111092018001348

SECURITIES AND EXCHANGE COMMISSION

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Company Information

SEC Registration No.	AS94003992
Company Name	GLOBAL FERRONICKEL HOLDINGS, INC.
Industry Classification	
Company Type	Stock Corporation

Document Information

Document ID	111092018001348
Document Type	17-Q (FORM 11-Q:QUARTERLY REPORT/FS)
Document Code	17-Q
Period Covered	September 30, 2018
No. of Days Late	0
Department	CFD
Remarks	

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 - **SEPTEMBER 30, 2018**

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 Centre, 151 Paseo de Roxas corner Arnaiz Street, 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	6,072,357,151
Amount of Debt Outstanding	Not applicable

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

    Yes [X] 6,072,357,151 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 [ ]

Global Ferronickel Holdings, Inc.

17-Q QUARTERLY REPORT
SEPTEMBER 30, 2018

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PART I - FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

The Unaudited Interim Consolidated Financial Statements as at September 30, 2018 and for the nine-month period ended September 30, 2018 and 2017 (with Comparative Audited Consolidated Statement of Financial Position as at December 31, 2017) are hereto attached.

The following tables set forth the summary financial information for the nine-month period ended September 30, 2018 and 2017 and as at September 30, 2018 and December 31, 2017:

1.a. Summary Consolidated Statements of Financial Position

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)	Increase/ (Decrease)	Percent Inc. (Dec.)
	(In Thousand Pesos)			
ASSETS				
Current Assets	5,219,686	3,682,106	1,537,580	41.8%
Noncurrent Assets	5,115,501	5,358,751	(243,250)	-4.5%
TOTAL ASSETS	10,335,187	9,040,857	1,294,330	14.3%
LIABILITIES AND EQUITY				
Current Liabilities	1,696,337	1,805,529	(109,192)	-6.0%
Noncurrent Liabilities	1,660,554	831,024	829,530	99.8%
Total Liabilities	3,356,891	2,636,553	720,338	27.3%
Equity				
Attributable to Equity Holders				
of the Parent Company	6,978,296	6,404,304	573,992	9.0%
TOTAL LIABILITIES AND EQUITY	10,335,187	9,040,857	1,294,330	14.3%

1.b. Summary Consolidated Statements of Comprehensive Income

	For the Three Months Ended September 30		For the Nine Months Ended September 30		Increase (Decrease)	
	2018	2017	2018	2017	3 Months	9 Months
	(In Thousand Pesos)					
Revenues	3,112,408	2,784,627	4,543,005	4,646,263	327,781	(103,258)
Cost and Expenses	(2,238,198)	(1,987,414)	(3,595,656)	(3,643,809)	(250,784)	48,153
Finance Costs	(19,523)	(19,899)	(56,943)	(52,076)	376	(4,867)
Other Income (Charges) - net	(8,258)	32,888	(22,346)	54,804	(41,146)	(77,150)
Income Before Income Tax	846,429	810,202	868,060	1,005,182	36,227	(137,122)
Provision for Income Tax - net	254,980	178,346	272,630	221,564	76,634	51,066
Net Income	**591,449**	**631,856**	**595,430**	**783,618**	(40,407)	(188,188)
Other Comprehensive Income	10,998	4,455	31,294	17,953	6,543	13,341
Total Comprehensive Income	**602,447**	**636,311**	**626,724**	**801,571**	(33,864)	(174,847)
Basic and Diluted Income Per Share	0.1086	0.1097	0.1093	0.1358	(0.0011)	(0.0265)

1.c. Summary Consolidated Statements of Changes in Equity

	For the Period Ended September 30		For the Year Ended December 31
	2018	2017	2017
	(In Thousand Pesos)		
Capital Stock			
Common Stock	6,375,975	6,113,475	6,113,475
Remeasurement Gain on Retirement Obligation	12,561	5,342	12,561
Valuation Loss on Available-for-Sale Financial Assets	(464)	(42)	(464)
Cumulative Translation Adjustment	26,543	3,889	(4,751)
Retained Earnings			
Balance, Beginning	1,237,573	459,654	459,654
Income for the Period	595,430	783,618	779,689
Issuance of Treasury Shares in relation to Stock Grant	-	-	(1,770)
Balance, Ending	1,833,003	1,243,272	1,237,573
Issuance of Common Stock	247,286	-	-
Treasury Stock - at cost	(1,516,608)	(654,776)	(954,090)
Total Equity	**6,978,296**	**6,711,160**	**6,404,304**

1.d. Summary Consolidated Statements of Cash Flows

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2018	2017	2018	2017
	(In Thousand Pesos)			
NET CASH FLOWS FROM (USED IN):				
Operating Activities	998,885	916,828	1,081,467	1,255,808
Investing Activities	(679,971)	(517,889)	(1,089,159)	(911,002)
Financing Activities	508,442	(112,747)	496,205	(293,979)
NET DECREASE IN CASH	827,356	286,192	488,513	50,827
Effect of Exchange Rate Changes on Cash	87,889	80,472	(23,941)	37,478
CASH AT BEGINNING OF PERIOD	435,893	273,583	886,566	551,942
CASH AT END OF PERIOD	**1,351,138**	**640,247**	**1,351,138**	**640,247**

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 September 30, 2018 and December 31, 2017, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the periods ended September 30, 2018 and 2017 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 September 30, 2018, total assets of the Group stood at ₱10,335.2 million, an increase of ₱1,294.3 million or 14.3%, from ₱9,040.9 million as at December 31, 2017. The increase was due to the net effect of the increase in current assets by ₱1,537.6 million or 41.8% and decrease in noncurrent assets by ₱243.3 million or 4.5%. The increase in current assets was mainly attributable to the increase in trade and other receivables by ₱485.1 million or 139.1% due to five (5) shipments completed on September 27 to 30 that were collected in October. In addition, cash, advances to related parties and prepayments and other current assets increased by ₱464.6 million, ₱419.1 million and ₱154.0 million, respectively.

The net decrease in noncurrent assets was mainly due to the following: (a) net decrease in property and equipment by ₱226.5 million attributable mainly to the depreciation and depletion during the period; (b) decrease in mining rights by ₱31.8 million due to amortization during the period; (c) decrease in finance lease receivable by ₱73.8 million due to settlement during the period; and (d) increase in other noncurrent assets by ₱73.1 million attributable to pension asset established by the Group in the first quarter and increase in advances to suppliers.

Total liabilities of the Group stood at ₱3,356.9 million as at September 30, 2018, an increase of ₱720.3 million or 27.3%, from ₱2,636.6 million as at December 31, 2017. The increase was mainly due to the increase in trade and other payables by ₱424.8 million from ₱577.1 million to ₱1,001.9 million, increase in bank loans by ₱60.6 million mainly due to the restatement as of reporting period resulting to unrealized foreign exchange loss and increase in income tax payable by ₱226.9 million.

Results of Operations

The Group's operational Surigao mine performs nickel ore production and shipment during the dry months of each year between April to October.

Sale of Ore

The Group's third quarter 2018 mining operations generated total export revenues of ₱3,112.4 million, bringing to date revenues to ₱4,543.0 million compared to ₱4,646.3 million in the nine months ended September 30, 2017, a decrease of ₱103.3 million or 2.2% due to the lower prices of nickel ore and decrease in the volume shipped compared to the same period in 2017. The average realized nickel ore price for the nine months ended September 30, 2018 was United States dollar (US$)18.18/WMT compared to US$18.77/WMT of the same period last year, lower by US$0.59/WMT or 3.1%. Despite the decline in revenues, the Group managed to generate a gross margin of 52%, 1% slightly higher compared to the same period in 2017.

The sale of nickel ore for the nine months ended September 30, 2018 was 4.711 million wet metric tons (WMT), lower by 0.218 million WMT or 4.4%, compared to 4.929 million WMT of nickel ore in the nine months ended September 30, 2017. The Group was able to ship 85 vessels of nickel ore during the nine months period ended September 30, 2018 as against 90 vessels of nickel ore during the same period last year. The decrease in the number of shipments, and consequently in the volume of nickel ore shipped, was brought about by Management's decision to shift its focus towards higher-grade ores that entails more processing activities in order to maximize profitability. This resulted to a product mix of 43% low-grade ore and 57% medium-grade ore in 2018 versus the previous period's mix of 58% low-grade ore and 42% medium-grade ore in 2017, which led to an average revenue per vessel of ₱53.4 million, slightly higher by 3.5% compared to the same period in 2017. These shipments sold solely to Chinese customers consisted of 2.046 million WMT low-grade nickel ore and 2.665 million WMT medium-grade nickel ore compared to 2.870 million WMT low-grade nickel ore and 2.059 WMT medium-grade nickel ore of the same period in 2017.

