

SEC Registration Number

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Company Name

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A	T	I	O	N	A	L	,		I	N	C	.		A	N	D		S	U	B	S	I	D	I	A	R	I	E	S

Principal Office (No./Street/Barangay/City/Town/Province)

1	5	0	5		P	r	i	n	c	e	t	o	n		S	t	.	,		c	o	r	.		S	h	a	w	
B	l	v	d	.	,		B	r	g	y		W	a	c	k	-	W	a	c	k	,		G	r	e	e	n	h	i
I	l	s		E	a	s	t	,		M	a	n	d	a	l	u	y	o	n	g		C	i	t	y				

Form Type

1	7	Q	2
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Department requiring the report

C	R	M
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Secondary License Type, If Applicable

N	/	A
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**COMPANY INFORMATION**

Company's Email Address

<b>www.nihaominig.com</b>
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Company's Telephone Number/s

<b>(632) 823-3158</b>
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Mobile Number

<b>N/A</b>
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No. of Stockholders

<b>106</b>
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Annual Meeting

<b>3<sup>rd</sup> Wednesday of May</b>
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Fiscal Year  
Month/Day

<b>12/31</b>
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**CONTACT PERSON INFORMATION**

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

Name of Contact Person

<b>Delfin S. Castro Jr.</b>
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Email Address

<b>castrojun@yahoo.com</b>
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Telephone Number/s

<b>(632) 823-3158</b>
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Mobile Number

<b>09189084418</b>
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Contact Person's Address

<b>1505 Princeton Street corner Shaw Blvd., Brgy Wack-wack, Greenhills East, Mandaluyong City</b>
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**Note:** In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

**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, 2016
2. Commission identification number 62323 3. BIR Tax Identification No. 000-889-223-000
4. Exact name of issuer as specified in its charter NiHAO MINERAL RESOURCES  
INTERNATIONAL, INC.
5. Province, country or other jurisdiction of incorporation or organization Philippines
6. Industry Classification Code:  (SEC Use Only)
7. Address of issuer's principal office Postal Code  
1505 Princeton St. corner Shaw Blvd., Brgy. Wack-Wack, Greenhills East, Mandaluyong  
City
8. Issuer's telephone number, including area code (632)-705-7196
9. Former name, former address and former fiscal year, if changed since last report

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

Title of each Class	Number of shares of common stock outstanding and amount of debt outstanding
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<u>Common stock , P1.00 par value</u>	<u>1,010,000,000 shares</u>
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11. Are any or all of the securities listed on a Stock Exchange?

Yes [] No [ ]

If yes, state the name of such Stock Exchange and the class/es of securities listed therein:

Philippine Stock Exchange Common stock- 600,000,000 shares

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

Yes [] No [ ]

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

Yes [ ] No []

## PART I - FINANCIAL INFORMATION

### Item 1. Financial Statements

The Company's consolidated financial statements have been prepared in accordance with Philippine Financial Reporting Standards ("PFRS").

This Financial Statements meeting the requirements of SRC Rule 68, is furnished as specified therein.

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

#### FINANCIAL PERFORMANCE AND RESULTS OF OPERATION

##### *June 30, 2016 vs. December 31, 2015*

In June 2012, the Company inked an Operating Agreement with Geogen Corporation covering the Dinapigue Nickel Project located in Dinapigue, Isabela with 2,391.8041 hectares. The project with an approved Mineral Purchase and Sharing Agreement ("MPSA") is already in the development and operating stage.

However, on 04 August 2015, this operating agreement was pre-terminated. As consideration, Geogen shall issue to NiHAO Ten Million (10,000,000) preferred shares at a par value of One Centavo ( ₱ 0.01) per share, with the following features:

- a) No voting rights, except with respect to matters where applicable law grants non-voting shareholders the right to vote, provided that the affirmative vote of NiHAO as a preferred shareholder shall be required for the approval of matters affecting NiHAO's economic rights including, among others;
  - a.1 Any reclassification, alteration or amendment of any existing shares or creation of shares which would grant preferential rights of any kind, shape or form or with privileged voting rights;
  - a.2 Any sale, lease, exchange, disposition or encumbrance of all or substantially all of the business or assets of Geogen;
  - a.3 Any merger, demerger or similar re-organization of Geogen;
  - a.4 Any sale of shares of stock whereby a new shareholder or group of shareholders shall attain majority shareholdings in Geogen;
  - a.5 Any change in the dividend policy and/or formula for the determination of dividends due to the preferred shares;
  - a.6 Any sale, assignment, transfer or surrender of rights over the MPSA, the Isabela Nickel Project and/or the Contract Area.
- b) Non-redeemable;
- c) Preference in the declaration and payment of dividends;
- d) Non-participating;
- e) Non-transferrable and non-assignable, except with the prior written consent of the Company;
- f) The dividends shall be cumulative, to be computed annually based on the following formula:  
Twenty percent (20%) of the Mine Operating Income, less Income Tax using the prevailing income tax prescribed by the BIR, where –  
Mine Operating Income is equivalent to:  
Revenue from sale of ore  
Less the following deductions:  
Cost of sales  
Shipping and loading costs  
Excise Tax  
Royalty to IPs  
Management fee which shall not exceed three percent (3%) of the revenue from sale of ore

Geogen likewise committed to cause its shareholders and board of directors to approve, and file with the SEC the amendment of the Articles of Incorporation for the creation of Ten Million (10,000,000) preferred shares with a par value of One Centavo (₱ 0.01) per share, equivalent to One Hundred Thousand Pesos (₱ 100,000.00), out of the existing authorized capital stock of Geogen.

For the Group's other nickel mining claims; the Botolan Nickel Project and the Manticao Nickel Project, NiHAO focused on community development and community relations while exploration activities are still suspended. On the Masbate 13 Gold project, the Group is currently concentrating on compliance with conditions set forth in EP-V-2008-005 and will soon start implementation of the National Greening Program.

The group incurred general and operating expenses of ₱ 4.16 million.

Cash as of June 30, 2016 amounting to ₱ 135.07 million was 1.83% or ₱ 2.42 million higher than the December 31, 2015 balance of ₱132.65 million. The increase is primarily brought about by collection of receivables from Geogen Corporation net of partial settlement of payables.

Receivables of ₱ 36.44 million, was 32.10% or ₱17.23 million lower from ₱ 53.67 million as of December 31, 2015 due to collection of receivables and employees' liquidation.

Other current assets went down as well by 0.89% or ₱1.70 million from ₱190.76 million as of December 31, 2015 to ₱189.06 million as of June 30, 2016 due to increase in input tax.

Depreciation amounting to ₱10.79 thousand during the period contributed to decrease in property and equipment.

Amortization of leasehold rights resulted to a 2.33% or ₱100 thousand decrease in other non-current assets.

Given above, total consolidated assets stood at ₱1,069.02 million, a 1.53% or ₱ 16.62 million lower as compared with consolidated assets of ₱1,085.64 million as of December 31, 2015.

Total liabilities as of June 30, 2016 amounted to ₱31.36 million which was 29.73% or ₱ 13.27 million lower than the ₱ 44.63 million recorded liabilities as of December 31, 2015. The decrease was due to partial liquidation of accrued payables.

Deficit balance as of December 31, 2015 of ₱ 668.28 million plus net losses incurred for the current period resulted to a June 30, 2016 balances of ₱ 671.61million.

### ***June 30, 2016 vs. June 30, 2015***

- a. Net operating losses for the first six months of 2016; net comprehensive losses:

As of June 30, 2016, the Company recognized a consolidated net losses of ₱3.34 million, 84.84% or ₱ 18.72 million lower as compared to the recorded net losses covering the same period last year of ₱22.06 million. The difference is mainly due to lower expenses incurred during the period.

- b. Increase in Assets:

Cash of ₱ 135.08 million was ₱ 78.48 million or 138.66% higher than balances of ₱ 56.60 million in June 2015. The increase is due to receipt of paid-in capital and premiums from the 97 million common shares under private placement and collection of receivables.

₱ 29.58 million or 44.80% decrease in receivables from ₱ 66.02 million in June 2015 to ₱ 36.44 million in June 2016. The decrease was brought about by collection of receivables and offset of receivable against billings on mine development cost net of set up of collectible against Capital Gold arising from termination of Welcome Stranger Agreements.

₱ 16.66 million or 9.66% increase in other current assets from ₱172.41 million in June 2015 to ₱189.07 million in June 2016. The increase is attributable to deferred costs and input taxes earned from its Isabela operations.

An increase of ₱ 118.99 million or 31.03% in property and equipment from ₱ 383.49 million as of June 2015 to ₱ 502.48 million as of June 2016 was due to road and mine development costs and acquisition of other site equipment paid during the period relative to its previous Isabela operations net of depreciation and casualty losses incurred in October 2015.

A decrease of ₱200 thousand or 4.56% of other non-current assets from ₱ 4.38 million in June 2015 to ₱4.18 million in June 2016 is due to amortization of leasehold rights.

