | 2,260 | 1,997 |
| Membership and subscription | 1,416 | 1,088 |
| Trainings, seminars and meetings | 1,119 | 141 |
| Insurance | 770 | 963 |
| Power and utilities | 726 | 728 |
| SEC and listing fees | 683 | 491 |
| Other charges | 5,065 | 5,300 |
| | ₱273,155 | ₱207,266 |

Other charges pertain to various expenses such as mailing and postage charges.

## 24. Shipping and Distribution

| Amount in thousands | For the six months period ended June 30 2017 | 2016 |
|---|---|---|
| | (Unaudited) | |
| Barging charges | ₱74,505 | ₱40,837 |
| Stevedoring charges and shipping expenses | 19,613 | 12,227 |
| Personnel costs (see Note 25) | 9,315 | 9,188 |
| Fuel, oil and lubricants | 5,959 | 5,800 |
| Supplies | 1,378 | 1,157 |
| Repairs and maintenance and others | 158 | 242 |
| Government fees | 34 | 34 |
| | ₱110,962 | ₱69,485 |

## 25. Personnel Costs

| Amount in thousands | For the six months period ended June 30 2017 | 2016 |
|---|---|---|
| | (Unaudited) | |
| Salaries and wages | ₱142,678 | ₱132,653 |
| Retirement benefits costs (see Note 16) | 5,192 | 4,684 |
| Other employee benefits | 13,265 | 14,912 |
| | ₱161,135 | ₱152,249 |

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

The personnel costs were distributed as follows:

| Amount in thousands | For the six months period ended June 30 2017 | 2016 |
|---|---|---|
| | (Unaudited) | |
| Cost of sales (see Note 21) | ₱56,467 | ₱54,983 |
| General and administrative (see Note 23) | 95,353 | 88,078 |
| Shipping and distribution (see Note 24) | 9,315 | 9,188 |
| | ₱161,135 | ₱152,249 |

## 26. Depreciation, Depletion and Amortization

| Amount in thousands | For the six months period ended June 30 2017 | 2016 |
|---|---|---|
| | (Unaudited) | |
| Cost of sales (see Note 21) | ₱154,213 | ₱153,371 |
| General and administrative (see Note 23) | 9,056 | 8,635 |
| | ₱163,269 | ₱162,006 |

## 27. Finance Costs

| Amount in thousands | For the six months period ended June 30 2017 | 2016 |
|---|---|---|
| | (Unaudited) | |
| Interest expense | ₱28,564 | ₱29,967 |
| Bank charges | 1,575 | 1,408 |
| Accretion interest on provision for mine rehabilitation and decommissioning | 2,038 | 701 |
| | ₱32,177 | ₱32,076 |

## 28. Other Income (Charges) - net

| Amount in thousands | For the six months period ended June 30 2017 | 2016 |
|---|---|---|
| | (Unaudited) | |
| Foreign exchange gains (losses) - net | ₱22,528 | (₱18,749) |
| Loss on acquisition of a subsidiary (see Note 29) | – | (7,356) |
| Loss on modification of finance lease | – | (1,037) |
| Others | 1,317 | 319 |
| | ₱23,845 | (₱26,823) |

## 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. Intercompany transactions are eliminated in the consolidated financial statements.

Amount in thousands

| Category | Amount/Volume | Advances to related parties | Amounts owed to related parties | Terms | Conditions |
|---|---|---|---|---|---|
| *Stockholders* | | | | | |
| June 30, 2017 | ₱203,613 | ₱1,710,745 | ₱50,000 | On demand; noninterest-bearing; collectible or payable in cash | Unsecured; no guarantee |
| December 31, 2016 | ₱106,816 | ₱1,507,132 | ₱50,000 | | |
| *Affiliates with common officers, directors and stockholders* | | | | | |
| June 30, 2017 | 67,267 | 168,165 | 42,603 | On demand; noninterest-bearing; collectible or payable in cash | Unsecured; no guarantee |
| December 31, 2016 | 1,018,720 | 100,898 | 389,917 | | |
| *Other related party* | | | | | |
| GHGC Metallic Ore Resources, Inc. | | | | | |
| June 30, 2017 | – | 6,054 | 226,564 | On demand; noninterest-bearing; collectible or payable in cash | Unsecured; no guarantee |
| December 31, 2016 | – | 6,054 | 226,564 | | |
| Total | | ₱1,884,964 | ₱319,167 | | |
| Total | | ₱1,614,084 | ₱666,481 | | |

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

a. On January 21, 2016, the Parent Company acquired PIL through the purchase of its 10,000 shares at HK$1.0 par value amounting to HK$10.0 thousand or ₱61.0 thousand. The transaction was considered by the Parent Company as an asset acquisition. The assets and liabilities of PIL consist mostly of financial instruments with a net liability amounting to ₱7.3 million. A loss on acquisition amounting to ₱7.4 million was recognized based on the difference between the consideration paid and the fair values of the assets acquired and liabilities assumed.

b. The Parent Company, PGMC and the stockholders of SPNVI executed various Deed of Assignments wherein PGMC assigned all the rights, title, and interest for the cash advances made by PGMC to SPNVI, amounting to ₱1,628.1 million as at December 31, 2015 to the Parent Company. In 2016, the Parent Company, PGMC, SPNVI and the stockholders of SPNVI executed another Deed of Assignments wherein SPNVI assigned its payable to BNVI, payable to the previous stockholders of CNMEC and the remaining payable to stockholders of SPNVI, to the Parent Company amounting to ₱589.2 million.

