

SECURITIES AND EXCHANGE COMMISSION  
SEC FORM 17-Q

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

1. For the quarterly period ended: **June 30, 2017**
2. Commission identification number **12942**
3. BIR Tax Identification No. **470-000-104-320**
4. Exact name of registrant as specified in its charter: **MARCVENTURES HOLDINGS INC.**
5. Province, country or other jurisdiction of incorporation or organization: **PHILIPPINES**
6. Industry Classification Code:  (SEC Use Only)
7. Address of registrant's principal office:  
**Unit 4-3 Citibank Center**  
**8741 Paseo de Roxas , Makati City**
8. Registrant's telephone number, including area code: **(63 2) 831-44-79**
9. Former name, former address and former fiscal year, if changed since last report. **N A.**
10. Securities registered pursuant to Sections 4 and 8 of the RSA

<u>Title of each Class</u>	<u>Number of Shares of Common Stock</u> <u>Outstanding and Amount of Debt</u> <u>Outstanding</u>
Common Stock (P1.00 par value)	1,821,358,599 shares

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

Note: only 1,821,327,687 are listed with PSE

**Yes. The common shares are listed on the Philippine Stock Exchange.**

12. Indicate by check mark whether the registrant:

- (a) 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 12 months (or for such shorter period the registrant was required to file such reports)

**Yes**

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

**Yes**

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PART I - FINANCIAL INFORMATION

Item 1- Financial Statements

The unaudited Interim Consolidated Financial Statements as at June 30, 2017 (with comparative Audited Consolidated Statements of Financial Position as at December 31, 2016) and for three-month and six-month period ended June 30, 2017 and 2016 are in compliance with generally accepted accounting principles and there were no changes made in accounting policies and methods of computation in the preparation of the interim financial statements.

Summary of Consolidated Balance Sheets as of June 30, 2017 and December 31, 2016

	June 30, 2017 Unaudited	Dec.31, 2016 Audited	June 30, 2017 vs. Dec. 31, 2016	
			Amount Increase (decrease)	Percentage Increase (decrease)
Current assets	<b>P850,579</b>	P579,237	P271,342	46.84%
Noncurrent assets	<b>2,716,818</b>	2,806,103	(89,285)	(3.18%)
<b>Total Assets</b>	<b>P3,577,397</b>	<b>P3,385,340</b>	<b>P182,057</b>	<b>5.38%</b>
Current Liabilities	<b>P422,020</b>	P264,107	P157,913	38.24%
Noncurrent liabilities	<b>148,861</b>	148,861	—	-
Total Stockholders' Equity	<b>2,996,516</b>	2,972,372	24,144	0.81%
<b>Total Liabilities and Stockholders' Equ</b>	<b>P3,567,397</b>	<b>P3,385,340</b>	<b>P182,057</b>	<b>5.38%</b>

Summary of Consolidated Income Statements for the three months and six months period ended June 30, 2017 and 2016.

	For three months ending June 30		For six months ending June 30	
	2017	2016	2017	2016
Sale of Ore	<b>P857,423</b>	P575,588	<b>P908,586</b>	P575,588
Cost of goods sold	<b>605,020</b>	534,923	<b>632,876</b>	534,923
Gross Income	<b>252,402</b>	40,665	<b>275,710</b>	40,665
Operating expense	<b>132,714</b>	158,667	<b>226,996</b>	232,063
Income from operation	<b>119,688</b>	(118,002)	<b>48,714</b>	(191,398)
Other Operating Income (expense)	<b>(1,191)</b>	227	<b>(2,393)</b>	(1,199)
Net loss before income tax	<b>118,498</b>	(117,775)	<b>46,321</b>	(192,597)
Benefit from income tax	<b>22,177</b>	—	<b>22,177</b>	—
<b>Net Income (loss) for the period</b>	<b>P96,321</b>	<b>(P117,775)</b>	<b>P24,144</b>	<b>(P192,597)</b>

Summary of Consolidated Statement of Cash Flows for three-month and six-month period ended June 30, 2017 and 2016.

	For three months ending June 30		For six months ending June 30	
	2017	2016	2017	2016
	(P'000)	(P'000)	(P'000)	(P'000)
Cash provided by (used in) operating activities	<b>P113,278</b>	P38,892	<b>P7,580</b>	(P37,310)
Cash used investing activities	<b>(4,806)</b>	(30,335)	<b>(21,713)</b>	(38,948)
Cash used in financing activities	<b>(14,985)</b>	(4,607)	<b>(19,649)</b>	(9,277)
Net increase (decrease) in cash	<b>93,487</b>	3,950	<b>(33,782)</b>	(85,535)
Cash at beginning of period	<b>37,304</b>	100,722	<b>164,575</b>	190,207
Cash at end of period	<b>P130,791</b>	P104,672	<b>P130,793</b>	P104,672

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

The following discussion and analysis is based on the unaudited interim consolidated financial statements as at June 30, 2017 (with comparative Audited Consolidated Statements of Financial Position as at December 31, 2016) and for three-month and six-month period ended June 30, 2017 and 2016, prepared in conformity with Philippine Accounting Standards 34, Interim Financial Reporting and included herein, and should be read in conjunction with those unaudited interim consolidated financial statements.

**Results of Operations**

**Six months ended June 30, 2017 compared with six months ended June 30, 2016**

**Revenues:**

The subsidiary's total revenues were P908.6 million for the six months ended June 30, 2017 as compared to P575.6 million for the six months ended June 30, 2016, an increase of P333.0 million or 57.9%.

**Sale of Ore:**

For the six months ended June 30, 2017, the subsidiary shipped out 17 vessels of nickel ore of which 12.5 vessels of saprolite and 4.5 vessels of limonite. In the same period last year the subsidiary shipped out 19 vessels of nickel ore of which 18 vessels are limonite and only 1 vessel of saprolite. The increase in revenue was due to higher volume of saprolite nickel ore shipped during the period. Shipment details of volume and prices are as follows:

**WMT**

	2017	2016	Increase (decrease)
Limonite	243,659	989,465	(745,806)
Saprolite	664,541	55,410	609,131
	908,200	1,044,875	(136,675)



Price per wmt

	2017	2016	Increase (decrease)
Limonite	10.83	11.61	(0.78)
Saprolite	23.34	22.47	0.87
Average price	19.98	12.18	7.80

**Cost and Expenses**

Cost and expenses amounted to ₱859.9 million for the period ended June 2017 as compared to ₱767.0 million for the same period in 2016, an increase of ₱92.9 million or 12.11%.

**Cost of Goods Sold**

The cost of goods sold for first half of 2017 amounted to ₱632.9 million compared to ₱530.6 million for the same period in 2016, an increase of ₱102.1 million or 19.24%. In spite of the lower volume shipped an increase in cost was due to longer hauling distance from mine pit to causeway, it is about 22.4 km as compared to 12.3 km last year.

**Operating expenses**

Operating expenses for the period ended June 30, 2017 amounted to ₱227.0 compared to ₱232.1 for the same period in 2016, a decrease of ₱5.1 or 2.2%. This is due to the various cost reduction and optimization measures implemented during the year, the decrease was mainly accounted for by the following:

- **Social development program (“SDP”)** for the six-month period decreased by ₱11.8 million or equivalent to 75.80%. SDP is in compliance with implementing rules and regulation of 1995 Phil. Mining Act which requires that 1.5% of operating cost be allocated for the development of host and neighboring mining communities.
- **Professional fees** for the six months period decreased by ₱2.4 million or equivalent to 11.49% due decrease in consultancy arrangements.
- **Community relation** for the six months period decrease by ₱2.2 million or equivalent to 47.01% because the company focused its projects in SDP.
- **Supplies** for the six month period decreased by ₱1.2 million or equivalent to 37.35%, due to decrease mining, and office supplies consumption.
- **Loading fee** for the six months period decrease by ₱0.8 million or equivalent to 13.08% due to lesser volume shipped out.
- **Repairs and maintenance** for the six month period decreased by ₱0.7 million or equivalent to 76.17%.

The above cost decreases were partly offset by the following :

- **Taxes and licenses** for the six month period increased by ₱20.1 million or equivalent to 166.28% mainly due to business permit paid to Cantilan and Carrascal.
- **Outside services** for the six-month period increased by ₱10.6 million or equivalent to 100.97% mainly due to pilotage services and other outsourced services.
- **Representation** for the six-month period increased by ₱5.7 million or equivalent to 234.84% due to various domestic and international conferences and meetings with prospective clients.

- **Royalties** for the six month period increased by y P2.6 million or equivalent to 42.21% due to increased in gross revenue.
- **Rental** for the six month period increased by P0.6 million or equivalent to 41.91% mainly due to additional rental for office space at Butuan office and service equipment in minesite.
- **Communication, light and water** for the six-month period increased by P0.7 million or equivalent to 33.66%, this pertain to additional PLDT lease line.
- **Advertisement** for the six month period increased by P0.9 million or equivalent to 524.36% in order to increase public awareness on mining industry.
- **Other expenses** for the six month period increased by P26.0 million or equivalent to 43.01%

### **Three months ended June 30, 2017 compared with three months June 30, 2016**

#### ***Revenues***

For the three month period ended June 30, 2017, the subsidiary sold a total volume of 846,639 WMT of nickel ore, equivalent to 16 shipments, a decrease of 19.0% compared to 1,044,874 WMT, equivalent to 19 shipments for the same period last year. In spite of the decreased in volume shipped out the company's revenue for the current period increased by 49.0% as compared to last year. The average realized nickel prices of ore sales for the period is P857.4 million as compared to P575.6 million last year, this was mainly due to higher volume of saprolite nickel ore shipped out during the period.

#### ***Administrative and Operating expenses***

For the three months ended June 30, 2017, administrative and operating expenses amounted to P132.7 million. This reflects a decrease of P26.0 million or 16.38% from P158.7 million for the same period last year. The decrease was primarily due to the following:

- **The total expenses related to social development management program** for the three months period is P11.3 million in compliance with implementing rules and regulation of 1995 Phil. Mining Act, which requires that 1.5% of operating cost be allocated for the development of host and neighboring mining communities.
- **Decrease in Depreciation** by P1.2 million or 9.26% mainly due to some equipments are already fully depreciated.
- **Decrease in Supplies** by P0.9 million or equivalent to 44.93% due to decrease mining, and office supplies consumption.
- **Decrease in Community relation** by P1.5 million or equivalent to 72.68% due to more on Social development Program activities.
- **Decrease in Professional fees** by P3.4 million or equivalent to 27.79% due to lesser engagement fees.
- **Decrease in Loading fee** by P1.2 million or equivalent to 18.82% lesser volume of nickel shipped out.

- **Decrease in Repairs and Maintenance** by ₱0.5 million or equivalent to 80.15%.
- **Decrease in Other expenses** by ₱30.1 million or equivalent to 55.1%

The above cost decreases were partly offset by the following :

- **Increase in Taxes and licenses** by ₱8.5 million or equivalent to 143.33% due to business permit payment for the second quarter.
- **Increase in Royalties** by ₱2.1 million or equivalent to 33.61% due to higher sales for the quarter as compared to last year's quarter.
- **Increase in Rental** by ₱0.5 million or equivalent to 64.83% due to additional office space at Butuan and rental of service vehicles.
- **Increase in Communication light and water** by ₱0.3 million or equivalent to 27.65% this pertain to additional PLDT lease line
- **Increase in Representation** by ₱2.7 million or equivalent 454.30%. due to various domestic and international conferences and meetings with prospective clients.
- **Increase in Outside services** by ₱8.5 million or equivalent to 137.38% mainly due to equipment maintenance and pilotage services.