As a result, given the above-mentioned transactions, total consolidated assets as of June 30, 2016 were recorded at ₱1,069.02 million, while total assets as of the same period last year amounted to ₱884.69 million or a 20.84% increase equivalent to ₱184.33 million.

c. Decrease in Total Liabilities:

Total liabilities decreased by 64.48% or by ₱56.93 million from ₱ 88.29 million as of June 30, 2015 to ₱ 31.36 million as of June 30, 2016, mainly due to partial settlement of unpaid accounts.

d. Increase in Total Stockholders' Equity:

Total stockholders' equity amounted to ₱ 1,037.66 million as of June 30, 2016, increased by 30.29% or ₱241.26 million from ₱796.40 million in the same period last year. The increase was mainly due to the 97 million shares private placement with a par value of One Peso and subscription price of ₱4.00 per share or an aggregate amount of ₱388 million resulting to an additional paid in capital of ₱291 million net of losses incurred.

**Financial Soundness Indicators:**

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Net loss	₱ 3,345,803	₱ 22,063,259
Net comprehensive losses	3,345,803	22,063,259
Total Current Assets	360,727,389	295,179,704
Total Assets	1,069,022,794	884,687,908
Current Liabilities	31,358,031	88,290,133
Total Liabilities	31,358,031	88,290,133
Stockholders' Equity	1,037,664,763	796,397,775
(1) Current Ratio		
₱ 360,727,389 / 31,358,031	11.50:1	
₱ 295,179,704 / 88,290,133		3.34:1
(2) Debt to Equity Ratio		
₱ 31,358,031 / 1,037,664,763	0.03:1	
₱ 88,290,133 / 796,397,775		0.11:1
(3) Debt Ratio		
₱ 31,358,031 / 1,069,022,794	0.03:1	
₱ 88,290,133 / 884,687,908		0.10:1
(4) Asset to Equity Ratio		
₱ 1,069,022,794/ 1,037,664,763	1.03:1	
₱ 884,687,908/ 796,397,775		1.11:1
(5) Book value per share		
₱ 1,037,664,763/ 1,010,000,000	1.03	

₱ 796,397,775/ 913,000,000		0.87
(6) Income (loss) per share		
( ₱ 3,331,799) (*) / 1,010,000,000	( ₱ 0.003)	
( ₱ 21,990,208) (*) / 913,000,000		( ₱ 0.02)
* attributable to Equity holders of the Parent Company		
(7) Interest Coverage Ratio	NA	NA
No interest expense incurred		
(8) Return on Asset	NA	NA
(9) Gross Profit Margin	NA	NA
(10) Net Profit Margin	NA	NA

#### Current Ratio/Liquidity Ratio:

The ratio is computed by dividing the current assets into the current liabilities.

The ratio measures the company's ability to pay maturing obligations.

#### Debt to Equity Ratio/Solvency Ratio:

This ratio is determined by dividing the total liabilities into the total stockholders' equity.

The ratio measures the leverage on borrowed capital.

#### Debt Ratio:

This ratio is determined by dividing the total liabilities into the total assets.

The ratio indicates the percentage of a company's assets that are provided via debt.

#### Asset to Equity Ratio:

This ratio is determined by dividing the total assets into the total stockholders' equity.

The ratio measures the financial leverage and long term solvency of the Company.

#### Book value per share:

This ratio is determined by dividing the stockholders' equity by the total number of shares.

This is used to calculate the per share value of the company based on its equity available to shareholders.

#### Income (loss) Per Share:

Income (loss) per share is computed by dividing the net income (loss) attributable to equity holders of the parent company by number of common shares subscribed.

#### Interest Coverage Ratio:

The interest coverage ratio is used to determine how easily a company can pay interest expenses on outstanding debt. The ratio is calculated by dividing a company's earnings before interest and taxes (EBIT) by the company's interest expenses for the same period

#### Return on Asset

This ratio is determined by dividing the net income by the total assets.

This ratio indicates how profitable a company's assets are in generating revenue.

#### Gross Profit Margin:

The gross profit tells the percentage of revenue/sales left after subtracting the cost of goods sold. The gross profit margin is computed by dividing Gross Profit over Net Service Income.

#### Net Profit Margin:

The net profit margin shows how much of each sales shows up as net income after all expenses are paid. The Company calculated this by dividing the net income before other income (expenses) by total service income.

**Discussion and analysis of material events and uncertainties known to management that would address the past and would have an impact on future operation of the following:**

- a. Any known trends, 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.

**MINING CLAIMS AND PERMITS**

The operations of the Company’s subsidiaries are primarily conducted under Mining Claims described below. The following table sets forth certain information related to the Company’s Mining Claims and their corresponding permits or permit applications as of June 30, 2016.

<u>Location</u>	<u>Name of Claim</u>	<u>Permit Description</u>	<u>Permittee/ Applicant</u>	<u>Area Covered (in hectares)</u>
<b><i>Zambales</i></b> Botolan and Iba	Botolan Mining Claim	MPSA No. 315-2010-III	Mina Tierra Gracia, inc.	5,081.6408
<b><i>Misamis Oriental</i></b> Opol, Manticao	Manticao Mining Claim	EPA-000093-X	Bountiful Geomines	1,944.0000
<b><i>Masbate</i></b> Milagros and Mandaon	Masbate 13 Mining Claim	EP-V2008-5	Masbate 13	<u>4,136.7538</u>
				<b><u>11,162.3946</u></b>

**Agreements entered into by the Group during the last three (3) years:**

1. **Operating Agreement with Geogen Corporation / General Contractor Agreement with Geogen Corporation (“Geogen”) / Termination of Geogen-NiHAO Operating Agreement and Cancellation of Management Agreement with Option to Buy with Geogen Corporation**

On June 13, 2012, the BOD of the Parent Company approved the execution, delivery and performance of Operating Agreement with Geogen. Under the agreement, the Group shall have the exclusive right to explore, operate, mine, develop and process minerals found within the Geogen’s mineral property consisting of a total area of 2,391.4081 hectares located at Dinapigue, Isabel, which is covered by MPSA No. 258-2007-II dated July 30, 2007 (the “Mineral Property”). Pursuant to the agreement, Geogen shall pay the Group an amount equivalent to 90% of the invoice value of the nickel ore sold by Geogen to third parties in consideration of the services to be performed by the Group. This agreement superseded the General Contractor Agreement (GCA) entered into with Geogen on March 5, 2012. The GCA was executed to appoint the Parent Company as Geogen’s general contractor over the Mineral Property.

On August 4, 2015, this operating agreement was pre-terminated. As consideration, Geogen shall issue to NiHAO Ten Million (10,000,000) preferred shares at a par value of One Centavo ( ₱ 0.01) per share, with the following features:

- g) No voting rights, except with respect to matters where applicable law grants non-voting shareholders the right to vote, provided that the affirmative vote of NiHAO as a preferred shareholder shall be required for the approval of matters affecting NiHAO’s economic rights including, among others;
  - a.1 Any reclassification, alteration or amendment of any existing shares or creation of shares which would grant preferential rights of any kind, shape or form or with privileged voting rights;
  - a.2 Any sale, lease, exchange, disposition or encumbrance of all or substantially all of the business or assets of Geogen;
  - a.3 Any merger, demerger or similar re-organization of Geogen;
  - a.4 Any sale of shares of stock whereby a new shareholder or group of shareholders shall attain majority shareholdings in Geogen;

- a.5 Any change in the dividend policy and/or formula for the determination of dividends due to the preferred shares;
  - a.6 Any sale, assignment, transfer or surrender of rights over the MPSA, the Isabela Nickel Project and/or the Contract Area.
- h) Non-redeemable;
  - i) Preference in the declaration and payment of dividends;
  - j) Non-participating;
  - k) Non-transferrable and non-assignable, except with the prior written consent of the Company;
  - l) The dividends shall be cumulative, to be computed annually based on the following formula: Twenty percent (20%) of the Mine Operating Income, less Income Tax using the prevailing income tax prescribed by the BIR, where –  
 Mine Operating Income is equivalent to:  
 Revenue from sale of ore  
 Less the following deductions:  
 Cost of sales  
 Shipping and loading costs  
 Excise Tax  
 Royalty to IPs  
 Management fee which shall not exceed three percent (3%) of the revenue from sale of ore

Geogen likewise committed to cause its shareholders and board of directors to approve, and file with the SEC the amendment of the Articles of Incorporation for the creation of Ten Million (10,000,000) preferred shares with a par value of One Centavo (₱ 0.01) per share, equivalent to One Hundred Thousand Pesos (₱ 100,000.00), out of the existing authorized capital stock of Geogen.

Likewise, the Management Agreement with ABG was terminated with NiHAO paying a termination fee equal to the average of the last three (3) years of operations of the Isabela Property

**2. Memorandum of Agreement with Capital Gold Pty Ltd. and Welcome Stranger Mining Ltd. / Memorandum of Understanding with Capital Gold Pty Ltd. ("Capital Gold") and Capital Resources Corporation Plc ("Capital Resources") / Termination of Welcome Stranger Mining Limited Agreement**

On September 17, 2012, the Board approved the execution, delivery and performance of Memorandum of Agreement ("MOA") by and among NiHAO, Capital Gold Pty Ltd. ("Capital Gold"), and Welcome Stranger Mining Ltd. ("Welcome Stranger"), for the acquisition by Capital Gold and Welcome Stranger from NiHAO of forty percent (40%) of the issued share capital of Masbate 13 Philippines, Inc. ("Masbate 13") a subsidiary of NiHAO's wholly-owned subsidiary, Oregalore, Inc. ("Oregalore").