Another favorable factor that impacted the revenue is the US$ appreciation over the Philippine peso. The average realized Peso over US$ exchange rate for the Group's export revenues was ₱53.04 compared to ₱50.23 of the same period last year, higher by ₱2.81 or 5.6%.

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. (PCSSC), amounted to ₱82.3 million for the nine months period ended September 30, 2018 as compared to ₱77.2 million for the same period last year.

Cost and Expenses
Cost and expenses include cost of sales, excise taxes and royalties, general and administrative expenses and shipping and distribution. The cost and expenses amounted to ₱3,595.6 million for the nine months ended September 30, 2018 compared to ₱3,643.8 million for the nine months ended September 30, 2017, a decrease of ₱48.2 million or 1.3%. The decrease was primarily due to lower tonnage produced and volume shipped compared to the same period of last year. Furthermore, the average cash operating cost (which includes cost of sales, excise taxes and royalties, general and administrative expenses, and shipping and distribution) per volume sold increased to ₱686.08 per WMT for the period ended September 30, 2018 from ₱654.81 per WMT, higher by ₱31.27 per WMT or 4.8%. For the nine months period ended September 30, 2018, the total aggregate cash costs and total sales volume were ₱3,232.1 million and 4.711 million WMT, respectively. For the nine months period ended September 30, 2017, the total aggregate cash costs and total sales volume were ₱3,227.6 million and 4.929 WMT, respectively.

Cost of Sales
The cost of sales went down from ₱2,277.0 million for the nine months ended September 30, 2017 to ₱2,182.9 million for the same period this year, a decrease by ₱94.1 million, or 4.1%. Contract hire decreased by ₱122.5 million (from ₱1,669.3 million in 2017 to ₱1,546.8 million in 2018), or 7.3% as a result of renegotiation of contract rates with Contractors (reduction by US$1.00 per WMT). On the other hand, depreciation, depletion and amortization, environmental protection costs, personnel costs, and fuel and oil increased by ₱20.1 million, ₱11.7 million, ₱8.8 million and ₱7.1 million, respectively. Depletion and depreciation increased due to the increase in asset retirement obligation (ARO) asset last year amounted to ₱174.2M based on the latest Final Mine Rehabilitation and Decommissioning Plan (FMRDP) and acquisitions of additional equipment during period. The increase in environmental protection costs was due to the higher approved Annual Environmental and Enhancement Program (EPEP) budget this year compared to the prior year. The personnel costs increased due to 2017 performance bonus given to employees in the first quarter of 2018, salary adjustments to eligible employees effective March 1 and minimum salary wage increase effective February 14 and May 1, 2018. Moreover, fuel and oil cost was up due to increase in average fuel price of ₱10.36 per liter or 44.0% (₱23.53 per liter in 2017 versus ₱33.89 per liter in 2018). However, the Group's fuel consumption decreased by 4.4% (1.81 million liters in 2017 versus 1.73 liters in 2018).

Excise Taxes and Royalties
Excise taxes and royalties were ₱600.4 million and ₱595.2 million for the periods ended September 30, 2018 and 2017, respectively. Since these expenses were computed and paid based on the percentage of the revenues, it is expected that the decrease in nickel ore price and volume shipped should consequently decrease the excise taxes and royalties taken up. However, excise taxes and royalties increased due to the implementation of TRAIN Law this year increasing the applicable excise tax rate from two percent (2%) to four percent (4%). The increase in excise tax and the expected increase in fuel prices were offset by lower royalty fees paid to the claim-owner as the Group was able to negotiate and entered into an Amended Royalty Agreement effective 2018 mining season, with the new rates ranging from two percent (2%) to five percent (5%) versus the previous rates of three percent (3%) to seven percent (7%).

General and Administrative
General and administrative expenses were ₱456.6 million in the nine months ended September 30, 2018 compared to ₱445.1 million in the nine months ended September 30, 2017, an increase of ₱11.5 million, or 2.6%. The increase was mainly due to the increase in personnel costs, consultancy fees, taxes and licenses, and outside services amounted to ₱33.8 million, ₱14.4 million, ₱11.2 million and ₱8.2 million, respectively. For the increase in personnel costs, refer to the explanation in the cost of sales section. The increase in consultancy fees is mainly attributable to the professional fees incurred in relation to the completion of the Group's follow-on offering (FOO) in July. Moreover, the net increase in taxes and licenses is mainly attributable to the following: a) increase in local business tax of PGMC, a subsidiary, amounted to ₱30.2 million due to higher tax base (revenue was ₱5.8 billion in 2017 versus ₱3.8 billion in 2016) and 1% increase in the corresponding tax rate; b) increase in documentary stamp tax (DST) amounted to ₱12.9 million due to increase of authorized capital stock of PGMC in 2017 (stock dividend declaration), payment of DST in relation to the issuance of common stock to the Parent Company by PGMC pursuant to the FOO use of proceeds and effect of TRAIN; and c) decrease amounted to ₱25.4 million attributable to deficiency tax for taxable year 2013 paid in the prior period. The increase was partially offset by the decrease in provision for impairment losses on trade and other receivables amounted to ₱77.8 million recognized in the prior period.

Shipping and Distribution
Shipping and loading costs were ₱355.7 million for the nine months ended September 30, 2018 compared to ₱326.4 million in the same period last year, up by ₱29.3 million, or 9.0%. The increase was mainly due to increase in government fees as the Group started paying wharfage fees during the period versus none in the prior years since covered under the 10-year exemption of wharfage fees from the Board of Investments (BOI) which expired last year.

Finance Costs
Finance costs amounted to ₱56.9 million in the nine months ended September 30, 2018 compared to ₱52.1 million in the nine months ended September 30, 2017, an increase of ₱4.8 million, or 9.2%. The increase mainly pertains to increase in accretion interest of ₱6.5 million (from ₱3.1 million in 2017 to ₱9.6 million in 2018) in relation to the increase in the provision for mine rehabilitation and decommissioning cost last year based on the latest FMRDP submitted by the Group to the Mines and Geosciences Bureau (MGB) of the Department of Environment and Natural Resources (DENR) of the Philippines.

Other Income (Charges) - net
Net other charges amounted to ₱26.4 million in the nine months ended September 30, 2018 compared to net other income amounted to ₱50.0 million in the nine months ended September 30, 2017, a decrease of ₱76.4 million, or 152.8%. The difference pertains mainly to unrealized foreign exchange loss during the period as a result of the rebooking of US$ denominated account balances.

Provision for Income Tax - net
The net provision for income tax was ₱272.6 million for the nine months ended September 30, 2018 compared to ₱221.6 million in the same period last year, an increase of ₱51.0 million or 23.0%. The Group's current provision for income tax represents regular corporate income tax for the nine months periods ended September 30, 2018 and 2017. The increase was due to the higher taxable income earned by PGMC, a subsidiary in the Philippines, during the period compared to the prior period.

Total Comprehensive Income – net of tax

Cumulative Translation Adjustment
The Group had recognized cumulative translation adjustment amounted to ₱31.3 million and ₱18.0 million for the periods ended September 30, 2018 and 2017, respectively, which pertained to the exchange differences arising on the translation of a subsidiary's functional currency to the presentation currency of the Parent Company.

Statement of Cash Flows

Cash Flows from Operating Activities
The net cash flows from operating activities resulted to ₱1,081.5 million for the nine months ended September 30, 2018 compared to ₱1,255.8 million of the same period last year. The decrease in the cash generated from operations was due to lower sale of ore during the period compared to the prior period as a result of the decrease in volume shipped and average realized nickel ore price.

Cash Flows from Investing Activities
The net cash flows used in investing activities for the nine months ended September 30, 2018 and 2017 amounted to ₱1,089.2 million and ₱911.0 million, respectively. The net cash outflows in 2018 arise mainly to the repurchase of treasury shares amounted to ₱562.5 million, acquisitions of property and equipment amounted to ₱58.3 million, additional mine exploration costs incurred amounted to ₱7.6 million, additional advances to related parties amounted to ₱419.2 million and increase in other noncurrent assets by ₱73.1 million. The net cash outflows in 2017 arise mainly to the additional advances to related parties amounted to ₱249.5 million, repurchase of treasury shares amounted to ₱637.0 million, increase in other noncurrent assets amounted to ₱21.1 million, additional mine exploration costs incurred amounted to ₱16.4 million and net acquisitions of property and equipment amounted to ₱7.2 million.

Cash Flows from Financing Activities
For the nine months ended September 30, 2018 and 2017, the net cash flows from financing activities amounted to ₱496.2 million and ₱294.0 million, respectively. The net cash inflows in 2018 arise mainly from the issuance of common stock amounted to ₱509.8 million in relation to the follow-on of the Group and payments of bank loans amounted to ₱179.1 million, net of ₱177.6 million proceeds from availment of bank loans. The net cash outflows in 2017 arise mainly to payments of bank loans amounted to ₱1,398.4 million, net of ₱1,137.3 million from the proceeds from availment of bank loans.