### **Statement of Financial Position**

#### **June 30, 2017 vs. December 31, 2016**

##### **Assets**

The consolidated total assets of the Company increased to ₱3,567.4 million as of June 30, 2017 from ₱3,385.3 million as of December 31, 2016 or a increase of ₱182.1 million or 5.38% mainly due to the following:

- **Increase in total current assets** by ₱271.3 million as of June 30, 2016 from ₱579.2 million as of December 31, 2016. The 46.84% increase was attributable to the following:
  - **Increase in trade and other receivables** from ₱65.9 million to ₱376.4 million or an increase of ₱310.5 million or 471.23%, due to sale of nickel ore .
  - **Increase in other current assets** from ₱90.0 million to ₱101.4 million or an additional ₱11.4 million or 12.65% due to increase in advances to contractors, prepaid expenses and increase in mining supplies.

The above increases were partly offset by the following :

- **Decrease in cash** from ₱164.6 million to ₱130.8 million or a decrease of ₱33.8 million or 20.53% attributable to operating expenses, settlement of payables, and additional mine development cost and mining property.

- **Decrease in inventory** from P133.3 million to P101.1 million, a decrease of P32.3 million or 24.20% due to sale of nickel ore for the period.
- **Decrease in total noncurrent assets** from P2,806.1 million to P2,716.8 million or a decrease of P89.3 million, equivalent to 3.18% which resulted from the P48.3 million or 12.34% decrease due to depreciation of property and equipment and decrease in explored mineral resources and mine and mining properties of P48.9 due to depletion

### **Liabilities**

The total consolidated liabilities of the Company increased by P157.9 million or 38.24% from P 413.0 million as of December 31, 2016 to P570.9 million as of June 30, 2017. This is mainly due to the increase in trade and other payables of P187.4 million and partly offset by a decrease in income tax payable by P9.8 million due to payment of income tax and decrease in current portion of long term loan amounting to P19.4 million due partial settlement of loan.

### **Equity**

The stockholders' equity of the Company increased by P24.1 million or 0.81% from P2,972.4 million as of December 31, 2016 to P2,996.5 million as of June 30, 2017. The increase pertains to the net income of P24.1 million from the sale of nickel ore by its subsidiary.

### **Statement of Cash Flows**

The net provided by operating activities amounted to P7.6 million for the six months ended June 30, 2017 as compared to the net cash used in operating activities amounted to P37.3 million for same period in 2016. The increase in cash from operating activities is the net result of the following:

- Net income generated during the first semestral this year.
- Increase in trade and other receivables
- Increase in trade and other payables
- Payment of income tax
- Lower interest income received.

Net cash used in investing activities amounted to P21.7 million as compared to P38.9 million for the same period in 2016 mainly as a result of the acquisition of office improvement, office equipment and additional mine and mining properties.

Net cash used by financing activities amounted to P19.6 million for the current year as compared to P 9.3 million last year due to partial settlement of loan.

The net effect of the foregoing operating, investing and financing activities is a decrease of P33.8 million and a balance of P130.79 million in cash as of June 30, 2017 as compared to a decrease of P 85.5 million and a balance of P104.67 million as of June 30, 2016.



**Horizontal and Vertical Analysis:**

	Consolidated		Increase(decrease)	
	June 2017	December 2016	Amount	Percentage
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and cash in bank	P130,792,538	P164,574,543	P (33,782,005)	(20.53%)
Receivable	376,424,550	65,897,770	310,526,780	471.23%
Inventories	101,067,829	133,329,632	(32,261,803)	(24.20%)
Receivable to related parties	140,863,598	125,391,740	15,471,858	12.34%
Other current assets	101,430,664	90,043,062	11,387,602	12.65%
Total Current Assets	850,579,179	579,236,747	271,342,432	46.84%
<b>Non-current Assets</b>				
Property and Equipment - net	343,114,527	391,403,309	(48,288,782)	(12.34%)
Mine and Mining Properties	938,609,654	959,875,897	(21,266,243)	(2.22%)
Explored Mineral Resources	1,016,604,806	1,044,207,566	(27,602,760)	(2.64%)
Deferred tax assets	12,925,211	12,427,520	497,691	4.00%
Other non current assets	405,563,449	398,189,200	7,374,249	1.85%
Total non-current assets	2,716,817,647	2,806,103,492	(89,285,845)	(3.18%)
<b>TOTAL ASSETS</b>	<b>P3,567,396,826</b>	<b>P3,385,340,239</b>	<b>P182,056,587</b>	<b>5.38%</b>
<b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>				
<b>Current Liabilities</b>				
Current Portion -long term loans	P99,700,780	P119,102,704	(P19,401,924)	(16.29%)
Trade and other payable	290,434,067	103,050,469	187,383,598	181.84%
Income Tax payable	22,177,056	31,998,383	(9,821,327)	(30.69%)
Dividend payable	4,707,885	4,955,354	(247,469)	(4.99%)
Advances from a related party	5,000,000	5,000,000	-	00.00%
Total Current liabilities	422,019,788	264,106,910	157,912,878	59.79%
<b>Non current Liabilities</b>				
Long-term loans - net of current portion	55,213,782	55,213,782	-	-
Pension liability	47,707,979	47,707,979	-	-
Provision for mine site rehabilitation	45,939,509	45,939,509	-	-
Total Non current liabilities	148,861,270	148,861,270	-	-
	570,881,058	412,968,180	157,912,879	-
<b>Stockholders' Equity</b>				
Capital stock	1,821,358,599	1,821,358,599	-	-
Additional paid in capital	212,655,494	212,655,494	-	-
Retained Earnings (Deficit)	940,304,172	916,160,463	24,143,709	2.64%
Actuarial Gain	22,197,503	22,197,503	-	-
Total Equity	2,996,515,768	2,972,372,059	24,143,709	0.81%
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>P3,577,396,826</b>	<b>P3,385,340,239</b>	<b>P192,056,587</b>	<b>5.67%</b>

**Other Information**

- a. There are no known trends or any known demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in the registrant's liquidity increasing or decreasing in any material way.
- b. There are no events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation.
- c. There are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period.
- d. There are no material commitments for capital expenditures, the general purpose of such commitments, and the expected sources of funds for such expenditures should be described;
- e. There are no known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations
- f. The causes for the material changes from period to period in the financial accounts were explained in the management's discussion and analysis of financial condition and results of operation.
- g. There are no significant elements of income or loss that did not arise from the registrant's continuing operations.
- h. There are no seasonal aspects that had a material effect on the financial condition or results of operations.
- i. There are no items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size, or incidents.
- j. There are no new Issuances, repurchases, and repayments of debt and equity securities.
- k. There are no material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period.
- l. There are no changes in the composition of the issuer during the interim period including business combinations, acquisition or disposal of subsidiaries and long-term investments, restructurings, and discontinuing operations.
- m. There are no contingent liabilities or contingent assets since the last annual balance sheet date.
- n. There are no material contingencies and other material events or transactions during the interim period.
- o. There are no events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation.

### **Key Performance Indicators**

Marcventures' management uses the following KPIs for the Company' and its subsidiaries:

	June 30, 2017	June 30, 2016
Net income Loss	P24,143,705	(P192,597,378)
Quick assets	507,217,088	238,430,250
Current assets	850,579,179	499,271,390
Total Assets	3,567,396,826	3,268,182,719
Current liabilities	422,019,788	341,717,332
Total liabilities	570,881,058	496,644,324
Stockholders' Equity	2,996,515,768	2,771,538,395
Number of common shares outstanding	1,821,358,599	1,821,358,599

Liquidity ratios:		
Current ratio <sup>(1)</sup>	2.02:1	1.46:1
Quick ratio <sup>(2)</sup>	1.20:1	0.70:1
Solvency Ratios:		
Debt ratio <sup>(3)</sup>	0.16:1	0.15:1
Debt to Equity ratio <sup>(4)</sup>	0.19:1	0.18:1
Profitability ratios:		
Return on equity <sup>(5)</sup>	0.008	(0.07)
Return on assets <sup>(6)</sup>	0.007	(0.06)
Earning ( loss) per share <sup>(7)</sup>	0.013)	(0.11)

Note:

1. Current assets / Current liabilities
2. Quick assets / Current liabilities
3. Total liabilities / Total assets
4. Total Liabilities / Shareholders' equity
5. Net income ( loss ) / Ave. Shareholders' equity
6. Net income (loss) / Ave. Total Assets
7. Net Income (loss) / common shares outstanding

## **PART II - OTHER INFORMATION**

Any information not previously reported in a report on SEC Form 17-C

**NONE**

## **PART III – FINANCIAL SOUNDNESS INDICATORS**

### **Liquidity Ratio**

- a. Current Ratio  
Total Current Assets/ Total Current Liabilities 2.02:1
- b. Quick Ratio  
Quick asset / Total Current Laibilities = 1.20:1

### **Solvency Ratio**

- a. Debt Ratio  
Total liabilities / Total assets = 0.16:1
- b. Debt to Equity Ratio  
Total liabilities / Shareholder's Equity = 0.19:1

### **Profitability Ratio**

- a. Return on Equity Ratio  
Net Income / Average shareholder's equity = 0.008 :1
- b. Return on Assets  
Net Income / Average Total assets = 0.007:1
- c. Fixed Assets Turnover Ratio :  
Revenue/Property Plant and Equipment = 0.38:1
- d. Asset to Equity Ratio:  
Total Assets / Ave. Stockholders' Equity = 1.19:1
- e. Asset Turnover  
Revenue/Total Assets = 0.25:1

### **Interest Coverage Ratio**

Income / Interest expense = 4.68:1



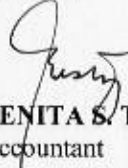
## SIGNATURES

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.

Issuer: **MARCVENTURES HOLDINGS INC.**

Signature and Title:  **ROLANDO S. SANTOS**  
Treasurer

Date: August 2, 2017

Signature and Title:  **RENITA S. TY**  
Accountant

Date: August 2, 2017

**Marcventures Holdings, Inc. and Subsidiary**

**Consolidated Financial Statements  
June 30, 2017**

**MARCVENTURES HOLDINGS, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

	Note	June 30, 2017	December 31, 2016
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash	4	P130,792,538	P164,574,543
Trade and other receivables	5	376,424,550	65,897,770
Inventories		101,067,829	133,329,632
Advances to related parties	19	140,863,598	125,391,740
Other current assets	7	101,430,664	90,043,062
<b>Total Current Assets</b>		<b>850,579,179</b>	<b>579,236,747</b>
<b>Noncurrent Assets</b>			
Property and equipment	8	343,114,527	391,403,309
Mining rights on explored resources	9	1,016,604,806	1,044,207,566
Mine and mining properties	9	938,609,654	959,875,897
Deferred tax assets	21	12,925,211	12,427,520
Other noncurrent assets	10	405,563,449	398,189,200
<b>Total Noncurrent Assets</b>		<b>2,716,817,647</b>	<b>2,806,103,492</b>
		<b>P3,567,396,826</b>	<b>P3,385,340,239</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Current portion of long-term loans	13	P99,700,780	P119,102,704
Trade and other payables	11	290,434,067	103,050,469
Income tax payable		22,177,056	31,998,383
Dividend payable		4,707,885	4,955,354
Advances from a related party		5,000,000	5,000,000
<b>Total Current Liabilities</b>		<b>422,019,788</b>	<b>264,106,910</b>
<b>Non current Liabilities</b>			
Long Term loans-net of current portion		55,213,782	55,213,782
Provision for mine site rehabilitation	12	47,707,979	47,707,979
Retirement liability	18	45,939,509	45,939,509
<b>Total Non current liabilities</b>		<b>148,861,270</b>	<b>148,861,270</b>
<b>Total Liabilities</b>		<b>570,881,058</b>	<b>412,968,180</b>
<b>Equity</b>			
Capital stock		1,821,358,599	1,821,358,599
Additional paid-in capital		212,655,494	212,655,494
Retained earnings	14	940,304,172	916,160,463
Actuarial Gain		22,197,503	22,197,503
<b>Total Equity</b>		<b>2,996,515,768</b>	<b>2,972,372,059</b>
		<b>P3,567,396,826</b>	<b>P3,385,340,239</b>