Capital Gold is a corporation organized and existing under the laws of the State of New South Wales, Australia, while Capital Resources is a corporation organized and existing under the laws of the Isle of Man.

Subject to the satisfaction of certain conditions, the Parties to the MOA agreed that:

- (a) Welcome Stranger shall acquire forty percent (40%) of the entire issued and outstanding share capital of Masbate 13 in consideration for which NiHAO/Oregalore shall receive Fifty million (50,000,000) shares in Welcome Stranger at an indicative listing market value of twenty Australian cents (AUD0.20 / share) per share ; and
- (b) Welcome Stranger will pay to NiHAO/Oregalore a cash consideration of two hundred fifty thousand USD dollars (US250,000.00);

Capital Gold and Welcome Stranger acknowledged the completion of legal and technical due diligence on NiHAO, Oregalore and Masbate 13 to the sole satisfaction of Capital Gold and Welcome Stranger.



On December 31, 2012, as and by way of partial implementation of the MOA dated 17 September 2012 between the parties, a Sale Share Agreement was executed by and among Nihao, Oregalore and Welcome Stranger. Pursuant to the agreement, Oregalore shall sell its 40% ownership in Masbate 13 for a total consideration of 50,000,000 shares in Welcome Stranger at listing value of AUD0.20 per share plus US\$250,000 cash, to be effective upon satisfaction of the following contract conditions:

- (a) A written advice or confirmation from the Treasurer of the Commonwealth of Australia to Oregalore that there is no objection, under the *Foreign Acquisition and Takeovers Act 1975*, to the issuance of shares of Welcome Stranger to all Parties (acting reasonably);
- (b) Where Welcome Stranger is subject to or affected by a foreign policy of the Philippine in connection with the proposed issue of the Sale Shares or this Agreement generally, written advice or confirmation to Welcome Stranger that there is no objection under any law or foreign policy of the Philippines to the proposed issue of the Sale Shares
- (c) Execution of the Royalty Agreement, Shareholders Agreement Restriction Agreement and Operating Agreements by all of the parties of this agreement;
- (d) Completion of the Capital Gold Sale Agreement;
- (e) Completion of the Dizon Agreement.

On October 28, 2015, the Board of Directors, however, approved the termination of the following agreements and the Execution of a Deed of Cancellation:

1. Memorandum of Agreement dated 17 September 2012 with Welcome Stranger and Capital Gold re: the acquisition by Welcome Stranger and Capital Gold of forty percent (40%) of the issued share capital of Masbate 13 for and in consideration of : (i) Fifty Million (50,000,000) shares in Welcome Stranger for the Corporation/Oregalore at an indicative listing market value of twenty Australian cents (AUD 0.20) per share, equivalent to 19.68% of Welcome Stranger, and (ii) cash of Two Hundred Fifty Thousand US Dollars (USD250,000);
2. Sale and Purchase Agreement dated 31 December 2012 with Oregalore and Welcome Stranger re: the sale by Oregalore to Welcome Stranger of a total of One Million (1,000,000) shares in Masbate 13, equivalent to forty percent of the issued share capital of Masbate 13, in consideration of: (a) Fifty Million (50,000,000) shares in Welcome Stranger for the Corporation/Oregalore at a listing value of twenty Australian cents (AUD 0.20) per share; and (b) cash of Two Hundred Fifty Thousand (USD250,000);
3. The Parties mutually agreed to execute a Deed of Cancellation for the termination of these Agreements due to: a) failure to comply with the conditions precedent under the SPA within the periods provided therein, and b) the fact that Australian Stock Exchange delisted Welcome Stranger on 01 January 2016 for being continuously suspended for more than three (3) years.

Pursuant to the Deed of Cancellation, the parties agreed to release each other from any liability or obligation under the Welcome Stranger Agreements. However, Capital Gold shall be obliged to pay the Corporation amounting to ₱ 8.2 million as reimbursement for expenses incurred by the Corporation in relation to the SPA.

## **PRIVATE PLACEMENTS**

### **Private Placements 2010 - 2011**

On December 29, 2010, the Company entered into an agreement with one of its stockholders to subscribe a portion of the Company's authorized but unissued capital stock by way of a private placement transaction. The stockholder has agreed to subscribe to 80 million shares at a subscription price of ₱1.35 per share for a total consideration of ₱108 million. The share issuance resulted to an increase in additional paid-in capital (APIC) amounting to ₱28 million. The proceeds from the said private placement transaction were used to acquire 100% equity holdings in OREGALORE which owns 80% of Masbate 13. On the same date, the Company's Board of Directors approved the issuance of additional shares of stocks through a 2:5 Stock Rights Offering. This is to provide other stockholders with the same opportunity to subscribe to new shares of the Company.

On August 16, 2011, the Company entered into a second subscription agreement with the same stockholder covering 100 million shares at a subscription price of ₱2.00 per share or for a total consideration of ₱200 million. The proceeds from this private placement transaction were initially used to acquire listed shares of Oriental Peninsula Resources Group, Inc. (ORE) thru the Philippine Stock Exchange.

On September 21, 2011, the Company has entered into its third subscription agreement with the same stockholder covering 100 million shares at a subscription price of ₱2.25 per share for a total subscription price of ₱225 million. The proceeds were initially earmarked for acquisition of additional ORE shares and purchase of mining equipment.

None of these three tranches of shares are listed to-date and their respective listing applications with complete requirements are still pending listing process with the PSE.

**Agreement by and among Macquarie Bank Limited (“Macquarie Bank”), Parent Company and one of its Major Shareholders**

The BOD of the Parent Company approved the execution, delivery and performance of an Investment Agreement (the “Agreement”) by and among Macquarie Bank, the Parent Company and one of its major shareholder, embodying a Multi-tranche Average Price Issuance Program (“Issuance Program”) resulting in Macquarie Bank’s subscription to newly-issued common shares of stock in the Parent Company (the “NiHAO Shares”) on a private placement basis (“Transaction”).

Pursuant to the Agreement, Macquarie Bank agreed to subscribe to the Parent Company’s shares of up to an aggregate amount of 150,000,000, which shall be purchased in tranches, from the Parent Company’s authorized but unissued capital stock, provided that, prior to the Parent Company’s obtaining the approval of its shareholders to the Transaction, Macquarie Bank shall not make any subscription that will result in Macquarie Bank’s total shareholdings in the Parent Company exceeding 95,000,000 shares, which number is just below ten percent (10%) of the resulting issued capital stock of the Company. The Parent Company will raise approximately United States Dollar (US\$) 25,000,000 to US\$30,000,000 from the issuance of the shares.

Macquarie Bank’s right to subscribe to the Subscriber Shares shall expire (1) year from the execution of the Agreement, or upon Macquarie Bank having subscribed to and been issued 150,000,000 Subscriber Shares, whichever event occurs earlier.

In relation to the Agreement, on March 2, 2012, the Parent Company and Macquarie Bank executed a Subscription Agreement covering the Macquarie Bank’s subscription of the 33,000,000 common shares with a par value of ₱1.00 per share for a subscription price of ₱9.46 per share for a total consideration of ₱312.2 million. The subscription resulted in an increase in the additional paid-in capital of ₱279.2 million.

No additional subscriptions were made under the Issuance Program after this first tranche since the listing process for the 33 million shares remain pending to-date with the Philippine Stock Exchange even after the one-year program already expired.

**97 Million shares Private Placement**

On 04 August 2015, the Company entered into a subscription agreement with Messrs. Jerry C. Angping and San-ho Cheng to subscribed to shares of stock in the Company in the aggregate amount of Ninety Seven Million (97,000,000) from the Company’s authorized but unissued capital stock at Four Pesos (₱ 4.00) per share. The price was at a premium over the 15-day, 30-day, 45-day, 60-day, and 90-day volume weighted average price (VWAP) of the Company’s shares as traded in the PSE.

The issuance of the Private Placement Shares was entered into for purposes of providing funding for the settlement of contractual obligations, and working capital for the Company's projects. Over time, ultimate benefit to shareholders is expected as shareholders' value will be enhanced.

The total transaction value of the issuance of the Private Placement Shares is Three Hundred Eighty Eight Million Pesos (₱ 388,000,000.00).

## **MANAGEMENT PLAN OF OPERATIONS**

### Plan of Operations

The Company shall use part of the balance of the net proceeds from the 2009 SRO to maintain its Botolan and Manticao Mining Claims, the former which has already been awarded an MPSA, and the Manticao Mining Claim, which will have to be perfected into an Exploration permit before any work can be done on the property. Management will be flexible on the use of the remaining balance of net proceeds as opportunities arise such as acquisitions of other prospective mining claims that it can develop for production in partnership with select foreign and local partners, most specially NAC.

Balance of the proceeds of private placements in 2011 were initially used to purchase additional publicly listed shares from the PSE open market and for acquisition of mining equipment. These were only interim transactions of the Company while waiting for better investment opportunities. To date, the investment in publicly listed shares were fully liquidated thru the PSE. This plus proceeds from private placements made by Macquarie in March 2012 were used relative to the previous Operating Services of the Company to Geogen Corporation in the Isabela mine.