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 September 30, 2018.

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 September 30, 2018 and 2017:

Indicators	Formula	2018	2017
Earnings Per Share	Profit for the Period/Weighted Average Number of Shares Outstanding	0.1093	0.1358
Debt-to-Equity Ratio	Total Liabilities/Total Equity	0.48:1	0.45:1
Asset-to-Equity Ratio	Total Assets/Total Equity	1.48:1	1.45:1
Current Ratio	Current Assets/Current Liabilities	3.08:1	1.92:1

PART III - OTHER INFORMATION

No disclosures were made other than those 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: November 08, 2018

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

Date: November 08, 2018

Annex A

Aging of Trade and Other Receivables
As at September 30, 2018
(In Thousand Pesos)

	Neither Past Due Nor Impaired	Past Due But Not Impaired			Impaired	Total
		90 Days or Less	91-120 Days	More than 120 days		
Trade	737,127	-	-	-	226,164	963,291
Advances to Contractors	1,631	-	-	79,707	-	81,338
Advances to Officers, Employees and Others	15,348	-	-	-	-	15,348
Total	**754,106**	-	-	**79,707**	**226,164**	**1,059,977**
Less: Allowance for Doubtful Accounts						226,164
NET RECEIVABES						**833,813**

GLOBAL FERRONICKEL HOLDINGS, INC.
SEC FORM 17-Q
INDEX TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
ASSETS		
Current Assets		
Cash (Note 4)	**₱1,351,138**	₱886,566
Trade and other receivables (Note 5)	**833,813**	348,668
Current portion of finance lease receivable (Note 17)	**75,375**	73,812
Advances to related parties (Note 28)	**2,291,100**	1,871,978
Inventories - at cost (Note 6)	**299,757**	286,598
Prepayments and other current assets (Note 7)	**368,503**	214,484
Total Current Assets	**5,219,686**	3,682,106
Noncurrent Assets		
Property and equipment (Note 8)	**1,776,845**	2,003,317
Deposits for future acquisition (Note 28)	**2,217,354**	2,217,354
Mining rights (Note 9)	**188,394**	220,209
Mine exploration costs (Note 10)	**249,305**	241,729
Finance lease receivable - net of current portion (Note 17)	**11,483**	86,858
Deferred tax assets - net (Note 29)	**137,207**	127,476
Other noncurrent assets (Note 11)	**534,913**	461,808
Total Noncurrent Assets	**5,115,501**	5,358,851
TOTAL ASSETS	**₱10,335,187**	₱9,040,857
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Note 12)	**₱1,001,928**	₱577,149
Current portion of bank loans (Note 13)	**–**	749,669
Advances from related parties (Note 28)	**317,447**	327,593
Current portion of finance lease liabilities (Note 17)	**1,271**	2,350
Income tax payable	**375,691**	148,768
Total Current Liabilities	**1,696,337**	1,805,529
Noncurrent Liabilities		
Bank loans - net of current portion (Note 13)	**810,300**	–
Provision for mine rehabilitation and decommissioning (Note 14)	**255,014**	245,407
Retirement obligation (Note 15)	**61,540**	51,203
Finance lease liabilities - net of current portion (Note 17)	**–**	787
Other noncurrent liabilities (Note 16)	**533,700**	533,627
Total Noncurrent Liabilities	**1,660,554**	831,024
Total Liabilities	**3,356,891**	2,636,553
Equity		
Capital stock (Note 18)	**6,375,975**	6,113,475
Additional paid-in capital (Note 18)	**247,286**	–
Remeasurement gain on retirement obligation	**12,561**	12,561
Cumulative translation adjustment	**26,543**	(4,751)
Valuation loss on available-for-sale financial assets (Note 11)	**(464)**	(464)
Retained earnings	**1,833,003**	1,237,573
Treasury stock (Note 18)	**(1,516,608)**	(954,090)
Total Equity	**6,978,296**	6,404,304
TOTAL LIABILITIES AND EQUITY	**₱10,335,187**	₱9,040,857

See accompanying Notes to Unaudited Consolidated Financial Statements.

GLOBAL FERRONICKEL HOLDINGS, INC. AND SUBSIDIARIES
INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE MONTHS PERIODS ENDED SEPTEMBER 30, 2018 AND 2017
FOR THE NINE MONTHS PERIODS ENDED SEPTEMBER 30, 2018 AND 2017
(Amounts in Thousands, Except Earnings per Share)

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
			(Unaudited)	
SALE OF ORE	₱3,112,408	₱2,784,627	₱4,543,005	₱4,646,263
COST OF SALES (Note 20)	1,407,623	1,252,682	2,182,940	2,277,034
GROSS PROFIT	1,704,785	1,531,945	2,360,065	2,369,229
OPERATING EXPENSES				
Excise taxes and royalties (Note 21)	415,347	347,321	600,434	595,247
General and administrative (Note 22)	184,489	171,943	456,575	445,098
Shipping and distribution (Note 23)	230,739	215,468	355,707	326,430
	830,575	734,732	1,412,716	1,366,775
FINANCE COSTS (Note 26)	(19,523)	(19,899)	(56,943)	(52,076)
FINANCE INCOME	3,345	1,669	4,087	4,929
SHARE IN NET LOSS OF AN ASSOCIATE	–	–	–	(116)
OTHER INCOME (CHARGES) - net (Note 27)	(11,603)	31,219	(26,433)	49,991
INCOME BEFORE INCOME TAX	846,429	810,202	868,060	1,005,182
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 29)				
Current	272,060	202,029	295,773	247,216
Deferred	(17,080)	(23,683)	(23,143)	(25,652)
	254,980	178,346	272,630	221,564
NET INCOME	591,449	631,856	595,430	783,618
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX				
Items that may be reclassified to profit or loss in subsequent periods:				
Valuation loss on available-for-sale financial assets (Note 11)	–	422	–	(42)
Currency translation adjustment - net of tax effect	10,998	4,033	31,294	17,995
	10,998	4,455	31,294	17,953
TOTAL COMPREHENSIVE INCOME	₱602,447	₱636,311	₱626,724	₱801,571
Basic/Diluted Earnings per Share (Note 19)	₱0.1086	₱0.1097	₱0.1093	₱0.1358

See accompanying Notes to Unaudited Consolidated Financial Statements.

GLOBAL FERRONICKEL HOLDINGS, INC. AND SUBSIDIARIES
INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE NINE MONTHS PERIODS ENDED SEPTEMBER 30, 2018 AND 2017
(Amounts in Thousands)

	Capital Stock (Note 18)	Additional Paid-in Capital (Note 18)	Treasury Stock (Note 18)	Valuation Loss on AFS Financial Assets (Note 11)	Remeasurement Gain on Retirement Obligation	Cumulative Translation Adjustment	Retained Earnings	Total Equity
Balances at December 31, 2017 (Audited)	₱ 6,113,475	₱ -	₱ (954,090)	₱ (464)	₱ 12,561	₱ (4,751)	₱ 1,237,573	₱ 6,404,304
Net income for the period	-	-	-	-	-	-	595,430	595,430
Other comprehensive income - net of tax	-	-	-	-	-	31,294	-	31,294
Total comprehensive income - net of tax	-	-	-	-	-	31,294	595,430	626,724
Issuance of common stock	262,500	247,286	-	-	-	-	-	509,786
Purchase of treasury shares	-	-	(562,518)	-	-	-	-	(562,518)
Balances at September 30, 2018 (Unaudited)	₱ 6,375,975	₱ 247,286	₱ (1,516,608)	₱ (464)	₱ 12,561	₱ 26,543	₱ 1,833,003	₱ 6,978,296
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	-	-	-	-	-	-	783,618	783,618
Other comprehensive income (loss) - net of tax	-	-	-	(42)	-	17,995		17,953
Total comprehensive income (loss) - net of tax	-	-	-	(42)	-	17,995	783,618	801,571
Purchase of treasury shares	-	-	(636,970)	-	-	-	-	(636,970)
Balances at September 30, 2017 (Unaudited)	₱ 6,113,475	₱ -	₱ (654,776)	₱ (42)	₱ 5,342	₱ 3,889	₱ 1,243,272	₱ 6,711,160

See accompanying Notes to Unaudited Consolidated Financial Statements.