*See accompanying Notes to Consolidated Financial Statements.*

**MARCVENTURES HOLDINGS, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

		For the three months ended June 30		For the six months ended June 30	
	Note	2017	2016	2017	2016
<b>SALE OF ORE</b>		<b>₱857,422,653</b>	<b>₱ 575,587,788</b>	<b>₱ 908,585,853</b>	<b>₱ 575,587,788</b>
<b>COST OF GOODS SOLD</b>	16	<b>605,020,461</b>	<b>534,922,670</b>	<b>632,876,109</b>	<b>534,922,670</b>
<b>GROSS INCOME</b>		<b>252,402,192</b>	<b>40,665,118</b>	<b>275,709,744</b>	<b>40,665,118</b>
<b>OPERATING EXPENSES</b>	17	<b>132,713,800</b>	<b>158,667,210</b>	<b>226,995,620</b>	<b>232,063,402</b>
<b>INCOME(LOSS) FROM OPERATIONS</b>		<b>119,688,392</b>	<b>(118,002,092)</b>	<b>48,714,124</b>	<b>(191,398,284)</b>
<b>INTEREST EXPENSE</b>	13	<b>(2,851,182)</b>	<b>(2,611,427)</b>	<b>(5,156,304)</b>	<b>(5,053,290)</b>
<b>INTEREST INCOME</b>	4	<b>42,691</b>	<b>88,221</b>	<b>73,575</b>	<b>108,337</b>
<b>OTHER INCOME (CHARGES)</b>	18	<b>1,617,608</b>	<b>2,750,255</b>	<b>2,689,366</b>	<b>3,745,859</b>
<b>NET INCOME (LOSS) BEFORE INCOME TAX</b>		<b>118,497,509</b>	<b>(117,775,043)</b>	<b>46,320,761</b>	<b>(192,597,378)</b>
<b>INCOME TAX PAYABLE</b>		<b>22,177,056</b>	<b>—</b>	<b>22,177,056</b>	<b>—</b>
<b>NET INCOME</b>		<b>₱96,320,453</b>	<b>(₱117,775,043)</b>	<b>₱24,143,705</b>	<b>(₱192,597,378)</b>
<b>Basic income (loss) per share</b>	22	<b>₱0.05</b>	<b>(₱0.06)</b>	<b>₱0.01</b>	<b>(₱0.11)</b>
<b>Diluted income (loss) per share</b>	22	<b>₱0.05</b>	<b>(₱0.06)</b>	<b>₱0.01</b>	<b>(₱0.11)</b>

*See accompanying Notes to Consolidated Financial Statements.*



**MARCVENTURES HOLDINGS, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE PERIOD ENDED June 30, 2017 AND 2016**

	Note	June 30, 2017	June 30, 2016
<b>CAPITAL STOCK</b>			
Balance at beginning of year		<b>₱1,821,358,599</b>	₱1,821,358,599
<b>ADDITIONAL PAID-IN CAPITAL</b>			
Balance at beginning of year		<b>212,655,494</b>	212,655,494
<b>RETAINED EARNINGS</b>			
Balance at beginning of year,	14	<b>₱916,160,463</b>	₱911,018,681
Net income (loss)		<b>24,143,705</b>	(192,597,378)
Actuarial Gain		<b>22,197,503</b>	19,102,999
Balance at end for the period		<b>962,501,671</b>	₱737,524,302
		<b>₱2,996,515,764</b>	₱2,771,538,395

*See accompanying Notes to Consolidated Financial Statements.*

**MARCVENTURES HOLDINGS, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**

		For the three months ended June 30	
	Note	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income (Loss) before income tax		P118,497,509	P(117,775,043)
Adjustments for:			
Depletion	9	51,994,019	85,740,910
Depreciation	8	22,782,048	(12,665,815)
Interest expense	13	2,851,182	2,611,427
Interest income	4	(42,691)	(88,221)
Operating income before working capital changes		196,082,067	(42,166,742)
Working capital changes in:			
Decrease (increase) in:			
Trade and other receivables		(259,123,501)	(92,557,166)
Inventory		87,728,576	73,557,520
Other current assets		(6,752,012)	(9,724,774)
Advances to related parties		(24,318,293)	(746,636)
Increase (decrease) in:			
Trade and other payables		154,467,729	132,252,424
Net cash generated from operations		(148,084,566)	60,614,626
Income tax paid		(31,998,383)	(19,199,421)
Interest paid		(2,851,182)	(2,611,427)
Interest received		42,691	88,221
Net cash provided by operating activities		113,277,692	38,891,999
<b>CASH FLOWS FROM INVESTING</b>			
Additions to:			
Other noncurrent assets		5,471,008	(3,867,724)
Property and equipment	8	(5,648,506)	(21,262,294)
Mine and mining properties		(4,628,020)	(5,205,380)
Cash used in investing activities		(4,805,518)	(30,335,398)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Payment of loans		(14,737,547)	(4,607,225)
Dividend		(247,468)	-
Net cash provided by (used in) financing activities		(14,985,015)	(4,607,225)
<b>NET INCREASE IN CASH</b>		<b>93,487,159</b>	<b>3,949,376</b>
<b>CASH AT BEGINNING OF YEAR</b>		<b>37,305,379</b>	<b>100,723,043</b>
<b>CASH AT END FOR THE PERIOD</b>		<b>P130,792,538</b>	<b>P104,672,419</b>

*See accompanying Notes to Consolidated Financial Statements.*

**MARCVENTURES HOLDINGS, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**

	Note	For the six months ended June30	
		2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax		<b>₱46,320,761</b>	(₱192,597,378)
Adjustments for:			
Depletion	9	<b>55,020,620</b>	85,740,910
Depreciation	8	<b>55,977,898</b>	32,050,421
Interest expense	13	<b>5,156,304</b>	5,053,290
Interest income	6	<b>(73,575)</b>	(108,337)
Operating income before working capital changes		<b>162,402,008</b>	(69,861,094)
Working capital changes in:			
Decrease (increase) in:			
Trade and other receivables		<b>(310,526,780)</b>	72,573,786
Inventory		<b>32,261,803</b>	(52,652,819)
Other current assets		<b>(11,387,602)</b>	(22,098,006)
Advances to related parties		<b>(15,471,858)</b>	(2,251,447)
Increase (decrease) in:			
Trade and other payables		<b>187,383,600</b>	61,124,212
Net cash generated from operations		<b>44,661,171</b>	(13,165,368)
Income tax paid		<b>(31,998,383)</b>	(19,199,421)
Interest paid		<b>(5,156,304)</b>	(5,053,290)
Interest received		<b>73,575</b>	108,337
Net cash provided by operating activities		<b>7,580,059</b>	(37,309,742)
<b>CASH FLOWS FROM INVESTING</b>			
Additions to:			
Other noncurrent assets		<b>(7,871,940)</b>	(6,206,983)
Property and equipment	8	<b>(7,689,107)</b>	(23,301,993)
Mine and mining properties		<b>(6,151,625)</b>	(9,439,223)
Cash used in investing activities		<b>(21,712,672)</b>	(38,948,199)
<b>CASH FLOWS FROM FINANCING</b>			
Payment of loan		<b>(19,401,924)</b>	(9,276,564)
Dividend		<b>(247,468)</b>	—
Net cash provided by (used in) financing activities		<b>(19,649,392)</b>	(9,276,564)
<b>NET INCREASE IN CASH</b>		<b>(33,782,005)</b>	(85,534,505)
<b>CASH AT BEGINNING OF YEAR</b>		<b>164,574,543</b>	190,206,924
<b>CASH AT END OF PERIOD</b>		<b>₱130,792,538</b>	₱104,672,419

*See accompanying Notes to Consolidated Financial Statements.*

**1. Corporate Information**

**General Information**

Marcventures Holdings, Inc. (the Parent Company), singly and collectively with its subsidiary, is referred herein as "the Company".

The Parent Company was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on August 7, 1957. Its primary purpose is to deal with properties of every kind and description to the extent permitted by law without engaging in the business of an investment company as defined in the Investment Company Act (Republic Act 2629), or act as a securities broker or dealer. On August 7, 2007, the SEC approved the extension of the corporate life of the Parent Company for another 50 years.

The Parent Company's shares of stock were initially listed in the Philippine Stock Exchange, Inc. (PSE) on January 10, 1958. As at December 31, 2016 and 2015, 1,821,358,599 shares of the Parent Company's shares of stock are listed in the PSE.

On January 13, 2015, the SEC approved the change of the registered address of the Parent Company from 16th floor Citibank Tower to 4th Floor, Citibank Center, 8741 Paseo de Roxas, Makati City.

The Parent Company owns 100% interest in Marcventures Mining and Development Corporation (MMDC), a corporation incorporated in the Philippines and primarily engaged in the business of extracting, mining, smelting, refining and converting mineral ores.

On July 20, 2017, the Company entered into a subscription agreement for issuance of 22,730,000 shares from the unissued share which is not yet fully paid.

**Mining Operations**

MMDC has been granted by the Department of Environment and Natural Resources (DENR) an MPSA covering an area of approximately 4,799 hectares located in Cantilan, Surigao Del Sur.

Originally, the MPSA was granted to Ventura Timber Corporation (VTC) on June 19, 1992. In January 1995, VTC executed a deed of assignment (Deed) to transfer to MMDC all its rights and interest in and title to the MPSA. On January 15, 2008, the Deed was approved by the Mines and Geosciences Bureau (MGB).

On April 23, 2013, MMDC was granted authorization to develop and operate the 4,799 hectares area covered in the MPSA.

On September 17, 2015, MMDC was granted by the DENR an increase to its allowable Annual Nickel Ore Production from 3.0 million wet metric tons (WMT) to 5.0 million WMT.

On June 24, 2016, the DENR issued an order approving the extension of MPSA for a period of 9 years starting from the expiration of the first 25-year term.

On February 13, 2017, MMDC received an order dated February 8, 2017 from the DENR cancelling its MPSA. The management and its legal counsel believe that the order has no basis and the outcome of legal actions taken will not have a material adverse effect on the Company's operations (see Note 25). Accordingly, the management has assessed that the Company will continue as a going concern.



**Registration with Board of Investment (BOI)**

On July 19, 2010, MMDC was registered with the BOI in accordance with the provisions of the Omnibus Investments Code of 1987, as amended, as a New Producer of Nickel Laterite Ore. As a BOI registered entity, MMDC is entitled to an Income Tax Holiday (ITH) for four (4) years from July 2010 or actual start of commercial operations, whichever is earlier but in no case earlier than the date of registration. On September 18, 2014, the BOI approved the extension of the ITH for another year until July 18, 2015.

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**2. Summary of Significant Accounting Policies****Basis of Preparation**

The consolidated financial statements have been prepared in compliance with the Philippine Financial Reporting Standards (PFRS). This financial reporting framework includes PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations from International Financial Reporting Interpretations Committee issued by the Philippine Financial Reporting Standards Council and adopted by the SEC, including SEC pronouncements.

**Measurement Bases**

The consolidated financial statements are presented in Philippine Peso, which is the Company's functional currency. All values are in absolute amounts, unless otherwise indicated.

The consolidated financial statements of the Company have been prepared on a historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for an asset.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the transaction date.

The Company uses market observable data to a possible extent when measuring the fair value of an asset or a liability. Fair values are categorized into different levels in a fair value hierarchy based on inputs used in the valuation techniques as follows:

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

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further disclosures are included in Note 26, Financial Risk Management Objectives and Policies.