On 04 August 2015, The Board approved to utilize the balance of the SRO proceeds in the amount of Thirty Three Million Seven Hundred Eighty Nine Thousand Three Hundred Thirteen (₱33,789,313.00) as of 30 June 2015 to supplement payment of contractual liabilities and additional working capital for its projects.

### Isabela Operations

On 04 August 2015, the operating agreement was pre-terminated. As consideration, Geogen shall issue to NiHAO Ten Million (10,000,000) preferred shares at a par value of One Centavo (₱ 0.01) per share. With the following features:

- a) No voting rights, except with respect to matters where applicable law grants non-voting shareholders the right to vote, provided that the affirmative vote of NiHAO as a preferred shareholder shall be required for the approval of matters affecting NiHAO's economic rights;
- b) Non-redeemable;
- c) Preference in the declaration and payment of dividends;
- d) Non-participating;
- e) Non-transferrable and non-assignable, except with the prior written consent of the Company;
- f) The dividends shall be cumulative, to be computed annually based on the following formula:  
Twenty percent (20%) of the Mine Operating Income, less Income Tax using the prevailing income tax prescribed by the BIR, where –  
Mine Operating Income is equivalent to:  
Revenue from sale of ore  
Less the following deductions:  
Cost of sales  
Shipping and loading costs  
Excise Tax  
Royalty to IPs  
Management fee which shall not exceed three percent (3%) of the revenue from sale of ore

Geogen likewise committed to cause its shareholders and board of directors to approve, and file

with the SEC the amendment of the Articles of Incorporation for the creation of Ten Million (10,000,000) preferred shares with a par value of One Centavo (₱ 0.01) per share, equivalent to One Hundred Thousand Pesos (₱ 100,000.00), out of the existing authorized capital stock of Geogen.

#### Botolan Mining Claim

The Company is continuously implementing its Community Development Program (CDP) for its MPSA located in Botolan and Iba, Zambales to create a symbiotic relationship between the Company and the community. When nickel prices recover, the Company may implement additional exploration on the property to determine the additional commercial viability of developing the Botolan Mining Claim as a Direct Shipping Ore (DSO) nickel mine. The Company believes that its investment in the implementation of a CDP will be easier for the transition of the Botolan Mining Claim from exploration into development and full scale operation. Plans for development of a loading facility as well as the options to its possible location are being studied to minimize hauling and transport costs of ore from the mine.

The company is also looking into the possibility of going into value-adding activities to make the project more viable. In this regard, it is on the look-out for technology plant that can beneficiate the ore from the Botolan claim and/ or look for technology providers who can process the ore or joint venture partners to co-develop a processing/ beneficiation plant. The company also actively pursues possibilities for local and foreign partnerships for the eventual operations and development of the Botolan mine.

#### Manticao Mining Claim

NiHAO's subsidiary, Bountiful Geomines, Inc. has an Exploration Permit Application ("EPAs") in Manticao. NiHAO will evaluate their respective mineral potentials through its technical team and/or third party geological services companies as soon as the approval of its Exploration Permit has been issued.

After awarding of the Exploration Permit ("EP"), NiHAO shall implement exploration works according to the approved Exploration Work Program and Environmental Work Program attached to the EP.

In this interim period:

- a) There is no known trend, event or uncertainty that has or is reasonably likely to have a negative impact on the Company's short-term or long-term liquidity. The Company is not in default or breach of any note, loan, lease or other indebtedness or financing arrangement requiring the Company to make payments.
- b) The liquidity of the Company is expected to be generated from the Company's financial resources as well as from the proceeds of equity private placements and offerings.
- c) 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.
- d) There are no material commitments for capital expenditures except for those provided in the "Use of Proceeds" from the private placements conducted by the Parent Company.
- 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 the Company's financial statements.
- f) There are no significant elements of income or loss that did not arise from the Company's continuing operations.



**NIHAO MINERAL RESOURCES INTERNATIONAL, INC. & SUBSIDIARIES  
INDEX TO FINANCIAL STATEMENTS**

**FORM 17-Q, Item 1**

**Consolidated Financial Statements**

Consolidated Statement of Financial Position as of June 30, 2016 and December 31, 2015

Consolidated Statements of Comprehensive Income for the First Six Months Ending  
June 30, 2016 and 2015

Consolidated Statements of Changes in Equity

Consolidated Statement of Cash Flows for the Six Month Period Ending June 30, 2016  
and 2015

Notes to Consolidated Financial Statements

NIHAO MINERAL RESOURCES INTERNATIONAL , INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Unaudited Consolidated June 30, 2016	Audited Consolidated Dec 31, 2015
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents (Note 3)	P 135,075,544	P 132,654,534
Accounts receivable - net (Note 4)	36,439,085	53,667,303
Advances to related parties (note 13)	147,452	147,452
Other current assets (note 5)	189,065,308	190,762,492
	<u>360,727,389</u>	<u>377,231,781</u>
Noncurrent Assets		
Mining Rights (Note 7)	201,633,419	201,633,419
Property and Equipment - net (Notes 8)	502,478,652	502,489,441
Other non-current assets (Note 9)	4,183,333	4,283,333
Total Noncurrent Assets	<u>708,295,404</u>	<u>708,406,193</u>
	<u>P 1,069,022,794</u>	<u>P 1,085,637,974</u>
<b>LIABILITIES &amp; STOCKHOLDERS' EQUITY</b>		
Liabilities		
Accounts payable and other current liabilities (Note 10)	P 31,358,031	P 44,627,407
Total Liabilities	<u>31,358,031</u>	<u>44,627,407</u>
Stocholder's Equity		
Capital Stock - P1 par value (Note 11)		
Authorized - 2,000,000,000 shares		
Issued	1,010,000,000	1,010,000,000
Subscription Receivable		
Additional Paid-In Capital	673,377,974	673,377,974
Deficit	(671,607,710)	(668,275,911)
	<u>1,011,770,264</u>	<u>1,015,102,063</u>
Equity attributable to non-controlling interest	25,894,499	25,908,504
Total Stockholders' Equity	<u>1,037,664,763</u>	<u>1,041,010,567</u>
	<u>P 1,069,022,794</u>	<u>P 1,085,637,974</u>

NIHAO MINERAL RESOURCES INTERNATIONAL, INC. & SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(Unaudited)

	April 01, 2016 June 30, 2016 (Three Months)	Jan 01, 2016 June 30, 2016 (Six Months)	April 01, 2015 June 30, 2015 (Three Months)	Jan 01, 2015 June 30, 2015 (Six Months)
REVENUES	P		P	
<hr/>				
COST OF SERVICE				
<hr/>				
GROSS PROFIT (LOSS)	-	-	-	-
GENERAL AND ADMINISTRATIVE EXPENSES	(1,089,867)	(4,161,341)	(11,182,052)	(21,981,207)
NET INCOME (LOSS) BEFORE OTHER INCOME (LOSS)	(1,089,867)	(4,161,341)	(11,182,052)	(21,981,207)
OTHER INCOME ( EXPENSES)				
Interest Income	694,709	815,538	118,942	243,948
Gain on sale of investment in shares of stocks				
Forex Gain (loss)				
Gain (loss) on sale of asset	-	-		(326,000)
Other Income				
Sub-total	694,709	815,538	118,942	(82,052)
INCOME (LOSS) BEFORE INCOME TAX	(395,157)	(3,345,803)	(11,063,110)	(22,063,259)
TAX DUE	-	-	-	-
INCOME (LOSS) AFTER TAX	(395,157)	(3,345,803)	(11,063,110)	(22,063,259)
OTHER COMPREHENSIVE INCOME				
Income (loss) on change in fair value of available-for-sale financial assets				
TOTAL COMPREHENSIVE INCOME (LOSS)	(395,157)	(3,345,803)	(11,063,110)	(22,063,259)
NET INCOME (LOSS) ATTRIBUTABLE TO				
Equity holders of the Parent Company	(394,014)	(3,331,799)	(11,062,509)	(21,990,208)
Non-controlling Interest	(1,143)	(14,004)	(601)	(73,051)
	(395,157)	(3,345,803)	(11,063,110)	(22,063,259)
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO				
Equity holders of the Parent Company	(394,014)	(3,331,799)	(11,062,509)	(21,990,208)
Non-controlling Interest	(1,143)	(14,004)	(601)	(73,051)
	(395,157)	(3,345,803)	(11,063,110)	(22,063,259)
WEIGHTED AVE. NUMBER OF COMMON SHARES	1,010,000,000	1,010,000,000	913,000,000	913,000,000
Based on net income (loss)	(0.000)	(0.003)	(0.012)	(0.024)
Based on total comprehensive income	(0.000)	(0.003)	(0.012)	(0.024)