GLOBAL FERRONICKEL HOLDINGS, INC. AND SUBSIDIARIES
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS PERIODS ENDED SEPTEMBER 30, 2018 AND 2017
(Amounts in Thousands)

	2018	2017
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱868,060**	₱1,005,182
Adjustments for:		
Depreciation, depletion and amortization (Note 25)	**363,551**	338,461
Interest expense (Note 26)	**42,555**	43,767
Unrealized foreign exchange losses (gains) - net	**30,686**	(11,463)
Accretion interest on provision for mine rehabilitation and decommissioning (Note 26)	**9,607**	3,057
Retirement benefits costs	**8,121**	7,788
Interest income	**(4,087)**	(4,929)
Levelization of rental expense	**73**	232
Provision for impairment losses on trade and other receivables (Note 22)	**–**	77,792
Share in net loss of an associate	**–**	116
Loss on disposal of property and equipment (Note 27)	**–**	8
Operating income before changes in working capital	**1,318,566**	1,460,011
Decrease (increase) in:		
Trade and other receivables	**(491,957)**	(571,485)
Inventories - at cost	**(13,159)**	40,318
Prepayments and other current assets	**(47,768)**	(586)
Increase in trade and other payables	**432,852**	430,740
Net cash generated from operations	**1,198,534**	1,358,998
Interest paid	**(44,859)**	(41,235)
Income taxes paid	**(73,744)**	(65,651)
Interest received	**1,536**	3,696
Net cash flows from operating activities	**1,081,467**	1,255,808
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to:		
Property and equipment (Note 8)	**(58,271)**	(7,216)
Mine exploration costs (Note 10)	**(7,576)**	(16,422)
Decrease (increase) in:		
Advances to related parties	**(419,252)**	(249,543)
Finance lease receivables	**31,563**	14,259
Other noncurrent assets	**(73,105)**	(21,070)
Repurchase of shares (Note 18)	**(562,518)**	(636,970)
Proceeds from sale of property and equipment	**–**	5,960
Net cash flows from (used in) investing activities	**(1,089,159)**	(911,002)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of common stock	**509,786**	–
Payments of bank loans	**(179,123)**	(1,398,439)
Proceeds from availment of bank loans	**177,554**	1,137,292
Increase (decrease) in:		
Finance lease liabilities	**(1,866)**	(1,798)
Advances from related parties	**(10,146)**	(31,034)
Net cash flows used in financing activities	**496,205**	(293,979)
NET INCREASE IN CASH	**488,513**	50,827
EFFECT OF EXCHANGE RATE CHANGES ON CASH	**(23,941)**	37,478
CASH AT BEGINNING OF PERIOD	**886,566**	551,942
CASH AT END OF PERIOD	**₱1,351,138**	₱640,247

See accompanying Notes to Unaudited Consolidated Financial Statements.

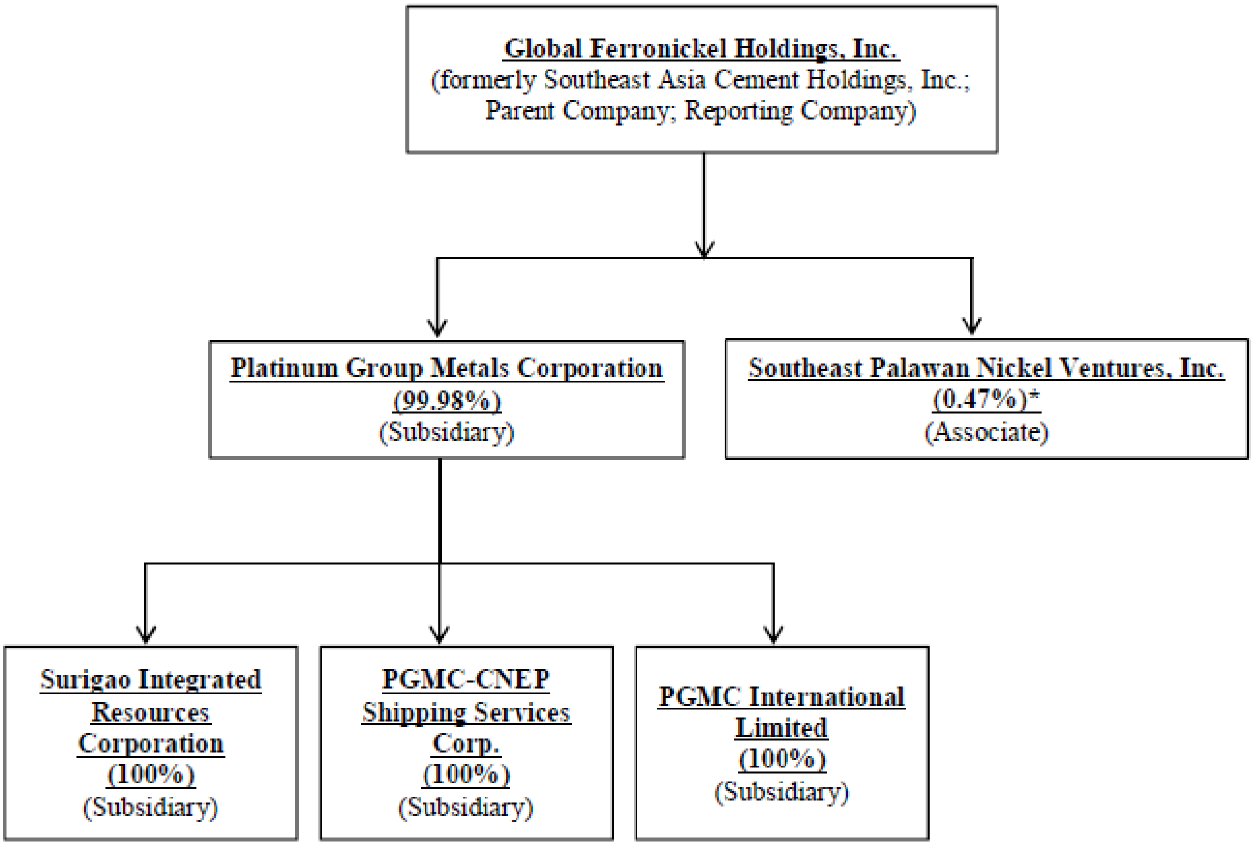
GLOBAL FERRONICKEL HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 Centre, 151 Paseo De Roxas, corner Arnaiz Street, Makati City.

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



*0.47% represents the ownership of GFHI on SPNVI's all classes of outstanding shares, preferred and common. GFHI owns 37.5% of the outstanding common shares of SPNVI with voting power.

The Parent Company's principal stockholders as at September 30, 2018 are as follows:

List of Top 20 Stockholders

Name	Citizenship	Holdings	Percentage
PCD NOMINEE CORP. - FILIPINO	Filipino	3,064,951,172	56.24%
HUATAI INVESTMENT PTY. LTD	Australian	974,476,713	17.88%
PCD NOMINEE CORP. - NON-FILIPINO	Foreign	828,396,760	15.20%
REGULUS BEST NICKEL HOLDINGS INC.	Filipino	523,154,668	09.60%
BLUE EAGLE ELITE VENTURE INC.	Filipino	348,769,779	06.40%
SOHOTON SYNERGY, INC.	Filipino	233,156,767	04.28%
RED LION FORTUNE GROUP INC.	Filipino	57,588,866	01.06%
JOSEPH C. SY	Filipino	2,500,000	00.05%
ORION-SQUIRE CAPITAL, INC. A/C-0459	Filipino	2,153,874	00.04%
DANTE R. BRAVO	Filipino	1,587,660	00.03%
CARLO A. MATILAC	Filipino	843,830	00.02%
SQUIRE SECURITIES, INC	Filipino	818,244	00.02%
MARY BELLE D. BITUIN	Filipino	793,827	00.01%
GO GEORGE L.	Filipino	511,531	00.01%
KUOK PHILIPPINES PROPERTIES INC.	Filipino	437,692	00.01%
TONG GABRIEL	Filipino	396,400	00.01%
OCA GREGORIO S.	Filipino	393,922	00.01%
PAZ VENSON	Filipino	389,544	00.01%
GEARY L. BARIAS	Filipino	382,600	00.01%
CORSINO L. ODTOJAN	Filipino	382,600	00.01%

Total Top 20 Shareholders: 6,042,086,449 99.50%
Total Issued Shares 6,072,357,151

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 18, 2018, the BOI issued to PGMC the certification granting the renewal of PGMC's VAT zero-rated status. The certification is valid from January 1 up to December 31, 2018 unless sooner revoked by the BOI Governing Board.

SURIGAO INTEGRATED RESOURCES CORPORATION (SIRC)

SIRC is a 99.98%-owned subsidiary of the Parent Company through PGMC 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 February 14, 2042.

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

PGMC-CNEP Shipping Services Corp. (PCSSC)
On June 4, 2013, PGMC incorporated PCSSC, 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 conduct marketing, trading, sales and to facilitate relations with Chinese customers, to avail of offshore banking services such as loans, credit/discounting lines and other financing arrangements, and to do other services for PGMC.