### **Adoption of New and Amended PFRS**

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following new and amended PFRS which the Company adopted effective for annual periods beginning on or after January 1, 2016:

- Amendments to PAS 1, *Presentation of Financial Statements: Disclosure Initiative* – The amendments clarify guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies.
- Amendments to PAS 16, *Property, Plant and Equipment - Clarification of Acceptable Methods of Depreciation*, and PAS 38, *Intangible Assets - Clarification of Acceptable Methods of Amortization* – The amendments add guidance and clarify that (i) the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset, and (ii) revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset; however, this presumption can be rebutted in certain limited circumstances.
- Amendment to PAS 19, *Employee Benefits - Discount Rate: Regional Market Issue* – The amendment clarifies that in determining the discount rate for post-employment benefit obligations, it is the currency that the liabilities are denominated in that is important, and not the country where they arise. Thus, the assessment of whether there is a deep market in high quality corporate bonds is based on corporate bonds in that currency (not corporate bonds in a particular country), and in the absence of a deep market in high quality corporate bonds in that currency, government bond in the relevant currency should be used.

The adoption of the foregoing new and amended PFRS did not have any material effect on the consolidated financial statements of the Company. Additional disclosures have been included in the notes to consolidated financial statements, as applicable.

### **New and Amended PFRS Not Yet Adopted**

Relevant new and amended PFRS which are not yet effective for the quarter ended MARCH 31, 2017 and have not been applied in preparing the consolidated financial statements are summarized below.

- Amendments to PAS 7, *Statement of Cash Flows - Disclosure Initiative* – The amendments require entities to provide information that enable the users of financial statements to evaluate changes in liabilities arising from their financing activities.
- Amendments to PAS 12, *Income Taxes - Recognition of Deferred Tax Assets for Unrealized Losses* – The amendments clarify the accounting for deferred tax assets related to unrealized losses on debt instruments measured at fair value, to address diversity in practice.

Effective for annual periods beginning on or after January 1, 2018

- PFRS 9, *Financial Instruments* – This standard will replace PAS 39, *Financial Instruments: Recognition and Measurement* (and all the previous versions of PFRS 9). It contains requirements for the classification and measurement of financial assets and financial liabilities, impairment, hedge accounting and derecognition.

PFRS 9 requires all recognized financial assets to be subsequently measured at amortized cost or fair value (through profit or loss or through other comprehensive income), depending on their classification

by reference to the business model within which they are held and their contractual cash flow characteristics.

For financial liabilities, the most significant effect of PFRS 9 relates to cases where the fair value option is taken: the amount of change in fair value of a financial liability designated as at fair value through profit or loss that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income (rather than in profit or loss), unless this creates an accounting mismatch.

For the impairment of financial assets, PFRS 9 introduces an “expected credit loss” model based on the concept of providing for expected losses at inception of a contract; it will no longer be necessary for there to be objective evidence of impairment before a credit loss is recognized.

For hedge accounting, PFRS 9 introduces a substantial overhaul allowing financial statements to better reflect how risk management activities are undertaken when hedging financial and non-financial risk exposures.

The derecognition provisions are carried over almost unchanged from PAS 39.

Effective for annual periods beginning on or after January 1, 2019

- PFRS 16, *Leases* – Significant change introduced by the new standard is that almost all leases will be brought onto lessees’ statements of financial position under a single model (except leases of less than 12 months and leases of low-value assets), eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance lease is retained.

Under prevailing circumstances, the adoption of the foregoing new and amended PFRS is not expected to have any material effect on the consolidated financial statements of the Company. Additional disclosures will be included in the notes to consolidated financial statements, as applicable.

#### **Basis of Consolidation**

The consolidated financial statements include the financial statements of the Parent Company and its subsidiary, MMDC, as at June 30, 2017 and for the year ended December 31, 2016.

A subsidiary is fully consolidated from the date of acquisition, being the date on which the Parent Company obtains control, and continues to be consolidated until the date that such control ceases.

All intra-company balances, transactions, income and expenses and profits and losses are eliminated in full. Unrealized losses are eliminated unless costs cannot be recovered.

#### **Financial Assets and Liabilities**

##### **a. Recognition**

Financial assets and liabilities are recognized in the consolidated statements of financial position when the Company becomes a party to the contractual provision of a financial instrument. Financial instruments are initially recognized at fair value. In the case of regular way purchase or sale of financial asset, recognition and derecognition, as applicable, is done using trade date accounting. The initial measurement of the financial instruments, except for those classified at fair value through profit or loss (FVPL), includes transaction costs.

*“Day 1” Difference.* Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a

valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a "Day 1" difference) in the profit or loss unless it qualifies for recognition as some other types of assets. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the "Day 1" difference amount.

b. Classification

The Company classifies its financial assets at initial recognition under the following categories: (a) financial assets at FVPL, (b) held-to-maturity (HTM) investments, (c) loans and receivables and (d) available-for-sale (AFS) financial assets. Financial liabilities, on the other hand, are classified as either financial liabilities at FVPL or other financial liabilities at amortized cost. The classification depends on the purpose for which the financial instruments were acquired or incurred and whether or not the instruments are quoted in an active market. Management determines the classification of its financial assets and financial liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

As at June 30, 2017 and December 31, 2016, the Company does not have financial assets and liabilities at FVPL, HTM investments and AFS financial assets.

*Loans and Receivables.* Loans and receivables are financial assets with fixed or determinable payments and fixed maturities and that are not quoted in an active market. These are not entered into with the intention of immediate or short-term resale and are not classified or designated as AFS financial assets or financial asset at FVPL. Loans and receivables are included in current assets if maturity is within 12 months from reporting date. Otherwise, these are classified as noncurrent assets.

After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest method, less allowance for impairment, if any. Amortized cost is calculated by taking into account any discount or premium on acquisition and any transaction cost which are directly attributable in the acquisition of the financial instrument. The amortization is included in profit or loss.

This category includes cash in banks, trade and other receivables (excluding advances to officers and employees), advances to related parties, and rehabilitation cash fund (RCF), monitoring trust fund (MTF) and rental deposit (classified under "Other noncurrent assets").

*Other Financial Liabilities at Amortized Cost.* Financial liabilities are classified in this category if these are not held for trading or not designated as at FVPL upon the inception of the liability. These include liabilities arising from operations or through borrowing.

After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method.

This category includes trade and other payables (excluding statutory payables), dividends payable, loans payable and advances from a related party.

c. Derecognition

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

- the right to receive cash flows from the asset has expired; or



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

Where the Company has transferred its right to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset, if any, is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Company could be required to pay.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of the new liability, and the difference in the respective carrying amount is recognized in profit or loss.

#### d. Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements where the related assets and liabilities are presented gross in the consolidated statements of financial position.

#### e. Impairment of Financial Assets

*Loans and Receivables.* The Company assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is deemed impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The carrying amount of the impaired account is reduced to the extent that it exceeds the asset’s net realizable value. Impairment losses are recognized in full in profit or loss. If in a subsequent period, the amount of accumulated impairment losses has decreased because of an event occurring after impairment was recognized, the decline is allowed to be reversed to profit or loss to the extent that the resulting carrying amount will not exceed the amortized cost determined had no impairment been recognized.

### **Inventories**

Inventories, which consist of ore stockpile are physically measured or estimated and valued at the lower of cost and net realizable value (NRV). NRV is the estimated selling price in the ordinary course of business, less the estimated cost necessary to make the sale. Cost is determined using the moving average method.

### **Other Current Assets**

Other current assets include prepaid income tax and other prepaid expenses, mining and office supplies, advances to contractors and suppliers and others.

*Prepayments.* Prepayments represent expenses not yet incurred but paid in advance and are apportioned over the period covered by the payment and charged to profit or loss when incurred. Prepayments that are expected to be realized for no more than 12 months after the financial reporting period are classified as current assets. Otherwise these are classified as noncurrent assets.

*Mining and office supplies.* Mining and office supplies comprise all costs of purchase and other costs incurred in bringing the mining and office supplies to their present location and condition. The purchase cost is determined on a moving average method.

*Advances to contractors and suppliers.* Advances to contractors and suppliers represent advance payments on goods or services to be purchased in connection with the mining operation. These are reclassified to proper asset account in the consolidated statements of financial position or charged as an expense in the consolidated statements of comprehensive income upon actual receipt of goods or services, which is normally within 12 months or within the normal operating cycle. Otherwise these are classified as noncurrent assets.

### **Property and Equipment**

Property and equipment, except for land, are initially measured at cost less accumulated depreciation and impairment losses, if any. The cost of an asset consists of its purchase price and costs directly attributable to bringing the asset to its working condition for its intended use. Cost also includes any asset retirement obligation and capitalized interest on borrowed funds used in the case of a qualifying asset. Land is initially measured at cost.

Subsequent expenditures relating to an item of property and equipment that have already been recognized are added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Company. All other subsequent expenditures are recognized as expense in the period in which these are incurred.

Each part of an item of property and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

Depreciation is calculated on a straight-line basis over the following estimated useful lives of the property and equipment:

	Number of Years
Building and improvements	5-20
Office equipment and furniture and fixtures	2-5
Heavy and transportation equipment	4-10

The estimated useful lives and depreciation method are reviewed periodically to ensure that these are consistent with the expected pattern of economic benefits from items of property and equipment.

Construction-in-progress is included in property and equipment and stated at cost which includes cost of construction and other direct costs. Construction-in-progress is not depreciated until such time the relevant assets are ready for operational use.

Fully depreciated property and equipment are retained in the accounts until they are no longer in use and no further depreciation are credited or charged to current operations.

When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and any impairment in value are removed from the accounts. Any resulting gain or loss is recognized in profit or loss.

#### **Mining Rights on Explored Resources**

Rights over mineral reserves, which are measured, indicated or inferred, are capitalized as part of mining rights on explored resources if the reserves are commercially producible and that geological data demonstrate with a specified degree of certainty that recovery in future years is probable.

Mining rights are subject to amortization or depletion from the commencement of production on a unit of production basis, based on proven and probable reserves. Costs used in the unit of production calculation comprise the net book value of capitalized costs plus the estimated future development costs. Changes in the estimates of mineral reserves or future development costs are accounted for prospectively.

#### **Mine and Mining Properties**

Upon start of commercial operations, mine development costs and deferred exploration costs are capitalized as part of mine and mining properties and presented as a separate line item in the consolidated statements of financial position. These costs are subject to depletion, which is computed using the units-of-production method based on proven and probable reserves, which is reviewed periodically to ensure that the estimated depletion is consistent with the expected pattern of economic benefits from the mine and mining properties.

Development costs, including the construction-in-progress incurred on an already operating mine area, are stated at cost and included as part of mine and mining properties. Such costs pertain to expenses incurred in sourcing new resources and converting these into reserves, which are not depleted or amortized until the development has been completed and become available for use.

#### **Impairment of Nonfinancial Assets**

The Company assesses at each reporting date whether there is an indication that nonfinancial assets may be impaired when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If any such indication exists and if the carrying amount exceeds the estimated recoverable amount, the asset or cash-generating unit (CGU) is written down to its recoverable amount, which is the greater of fair value less cost to sell and value in use. The fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's-length transaction. In assessing value in use, the estimated future cash flows are discounted to present value using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs. Impairment losses are recognized in profit or loss.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. In such instance, the carrying amount of the asset is increased

to its recoverable amount. However, that increased amount cannot exceed the carrying amount that would have been determined, net of any depreciation and depletion, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss. After such reversal, the depreciation and depletion charges are adjusted in future years to allocate the asset's revised carrying amount, on a systematic basis over its remaining useful life.

### **Employee Benefits**

*Short-term Benefits.* The Company provides short-term benefits to its employees in the form of basic and 13th month pay, bonuses, employer's share on government contribution, and other short-term benefits.

*Retirement Benefits.* The Company has an unfunded, non-contributory defined benefit plan covering all qualified employees. The retirement benefits expense is determined using the projected unit credit method which reflects services rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries.

The Company recognizes service costs, comprising of current service costs, past service costs, gains and losses on curtailments and non-routine settlements; and net interest cost in profit or loss. Net interest cost is calculated by applying the discount rate to the retirement benefit liability.

Past service costs are recognized in profit or loss on the earlier of the date of the plan amendment or curtailment; and the date that the Company recognizes restructuring related costs.