Note: No dividends declared during the period



**NIHAO MINERAL RESOURCES INTERNATIONAL, INC. & SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

	Unaudited		Audited		Unaudited		Audited	
	June 30, 2016		December 31, 2015		June 30, 2015		December 31, 2014	
<b>CAPITAL STOCK - P 1 par value</b>								
Authorized no. of shares		2,000,000,000		2,000,000,000		2,000,000,000		2,000,000,000
Issued in shares		1,010,000,000		1,010,000,000		913,000,000		913,000,000
Issued	P	1,010,000,000	P	1,010,000,000	P	913,000,000	P	913,000,000
Subscription Receivable								
Additional Paid - in Capital		673,377,974		673,377,974		382,377,974		382,377,974
		<b>1,683,377,974</b>	P	<b>1,683,377,974</b>	P	<b>1,295,377,974</b>	P	<b>1,295,377,974</b>
<b>DEFICIT</b>								
Balance at beginning of period		(668,275,911)		(502,913,210)		(502,913,211)		(456,348,292)
Equity Restructuring				-				-
Net Income (loss)		(3,331,799)		(165,362,701)		(21,990,208)		(46,564,918)
Balance at end of period		(671,607,710)		(668,275,911)		(524,903,419)		(502,913,210)
<b>NON-CONTROLLING INTEREST</b>								
		25,894,499		25,908,504		25,923,219		25,996,270
<b>STOCKHOLDERS' EQUITY, END</b>								
	P	1,037,664,763	P	1,041,010,567	P	796,397,775	P	818,461,034

**NIHAO MINERAL RESOURCES INTERNATIONAL, INC. & SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)

	April 01, 2016 June 30, 2016 (Three Months)	Jan 01, 2016 June 30, 2016 (Six Months)	April 01, 2015 June 30, 2015 (Three Months)	Jan 01, 2015 June 30, 2015 (Six Months)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Income (loss) before income tax	P (395,157)	P (3,345,803)	P (11,063,111)	P (22,063,260)
Adjustment to reconcile net loss to net cash provided by operating activities				
Interest Income	(694,709)	(815,537)	(118,942)	(243,948)
Amortization	50,000	100,000	50,000	100,000
Loss on sale of asset				326,000
Depreciation	4,151	10,789	678,603	1,332,310
Operating income before changes in working capital	(1,035,715)	(4,050,552)	(10,453,450)	(20,548,898)
Changes in operating assets and liabilities				
Decrease (increase) in :				
Accounts receivable	17,169,936	17,228,218	2,407,447	12,639,502
Other current assets	1,758,773	1,697,184	(12,246,414)	(17,801,472)
Increase (decrease) in :				
Accounts payable and accrued expenses	(2,541,961)	(13,269,376)	(2,503,170)	(27,932,900)
Other Liabilities		-	68,500,000	68,500,000
Cash generated from operations	15,351,033	1,605,474	45,704,413	14,856,232
Income Tax				
Interest Income	694,709	815,537	152,633	243,949
Net cash provided by operating activities	16,045,742	2,421,010	45,857,046	15,100,181
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Disposals (acquisitions) of property and equipment			(78,922,273)	(107,520,016)
Disposal (Acquisition) of asset held for sale				2,716,667
Net cash used in investing activities	-	-	(78,922,273)	(104,803,349)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Proceeds from issuance of capital stock				
Long-term borrowings				
Net cash provided by (used in) financing activities	-	-	-	-
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	16,045,742	2,421,010	(33,065,227)	(89,703,168)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	119,029,802	132,654,534	89,661,541	146,299,482
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	P 135,075,544	P 135,075,544	P 56,596,314	P 56,596,314

# NIHAO MINERAL RESOURCES INTERNATIONAL, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. Corporate Information and Status of Operations

#### Corporate Information

NiHAO Mineral Resources International, Inc., (NiHAO or the Parent Company) and its subsidiaries (collectively referred to as the Group) were incorporated in the Philippines. The Group's registered office is 1505 Princeton St., cor. Shaw Blvd., Brgy Wack-Wack, Greenhills East, Mandaluyong City.

The Parent Company was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on July 16, 1975, as a mining company. On October 3, 1990, the Parent Company's shares were offered to the public and listed on the Philippine Stock Exchange (PSE).

As a mining company, its primary purpose is to carry on the business of mining, milling, concentrating, converting, smelting, preparing for market, manufacturing, buying, selling, exchanging, and otherwise producing and dealing in nickel, chromite, and other kinds of ores, metal, minerals and by-products.

The following are the subsidiaries of the Parent Company:

Company	Ownership	Percentage of Ownership	
		June 2016	2015
Subsidiaries:			
Mina Tierra Gracia, Inc. (MTGI)	Direct	100	100
Bountiful Geomines, Inc. (BGI)	Direct	100	100
Oregalore, Inc. (OI)	Direct	100	100
Masbate13 Philippines, Inc. (Masbate13)*	Indirect	80	80

\* The ownership in this subsidiary is held through OI

The subsidiaries were all incorporated in the Philippines and are involved in mining activities.

#### Status of Operations

The Parent Company's Isabela Nickel Project (the "Project") started operations in 2012 and entered into full-year shipping in 2013. The operations generated service income for the Group amounting to nil, ₱15.3 million and ₱131.3 million in 2015, 2014, and 2013, respectively. The Project has an approved Mineral Production and Sharing Agreement (MPSA), which is held by Geogen Corporation (Geogen). This is located in Dinapigue, Isabela covering an area of 2,392 hectares. Since the Group became the operator of the Project, it has rehabilitated roads and other mine infrastructure and complied with all the necessary government requirements relating to nickel mining operations. In 2015, this operating contract was pre-terminated. As consideration, Geogen shall issue Ten Million preferred shares at a par value of ₱0.01 per share and subject to a cumulative dividend computed annually based on 20% of Mine Operating Income net of taxes.

In addition to the Project, the Group is also conducting exploration activities in other areas. As at December 31, 2015, the Group had three (3) mining claims located in the provinces of Zambales, Misamis Oriental and Masbate.

The following are the Group's mining claims:

1. Botolan Mining Claim

Botolan Mining Claim is registered under the name of MTGI. The Botolan Mining Claim covers approximately 5,081 hectares located in the town of Botolan, Zambales. On February 10, 2010, MTGI's application for MPSA with Mines and Geosciences Bureau (MGB) on the Botolan Mining Claim was approved. With the MPSA, MTGI projects that it will produce and ship up to 450,000 dry metric tons (DMT) of nickel ore at an average of 1.6% nickel grade.

On October 22, 2012, MGB granted the MTGI the first renewal of the two (2) year Exploration Period under MPSA No. 315-2010-III. The fees of the second renewal of the two (2) year Exploration Period was paid on March 31, 2016. MTGI is continuously implementing the required Community Development Program (CDP) to create a symbiotic relationship between MTGI and the community. MTGI believes that its investment in the implementation of a CDP will ease the transition of the Botolan Mining Claim from exploration into development and full scale operation. MTGI has recently received the approval of the budget for implementation of its CDP and plans to implement presently.

2. Manticao Mining Claim

BGI has an Exploration Permit (EP) application with the MGB covering the Manticao Mining Claim with an area of 1,946 hectares located in Manticao, Misamis Oriental. In connection with the aforementioned EP application, BGI submitted all mandatory requirements provided under the Philippine Mining Act and its Implementing Rules and Regulations, including, an exploration work program as well as proof of technical and financial competence.

As at June 30, 2016, the EP application is still undergoing initial evaluation by the MGB. The Group will conduct additional study and exploration to further support the application. The budget planned for the additional study and exploration amounts to ₱30.0 million. The EP application is expected to be approved once pending revenue sharing scheme legislation and implementing regulations with the government is finalized.

3. Masbate Mining Claim

Masbate13, one of the Parent Company's subsidiaries through OI, has an EP covering Masbate Mining Claim with an area of approximately 8,357 hectares located in Milagros and Mandaon, Masbate. Said permit which expired on February 6, 2010, has been renewed for the second time on July 2014. Upon renewal, the coverage area of the permit was revised to 4,137 hectares. As at June 30, 2016, management is currently undergoing data gathering and reconnaissance mapping simultaneously before they perform further exploration procedures.

The Group incurred accumulated losses resulting in deficit of ₱671.6 million and ₱668.3 million as at June 30, 2016 and December 31, 2015, respectively. The recoverability from the deficit position is dependent upon the ability of the Group to successfully execute and implement their projects and ultimately to attain profitable operations.

On June 13, 2012, the Board of Directors (BOD) approved the Parent Company's equity restructuring to eliminate the Parent Company's previous deficit amounting to ₱150.1 million as at December 31, 2011 by application against additional paid-in capital. The equity restructuring was approved by the SEC on October 24, 2012, subject to the condition that the remaining additional paid-in capital amounting to ₱103.2 million shall not be used to eliminate losses that may be incurred in the future without prior approval of the SEC. For purposes of dividend declaration, the retained earnings of the Parent Company shall be restricted to the extent of the deficit wiped out amounting to ₱150.1 million

#### *Executive Order (EO) 79*

On July 12, 2012, EO 79 was released to lay out the framework for the implementation of mining reforms in the Philippines. The policy highlights several issues that includes area of coverage of mining, small-scale mining, creation of a council, transparency and accountability and reconciling the roles of the national government and local government units. The EO could potentially delay the processing of some of the Group's application for EP given the provision of the EO on the moratorium on the granting of new mineral agreements by the government until a legislation rationalizing existing revenue sharing schemes and mechanisms shall have taken effect. At any rate, management believes that EO 79 will not have a major impact on the Group's current operations considering the extent of investment and activities they have made on their mining areas that the government will take into account favorably and considering also that one of the mines is already covered by an existing EP with the government. Section 1 of EO 79, provides that mining contracts approved before the effectivity of the EO shall continue to be valid, binding, and enforceable so long as they strictly comply with existing laws, rules and regulations and the terms and conditions of their grant.