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

<u>The Associate</u>
Southeast Palawan Nickel Ventures, Inc. (SPNVI) is an associate of the Parent Company and was registered with SEC on July 11, 2014 primarily to engage to prospect, explore, locate, acquire, hold, work, develop, lease, operate and exploit mineral lands for nickel, chromite, copper, manganese, magnesite, silver, gold, and other precious and non-precious metals; to acquire and dispose of mining claims and rights, and to conduct and carry on the business of preparing, milling, concentrating, smelting, treating or preparing for market, and to market, sell at wholesale, exchange or otherwise deal in nickel, chromite, copper, manganese, magnesite, silver, gold and other mineral products. The registered office address of SPNVI is at 7th Floor, Corporate Business 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 September 30, 2018, SPNVI directly owns 99.76% of Ipilan Nickel Corporation (INC), 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, Amended 2000 by the Government of the Republic of the Philippines through the Secretary of the Department of Environment and Natural Resources (DENR).

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, 2017.

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, 2018. Adoption of these pronouncements did not have any significant impact on the Group's financial position or performance unless otherwise indicated.

- *Amendments to PFRS 2, Share-based Payment, Classification and Measurement of Share-based Payment Transactions*
- *PFRS 9, Financial Instruments*
- *Amendments to PFRS 4, Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4*
- *PFRS 15, Revenue from Contracts with Customers*
- *Amendments to PAS 28, Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)*
- *Amendments to PAS 40, Investment Property, Transfers of Investment Property*
- *IFRIC 22, Foreign Currency Transactions and Advance Consideration*

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, 2019

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*
  The amendments to PFRS 9 allow debt instruments with negative compensation prepayment features to be measured at amortized cost or fair value through other comprehensive income. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted. The amendments will not have any impact on the financial statements of the Group since it has no debt instruments with negative compensation prepayment.

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

will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

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

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

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

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

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

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

  The interpretation specifically addresses the following:

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

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

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

Deferred Effectivity

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

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

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 HKD. The Philippine peso and the HKD 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 September 30, 2018, the Parent Company assessed that it has significant influence over SPNVI and has accounted for the investment as an associate.

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.

On July 1, 2016, there was a change in the ore reserves estimate used in calculating the depletion and amortization rates used for the depletion and amortization of mining properties and mining rights. The change was based on the latest Philippine Mining Reporting Code - Competent Person (PMRC-CP) Technical Report dated September 15, 2016 with an indicated ore reserves estimate of 25.6 million WMT for operating CAGAs 2 and 4 out of the total indicated ore reserve of 35.5 million WMT for CAGAs 1 to 5 as at June 30, 2016. For the period January 1 to June 30, 2016 and for the year ended December 31, 2015, the rates used were based on the latest JORC Report in February 2015 with an indicated ore reserves estimate of 20.3 million WMT for CAGAs 2 and 4 out of the total indicated ore reserve of 37.3 million WMT for CAGAs 1 to 5.

Effective July 1, 2017, there was a change in the ore reserves estimate used in calculating the depletion and amortization rates used for the depletion and amortization of mining properties and mining rights. The change was based on the latest PMRC-CP Technical Report dated October 15, 2017 (as of June 23, 2017 cut-off reserve) compared to the PMRC-CP Technical Report dated September 15, 2016 (as of June 30, 2016 cut-off reserve) with a proven and probable ore reserves estimate of 23.1 million WMT and 25.6 million WMT, respectively, for operating CAGAs 2 and 4 out of the total proven and probable reserves of 36.3 million WMT and 35.5 million WMT, respectively, for CAGAs 1 to 5.

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.

Provision for impairment losses on trade and other receivables for the periods ended September 30, 2018 and 2017 amounted to nil and ₱77.8 million, respectively (see Note 22). There was no impairment losses recognized for the periods ended September 30, 2018 and 2017 on advances to related parties.

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.

Allowance for impairment losses on input VAT classified under "Other noncurrent assets" amounted to ₱19.5 million as at September 30, 2018 and December 31, 2017 (see Note 11). There were no impairment losses recognized for the periods ended September 30, 2018 and 2017.

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 September 30, 2018 and 2017.

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 ₱137.2 million and ₱127.5 million as at September 30, 2018 and December 31, 2017, respectively (see Note 29).

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.

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	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Cash on hand	₱796	₱798
Cash with banks	1,350,342	885,768
	₱1,351,138	₱886,566

Cash with banks earn interest at the respective bank deposit rates. Interest income earned on cash with banks amounted to ₱1.4 million and ₱1.0 million for the nine months ended September 30, 2018 and 2017, respectively.

5. Trade and Other Receivables

Amount in thousands	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Trade (see Note 28)	₱963,291	₱463,698
Advances to:		
Contractors	81,338	79,707
Officers, employees and others	15,348	31,427
	1,059,977	574,832
Less allowance for impairment losses	226,164	226,164
	₱833,813	₱348,668

Trade receivables arising from shipment of nickel ore are noninterest-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.

Provision for impairment losses on trade and other receivables for the periods ended September 30, 2018 and 2017 amounted to nil and ₱77.8 million, respectively (see Note 22).

6. Inventories - at cost

Amount in thousands	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Beneficiated nickel ore	₱200,103	₱188,022
Materials and supplies	99,654	98,576
	₱299,757	₱286,598

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	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Restricted cash	₱310,062	₱187,418
Prepaid insurance and others	12,538	5,874
Prepaid taxes and licenses	48,523	10,451
Prepaid rent	1,064	14,425
	372,187	218,168
Less allowance for impairment losses	3,684	3,684
	₱368,503	₱214,484

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

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

8. Property and Equipment

As at September 30, 2018 and December 31, 2017, property and equipment amounted to ₱1,776.8 million and ₱2,003.3 million, respectively. During the nine-month period ended September 30, 2018 and 2017, the Group acquired assets with a cost of ₱103.1 million, including ₱44.8 million reclassification from finance lease receivable (see Note 32), and ₱92.3 million, respectively, including construction in-progress.

Depreciation and depletion expense for the nine-month period ended September 30, 2018 and 2017 amounted to ₱331.7 million and ₱303.1 million, respectively (see Note 25). As of September 30, 2018 and December 31, 2017, total accumulated depreciation and depletion amounted to ₱1,866.5 million and ₱1,438.2 million, respectively.

The rates used by the Group in computing depletion were ₱28.61 per WMT and ₱31.71 per WMT for the periods ended September 30, 2018 and 2017, respectively. Starting July 1, 2017, the rate used was based on the latest PMRC-CP Technical Report dated October 15, 2017 with proven and probable ore reserves estimate of 23.1 million WMT for CAGAs 2 and 4 as at June 23, 2017.

The gross carrying amount of fully depreciated property and equipment that is still in use by the Group amounted to ₱161.5 million as at September 30, 2018.

9. Mining Rights

Amount in thousands	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Cost	₱396,500	₱396,500
Accumulated amortization:		
Beginning balance	176,291	131,612
Amortization	31,815	44,679
Ending balance	208,106	176,291
Net book value	₱188,394	₱220,209

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.

The rates used by the Group in computing amortization were ₱6.90 per WMT and ₱8.19 per WMT for the nine months ended September 30, 2018 and 2017, respectively. Starting July 1, 2017, the rate used was based on the latest PMRC-CP Technical Report dated October 15, 2017 with proven and probable ore reserves of 36.3 million WMT for CAGAs 1 to 5 as at June 23, 2017.

There was no provision for impairment loss on mining rights recognized for the nine months period ended September 30, 2018 and 2017.

10. Mine Exploration Costs

Amount in thousands	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Beginning balance	₱241,729	₱223,807
Exploration expenditures incurred	7,576	17,922
Ending balance	₱249,305	₱241,729

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.

CAGAs 1, 3, 5, 6 and 7 are under exploration activities.

11. Other Noncurrent Assets

Amount in thousands	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Input VAT	₱191,583	₱184,436
Advances to suppliers	243,619	210,381
Mine rehabilitation fund (MRF)	82,935	82,466
Pension asset (see Note 15)	27,053	–
AFS financial assets	4,006	4,006
Others	25,996	20,798
	575,192	502,087
Less allowance for impairment losses	40,279	40,279
	₱534,913	₱461,808

Input VAT
Input VAT represents the VAT paid on purchases of applicable goods and services and capital assets, net of output tax liabilities, if any, which may be recovered as tax credit against future tax liability of the Group upon approval by the Philippine BIR and/or the Philippine Bureau of Customs. Allowance for impairment losses on input VAT amounted to ₱19.5 million as at September 30, 2018 and December 31, 2017.

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 September 30, 2018 and December 31, 2017, 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 September 30, 2018 and December 31, 2017. The fair value of quoted equity instrument is based on the exit market price as at September 30, 2018 and December 31, 2017.