Remeasurements comprising actuarial gains and losses and any change in the effect of the asset ceiling (excluding net interest cost on retirement benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

The retirement benefit liability is the aggregate of the present value of the defined benefit obligation which is determined by discounting the estimated future cash outflows using interest rate on government bonds that have terms to maturity approximating the terms of the related retirement benefit liability.

Actuarial valuations are made with sufficient regularity so that the amounts recognized in the consolidated financial statements do not differ materially from the amounts that would be determined at the reporting date.

### **Borrowing Costs**

Borrowing costs directly attributable to the development, construction or production of a qualifying asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the asset. Capitalization of borrowing costs commences when activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Capitalization ceases when substantially all the activities necessary to prepare the asset for its intended use or sale are complete. Borrowing costs consist of interest and other financing costs that the Company incurs in connection with the borrowing of funds.

All other borrowing costs are recognized and charged to profit or loss as incurred.

### **Equity**

*Capital Stock.* Capital stock is measured at par value for all shares issued and outstanding.

*APIC.* APIC is the excess over par value of consideration received for the subscription and issuance of shares of stock.



*Retained Earnings.* Retained earnings represent the cumulative balance of all current and prior period operating results, less any cash, stock or property dividends declared in the current and prior periods.

*Other Comprehensive Income (OCI).* OCI comprises of items of income and expenses that are not recognized in profit or loss for the year in accordance with PFRS. OCI pertains to remeasurement gain or loss on retirement benefit liability.

#### **Revenue Recognition**

Revenue is recognized to the extent that it is probable that economic benefits will flow to the Company and the amount of revenue can be measured reliably. Revenue is recognized as follows:

*Sale of Ore.* Sale of ore is recognized upon delivery of goods to and acceptance by customers.

*Reservation Fee for Ore Allocation.* Revenue is recognized when the grant of right to ore to be provided in the future is established.

*Interest Income.* Interest income is recognized in profit or loss as it accrues, taking into account the effective yield on the asset.

*Other Income.* Income from other sources is recognized when earned.

#### **Cost and Expense Recognition**

Costs and expenses are recognized in profit or loss when there is a decrease in future economic benefit related to a decrease in an asset or an increase in a liability that can be measured reliably.

*Cost of Sales.* Cost of sales is recognized as expenses when the related goods are sold.

*Operating Expenses.* Operating expenses constitute cost of administering the business and costs incurred to sell and market goods and services. These are expensed as incurred.

#### **Leases**

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement at the inception date, whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets, and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

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

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

*Operating Lease - Company as Lessee.* Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Operating lease payments are recognized as an expense in profit or loss on a straight-line basis over the lease term. For income tax purposes,



expenses under operating lease agreements are treated as deductible expense in accordance with the terms of the lease agreements.

#### **Foreign Currency-Denominated Transactions**

Transactions in foreign currencies are recorded using the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated using the closing exchange rate at reporting date. Exchange rate differences arising from the translation or settlement of monetary items at rates different from those at which these were initially recorded during the period are recognized in the profit or loss in the period these arise.

For income tax reporting purposes, foreign exchange gains or losses are treated as taxable income or deductible expenses in the period such are realized.

#### **Income Taxes**

*Current Tax.* Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rate used to compute the amount is the one that has been enacted or substantively enacted at the reporting date.

*Deferred Tax.* Deferred tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of any unused tax credits from the excess of minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT) and any unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carryforward benefits of unused MCIT and unused NOLCO can be utilized. Deferred tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rate that has been enacted or substantively enacted at the reporting date.

Deferred tax is recognized in profit or loss except to the extent that it relates to a business combination, or items directly recognized in equity as other comprehensive income.

Deferred tax assets and liabilities are offset, if a legally enforceable right exists to offset current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

#### **Value Added Tax (VAT)**

Revenues, expenses and assets are recognized net of the amount of VAT, except:

- where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- receivables and payables that are stated with the amount of tax included.

The net amount of tax recoverable from the taxation authority is included as part of "Other noncurrent assets" in the consolidated statements of financial position.

#### **Deferred Input VAT**

In accordance with the Revenue Regulation (RR) No. 16-2005, input VAT on purchases or imports of capital goods (depreciable assets for income tax purposes) with an aggregate acquisition cost (exclusive of VAT) in each of the calendar month exceeding ₱1.0 million are claimed as credit against output VAT over 60 months or the estimated useful lives of capital goods, whichever is shorter.

#### **Related Parties**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

#### **Provisions and Contingencies**

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pretax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

*Provisions for Mine Rehabilitation and Decommissioning.* The Company recognizes provisions when there is partial fulfillment of obligation to restore operating locations at the end of the reporting period. The nature of these restoration activities includes dismantling and removing structures, rehabilitating mines and tailings dams, dismantling operating facilities, closure of plant and waste site and restoration, reclamation and revegetation of affected areas. The obligation generally arises when the asset is installed or the ground/environment is disturbed at the production location.

Where applicable, the Company recognizes a mine rehabilitation asset under the mine and mining properties related to the obligation arising from the mine rehabilitation and decommissioning. The cost of such asset corresponds to the present value of future cost of rehabilitation and decommissioning and amortized over expected settlement of the obligation using units of production method. The estimated future costs of rehabilitation and decommissioning are reviewed annually and adjusted prospectively. Changes in the estimated future costs or in the discount rate applied are added to or deducted from the cost of the asset. Any amount deducted from the cost of asset shall not exceed its carrying amount. In case the decrease in the obligation exceeds the carrying amount of the asset, the excess shall be recognized immediately in profit or loss.

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

### **Earnings Per Share**

*Basic.* Basic earnings per share is calculated by dividing the net income attributable to the ordinary stockholders of the Company by the weighted average number of common shares outstanding during the year, excluding common shares purchased by the Company and held as treasury shares.

*Diluted.* Diluted earnings per share is calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all potential dilutive common shares during the period.

### **Events After the Reporting Date**

Post year-end events that provide additional information about the Company's financial position at the end of reporting date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are non-adjusting events are disclosed in the notes to consolidated financial statements when material.

### **Segment Reporting**

The Company has one operating segment which consists of mining exploration and development.

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

PFRS requires management to make judgments and estimates that affect the amounts reported in the consolidated financial statements. The judgments and estimates used in the consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as at the reporting date. While the Company believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the estimated amounts. Actual results could differ from such estimates.

### **Judgments**

In the process of applying the Company's accounting policies, management has made the following judgments, apart from those involving estimates, which have the most significant effect on the amounts recognized in the consolidated financial statements.

*Assessing the Ability of the Company to Continue as a Going Concern.* The Company received an order from the DENR for the cancellation of its MPSA. The management and its legal counsel believe that the order has no basis and the outcome of the legal actions taken will not have a material adverse effect on the Company's operations. Accordingly, the management has assessed that the company will continue as a going concern.

*Establishing Control over MMDC.* The Company determined that it has control over MMDC by considering, among others, its power over the investee, exposure or rights to variable returns from its involvement with the investee, and the ability to use its power over the investee to affect its returns. The following are also considered:

- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual agreements; and
- the Company's voting rights and potential voting rights

*Determining Functional Currency.* Based on the economic substance of the underlying circumstances relevant to the Company, the functional currency of the Company has been determined to be the Philippine Peso, which is the currency of the primary economic environment in which the Company operates.



*Determination of Operating Segments.* Determination of operating segments is based on the information about components of the Company that management uses to make decisions about the operating matters. Operating segments use internal reports that are regularly reviewed by the Company's chief operating decision maker, which is defined to be the Company's BOD, in order to allocate resources to the segment and assess its performance. The Company reports separate information about an operating segment that meets any of the following quantitative thresholds: (a) its reported revenue, including both sales to external customers and intersegment sales or transfers, is 10% or more of the combined revenue, internal and external, of all operating segments; (b) the absolute amount of its reported profit or loss is 10% or more of the greater, in absolute amount, of (i) the combined reported profit of all operating segments that did not report a loss and (ii) the combined reported loss of all operating segments that reported a loss; and (c) the assets of the segment are 10% or more of the combined assets of all operating segments.

Management has assessed that the Company has only one operating segment.

*Accounting for Operating Lease - Company as Lessee.* The Company has an operating lease agreement for its office space. The Company has determined that the risks and benefits of ownership related to the leased properties are retained by the lessor. Accordingly, the lease is accounted for as an operating lease.

*Provisioning for Contingencies.* The Company, in the ordinary course of business, sets up appropriate provisions for its present legal or constructive obligations, if any, in accordance with its policies on provisions and contingencies. In recognizing and measuring provisions, management takes risks and uncertainties into account.

Provision for mine site rehabilitation and decommissioning amounted ₱47.7 million as at June 30, 2017 and December 31, 2016 (see Note 12).

#### **Accounting Estimates and Assumptions**

The key estimates concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

*Estimating Allowance for Impairment of Receivables.* The Company maintains allowance for receivable impairment at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by management on the basis of factors that affect the collectibility of the accounts. These factors include, but are not limited to, the length of the Company's relationship with the customer, the customer's payment behavior and known market factors. The Company identifies and provides for specific accounts that are doubtful of collection and reviews the age and status of the remaining receivables and establishes a provision considering, among others, historical collection and write-off experience.

Allowance for receivable impairment amounted to ₱11.0 million as at June 30, 2017 and December 31, 2016 (see Note 5).

The carrying amounts of the Company's receivables are as follows:

	Note	June 30, 2017	Dec. 31, 2016
Trade and other receivables	5	<b>₱376,424,550</b>	₱65,897,770
Advances to related parties	20	<b>140,863,598</b>	125,391,740

*Estimating Net Realizable Value (NRV) of Inventories.* The Company recognizes loss on inventories whenever NRV becomes lower than costs due to damage, physical deterioration, obsolescence, changes in price levels or other causes. NRV is reviewed on a monthly basis to reflect the accurate

valuation in the financial records.

The carrying amount of inventories, which is measured at lower of cost and NRV, amounted to ₱101.1 million and ₱133.3 million as June 30, 2017 December 31, 2016, respectively (see Note 6).

*Estimating the Realizability of Input VAT.* The Company assesses the realizability of input VAT based on its ability to utilize the asset. The assessment is made on a continuing basis year on year.

The carrying amount of input VAT, which is included as part of "Other noncurrent assets" account in the consolidated statements of financial position, amounted to ₱285.94 million and ₱283.52 million as at June 30, 2017 and December 31, 2016 respectively (see Note 10).

*Estimating Useful Lives of Property and Equipment.* The Company estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use. The Company reviews annually the estimated useful lives of property and equipment based on factors that include asset utilization, internal technical evaluation, technological changes, environmental changes and anticipated use of the assets.

There were no changes in estimated useful lives of property and equipment in June 2017 and December 2016. Property and equipment, net of accumulated depreciation, amounted to ₱343.11 million and ₱391.40 million as at June 30, 2017 and December 31, 2016, respectively (see Note 8).

*Estimating Depletion Rate and Recoverable Reserves.* Depletion rates used to amortize mine and mining properties and mining rights on explored resources are assessed on an annual basis based on the results of latest estimate of recoverable reserves, which is subject to future revisions. Recoverable reserves and resource estimates for development project are, to a large extent, based on the interpretation of geological data obtained from drill holes and other sampling techniques and feasibility studies which derive estimates of cost based upon anticipated tonnage and grades of ores to be mined and processed, the configuration of the ore body, expected recovery rates from the ore, estimated operating costs, estimated climatic conditions and other factors. Proven reserve estimates are attributed to future development projects only where there is a significant commitment to project funding and execution and for which applicable governmental and regulatory approvals have been secured or are reasonably certain to be secured. The Company's reserves are estimated based on local regulatory guidelines provided under the Philippine Mineral Reporting Code and duly reviewed and verified by a competent person.

	Note	2017	2016
Mining rights on explored resources	9	<b>₱1,016,604,806</b>	₱1,044,207,566
Mine and mining properties	9	<b>938,609,654</b>	959,875,897

*Assessing Impairment of Nonfinancial Assets.* The Company assesses impairment on nonfinancial assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Company considers important which could trigger an impairment review include the following:

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

No impairment loss was recognized in 2017 and 2016.