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## **2. Basis of Preparation and Basis of Consolidation**

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### Basis of Preparation

The accompanying consolidated financial statements of the Group have been prepared on a historical cost basis. The consolidated financial statements are presented in Philippine peso, which is the Group's functional currency under Philippine Financial Reporting Standards (PFRS). Amounts are rounded off to the nearest peso unit, except when otherwise indicated.

### Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Group as at June 30, 2016 and December 31, 2015. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company using consistent accounting policies.

### Summary of Significant Accounting and Financial Reporting Policies

#### Business Combinations

Business combinations are accounted for using the acquisition method. This involves recognizing identifiable assets and liabilities of the acquired business initially at fair value. If the acquirer's interest in the net fair value of the identifiable assets and liabilities exceeds the cost of the business combination, the acquirer shall: (a) reassess the identification and measurement of the acquiree's identifiable assets and liabilities and the measurement of the cost of the combination; and (b) recognize immediately in profit or loss any excess remaining after that reassessment.

For business combinations achieved in stages, each exchange transaction is treated separately by the Parent Company. The cost of the transaction and fair value information at the date of each exchange transaction is used to determine the amount of any goodwill associated with that transaction. This results in a step-by-step comparison of the cost of the individual investments with the Parent Company's interest in the fair values of the acquiree's identifiable assets, liabilities and contingent liabilities at each step.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of PAS 39 *Financial Instrument Recognition and Measurement*, is measured at fair value with changes in fair value recognized either in either profit or loss or as a change to OCI. If the contingent consideration is not within the scope of PAS 39, it is measured in accordance with the appropriate standards. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

#### NCI

NCI represent the portion of profit or loss and the net assets in subsidiaries, not held by the Parent Company and are presented separately in the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from the equity attributable to the equity holders of the Parent Company.

#### Presentation of Financial Statements

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

#### Financial Instruments

##### *Date of Recognition*

The Group recognizes a financial asset or a financial liability in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using settlement date accounting.

##### *Initial Recognition of Financial Instruments*

Financial assets and financial liabilities are recognized initially at fair value. Transaction costs are included in the initial measurement of all financial assets and financial liabilities, except for financial instruments at fair value through profit or loss (FVPL).

Financial assets are classified into the following categories: financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments and AFS financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. Financial liabilities, on the other hand, are classified into the following categories: financial liabilities at FVPL, other financial liabilities, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification at initial recognition and, where allowed and appropriate, reevaluates this designation at each reporting period.

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

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

As at June 30, 2016 and December 31, 2015 the Group's financial liabilities are in the nature of other financial liabilities. The Group had no financial liabilities at FVPL as at June 30, 2016 and December 31, 2015.

#### *Fair Value Measurement*

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

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

The principal or the most advantageous market must be accessible to by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

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

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

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

#### *Subsequent Measurement*

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

#### *Loans and Receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest rate (EIR) method, less any

allowances for impairment. Gains and losses are recognized in the consolidated statement of comprehensive income when the loans and receivables are derecognized or impaired, as well as through the amortization process. Loans and receivables are included in current assets if maturity is within twelve (12) months from the reporting period. Otherwise, these are classified as noncurrent assets.

As at June 30, 2016 and December 31, 2015, the Group's loans and receivables consisted of cash and cash equivalents, receivables and due from related parties.

#### *Other Financial Liabilities*

Other financial liabilities are initially recorded at fair value, less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses are recognized in the Group's consolidated statement of comprehensive income when the liabilities are derecognized as well as through the amortization process.

As at June 30, 2016 and December 31, 2015, other financial liabilities consisted of accrued expenses and other liabilities.

#### Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Company assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Company and all of the counterparties.

#### Impairment of Financial Assets

The Group assesses at each end of reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one 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 the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the contracted parties or a group of contracted parties is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is measurable decrease in the estimated future cash flows such as changes in arrears or economic conditions that correlate with defaults.

#### *Financial Assets Carried at Amortized Cost*

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original EIR (i.e., the EIR computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognized in consolidated statements of comprehensive income.



If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

In relation to receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognized when they are assessed as uncollectible.

#### Derecognition of Financial Assets and Financial Liabilities

##### *Financial Assets*

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

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

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

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group’s continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on asset measured at fair value, the extent of the Group’s continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

##### *Financial Liabilities*

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

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statements of comprehensive income.

#### Asset Held for Sale

Noncurrent assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. The asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset and its sale must be highly probable. For the sale to be highly probable, (a) an appropriate level of management must be committed to a plan to sell the asset, (b) an active program must have been initiated, (c) the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value, (d) the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification and (e) actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. Noncurrent assets classified as held for sale are measured at the lower of their previous carrying amount, net of any impairment, and fair value less costs to sell.

Impairment loss is recognized for any subsequent write-down of the asset to fair value less costs to sell. Gain for any subsequent increase in fair value less costs to sell of an asset is also recognized, but not in excess of the cumulative impairment loss that has been previously recognized.

If the Company has classified an asset as held for sale but the criteria as set out above are no longer met, the Company ceases to classify the asset as held for sale. The Company measures a noncurrent asset that ceases to be classified as held for sale at the lower of (a) its carrying amount before the asset was classified as held for sale, adjusted for any depreciation, amortization or revaluations that would have been recognized had the asset not been classified as held for sale, and (b) its recoverable amount at the date of the subsequent decision not to sell.

#### Other Current Assets

Other current assets include input VAT, deferred service cost and creditable withholding tax (CWTs). Other assets are classified as noncurrent when it is not probable to be realized within one (1) year from the end of financial reporting date.

#### *Input VAT*

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

#### *Deferred Service Costs*

Deferred service costs pertains to the nickel stockpile, cost of extraction of unsold mineral ore and cost incurred in providing exploration services. This is subsequently charged to cost of services upon sale of mineral ores.

#### *CWTs*

CWTs are withheld from sale of services which the Group can utilize as payment for income taxes provided that they are properly supported by certificates of creditable withholding tax withheld at source subject to the rules in Philippine income taxation.

### Property and Equipment

Items of property and equipment are carried at cost less accumulated depreciation and depletion and any impairment in value.

The initial cost of property and equipment comprises its purchase price, including import duties, taxes, and any directly attributable costs of bringing the property and equipment to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been placed into operation, such as repairs and maintenance costs, are normally recognized in consolidated statements of comprehensive income in the period they are incurred.

When assets are sold or retired, the cost and related accumulated depreciation, amortization and depletion are removed from the accounts and any resulting gain or loss is recognized in the consolidated statements of comprehensive income.

Depreciation of property and equipment, except mine development costs, is computed using the straight-line method over the estimated useful lives of the assets as follows:

<u>Category</u>	<u>Number of Years</u>
Transportation equipment	5 years
Office and laboratory equipment	3 years
Site assets	3-10 years

The cost of leasehold improvements is amortized over the shorter of the term of the lease or the estimated useful lives of three to five (3-5) years of the improvements.

Depreciation, amortization or depletion of an item of property and equipment begins when it becomes available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation, amortization or depletion ceases at the earlier of the date that the item is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with PFRS 5 and the date the asset is derecognized.

The estimated recoverable mine reserves, useful lives, and depreciation, amortization and depletion methods are reviewed periodically to ensure that the estimated recoverable reserves, periods and methods of depreciation, amortization and depletion are consistent with the expected pattern of economic benefits from the items of property and equipment.

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

The asset's useful lives and methods of depreciation are reviewed and adjusted, if appropriate, at each end of the reporting period.

Expenditures on major maintenance refits or repairs comprise the cost of replacement assets or parts of assets and overhaul cost. Where an asset or part of an asset that was separately depreciated and is now written-off is replaced, and it is probable that future economic benefits associated with the item will flow to the Group through an extended life, expenditure is capitalized. All other day to day maintenance costs are expensed as incurred.

### Mine Development Costs

Mine development costs are stated at cost, which includes cost of construction, property and equipment, borrowing costs and other direct costs. Mine development costs, except for cost attributable to current operations, and construction in-progress are not depreciated or depleted until such time as the relevant assets are completed and become available for use. Mine development costs attributed to operations are depleted using the units-of-production (UOP) method based on estimated recoverable reserves in tonnes.

Property and equipment also include the estimated costs of rehabilitating the mine site, for which the Group is constructively liable. These costs, included under mine development costs, are amortized using the UOP method based on the estimated recoverable mine reserves until the Group actually incurs these costs in the future.

### Leasehold Rights

Leasehold rights, included under “Other noncurrent assets” account in the consolidated statement of financial position, are carried at cost less accumulated amortization and any impairment losses. Amortization is computed using the straight-line method over the lease term of twenty five (25) years.

### Mining Rights

Mining rights are carried at cost less amortization and impairment in value, if any. Amortization commences at the start of commercial production based on UOP. It ceases at the earlier of the date that the intangible assets is classified as held for sale in accordance with PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, and the date that the asset is derecognized.

An impairment review is performed when there are indicators that the carrying amount of the assets may exceed their recoverable amounts. To the extent that this occurs, the excess is fully provided against, in the reporting period in which this is determined. Mining rights are reassessed on a regular basis and these costs are carried forward provided that at least one of the following conditions is met:

- such costs are expected to be recouped in full through successful development and exploration of the area of interest or alternatively, by its sale; or
- exploration and evaluation activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area continuing, or planned for the future.