   As at June 30, 2017 and December 31, 2016, these advances amounted to ₱2,217.4 million. A portion of these advances will form part of the purchase price for the acquisition of SPNVI pursuant to the Contract to Sell executed on August 6, 2015 and are recorded under "Deposits for future acquisition".

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

c. In the first quarter of 2016, PGMC entered into a Time Charter Agreement with PCSSC for the use of five (5) LCTs at ₱2.6 million each per month. This Agreement covers a period of seven (7) months on/about April 1, 2017 to October 31, 2017, subject to renewal upon mutual agreement of the parties.

d. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any director (whether executive or otherwise) of the Group. The compensation of the key management personnel of the Group for the six months period ended June 30, 2017 and 2016 amounted to ₱26.3 million and ₱26.5 million, respectively.

## 30. Income Taxes

The current provision for income tax represents regular corporate income tax and minimum corporate income tax (MCIT) for the six months period ended June 30, 2017 and 2016, respectively. The Group is in net taxable loss position for the six months period ended June 30, 2016.

The components of the Group's net deferred income tax assets as at June 30, 2017 and December 31, 2016 follow:

| Amount in thousands | 2017 | 2016 |
|---|---|---|
| | (Unaudited) | Audited |
| Deferred tax assets: | | |
| Provision for mine rehabilitation and decommissioning | ₱20,749 | ₱20,137 |
| Unrealized foreign exchange losses - net | 5,621 | 7,793 |
| Retirement obligation recognized in profit or loss | 18,632 | 16,653 |
| Accrued taxes | 11,969 | 11,969 |
| Allowance for impairment losses on trade and other receivables | 5,208 | 5,208 |
| Rent payable | 466 | 452 |
| NOLCO | 2,383 | – |
| Currency translation adjustment recognized directly in OCI | 61 | 6,045 |
| Excess MCIT | – | 2,787 |
| | 65,089 | 71,044 |
| Deferred tax liabilities: | | |
| Undepleted asset retirement obligation | (10,028) | (10,446) |
| Retirement obligation recognized directly in OCI | (2,288) | (2,288) |
| | (12,316) | (12,734) |
| Deferred tax assets - net | ₱52,773 | ₱58,310 |

The Group has availed of the itemized deductions method in claiming its deductions for the six months ended June 30, 2017 and 2016.

## 31. Operating Segment Information

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

The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

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

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

The Group's core business is the sale of nickel ore to external customers which accounted for the Group's total revenue.

Accordingly, the Group operates mainly in one reportable business and two geographical segments which is the Philippines and Hong Kong. Noncurrent assets of the Group comprising property and equipment, finance lease receivable, mining rights, mine exploration costs and other noncurrent assets are located in the Philippines and Hong Kong.

Total revenues from external customers amounting to ₱1,861.6 million and ₱704.6 million for the six months period ended June 30, 2017 and 2016, respectively, were shipped to China.

Financial information on the operation of the various business segments are as follows:

| Amount in thousands | June 30, 2017 (Unaudited) | | | | | |
|---|---|---|---|---|---|---|
| | Mining | | Service | Others | Elimination | Total |
| | Philippines | Hong Kong | Philippines | Philippines | | |
| External customers | ₱1,107,782 | ₱753,854 | ₱– | ₱– | ₱– | ₱1,861,636 |
| Intersegment revenues | 631,221 | – | 37,386 | – | (668,607) | – |
| Total revenues | 1,739,003 | 753,854 | 37,386 | – | (668,607) | 1,861,636 |
| Cost of sales | 956,158 | 630,343 | 40,632 | – | (630,343) | 996,790 |
| Excise taxes and royalties | 247,926 | – | – | – | – | 247,926 |
| Shipping and distribution | 148,348 | – | – | – | (37,386) | 110,962 |
| Segment operating earnings (loss) | 386,571 | 123,511 | (3,246) | – | (878) | 505,958 |
| General and administrative | 215,526 | 22,533 | 4,695 | 30,401 | – | 273,155 |
| Finance income | 3,183 | 61 | 4 | 11 | – | 3,259 |
| Finance costs | (31,422) | (714) | (4) | (37) | – | (32,177) |
| Provision for stock grant | – | – | – | (25,600) | – | (25,600) |
| Share in net loss of an associate | – | – | – | (74) | – | (74) |
| Other income (charges) - net | 23,011 | (44) | – | – | 878 | 23,845 |
| Provision for (benefit from) income tax | 55,661 | – | (2,383) | – | – | 53,278 |
| Net income (loss) attributable to equity holders of GFHI | ₱110,156 | ₱100,281 | (₱5,558) | (₱56,101) | ₱– | ₱148,778 |
| Segment assets | ₱9,163,913 | ₱505,927 | ₱346,935 | ₱12,016,601 | (₱12,761,064) | ₱9,272,312 |
| Deferred tax assets | 62,645 | – | 2,383 | – | 61 | 65,089 |
| Total assets | ₱9,226,558 | ₱505,927 | ₱349,318 | ₱12,016,601 | (₱12,761,003) | ₱9,337,401 |
| Segment liabilities | ₱1,927,045 | ₱417,867 | ₱574 | ₱4,444,609 | (₱4,100,526) | ₱2,689,569 |
| Deferred tax liabilities | 12,316 | – | – | – | – | 12,316 |
| Total liabilities | ₱1,939,361 | ₱417,867 | ₱574 | ₱4,444,609 | (₱4,100,526) | ₱2,701,885 |
| Capital expenditures | ₱66,458 | ₱448 | ₱16,178 | ₱– | ₱– | ₱83,084 |
| Depreciation and depletion | ₱144,434 | ₱2,211 | ₱16,422 | ₱202 | ₱– | ₱163,269 |