The carrying amounts the Company's nonfinancial assets are as follows:

	Note	2017	2016
Property and equipment	8	<b>₱343,114,527</b>	₱391,403,309
Mining rights on explored resources	9	<b>1,016,604,806</b>	1,044,207,566
Mine and mining properties	9	<b>938,609,687</b>	959,875,897
Other noncurrent assets (excluding financial assets and input VAT)	11	<b>113,414,081</b>	108,736,546

*Estimating Provision for Mine Rehabilitation and Decommissioning.* The obligation to rehabilitate and decommission a mine generally arises when the ground/environment is disturbed at the production location. The amount of provision depends on the completeness of rehabilitation and decommissioning activities performed by the Company during and immediately after every mining operation. Changes in rehabilitation and decommissioning costs are recognized as additions or charges to the corresponding provision when these occur.

Provision for mine site rehabilitation and decommissioning amounted ₱47.7 million and at June 30, 2017 and December 31, 2016 (see Note 12).

*Estimating Asset Retirement Obligation.* The Company recognizes provision for its obligation to decommission and rehabilitate mine sites at the end of term of its MPSA. The provision represents the best estimate of the expenditures required to settle the present obligation at the current reporting date.

While the Company has made its best estimate in establishing the decommissioning and rehabilitation provision, because of potential changes in technology as well as safety and environmental requirements, plus the actual time scale to complete decommissioning and rehabilitation activities, the ultimate provision requirements could either increase or decrease significantly from the Company's current estimates. Changes in decommissioning and rehabilitation obligation that result from a change in the current best estimate of cash flows required to settle the obligation or a change in the discount rate are added to or deducted from the amount of asset recognized.

Mine rehabilitation asset, recognized under the mine and mining properties, amounted to ₱36.9 million and ₱38.03 as at June 30, 2017 and December 31, 2016 respectively. (see Note 9).

Provision for mine site rehabilitation and decommissioning amounted ₱47.71 million and at June 30, 2017 and December 31, 2016 (see Note 12).

*Estimating Retirement Benefit Liability.* The determination of the Company's retirement benefit liability and costs is dependent on the selection by management of assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, discount rate and salary increase rate.

Actual results that differ from the Company's assumptions are recorded as addition to or deduction from retirement benefit liability and recognized in profit or loss or other comprehensive income. One or more of the actuarial assumptions may differ significantly and as a result, the actuarial present value of the retirement benefit obligation estimated as at reporting date may differ significantly from the amount reported.

Retirement benefit liability amounted to ₱45.93 million as at June 30, 2017 and December 31, 2016.

*Recognizing of Deferred Tax Assets.* The Company reviews the carrying amount of deferred tax assets at each reporting date and reduces deferred tax assets to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized.

The Company's recognized deferred tax assets amounted to ₱12.93 million and ₱12.42 million as June 30, 2017 and December 31, 2016, respectively.

Deferred tax assets were not recognized on NOLCO, MCIT and retirement benefit liability as at June 30, 2017 and December 31, 2016 because the management believes that there will be no sufficient future taxable profits against which the deferred tax asset can be utilized.

#### 4. Cash

This account consists of:

	June 30, 2017	Dec. 31, 2016
Cash on hand	₱150,950	₱259,726
Cash in banks	130,641,588	164,314,817
	<b>₱130,792,538</b>	<b>₱164,574,543</b>

Cash in banks earn interest at prevailing bank deposit rates. Interest income was earned from the following sources:

	Note	June 30, 2017	Dec. 31, 2016
Cash in banks		₱73,575	₱236,242
Other noncurrent assets	10	–	44,321
		<b>₱73,575</b>	<b>₱280,563</b>

#### 5. Trade and Other Receivables

This account consists of:

	June 30, 2017	Dec. 31, 2016
Trade receivables	₱328,851,361	₱39,773,558
Advances to officers and employees	9,676,126	24,377,320
Others	48,933,590	12,783,419
	<b>387,461,757</b>	<b>76,934,297</b>
Allowance for impairment	(11,036,527)	(11,036,527)
	<b>₱376,424,550</b>	<b>₱65,897,770</b>

Trade receivables are noninterest-bearing and usually collected within 30 days.

Advances to officers and employees are unsecured, noninterest-bearing and subject to liquidation within one year.

Others primarily pertain to advances to former related parties which are fully provided with allowance.

No provision for impairment loss was recognized in 2017 and 2016.

## Aging of Trade receivables

<i>Current</i>	<i>1 to 30 days past due</i>	<i>31 to 60 days past due</i>	<i>61 to 90</i>	<i>120+ past due</i>	<i>Total</i>
<i>P'000</i>	<i>P'000</i>	<i>P'000</i>	<i>P'000</i>	<i>P'000</i>	<i>P'000</i>
<i>P182,683</i>	<i>P-</i>	<i>P49,910</i>	<i>P69,068</i>	<i>P27,190</i>	<i>P328,851</i>

## 6. Inventories

This account pertains to nickel ore which is carried at lower of cost and NRV. Comparison of cost and NRV are as follows:

	<b>June 30, 2017</b>	<b>Dec. 31, 2016</b>
Cost	<b>₱101,067,829</b>	₱133,329,632
NRV	<b>221,151,566</b>	199,791,825
Lower of cost or NRV	<b>₱101,067,839</b>	₱133,329,632

In 2016, the Company recognized the reversal of inventory write-down incurred in 2015 amounting to ₱35.6 million which are presented as part of "Net movement in inventories" account under "Cost of sales" in the statements of comprehensive income (see Note 16).

## 7. Other Current Assets

This account consists of:

	<b>June 30, 2017</b>	<b>Dec. 31, 2016</b>
Prepaid income tax	<b>₱38,349,000</b>	₱38,349,000
Mining and office supplies	<b>26,865,546</b>	32,438,783
Prepaid expenses	<b>9,771,979</b>	8,714,578
Advances to contractors and suppliers	<b>23,097,945</b>	4,999,993
Others	<b>3,346,194</b>	5,540,708
	<b>₱101,430,664</b>	₱90,043,062

Mining and office supplies include mechanical, electrical and other materials that will be used in the Company's mining operation.

Prepaid expenses pertain to insurance and rent.

Advances to contractors and suppliers include materials and fuel and oil to be supplied for the use of the heavy equipment and are deductible against future billings.

## 8. Property and Equipment

Movements in this account are as follows:

June 30, 2017						
	Building and Land Improvements	Office Equipment and Furniture and Fixtures	Heavy and Transportation Equipment	Construction in-progress	Total	
<b>Cost</b>						
Balance at beginning of year	₱57,933,414	₱135,501,310	₱82,148,260	₱828,844,631	₱11,747,667	₱1,116,175,282
Additions	–	2,065,827	1,704,585	–	3,918,704	7,689,116
Balance at end of year	57,933,414	137,567,137	83,852,845	828,844,631	15,666,371	1,123,864,398
<b>Accumulated Depreciation</b>						
Balance at beginning of year	–	40,079,998	54,165,998	630,525,977	–	724,771,973
Depreciation	–	5,851,619	7,735,613	42,390,666	–	55,977,898
Balance at end of year	–	45,931,617	61,901,611	672,916,643	–	780,749,971
<b>Net Carrying Amount</b>	<b>₱57,933,414</b>	<b>₱91,635,520</b>	<b>₱21,951,234</b>	<b>₱155,927,988</b>	<b>₱15,666,371</b>	<b>₱343,114,527</b>

December 31, 2016						
	Building and Land Improvements	Office Equipment and Furniture and Fixtures	Heavy and Transportation Equipment	Construction in-progress	Total	
<b>Cost</b>						
Balance at beginning of year	₱57,217,484	₱132,049,286	₱64,037,464	₱829,301,223	₱6,636,103	₱1,089,241,560
Additions	715,930	1,068,200	18,110,796	3,672,872	7,495,388	31,063,186
Disposal	–	–	–	(4,129,464)	–	(4,129,464)
Reclassification	–	2,383,824	–	–	(2,383,824)	–
Balance at end of year	57,933,414	135,501,310	82,148,260	828,844,631	11,747,667	1,116,175,282
<b>Accumulated Depreciation</b>						
Balance at beginning of year	–	27,586,965	39,939,991	506,363,352	–	573,890,308
Depreciation	–	12,493,033	14,226,007	127,438,296	–	154,157,336
Disposal	–	–	–	(3,275,671)	–	(3,275,671)
Balance at end of year	–	40,079,998	54,165,998	630,525,977	–	724,771,973
<b>Net Carrying Amount</b>	<b>₱57,933,414</b>	<b>₱95,421,312</b>	<b>₱27,982,262</b>	<b>₱198,318,654</b>	<b>₱11,747,667</b>	<b>₱391,403,309</b>

Heavy and transportation equipment with carrying value of ₱92.4 million at December 31, 2016 are held as collaterals for loans payable (see Note 13).

Depreciation is allocated to profit or loss as follows:

	Note	June 30, 2017	Dec. 31, 2016
Charged to:			
Cost of sales	16	₱24,153,884	₱92,267,699
Operating expenses	17	25,010,351	52,174,894
Capitalized to mine development costs	9	–	9,714,743
		<b>₱49,164,235</b>	<b>₱154,157,336</b>

Fully depreciated property and equipment with cost of ₱32.7 million December 31, 2016 are still being used by the Company and retained in the accounts.

## 9. Mining Rights on Explored Resources and Mine and Mining Properties

Movements in mining rights on explored resources and mine and mining properties are as follows:

	June 30, 2017				
	Mining Rights on Explored Resources	Mine and Mining Properties		Total	Total
		Mine Development Costs	Mine Rehabilitation Asset		
<b>Cost</b>					
Balance at beginning of year	₱1,294,766,157	₱1,110,194,730	₱42,170,134	₱1,152,364,864	₱2,447,131,021
Additions	–	6,151,625	–	6,151,625	6,151,625
Balance at end of year	1,294,766,157	1,116,346,355	42,170,134	1,158,516,481	2,453,282,646
<b>Accumulated Depletion</b>					
Balance at beginning of year	250,558,591	188,352,511	4,136,456	192,488,967	443,047,558
Depletion	27,602,760	26,331,467	1,086,393	27,417,860	55,020,620
Balance at end of year	278,161,351	214,683,978	5,222,849	219,906,827	498,068,178
<b>Net Carrying Amount</b>	<b>₱1,016,604,806</b>	<b>₱901,662,377</b>	<b>₱36,947,283</b>	<b>₱938,609,654</b>	<b>₱1,955,214,468</b>

	December 31, 2016				
	Mining Rights on Explored Resources	Mine and Mining Properties		Total	Total
		Mine Development Costs	Mine Rehabilitation Asset		
<b>Cost</b>					
Balance at beginning of year	₱1,294,766,157	₱932,174,993	₱42,170,134	₱974,345,127	₱2,269,111,284
Additions	–	178,019,737	–	178,019,737	178,019,737
Reclassifications					
Balance at end of year	1,294,766,157	1,110,194,730	42,170,134	1,152,364,864	2,447,131,021
<b>Accumulated Depletion</b>					
Balance at beginning of year	196,207,057	140,370,156	2,156,784	142,526,940	338,733,997
Depletion	54,351,534	47,982,355	1,979,672	49,962,027	104,313,561
Balance at end of year	250,558,591	188,352,511	4,136,456	192,488,967	443,047,558
<b>Net Carrying Amount</b>	<b>₱1,044,207,566</b>	<b>₱921,842,219</b>	<b>₱38,033,678</b>	<b>₱959,875,897</b>	<b>₱2,004,083,463</b>

Mining rights on explored resources represent the excess of the fair value of shares issued by the Company over the book value of the net assets of MMDC when the Company acquired 100% ownership in MMDC.