Mining rights represent the Group’s intangible asset for its right to mine certain areas.

### Impairment of Nonfinancial Assets

#### *Property and Equipment*

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If any such indication exists and where the carrying amount of an asset exceeds its recoverable amount, the asset or cash generating unit (CGU) is written down to its recoverable amount. An asset’s recoverable amount is the higher of an asset’s or CGU’s fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the

estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators. Impairment losses are recognized in the consolidated statement of comprehensive income.

#### *Asset Held for Sale, Mining Rights, Other Current and Noncurrent Assets*

The Group provides allowance for impairment losses on asset held for sale, mining rights, and nonfinancial other current and noncurrent assets when they can no longer be realized. The amounts and timing of recorded expenses for any period would differ if the Group made different judgments or utilized different estimates. An increase in allowance for impairment losses would increase recorded expenses and decrease asset held for sale, mining rights, and other current and noncurrent assets.

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

#### Capital Stock

Ordinary or common shares are classified as equity. The proceeds from the increase of ordinary or common shares are presented in equity as capital stock to the extent of the par value issued shares and any excess of the proceeds over the par value of shares issued less any incremental costs directly attributable to the issuance, net of tax, is presented in equity as additional paid-in capital.

#### Deficit

Deficit represents the cumulative balance of periodic results of operations. A deficit is not an asset but a deduction from equity.

#### Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made.

#### *Service Income*

Revenue is recognized upon rendering of services which include mining services as well as shipping and loading activities from stock yard to shipping vessels upon sale of customer's product.

#### *Interest Income*

Revenue is recognized as the interest accrues taking into account the effective yield on the asset.

#### Costs and Expenses

Costs and expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Costs and expenses are generally recognized when they are incurred.

*Costs of Services*

Costs of services consist of costs directly associated with the Group's operations. These are generally recognized when the cost is incurred.

*General and Administrative Expenses*

Expenses incurred in the direction and general administration of day-to-day operations of the Group. These are generally recognized when the services are used or the expenses arise.

Exploration and Evaluation Costs

Pre-license costs are expensed in the period in which they are incurred. Once the legal right to explore has been acquired, exploration and evaluation expenditures are charged to the parent company statement of comprehensive income as incurred, unless there is a future economic benefit that is more likely to be realized than not. These costs include materials and fuel used, surveying costs, drilling costs and payments made to contractors.

In evaluating whether expenditures meet the criteria to be capitalized, several different sources of information are utilized. The information that is used to determine the probability of future benefits depends on the extent of exploration and evaluation that has been performed.

Leases*Determination of Whether an Arrangement Contains a Lease*

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

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

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

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

*Operating Lease - Group as a Lessee*

Leases where the lessor retains substantially all the risks and benefits of ownership of assets are classified as operating leases. Operating lease payments are recognized in the consolidated statement of comprehensive income on a straight-line basis over the lease term.

Income Tax*Current Income Tax*

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted at the end of each reporting period.

### *Deferred Income Tax*

Deferred income tax is provided using the liability method on all temporary differences at the end of financial reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences, and the carryforward benefits of unused tax credits can be utilized except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and sufficient future taxable profits will be available against which the temporary differences can be utilized.

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

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

### Earnings (Loss) Per Share

Basic earnings (loss) per share is computed by dividing the net income (loss) attributable to equity holders of the Group by the weighted average number of shares outstanding during the year adjusted to give retroactive effect to any stock dividends declared during the year.

Diluted earnings (loss) per share, if applicable, is calculated by dividing the net income for the year attributable to the ordinary equity holders of the parent by the weighted average number of common shares outstanding during the year plus the weighted average number of ordinary shares that would be issued for outstanding common stock equivalents.

Segment Reporting

An operating segment is a component of an entity:

- a) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);
- b) whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance;
- c) for which discrete financial information is available.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each end of the reporting period and adjusted to reflect the current best estimate. When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, 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 the statement of comprehensive income net of any reimbursement.

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 inflows of economic benefits are probable.

Events After the End of the Reporting Period

Post year-end events that provide additional information on the consolidated financial position at the end of the reporting period (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to consolidated financial statements when material.

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### 3. Cash and Cash Equivalents

	<b>June 30, 2016</b>	Dec. 31, 2015
Cash on hand	<b>₱10,000</b>	₱20,000
Cash in banks	<b>53,815,606</b>	129,615,036
Cash equivalents	<b>81,249,938</b>	3,019,498
	<b>₱135,075,544</b>	₱132,654,534

Cash in banks earn interest at the prevailing bank deposit rates. Cash equivalents are made for varying periods of up to three (3) months, depending on the immediate cash requirements of the Group, and earn interest at the prevailing short-term deposit rates.



#### 4. Receivables

	<b>June 30, 2016</b>	Dec. 31, 2015
Trade	<b>₱-</b>	₱17,170,812
Advances to:		
Suppliers	<b>30,185,252</b>	30,185,252
Officers and employees	<b>80,837</b>	138,243
Others	<b>2,897,867</b>	2,897,867
Others	<b>8,193,358</b>	8,193,358
	<b>41,357,314</b>	58,585,532
Less allowance for impairment loss	<b>4,918,229</b>	4,918,229
	<b>₱36,439,085</b>	₱53,667,303

All of the receivables above generally have thirty (30) to sixty (60) days' term.

Advances to suppliers pertain to advance payments for services to be rendered for the mining operation, development of the project, and exploration studies required under the MPSA. This account also includes advance payments made to surface right owners and other contractors. This account will be credited when the services are rendered.

Advances to officers and employees represent the revolving fund given to the employees for the expense incurred in relation to operations such as travel and representation.

Advances to others are cash advances to third parties that are generally due and demandable.

The balance of Other receivables represent the expected reimbursements as agreed with Capital Gold Pty Ltd. ("Capital Gold") and other receivables of the Group.

Most of the receivables of the Group consist of individually significant accounts and were therefore subject to the specific impairment approach. The Group recognized allowance for impairment losses amounting to ₱4.9 million as at March 31, 2016 and December 31, 2015 covering those receivables specifically identified as impaired. Receivables which were not individually significant and individually significant receivables for which no specific impairment were recognized were assessed and subjected to collective assessment. Based on the assessment done by management, the Group has not recognized any provision for receivables which were assessed collectively.

Allowance for impairment loss as at June 30, 2016 and December 31, 2015 pertains to the following:

	<b>June 30, 2016</b>	Dec. 31, 2015
Advances to:		
Suppliers	<b>₱4,910,210</b>	₱4,910,210
Others	<b>8,019</b>	8,019
	<b>₱4,918,229</b>	₱4,918,229

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**5. Other Current Assets**

	<b>June 30, 2016</b>	Dec. 31, 2015
Input VAT	<b>₱109,574,333</b>	₱111,271,518
Deferred service cost	<b>101,133,762</b>	101,133,761
CWTs	<b>5,535,637</b>	5,535,637
	<b>216,243,732</b>	217,940,916
Less allowance for impairment loss on input VAT	<b>27,178,424</b>	27,178,424
	<b>₱189,065,308</b>	₱190,762,492

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Input VAT represents VAT imposed by the Group's suppliers for the acquisition of goods and services as required by the Philippine taxation laws and regulations. Input VAT will be used as credit against the Group's current and future output VAT liability.

Deferred service costs pertain to cost of extraction of unsold mineral ore and cost incurred in providing exploration services. As at June 30, 2016 and December 31, 2015, 125,199 wet metric tons (wmt) of nickel are still on stockpile.

CWTs are withheld from sale of services which the Group can utilize as payment for income taxes provided that they are properly supported by certificates of creditable withholding tax withheld at source subject to the rules in Philippine income taxation. CWTs which are expected to be utilized as payment for income taxes within twelve (12) months are classified as current assets.

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**6. Business Combinations**
Acquisition of MTGI

On October 16, 2007, the Parent Company acquired all of the outstanding shares of MTGI pursuant to the Deed of Absolute Sale between the Parent Company and the shareholders of MTGI.

Details of the purchase price and fair value of net assets acquired are presented below:

Total purchase price	₱61,469,586
Fair value of net assets acquired	11,973,000
	<b>₱49,496,586</b>

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The excess of the purchase price over the fair value of net assets acquired is presented as "Mining Rights" account in the consolidated statement of financial position (see Note 10).

Purchase price is based on the Mine Valuation Report of Minercon International, Inc. dated September 18, 2007 on the mining rights of MTGI in Botolan, Zambales.

Acquisition of OI

On March 10, 2011, the Parent Company acquired all of the outstanding shares of OI pursuant to a Memorandum of Agreement (MOA) between the Parent Company and the previous stockholders of OI. Under the MOA, the total consideration of ₱108.0 million covered the assignment of all outstanding shares of OI, assignment of advances made by the previous stockholders to OI aggregating ₱125.5 million and the 80% ownership of outstanding shares of Masbate13 held by OI. Masbate13 is the owner of a gold mining claim covering 8,375.35 hectares in the Municipalities of Milagros and Mandaon in Masbate. In 2014, the area covered by the gold

mining claim was reduced to 4,137 hectares compliant with the legal requirement to excise areas deemed not beneficial for mining activities.