Movements in fair value of quoted equity instrument follow:

Amount in thousands	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Beginning balance	₱4,006	₱4,470
Valuation loss	–	(464)
Ending balance	₱4,006	₱4,006

There was no dividend income earned from the quoted equity instrument for the periods ended September 30, 2018 and 2017. There was no impairment loss recognized for the periods ended September 30, 2018 and 2017.

Others
Others represent claim for business tax refund related to the Parent Company. Full provision of allowance for impairment losses was recognized in 2017.

12. Trade and Other Payables

Amount in thousands	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Trade	₱486,747	₱254,788
Accrued expenses and taxes	169,735	88,362
Advances from customers	285,276	170,410
Nontrade	39,995	38,782
Dividends payable	20,175	20,287
Interest payables	–	4,520
	₱1,001,928	₱577,149

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

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

Amount in thousands	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Excise taxes and royalties payable	₱104,247	₱39,375
Business and other taxes	33,018	27,607
Provision for Social Development and Management Program (SDMP) and Indigenous Cultural Communities (ICC)	29,499	12,572
Accrued professional fees	211	1,219
Others	2,760	7,589
	₱169,735	₱88,362

Excise Taxes and Royalties Payable
Excise taxes and royalties 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 within thirty (30) calendar days after payment of the final invoice for the relevant shipment by the customers.

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

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

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

Others
Others include accrued payroll which pertains to the accrual related to the salaries and wages of the Group's employees which are noninterest-bearing, payable on demand and/or normally settled within thirty (30) days, and other payables mainly pertain to outside services and purchases of supplies which are usual in the business operations of the Group.

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

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

Dividends Payable
On May 22, 2013, the BOD of the Parent Company approved the declaration of cash dividends in the amount of ₱1.656 per outstanding common share or ₱10,500.0 million to stockholders of record as at June 5, 2013, payable on June 12, 2013. In 2014, cash dividends declared and paid to certain shareholders on May 22, 2013 amounting to ₱20.3 million were returned as stale checks and presented as cash dividends payable as at September 30, 2018 and December 31, 2017 and for re-issuance to investor claimants subsequently.

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

13. Bank Loans

Amount in thousands	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
TCB	₱810,300	₱748,950
Banco de Oro (BDO)	–	719
	810,300	749,669
Less current portion		
TCB	–	748,950
BDO	–	719
Current portion	–	749,669
Noncurrent portion	₱810,300	₱–

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

Amount in thousands	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Beginning balance	₱749,669	₱999,408
Availments	177,554	1,124,017
Payments	(179,123)	(1,382,576)
Effect of changes in foreign currency exchange rates	62,200	4,300
Others	–	4,520
Ending balance	₱810,300	₱749,669

TCB

On June 28, 2018, the Group signed a loan facility with TCB in the aggregate principal amount not exceeding DOLLAR Fifteen MILLION (US$15,000,000.00), for general corporate purposes, with the following terms and conditions:

(i) Tranche A : Term loan facility of DOLLAR Ten million (US$10,000,000.00)
- Available for lump sum drawdown before December 31, 2018
- Maturity date on December 31, 2018

(ii) Tranche B: Term loan facility of DOLLAR Fifteen million (US$15,000,000.00)
- Available for drawing before May 25, 2019
- Maturity date on 36 months after the first drawdown date for payment as follows:

Months from the first drawdown date	Repayment Installment from the outstanding principal at the end of Availability Period (%)
18	12.50%
24	12.50%
30	12.50%
36	62.50%

The interest shall be payable quarterly in arrears. The interest rate for the loan is the aggregate of the reference rate plus spread of three point fifty percent (3.50%) per annum. The reference rate is the applicable London Interbank Offered Rate (LIBOR) displayed on the Bloomberg and Reuters' page for the three (3)-month yield as of approximately 11:15 am on the interest rate setting date. In the event that the LIBOR will be replaced by a new benchmark as determined by the Banker's Association of the Philippines or the Banko Sentral ng Pilipinas, the new benchmark may be adopted as the new reference rate upon mutual agreement of the parties.

The other conditions of the agreement follow:
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 customers.
   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) The Group may, at its option, prepay the loan in part or in full, together with accrued interest thereon.

5) 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.
6) 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.

The Group has complied with the terms of the loan as at September 30, 2018 and December 31, 2017.

Parent Company Follow-on Offering
On July 20, 2018, the Parent Company has completed its 250,000,000 common shares follow-on offering. Pursuant to the use of proceeds from the follow-on offering, the Parent Company subscribed to PGMC's common stock amounted to ₱480.6 million on August 2, 2018 and on August 3, 2018, PGMC used this amount to pay the TCB loan (see Note 18).

<u>BDO</u>
The Group has an existing US$20.0 million Export Packing Credit Line (EPCL) for working capital purposes. There were drawn amount of USD3,412,800 for the period ended September 30, 2018 and all these drawn amounts were fully paid as at September 30, 2018, and drawdowns for the year ended December 31, 2017 were fully paid as at December 31, 2017.

The Group has complied with the terms of the EPCL as at September 30, 2018 and December 31, 2017.

14. Provision for Mine Rehabilitation and Decommissioning

Amount in thousands	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Beginning balance	₱245,407	₱67,123
Accretion interest (see Note 26)	9,607	4,077
Effect of change in estimate	–	174,207
Ending balance	₱255,014	₱245,407

The provision for mine rehabilitation and decommissioning was adjusted in 2017 to reflect the current expenditures required to restore the expected mined out areas of the Group based on the latest FMRDP submitted to the MGB on December 11, 2017.

15. Retirement Obligation

The Group has established its Multiemployer Retirement Plan participated by the Parent Company and its subsidiaries. The Group's retirement benefit plan is non-contributory to its members and is administered by a Trustee Bank engaged for this purpose. The retirement benefit is a sum equivalent to 22.5 days Pay for every year of Credited Service in accordance with the Retirement Pay Law (RA No. 7641). There was no plan termination, curtailment or settlement as at September 30, 2018 and December 31, 2017.

As at September 30, 2018, the Group has pension asset amounted to ₱27.1 million. The Group does not currently employ any asset-liability matching.

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

As at September 30, 2018 and December 31, 2017, retirement obligation amounted to ₱61.5 million and ₱51.2 million, respectively. The retirement benefits costs amounted to ₱8.1 million and ₱7.8 million for the nine months period ended September 30, 2018 and 2017, respectively (see Note 24). The interest cost on retirement obligation amounted to ₱2.2 million and ₱2.1 million for the nine months period ended September 30, 2018 and 2017, respectively.

The Group (GFHI, PGMC and PCSSC) has one hundred sixty-three (163) regular employees, twenty (20) employees under probationary period, and one thousand four hundred thirty-four (1,434) on seasonal basis as at September 30, 2018.

16. Other Noncurrent Liabilities

Amount in thousands	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Previous stockholders of Celestial Nickel Mining Exploration Corporation (CNMEC	₱366,463	₱366,463
Brookes Nickel Ventures, Inc. (BNVI)	165,566	165,566
Others	1,671	1,598
	₱533,700	₱533,627

17. 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 September 30, 2018 and December 31, 2017 consist of:

Amount in thousands	September 30, 2018 (Unaudited)		December 31, 2017 (Audited)	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
Within one (1) year	₱77,214	₱75,375	₱77,214	₱73,812
After one (1) year but not more than five (5) years	12,577	11,483	88,940	86,858
Total minimum lease payments	89,791	86,858	166,154	160,670
Less amount representing finance charge	2,933	–	5,484	–
Present value of minimum lease payments	₱86,858	₱86,858	₱160,670	₱160,670

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 September 30, 2018 and December 31, 2017.

Future annual minimum lease payments under the lease agreements, together with the present value of the minimum lease payments as at September 30, 2018 and December 31, 2017 are as follows:

	September 30, 2018 (Unaudited)		December 31, 2017 (Audited)	
Amount in thousands	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
Within one (1) year	₱1,298	₱1,271	₱2,577	₱2,350
After one (1) year but not more than five (5) years	–	–	804	787
Total minimum lease payments	1,298	1,271	3,381	3,137
Less amount representing finance charge	27	–	244	–
Present value of minimum lease payments	₱1,271	₱1,271	₱3,137	₱3,137

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

18. Equity

Capital Stock

The Parent Company has 11,957,161,906 authorized shares at ₱1.05 par value as at September 30, 2018 and December 31, 2017. Out of the total authorized shares of the Parent Company, 6,072,357,151 shares amounting to ₱6,375,975 (amount in thousands) and 5,822,357,151 shares amounting to ₱6,113,475 (amount in thousands) are issued as at September 30, 2018 and December 31, 2017, respectively.

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

Parent Company Follow-on Offering

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

The issuance of the 250,000,000 common shares resulted to an increase in the common stock and recognition of additional paid-in capital amounted to ₱262.5 million and ₱247.3 million, respectively.