A third party was commissioned for a fairness opinion on the fair and reasonable value of MMDC, primarily for the explored mineral resources covered by MMDC's MPSA. The assumptions used on the valuation include, among others, discount rate of 25% and a constant nickel price of US\$11,000 per metric ton over a ten-year projection period.

Additions and reclassifications from "Construction-in-progress" under "Property and equipment" account represent mine development costs in Cabangahan and Pili area.

In 2016, additions include depreciation of matting equipment amounting to ₱9.7 million (see Note 8).



## 10. Other Noncurrent Assets

This account consists of:

	Note	June 30, 2017	Dec. 31, 2016
Input VAT		<b>P285,944,442</b>	P283,517,108
Advances to contractor		<b>107,752,572</b>	107,238,890
RCF		<b>5,381,089</b>	5,381,089
MTF		<b>163,299</b>	163,299
Rental deposit	21	<b>660,538</b>	391,158
Others		<b>5,661,509</b>	1,497,656
		<b>P405,563,449</b>	P398,189,200

Advances to contractor are advanced payments made to the contractor to build and operate a nickel processing plant.

RCF is reserved as part of the Company's compliance with the approved rehabilitation activities and schedules for specific mining project phase, including research programs as defined in the Environmental Protection and Enhancement Program.

MTF is exclusively used in activities approved by the Mine Rehabilitation Fund Committee.

Interest income from RCF and MTF amounted to P44,321 in December 31, 2016 . (see Note 4).

## 11. Trade and Other Payables

This account consists of:

	Note	June 30, 2017	Dec. 31, 2016
Trade payables		<b>P189,089,765</b>	P64,157,349
Accrued expenses:			
Excise tax and other statutory payables		<b>18,796,768</b>	35,056,523
Advances from customer		<b>53,091,090</b>	—
Interest payable	13	<b>0.00</b>	186,590
Salaries and wages		<b>27,932</b>	4,493
Other accrued expenses		<b>8,000,000</b>	2,854,168
Others		<b>21,428,512</b>	791,346
		<b>P290,434,067</b>	P103,050,469

Trade payables primarily consist of liabilities arising from transactions with contractors and suppliers related to the normal course of business. These are noninterest and interest-bearing at 12% interest rate and are generally on a 90-day credit term.

Interest expense related to trade payable amounted to nil, and related to loan payable are P5.16 million and P5.05 million in June 30, 2017 and 2016 respectively (see Note 13).

Other statutory payables include other taxes payable and mandatory contributions. These are normally settled within one month after the end of the reporting period.

Others pertain to advances from a former related party.

## 12. Provision for Mine Rehabilitation and Decommissioning

The movements in this account are as follows:

	Note	June 30, 2017	Dec. 31, 2016
Balance at beginning of year		<b>₱47,707,979</b>	₱45,709,730
Accretion of interest	13	-	1,998,249
		<b>₱47,707,979</b>	₱47,707,979

A provision is recognized for the estimated rehabilitation costs of the Company's mine site upon termination of the Company's ore extraction activities, which is about 13 years. The provision is calculated by the Company's engineers based on an estimate of the expected cost to be incurred to rehabilitate the mine site. The provision is presented at discounted value using the Philippine bond yield of 4.53% as the effective interest rate in 2016 and 2015.

## 13. Loans Payable

This account consists of:

	June 30, 2017	Dec. 31, 2016
Short-term loan	<b>₱90,000,000</b>	₱100,000,000
Long-term loans	<b>64,914,562</b>	74,316,486
	<b>154,914,562</b>	174,316,486
Less current portion	<b>99,700,780</b>	119,102,704
	<b>₱55,213,782</b>	₱55,213,782

### Short-term Loan

MMDC obtained a short-term loan from a local bank to finance working capital requirements. The short-term loan bears interest rates ranging from 5.00% to 5.50% to be repriced every month in 2017 and 2016 and has maturity of not more than one year.

On January 12, 2015, MMDC obtained credit facility amounting to ₱200.0 million, ₱100.0 million of which was paid in November 2015, and domestic bills purchase line amounting to ₱5.0 million from a local bank. The credit facility is secured by the interests and rights of the Parent Company over 647,692 shares of stocks of MMDC.

### Long-term Loans

On July 15, 2015, the Company obtained a five (5) year promissory note of ₱100.0 million from a financing company. The note which is covered by a chattel mortgage on transportation equipment, bear an annual interest rate at 6% and is maturing on July 15, 2020. The proceeds were used for working capital purposes.

The carrying amount of transportation equipment held as collateral amounted to ₱92.4 million as at December 31, 2016. (see Note 8).

In 2013, the Company obtained a three (3) year loan from a local bank amounting to ₱1.5 million to meet working capital requirements. The loan which bears an annual interest rate at 11.81% is secured by heavy and transportation equipment. The loan was fully settled in 2016.

Interest expense of the Company was incurred from the following sources:

	Note	June	
		2017	2016
Loans payable		<b>₱5,156,304</b>	₱5,053,290
Provision for mine rehabilitation	12	–	–
		<b>₱5,156,304</b>	₱5,053,290

#### 14. Retained Earnings

Cash dividends declared by the Company are as follows:

Date Approved	Per Share	Total Amount	Stockholders of Record Date	Payment Date
				On or after
November 14, 2014	₱0.15	₱273,203,790	December 19, 2014	January 16, 2015
September 19, 2014	0.15	273,203,790	October 1, 2014	October 22, 2014

Dividends payable amounted to ₱4.7 million and ₱5.0million as at June 30, 2017 and December 31, 2016.

#### 15. Revenue

This account consists of:

	June 30,	
	2017	2016
Sale of ore	<b>₱908,585,853</b>	₱575,587,788
Reservation fee for ore allocation	–	–
	<b>₱908,585,853</b>	₱575,587,788

#### 16. Cost of Sales

This account consists of:

	Note	June 30			
		Six months		Three months	
		2017	2016	2017	2016
Contractual services	<b>₱368,657,359</b>	₱260,347,777	<b>₱355,823,510</b>	₱260,347,777	
Production overhead	<b>52,965,881</b>	143,210,500	<b>42,860,070</b>	143,210,500	
Personnel costs	<b>61,051,819</b>	75,918,979	<b>49,183,142</b>	75,918,979	

Depletion	9	55,020,620	32,050,420	46,798,115	32,050,420
Demurrage costs	8	3,141,575	4,277,020	—	4,277,020
Depreciation		24,153,885	59,435,803	21,127,284	59,435,803
Excise tax		14,328,894	12,334,989	14,328,894	12,334,989
		579,320,033	583,298,468	533,262,590	583,298,468
Net movement in inventory		53,556,076	(52,652,818)	71,757,871	(52,652,818)
		<b>P632,876,109</b>	<b>P530,645,650</b>	<b>P605,020,461</b>	<b>P530,645,650</b>

Contractual services pertain to activities directly related to mining. The services include, among others, mine extraction, loading, hauling, barging and stevedoring.

Under Section 80 of the Republic Act No. 7942, *The Mining Act of 1995*, government share in an MPSA shall be an excise tax of 2.0% on gross output on mineral products.

## 17. Operating Expenses

This account consists of:

	Note	June 30			
		Six months		Three months	
		2017	2016	2017	2016
Salaries and Allowances		<b>P58,316,588</b>	P58,342,013	<b>P34,555,339</b>	P32,947,929
Taxes and licenses		<b>32,316,787</b>	12,136,414	<b>14,360,258</b>	5,901,449
Depreciation	8	<b>25,010,351</b>	26,305,111	<b>11,960,920</b>	13,181,173
Professional fees		<b>18,709,500</b>	21,137,472	<b>8,815,775</b>	12,208,467
Outside services		<b>21,166,703</b>	10,532,369	<b>14,705,502</b>	6,195,038
Representation		<b>8,067,680</b>	2,409,432	<b>3,247,054</b>	585,789
Community relations		<b>2,464,532</b>	4,650,770	<b>563,117</b>	2,061,144
Social development program		<b>3,765,163</b>	15,557,994	<b>2,250,741</b>	13,541,497
Communication, light and water		<b>2,861,005</b>	2,140,456	<b>1,480,488</b>	1,159,809
Advertisement		<b>1,093,906</b>	175,204	<b>172,325</b>	175,204
Rental	21	<b>2,203,350</b>	1,552,640	<b>1,307,262</b>	793,106
Office supplies		<b>1,973,039</b>	3,149,423	<b>1,093,812</b>	1,986,219
Royalties	22	<b>8,879,948</b>	6,244,042	<b>8,342,734</b>	6,244,042
Loading Fee		<b>5,449,198</b>	6,269,249	<b>5,089,198</b>	6,269,249
Repairs and maintenance		<b>219,587</b>	921,647	<b>131,214</b>	660,926
Others		<b>34,498,283</b>	60,539,166	<b>24,638,061</b>	54,756,172
		<b>P226,995,620</b>	<b>P232,063,402</b>	<b>P132,713,800</b>	<b>P158,667,213</b>

## 18. Other Income - Net

This account consists of:

	Note	June 30,			
		Six months		Three months	
		2017	2016	2017	2016
Foreign exchange gain		<b>P1,224,603</b>	P3,745,859	<b>P1,585,144</b>	P2,750,255

Interest income	4	73,575	108,337	42,691	88,221
Interest expense	13	(5,156,304)	(5,053,290)	(2,851,182)	(2,611,427)
Others		1,464,763	(4,277,020)	32,464	(4,277,020)
		<b>(P2,393,363)</b>	<b>(P5,476,114)</b>	<b>(P1,190,883)</b>	<b>(P4,049,971)</b>

## 19. Related Party Transactions

Significant transactions with related parties include the following:

### Related Parties under Common Management

Related Parties	Transaction Amounts		Outstanding Balances		Nature and Terms
	June 30, 2017	Dec. 31, 2016	June 31, 2017	Dec. 31, 2016	
Advances to related parties	<b>P15,471,858</b>	<b>P52,879,787</b>	<b>P140,863,598</b>	<b>P125,391,740</b>	Working fund; unsecured; noninterest-bearing; payable on demand
Advances from a related party	<b>P—</b>	<b>P5,000,000</b>	<b>P5,000,000</b>	<b>P5,000,000</b>	Working fund; unsecured; noninterest-bearing; payable on demand

As at June 30, 2017 and December 31, 2016, the Company has not provided any allowance for impairment losses for amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related parties and the market in which the related parties operate.

## 20. Lease Commitments

The Company leases an office space for its operations. The lease is for a period of five (5) years and renewable in 2015 for another two (2) years. Rental deposit amounted to P0.7 million and P0.4 million as at June 30, 2017 and 2016 (see Note 10).

Rental expense charged to operations amounted to, P2.2 million and P1.6 million in June 30, 2017 and 2016 (see Note 17).

At year-end, the Company has outstanding commitments under noncancellable operating lease that fall due as follows:

	2017	2016
Within 1 year	<b>P100,000</b>	<b>P100,000</b>
More than 1 year but within 5 years	<b>—</b>	<b>—</b>
	<b>P100,000</b>	<b>P100,000</b>

## 21. Royalty Agreement



In July 2008, the Company entered into a memorandum of agreement with the Indigenous Cultural Communities/Indigenous People (ICC/IP) and NCIP whereby royalties equivalent to a certain percentage of gross revenue shall be paid to the ICC/IP.

Royalty payable presented under "Excise tax and other statutory payables" amounted to ₱4.4 million and ₱0.64 million in June 30, 2017 and June 30, 2016, respectively. Royalty expense amounted to ₱8.88 million June 30, 2017 and 6.24 in 2016 (see Note 17).

## 22. Earnings Per Share

Earnings per share are computed as follows:

	June 30	
	2017	2016
Net income ( loss) shown in the consolidated statements of comprehensive income (a)	<b>₱24,143,705</b>	(₱192,597,378)
Weighted average number of common shares adjusted for the effect of dilution (b)	<b>1,821,358,599</b>	1,821,358,599
Basic earnings (loss) per share (a/b)	<b>₱0.013</b>	(₱0.105)

## 23. Contingencies

On February 13, 2017, MMDC received an Order from the DENR cancelling its MPSA due to alleged impairment of the functions of the watershed caused by MMDC's operation, failure to comply with the penalty of planting three million seedlings and violation of environment-related laws and regulations.