| Amount in thousands | June 30, 2016 (Unaudited) | | | | | |
|---|---|---|---|---|---|---|
| | Mining | | Service | Others | Elimination | Total |
| | Philippines | Hong Kong | Philippines | Philippines | | |
| External customers | ₱659,412 | ₱45,208 | ₱– | ₱– | ₱– | ₱704,620 |
| Intersegment revenues | 30,261 | – | 38,461 | – | (68,722) | – |
| Total revenues | 689,673 | 45,208 | 38,461 | – | (68,722) | 704,620 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Cost of sales | 679,390 | 34,529 | 36,520 | – | (34,529) | 715,910 |
| Excise taxes and royalties | 85,615 | – | – | – | – | 85,615 |
| Shipping and distribution | 107,946 | – | – | – | (38,461) | 69,485 |
| Segment operating earnings (loss) | (183,278) | 10,679 | 1,941 | – | 4,268 | (166,390) |
| General and administrative | 157,405 | 17,244 | 5,403 | 27,214 | – | 207,266 |
| Finance income | 2,726 | 8 | 3 | 3 | – | 2,740 |
| Finance costs | (31,982) | (73) | (3) | (18) | – | (32,076) |
| Other income (charges) - net | (15,185) | (14) | – | – | (11,624) | (26,823) |
| Provision for (benefit from) income tax | (111,389) | – | (888) | – | – | (112,277) |
| Net loss attributable to equity holders of GFHI | (₱273,735) | (₱6,644) | (₱2,574) | (₱27,229) | (₱7,356) | (₱317,538) |
| Segment assets | ₱9,159,147 | ₱278,483 | ₱338,726 | ₱11,465,191 | (₱12,426,190) | ₱8,815,357 |
| Deferred tax assets | 219,805 | – | 888 | – | – | 220,693 |
| Total assets | ₱9,378,952 | ₱278,483 | ₱339,614 | ₱11,465,191 | (₱12,426,190) | ₱9,036,050 |
| Segment liabilities | ₱2,976,834 | ₱292,414 | ₱263 | ₱3,688,691 | (₱4,151,393) | ₱2,806,809 |
| Deferred tax liabilities | 9,201 | – | – | – | (410) | 8,791 |
| Total liabilities | ₱2,986,034 | ₱292,414 | ₱263 | ₱3,688,691 | (₱4,151,803) | ₱2,815,600 |
| Capital expenditures | ₱15,907 | ₱309 | ₱125 | ₱2,013 | ₱– | ₱18,354 |
| Depreciation and depletion | ₱143,415 | ₱2,075 | ₱16,415 | ₱101 | ₱– | ₱162,006 |

| Amount in thousands | December 31, 2016 (Audited) | | | | | |
|---|---|---|---|---|---|---|
| | Mining | | Service | Others | Elimination | Total |
| | Philippines | Hong Kong | Philippines | Philippines | | |
| Segment assets | ₱9,260,399 | ₱299,675 | ₱353,812 | ₱12,018,784 | (₱12,558,240) | ₱9,374,430 |
| Deferred tax assets | 64,998 | – | – | – | – | 64,998 |
| Total assets | ₱9,325,397 | ₱299,675 | ₱353,812 | ₱12,018,784 | (₱12,558,240) | ₱9,439,428 |
| Segment liabilities | ₱2,520,156 | ₱311,960 | ₱1,894 | ₱4,314,930 | (₱4,268,805) | ₱2,880,135 |
| Deferred tax liabilities | 12,734 | – | – | – | – | 12,734 |
| Total liabilities | ₱2,532,890 | ₱311,960 | ₱1,894 | ₱4,314,930 | (₱4,268,805) | ₱2,892,869 |
| Capital expenditures | ₱33,601 | ₱376 | ₱146 | ₱2,013 | ₱– | ₱36,136 |