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

Transaction	Subscribers	Registration Date	Issue/Offer Price	Number of Shares
Initial registration	Various	October 1994	1.50	5,000,000,000
Additional registration	Various	September 1996	–	1,150,000,000
Exempt from registration	Various	December 1998	–	305,810,000
Exempt from registration	Two individuals	June 2013	0.35	554,000,000
Additional registration	Various	July 2018	2.07	250,000,000
				7,259,810,000

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.

Employee Stock Option Plan (ESOP)_
On June 29, 2016, the BOD and stockholders of the Parent Company approved the establishment of an ESOP (which covers the qualified employees of the subsidiaries of the Parent Company), the details of which shall be subject to the approval of the Compensation Committee. On May 9, 2017, the Compensation Committee and the BOD approved the Employee Stock Option Master Plan which is a share-based compensation plan. It also approved the granting of the First Tranche which comprised the 20,000,000 option grants to be vested over three (3) years at a strike price of ₱2.00 and 20,000,000 share/stock grants to be vested over two (2) years (i.e., 10,000,000 share/stock grants each year). As at September 30, 2018, the Group has not yet recognized compensation expense in relation to the stock option grant as this has not yet been communicated to the qualified employees.

Treasury Stock
The Parent Company has 622,761,911 shares amounting to ₱1,516.6 million and 358,819,752 shares amounting to ₱954.1 million in treasury stock as at September 30, 2018 and December 31, 2017, respectively.

For the period ended September 30, 2018, the Parent Company purchased a total of 263,942,159 common shares at an average price of ₱2.13 per share. As of September 30, 2018, the Parent Company repurchased a total of 632,859,492 shares of common stock at a total cost of ₱1,544.8 million at an average price of ₱2.44 per share pursuant to its Share Buyback Program which was approved by the BOD on June 29, 2016 and May 15, 2018. The Parent Company is allowed to buyback up to ten percent (10%) and additional five percent (5%) of the total outstanding shares of the Parent Company or equivalent to 582.2 million common shares and 270.4 million common shares, respectively. As at September 30, 2018, about 219.7 million shares remain available in the Company's approved Share Buyback Program.

19. Earnings Per Share

The following reflects the income and share data used in the earnings per share computation for the nine months period ended September 30:

	2018	2017
	(Unaudited)	
Net income attributable to equity holders of the Parent Company (amounts in thousands)	₱595,430	₱783,618
Number of shares:		
Common shares outstanding at beginning of the year	5,463,537,399	5,816,021,399
Issuance of common shares during the period	66,961,397	–
Effect of buyback during the period	(84,302,994)	(46,713,860)
Adjusted weighted average number of common shares outstanding	5,446,195,802	5,769,307,539
Basic/Diluted Earnings per Share	₱0.1093	₱0.1358

As at September 30, 2018 and 2017, there are no potentially dilutive common shares.

20. Cost of Sales

Amount in thousands	For the nine months period ended September 30 2018	2017
	(Unaudited)	
Contract hire	₱1,546,819	₱1,669,334
Depreciation, depletion and amortization (see Note 25)	345,453	325,394
Personnel costs (see Note 24)	116,844	108,009
Environmental protection costs	46,981	35,232
Community relations	25,048	27,478
Fuel and oil	23,161	16,107
Assaying and laboratory	18,948	24,703
Manning services	16,095	16,208
Repairs and maintenance	12,657	19,326
Operation overhead	6,713	5,847
Rentals	2,112	7,844
Other charges	22,109	21,552
	₱2,182,940	₱2,277,034

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.

21. Excise Taxes and Royalties

Amount in thousands	For the nine months period ended September 30 2018	2017
	(Unaudited)	
Royalties to:		
Claim-owners	₱160,672	₱248,058
Government	215,376	215,437
Indigenous people (IP)	44,644	45,577
Excise taxes	179,742	86,175
	₱600,434	₱595,247

Starting 2018 mining season, the Group is paying to CMDC royalty fees of two percent (2%) to five percent (5%) of gross receipts. The Group paid to CMDC royalty fees of three percent (3%) to seven percent (7%) of gross receipts in 2017. Also, the Group is paying ICC/IP royalty fees of a minimum of one percent (1%) of the gross output from the mining operations.

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

- A royalty tax of 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 four percent (4%) of the market value of the gross output of the minerals/mineral products extracted or produced from its Surigao mines to the BIR. Prior year excise tax rate was at two percent (2%).

As at September 30, 2018 and December 31, 2017, excise taxes and royalties payable amounted to ₱104.2 million and ₱39.4 million, respectively (see Note 12).

22. General and Administrative

Amount in thousands	For the nine months period ended September 30 2018	2017
	(Unaudited)	
Personnel costs (see Note 24)	₱171,094	₱137,324
Taxes and licenses	91,909	80,666
Consultancy fees	41,462	27,009
Outside services	33,425	25,226
Marketing and entertainment	23,547	18,552
Rentals	19,840	19,499
Depreciation (see Note 25)	18,098	13,067
Travel and transportation	9,818	11,327
Repairs and maintenance	9,763	8,764
Fuel, oil and lubricants	5,801	3,880
Office supplies	4,515	4,743
Membership and subscription	4,321	2,262
Communication	3,877	4,603
Provision for impairment losses on trade receivables (see Note 5)	–	77,792
Other charges	19,105	10,384
	₱456,575	₱445,098

Other charges pertain to various expenses such as insurance, power and utilities, SEC and listing fees, trainings, seminars and meetings and mailing and postage charges.

23. Shipping and Distribution

Amount in thousands	For the nine months period ended September 30 2018	2017
	(Unaudited)	
Barging charges	₱260,899	₱238,988
Stevedoring charges and shipping expenses	32,848	49,482
Government fees	25,827	34
Personnel costs (see Note 24)	18,146	21,709
Fuel, oil and lubricants	15,874	14,477
Supplies	1,307	1,555
Repairs and maintenance and others	806	185
	₱355,707	₱326,430

24. Personnel Costs

Amount in thousands	For the nine months period ended September 30 2018	2017
	(Unaudited)	
Salaries and wages	₱267,858	₱240,660
Retirement benefits costs (see Note 15)	8,121	7,788
Other employee benefits	30,105	18,594
	₱306,084	₱267,042

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 nine months period ended September 30 2018	2017
	(Unaudited)	
Cost of sales (see Note 20)	₱116,844	₱108,009
General and administrative (see Note 22)	171,094	137,324
Shipping and distribution (see Note 23)	18,146	21,709
	₱306,084	₱267,042

25. Depreciation, Depletion and Amortization

Amount in thousands	For the nine months period ended September 30 2018	2017
	(Unaudited)	
Property and equipment (see Note 8)	₱331,736	₱303,113
Mining rights (see Note 9)	31,815	35,348
	₱363,551	₱338,461

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

Amount in thousands	For the nine months period ended September 30 2018	2017
	(Unaudited)	
Cost of sales (see Note 20)	₱345,453	₱325,394
General and administrative (see Note 22)	18,098	13,067
	₱363,551	₱338,461

26. Finance Costs

Amount in thousands	For the nine months period ended September 30 2018	2017
	(Unaudited)	
Interest expense	₱42,555	₱43,767
Accretion interest on provision for mine rehabilitation and decommissioning	9,607	3,057
Bank charges	4,781	5,252
	₱56,943	₱52,076

27. Other Income (Charges) - net

Amount in thousands	For the nine months period ended September 30 2018	2017
	(Unaudited)	
Foreign exchange gains (losses) - net	(₱26,433)	₱39,469
Loss on disposal of property and equipment	–	(8)
Others	–	10,530
	(₱26,433)	₱49,991

28. 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	Trade and other receivables	Advances to related parties	Advances from related parties	Terms	Conditions
Stockholders						
September 30, 2018	₱358,186	₱–	₱2,063,819	₱50,004	On demand; noninterest-bearing; collectible or payable in cash	Unsecured; no guarantee
December 31, 2017	₱44,304	₱–	₱1,705,633	₱50,000		
Affiliates with common officers, directors and stockholders						
September 30, 2018	427,218	121,207	227,281	40,879	On demand; noninterest-bearing; collectible or payable in cash	Unsecured; no guarantee
December 31, 2017	419,512	–	166,345	51,029		
Other related party GHGC Metallic Ore Resources, Inc.						
September 30, 2018	–	–	–	226,564	On demand; noninterest-bearing; payable in cash	Unsecured; no guarantee
December 31, 2017	–	–	–	226,564		
Total		₱121,207	₱2,291,100	₱317,447		
Total		₱–	₱1,871,978	₱327,593		

Intercompany transactions below were eliminated in the consolidated financial statements.