The management and its legal counsel have assessed that the Order is without basis in fact and in law. Foremost, MMDC is engaged in clean and responsible mining. It has implemented all the necessary measures to ensure that it is environmentally compliant. While its operation is within a proclaimed watershed, Presidential Proclamation No. 1747 recognizes its prior legal right to mine in the area considering that its MPSA was approved in 1993 prior to the issuance of the said proclamation in 2009.

As to the alleged non-compliance to the planting of three million seedlings, MMDC was prevented from implementing the same due to previous inaction of the DENR. The Company submitted the program for the tree planting of three million seedlings as early as February 24, 2015. There were several communications between MMDC and the DENR/MGB regarding this matter. In a letter dated April 22, 2016, MMDC informed MGB that there is a strong objection from the Local Government Units (LGU) in the host communities of MMDC since they will not benefit from the Program as MGB directed MMDC to plant in different regions. Thereupon, MMDC suggested DENR/MGB to implement the program through its National Greening Project to be funded by MMDC. After several follow-ups, on December 21, 2016, MMDC received a letter from Secretary Lopez dated December 1, 2016 finally directing MMDC to plant the three million seedlings in its host communities. MMDC immediately coordinated with the Regional Director of DENR. Hence, an inventory of seedlings available in the area was then made. Based on the report of DENR Region XIII, a total of 1,513,928 seedlings are available in the area. To ensure immediate and proper implementation of the tree planting activity, MMDC entered into a Memorandum of Agreement with the mayors of the municipalities in its host communities on February 9, 2017. This action demonstrates MMDC's readiness and willingness to

implement program. Thus, no fault can be attributed to MMDC with regard to the implementation of the three million seedlings.

With regard to alleged violations of environmental laws and regulations, the DENR failed to specify the facts and the provisions of law which MMDC allegedly violated.

It bears to note that the Technical Committee Report on MMDC shows only a recommendation for fine and suspension. Thus, the management strongly believes that the cancellation of MMDC's MPSA is unwarranted and should be overturned.

Thus, on February 17, 2017, MMDC filed a Notice of Appeal to the Office of the President. Subsequently, on March 17, 2017, MMDC filed its Appeal Memorandum.

## 24. Financial Risk Management Objectives and Policies

### General

The Company has risk management policies that systematically view the risks that could prevent the Company from achieving its objectives. These policies are intended to manage risks identified in such a way that opportunities to deliver the Company's objectives are achieved. The Company's risk management takes place in the context of day-to-day operations and normal business processes such as strategic planning and business planning. Management has identified each risk and is responsible for coordinating and continuously improving risk strategies, processes and measures in accordance with the Company's established business objectives.

### Financial Risk Management Objectives and Policies

The Company's principal financial instruments consist of cash and loans payable. The primary purpose of these financial instruments is to finance the Company's operations. The Company has other financial instruments such as trade and other receivables, trade and other payables, related party receivables and payables and rental deposit, which arise directly from its operations. The main risks arising from the use of these financial instruments are foreign currency risk, credit risk, interest rate risk and liquidity risk. Management reviews and approves the policies for managing each of these risks which are summarized below.

*Foreign Currency Risk.* The Company's foreign exchange risk results primarily from movements of the Philippine peso against the US dollar with respect to US dollar-denominated financial assets.

The Company's transactional currency exposures arise from its trade receivables and advances from customers which are denominated in currencies other than the Company's functional currency. The Company periodically reviews the trend of the foreign exchange rates to address its exposure in foreign currency risk.

The following table shows the Company's US dollar-denominated monetary financial assets and liabilities and their Philippine Peso equivalent as at June 30 2017 and December 31, 2016:

	June 30, 2017		December 31, 2016	
	Philippine Peso	US Dollar	Philippine Peso	US Dollar
Current financial assets:				
Cash in banks	₱130,641,588	\$2,588,500	₱101,059,394	\$2,032,570
Trade receivables	328,851,361	6,515,779	39,773,558	799,951
	₱459,492,949	9,104,279	140,832,952	2,832,521
Current financial liabilities:				
Trade payables	—	—	—	—
Net financial assets	₱459,492,949	\$9,104,279	₱140,832,952	\$2,832,521

For purposes of restating the outstanding balances of the Company's foreign currency-denominated financial assets and liabilities as at June 30, 2017 and December 31, 2016, the exchange rate applied was ₱50.47 and ₱49.72 per US\$1, respectively.

**Credit Risk.** Credit risk arising from the inability of counterparty to meet the terms of the Company's financial instrument is generally limited to the amount, if any, by which the counterparty's obligations exceed the obligation of the Company. With respect to credit risk arising from the other financial assets of the Company, which comprise cash in banks, trade and other receivables and advances to related parties, RCF, MTF and rental deposit, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

The tables below show the credit quality per class of financial assets and an aging analysis of financial assets that are past due but not impaired as at June 30, 2017 and December 31, 2016.

*Credit Quality per Class of Financial Assets*

June 30, 2017						
	Neither Past Due nor Impaired			Past Due but not Impaired	Impaired	Total
	High Grade	Standard Grade	Substandard Grade			
Cash in banks	₱130,641,588	₱—	₱—	₱—	₱—	₱130,641,588
Trade and other receivables*	326,965,575	—	38,099,381	1,683,469	11,036,525	377,784,950
Advances to related parties	—	150,863,596	—	—	—	150,863,596
RCF and MTF	5,544,388	—	—	—	—	5,544,388
Rental deposit	—	773,159	—	—	—	773,159
	₱463,151,551	₱151,636,755	₱38,099,381	₱1,683,469	₱11,036,525	₱655,607,681

\*Excluding advances to officers and employees amounting to ₱9.7 million in 2017.

December 31, 2016						
	Neither Past Due nor Impaired			Past Due but not Impaired	Impaired	Total
	High Grade	Standard Grade	Substandard Grade			
Cash in banks	₱164,314,817	₱—	₱—	₱—	₱—	₱164,314,817
Trade and other receivables*	—	39,773,558	1,746,892	—	11,036,527	52,556,977
Advances to related parties	—	125,391,740	—	—	—	125,391,740
RCF and MTF	5,544,388	—	—	—	—	5,544,388
Rental deposit	—	391,158	—	—	—	391,158
	₱169,859,205	₱165,556,456	₱1,746,892	₱—	₱11,036,527	₱348,199,080

\*Excluding advances to officers and employees amounting to ₱10.9 million in 2016.

The credit quality of the financial assets is managed by the Company using internal credit quality ratings. High grade accounts consist of receivable from debtors with good financial condition and with relatively low defaults. Financial assets having risks of default but are still collectible are considered standard grade accounts. Receivables that are still collectible but require persistent effort from the Company to collect are considered substandard grade accounts.

Cash in banks, RCF and MTF are classified as high grade since these are deposited in reputable banks having good credit rating and low probability of insolvency.

The Company trades only with recognized, creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, trade and other receivables are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant.

**Interest Rate Risk.** Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows on the fair values of financial instruments. The Company follows a prudent policy on managing its assets or liabilities so as to ensure that exposures to fluctuations in interest rate are kept within acceptable limits.

**Liquidity Risk.** The Company manages liquidity risk by maintaining a balance between continuity of funding and flexibility. Treasury controls and procedures are in place to ensure that sufficient cash is maintained to cover daily operational and working capital requirements, including debt principal and interest payments. Management closely monitors the Company's future and contingent obligations and sets up required cash reserves and reserve borrowing facilities as necessary in accordance with internal policies.

The tables below summarize the maturity profile of the Company's financial liabilities as at June 30, 2017 and December 31, 2016, based on contractual undiscounted payments. Loans payable consist of principal and estimated future interest payments.

	On Demand	Less than three months	Three to six months	Six to 12 months	More than one year	Total
<b>June 30, 2017</b>						
Trade and other payables*	₱204,277,741	₱38,657,329	₱17,372,019	₱3,969,235	₱8,867,171	₱273,143,495
Dividends payable				4,707,886		4,707,886
Loans payable**	90,000,000	4,737,547	4,664,378	9,090,108	46,422,529	154,914,562
Advances from a related party		5,000,000	—	—	—	5,000,000

\*Excluding statutory payables and interest payable aggregating ₱18.8 million in June 30, 2017.

	On Demand	Less than three months	Three to six months	Six to 12 months	More than one year	Total
<b>December 31, 2016</b>						
Trade and other payables*	₱56,991,260	₱832,928	₱—	₱9,983,168	₱—	₱67,807,356
Dividends payable	—	—	—	4,955,354	—	4,955,354
Loans payable**	100,000,000	6,342,560	6,367,568	6,367,568	63,725,409	182,803,105
Advances from a related party	5,000,000	—	—	—	—	5,000,000
	₱161,991,260	₱7,175,488	₱6,367,568	₱21,306,090	₱63,725,409	₱340,929,367

\*Excluding statutory payables and interest payable aggregating ₱35.1 million in December 31, 2016.

#### **Fair Value of Financial Assets and Financial Liabilities**

Fair value is defined as the amount at which the financial instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidated sale.

Set out below is a comparison by category of carrying amounts and fair values of all of the Company's financial instruments that are carried in the consolidated financial statements:

	June 30, 2017		December 31, 2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash in banks	₱130,641,588	₱130,641,588	₱164,314,817	₱164,314,817
Trade and other receivables*	328,851,361	328,851,361	41,520,450	41,520,450
Advances to related parties	140,863,598	140,863,598	125,391,740	125,391,740
RCF and MTF	5,544,388	5,544,388	5,544,388	5,544,388
Rental deposit	660,538	660,538	391,158	391,158
	₱606,561,473	₱606,561,473	₱337,162,553	₱337,162,553

\*Excluding advances to officers and employees amounting to ₱9.7 million and ₱24.4 million in June 30, 2017 and Dec. 31, 2016, respectively.

	June 30, 2017		December 31, 2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Trade and other payables*	₱189,089,767	₱189,089,767	₱67,807,356	₱67,807,356



Dividends payable	4,707,886	4,707,886	4,955,354	4,955,354
Loans payable	154,914,562	154,914,562	174,316,486	178,259,168
Advances from a related party	5,000,000	5,000,000	5,000,000	5,000,000
	<b>P315,573,803</b>	<b>P315,573,803</b>	<b>P252,079,196</b>	<b>P256,021,878</b>

\*Excluding statutory payables and interest payable aggregating P18.8 million and P35.1 million in June 30, 2017 and December 31, 2016 respectively.

*Cash, Trade and other receivables, Advances to Related Parties, Trade and other payables, Dividends payable, and Advances from a Related Party* Due to the short-term nature of transactions, the fair values approximate the amount of consideration at reporting period.

*RCF and MTF.* Fair values of RCF and MTF approximate the amount of consideration at reporting period.

*Rental Deposit.* The fair value of rental deposit has not been determined using observable market data because management believes that the difference between fair value and carrying amount would not be significant.

*Loans Payable.* The estimated fair value of the loans was calculated using the quoted (unadjusted) market prices in active market (Level 1).

## 25. Capital Management Objectives, Policies and Procedures

The Company's capital management objectives are to ensure the Company's ability to continue as a going concern and to provide an adequate return to shareholders by pricing products and services commensurate with the level of risk. The Company manages its capital structure and makes adjustments to it, in the light of changes in economic conditions. To maintain or adjust the capital structure, the Company may return capital to shareholders, issue new shares or by conversion of related party advances to an equity component item.

The Company monitors its capital using the debt to equity ratio, which is the total debt divided by the total equity. The Company includes total liabilities within the total debt. Equity includes capital stock, additional paid-in capital, retained earnings, and other comprehensive income.