Amount in thousands Category	Amount/ Volume	Trade and other payables	Barging charges	Sale of nickel ore	Trade and other receivables	Advances to related parties	Advances from related parties	Terms	Conditions
Subsidiaries									
PGMC									
September 30, 2018	₱574,060	₱–	₱–	₱–	₱–	₱574,060	₱–	On demand; noninterest-bearing; collectible in cash	Unsecured; no guarantee
December 31, 2017	₱1,175,506	₱–	₱–	₱–	₱21,737	₱–	₱–		
PCSSC									
September 30, 2018	82,333	154,661	82,333	–	–	–	–	On demand; noninterest-bearing; payable in cash	Unsecured; no guarantee
December 31, 2017	211,732	114,692	89,926	–	–	–	–		
SIRC									
September 30, 2018	–	–	–	–	–	–	3,320	On demand; noninterest-bearing; payable in cash	Unsecured; no guarantee
December 31, 2017	–	–	–	–	–	–	3,719		
PIL									
September 30, 2018	1,106,589	301,817	–	898,319	298,080	–	–	On demand; noninterest-bearing; collectible in cash	Unsecured; no guarantee
December 31, 2017	2,743,512	–	–	2,340,652	–	–	–		
Total		456,478	82,333	898,319	298,080	₱574,060	₱3,320		
Total		₱114,692	₱89,926	₱2,340,652	₱21,737	₱–	₱3,719		

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

a. The Parent Company, PGMC and the stockholders of SPNVI executed various Deed of Assignments wherein PGMC assigned all the rights, title, and interest for the cash advances made by PGMC to SPNVI, amounting to ₱1,628.1 million as at December 31, 2015 to the Parent Company. In 2016, the Parent Company, PGMC, SPNVI and the stockholders of SPNVI executed another Deed of Assignments wherein SPNVI assigned its payable to BNVI, payable to the previous stockholders of CNMEC and the remaining payable to stockholders of SPNVI, to the Parent Company amounting to ₱589.3 million.

   As at September 30, 2018 and December 31, 2017, 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".

b. PIL entered into several ore supply sales agreement with PGMC for the purchase of nickel ore amounted to ₱898.3 million and ₱1,736.7 million for the periods ended September 30, 2018 and 2017, respectively.

c. Guangdong Century Tsingshan Nickel Company Limited, an affiliate with common stockholders, entered into several ore supply sales agreement with PGMC for the purchase of nickel ore amounted to ₱366.3 million for the period ended September 30, 2018. Outstanding trade receivables amounted to ₱121.2 million as at September 30, 2018.

d. In the first quarter of 2018, 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 eight (8) months on/about March 1, 2018 to October 31, 2018, subject to renewal upon mutual agreement of the parties. The charter fee incurred amounted to ₱82.3 million and ₱77.2 million for the nine months ended September 30, 2018 and 2017, respectively.

e. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any director (whether executive or otherwise) of the Group. The compensation of the key management personnel of the Group for the nine months period ended September 30, 2018 and 2017 amounted to ₱56.2 million and ₱41.1 million, respectively.

29. Income Taxes

The current provision for income tax represents regular corporate income tax for the nine months ended September 30, 2018 and 2017.

The components of the Group's net deferred income tax assets as at September 30, 2018 and December 31, 2017 follow:

Amount in thousands	2018	2017
	(Unaudited)	Audited
Deferred tax assets:		
Provision for mine rehabilitation and decommissioning	₱76,504	₱73,622
Allowance for impairment losses on trade and other receivables	67,849	67,849
Unrealized foreign exchange losses - net	29,867	20,419
Retirement obligation recognized in profit or loss	23,845	20,743
Accrued taxes	8,669	8,719
Rent payable	501	480
Currency translation adjustment recognized directly in OCI	–	2,036
	207,235	193,868
Deferred tax liabilities:		
Undepleted asset retirement obligation	53,270	61,010
Retirement obligation recognized directly in OCI	5,382	5,382
Currency translation adjustment recognized directly in OCI	11,376	–
	70,028	66,392
Deferred tax assets - net	₱137,207	₱127,476

The Group has availed of the itemized deductions method in claiming its deductions for the nine months ended September 30, 2018 and 2017.

30. Operating Segment Information

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

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

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

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

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

The Group has revenues from external customers in China amounted to ₱4,543.0 million and ₱4,646.3 million for the nine months ended September 30, 2018 and 2017, respectively.

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

	September 30, 2018 (Unaudited)			
Amount in thousands	Mining	Service	Elimination	Total
External customers	₱4,543,005	₱–	₱–	₱4,543,005
Intersegment revenues	898,319	82,333	(980,652)	–
Total revenues	5,441,324	82,333	(980,652)	4,543,005
Cost of sales	3,028,378	57,603	(903,041)	2,182,940
Excise taxes and royalties	600,434	–	–	600,434
Shipping and distribution	438,040	–	(82,333)	355,707
Segment operating earnings	1,374,472	24,730	4,722	1,403,924
General and administrative	(448,055)	(8,520)	–	(456,575)
Finance costs	(56,939)	(4)	–	(56,943)
Finance income	4,079	8	–	4,087
Other charges - net	(21,711)	–	(4,722)	(26,433)
Provision for income tax - net	267,768	4,862	–	272,630
Net income	₱584,078	₱11,352	₱–	₱595,430
Segment assets	₱21,371,398	₱373,345	(₱11,546,763)	₱10,197,980
Deferred tax assets - net	137,207	–	–	137,207
Total assets	₱21,508,605	₱373,345	(₱11,546,763)	₱10,335,187
Segment liabilities	₱4,550,344	₱4,301	(₱1,197,754)	₱3,356,891
Capital expenditures	₱102,203	₱868	₱–	₱103,071
Depreciation, depletion and amortization	₱337,569	₱25,982	₱–	₱363,551

	September 30, 2017 (Unaudited)			
Amount in thousands	Mining	Service	Elimination	Total
External customers	₱4,646,263	₱–	₱–	₱4,646,263
Intersegment revenues	1,736,691	77,150	(1,813,841)	–
Total revenues	6,382,954	77,150	(1,813,841)	4,646,263
Cost of sales	3,936,647	58,410	(1,718,023)	2,277,034
Excise taxes and royalties	595,247	–	–	595,247
Shipping and distribution	403,580	–	(77,150)	326,430
Segment operating earnings	1,447,480	18,740	(18,668)	1,447,552
General and administrative	(438,372)	(6,726)	–	(445,098)
Finance costs	(52,071)	(5)	–	(52,076)
Finance income	4,924	5	–	4,929
Share in net loss of an associate	(116)	–	–	(116)
Other income - net	31,323	–	18,668	49,991
Provision for income tax	(217,961)	(3,603)	–	(221,564)
Net income	₱775,207	₱8,411	₱–	₱783,618
Segment assets	₱22,633,343	₱368,490	(₱13,363,686)	₱9,638,147
Deferred tax assets - net	77,918	–	(1,667)	76,251
Total assets	₱22,711,261	₱368,490	(₱13,365,353)	₱9,714,398
Segment liabilities	₱7,697,690	₱8,161	(₱4,702,613)	₱3,003,238
Capital expenditures	₱75,875	₱16,385	₱–	₱92,260
Depreciation, depletion and amortization	₱313,421	₱25,040	₱–	₱338,461

	December 31, 2017 (Audited)			
Amount in thousands	Mining	Service	Elimination	Total
Segment assets	₱18,757,920	₱361,180	(₱10,205,719)	₱8,913,381
Deferred tax assets - net	127,476	–	–	127,476
Total assets	₱18,885,396	₱361,180	(₱10,205,719)	₱9,040,857
Segment liabilities	₱2,980,047	₱3,488	(₱346,982)	₱2,636,553
Capital expenditures	₱106,631	₱16,553	₱–	₱123,184

31. Events after the End of the Reporting Period

Buyback Transactions
From January 1 to October 31, 2018, the Parent Company purchased from the market, a total of 284,918,144 common shares at the average price of ₱2.11 per share, pursuant to the approved buy-back program. As of October 31, 2018, the cumulative number of shares purchased from the date when the share buy-back program commenced is 653,835,477 shares with a total amount of shares repurchased of ₱1,583.0 million.

32. Supplemental Disclosure to Consolidated Statements of Cash Flows

Noncash investing activity as at September 30, 2018 pertains to addition to property and equipment as a result of settlement of finance lease receivable amounting to ₱44.8 million.

Noncash financing and investing activities as at September 30, 2017 pertain to the following:

a. Additions to property and equipment as a result of purchases on account amounting to ₱87.9 million;
b. Accrual of interest on bank loans, retirement obligation and provision for mine rehabilitation and decommissioning amounting to ₱4.5 million, ₱2.1 million and ₱3.1 million, respectively;
c. Effect of foreign exchange on bank loans amounting to ₱17.6 million; and
d. Sale of investment property to a related party amounting to ₱319.9 million which was offset against the outstanding amounts owed to a related party