On December 31, 2011, the BOD of OI approved the increase in its authorized capital stock to 2,000,000 shares and the conversion of the ₱125.5 million advances assigned to the Parent Company into 1,250,000 shares, with par value of ₱100 per share.

The non-controlling interest in the acquiree was measured at the proportionate share of the acquiree's identifiable net assets.

*Assets acquired and liabilities assumed*

The fair value of the identifiable assets and liabilities of OI as at the date of acquisition were:

	Fair value recognized on acquisition
<b>Assets:</b>	
Cash in banks	₱3,820,625
Mining rights	152,136,833
Other current assets	1,702,200
	<u>157,659,658</u>
<b>Liabilities:</b>	
Accrued expenses	89,600
Due to related parties	2,469,626
	<u>2,559,226</u>
Total identifiable net assets at fair value	155,100,432
NCI	(29,919,721)
Negative goodwill arising on acquisition	(17,180,711)
Purchase consideration	<u>₱108,000,000</u>

OI obtained an independent valuation for the gold mining claim of Masbate13. The valuation showed that the fair value at the date of acquisition was ₱152.1 million. This was presented under "Mining rights" account in the consolidated statements of financial position (see Note 7).

## 7. Mining Rights

Mining rights represent the Group's intangible assets for its right to mine certain areas. The details as at June 30, 2016 and December 31, 2015 are presented below:

Milagros and Magdaon Masbate (Note 6)	₱152,136,833
Botolan, Zambales (Note 6)	49,496,586
	<u>₱201,633,419</u>

## 8. Property and Equipment

	2016					Total
	Transportation Equipment	Office and Laboratory Equipment	Site Assets	Leasehold Improvements	Mine Development Costs	
<b>Cost:</b>						
Beginning balance	₱0	₱1,746,013	₱0	₱81,288	₱504,733,936	₱506,561,237
Accumulated						

2016						
	Transportation Equipment	Office and Laboratory Equipment	Site Assets	Leasehold Improvements	Mine Development Costs	Total
depreciation, amortization and depletion:						
Beginning balance	0	1,715,628	0	81,288	2,274,880	4,071,796
Depreciation, amortization and depletion		10,789				10,789
Ending balance	–	1,726,417	–	81,288	2,274,880	4,082,585
Net book value	P–	P19,596	P–	P–	P502,459,056	P502,478,652

2015						
	Transportation Equipment	Office and Laboratory Equipment	Site Assets	Leasehold Improvements	Mine Development Costs	Total
Cost:						
Beginning balance	P3,970,000	P2,363,529	P70,591,699	P403,573	P224,405,516	P301,734,317
Additions	–	36,500	44,866,388	–	280,328,420	325,231,308
Casualty losses	(3,970,000)	(654,016)	(115,458,087)	(322,285)	–	(120,404,388)
Ending balance	–	1,746,013	–	81,288	504,733,936	506,561,237
Accumulated depreciation, amortization and depletion:						
Beginning balance	2,129,668	1,845,556	18,010,660	169,807	2,274,880	24,430,571
Depreciation, amortization and depletion	603,332	190,087	6,418,357	78,121	–	7,289,897
Casualty losses	(2,733,000)	(320,015)	(24,429,017)	(166,640)	–	(27,648,672)
Ending balance	–	1,715,628	–	81,288	2,274,880	4,071,796
Net book value	P–	P30,385	P–	P–	P502,459,056	P502,489,441

During 2015, the Parent Company recognized casualty losses amounting to P92.8 million due to a burning incident that transpired at Isabela last October 28, 2015. The Parent Company's warehouses, laboratories, bunk houses, and equipment were severely damaged.

## 9. Other Noncurrent Assets

	June 30, 2016	Dec. 31, 2015
Deposits	P5,803,571	P5,803,571
Leasehold rights	4,183,333	4,283,333
	9,986,904	10,086,904
Less allowance for impairment loss	5,803,571	5,803,571
	P4,183,333	P4,283,333

In 2012, the Group made deposits for subcontracted services in relation to the Geogen Operations. The Group provided an allowance for impairment loss on deposits amounting to P5.8 million in 2014.

On June 1, 2012, the Group purchased a right to use a 10-hectare land located in Brgy. Dicabasan, Dilasag, Aurora for P5.0 million to be used in its mining operations. The land will be returned to its original owner upon completion of the Isabela Nickel Project.

The leasehold is to be amortized on a straight-line basis over 25 years, which corresponds to the term of the MPSA.

Details of leasehold rights are as follows:

	<b>June 30, 2016</b>	Dec. 31, 2015
Cost	<b>₱5,000,000</b>	₱5,000,000
Accumulated amortization:		
Beginning balance	<b>716,667</b>	516,667
Amortization	<b>100,000</b>	200,000
Ending balance	<b>816,667</b>	716,667
Net book value	<b>₱4,183,333</b>	₱4,283,333

#### 10. Accrued Expenses and Other Liabilities

	<b>June 30, 2016</b>	Dec. 31, 2015
Accrued Expenses	<b>₱30,395,882</b>	₱41,821,855
Taxes payable	<b>894,483</b>	2,737,886
Others	<b>67,666</b>	67,666
	<b>₱31,358,031</b>	₱44,627,407

Accrued expenses and other current liabilities are noninterest-bearing and have an average term of 30 days, but may extend longer depending on the agreement of the parties involved.

Accrued expenses include expenses already incurred but not yet billed by the suppliers as at the end of the reporting period.

Taxes payable includes withholding taxes on compensation and expanded withholding taxes which are payable to the government within ten (10) days after the end of each month.

Others consist of amounts withheld by the Group from the compensation of its employees which represents payables to Social Security System, Home Development Mutual Fund, and Philhealth.

#### 11. Capital Stock

Movements in the authorized and issued number of shares were as follows:

	<b>June 30, 2016</b>	Dec. 31, 2015	Dec. 31, 2014
Common shares - ₱1 par value			
Authorized			
Balance at beginning and end of year	<b>₱2,000,000,000</b>	₱2,000,000,000	₱2,000,000,000
Issued			
Balance at beginning of year	<b>1,010,000,000</b>	913,000,000	913,000,000
Issuance during the year		97,000,000	-
Balance at end of year	<b>₱1,010,000,000</b>	₱1,010,000,000	₱913,000,000

Issuances of shares of stock of the Parent Company approved by the SEC were as follows:

Date of SEC Approval	Type of Issuance	No. of Shares Issued	Issue/Offer Price
October 3, 1990	Initial Public Offering	100,000,000	₱1.00
January 14, 2009	Stock Rights	500,000,000	₱1.00

On March 2, 2012, Macquarie Bank Limited (Macquarie Bank), in relation to the Memorandum of Agreement (MOA), entered into a Subscription Agreement with the Parent Company for the initial subscription of 33,000,000 common shares (the “Subscribed Shares”).

The subscribed shares were paid in cash and in full at a subscription price of ₱9.46 per share, or a total amount of ₱312.2 million. The issuance resulted in additional paid in capital amounting to ₱279.2 million. The shares issued in line with the subscription agreement are pending for listing with the PSE.

In 2011, the Parent Company entered into various subscription agreements with a stockholder for additional subscriptions to the portion of the Parent Company’s authorized but unissued capital stock.

Details were as follow:

Date	Number of Shares	Subscription price per share	Total consideration	Increase in additional paid-in capital
September 21, 2011	100,000,000	₱2.00	₱200,000,000	₱100,000,000
August 16, 2011	100,000,000	2.25	225,000,000	125,000,000
	200,000,000		₱425,000,000	₱225,000,000

Proceeds from the subscriptions are intended to be used to acquire equity in mining companies for strategic business purposes and mining equipment to further enhance the mining assets portfolio of the Group.

On December 9, 2011, the Group’s stockholders approved the waiver of the requirement for a rights offer of private placement shares pursuant to Section 9 of Article V of the Revised Listing Rules. The approval resulted in a waiver of stock rights offering (SRO) to other stockholders. On December 29, 2010, the Parent Company entered into an agreement with one of its stockholders to open for subscription a portion of the Parent Company’s authorized but unissued capital stock for the purpose of utilizing the proceeds from such subscription to fund business expansion activities that the Parent Company was to undertake in the succeeding years, including the acquisition of mining tenements and mining rights. The stockholder agreed to subscribe to 80,000,000 common shares at a subscription price of ₱1.35 per share for a total consideration of ₱108.0 million.

The issuance resulted in an increase in additional paid-in capital of ₱28.0 million. On the same date, the Parent Company’s BOD approved the issuance of additional shares of stocks through a SRO, implemented on a 2:5 proportion. This was to provide other stockholders with equal opportunity to subscribe to new share issuances of the Parent Company. However, this right was waived by stockholders during the annual stockholders’ meeting.

On August 4, 2015, the Parent Company entered into a subscription agreement with Messr. Jerry C. Angping and San-ho Cheng to subscribe shares of stock in the Parent Company in the aggregate amount of ₱97 million from the Parent Company’s authorized but unissued capital stock at ₱4.00 per share. The price was at a premium over the 15-day, 30-day, 45-day, 60-day,

and 90-day volume weighted average price (VWAP) of the Parent Company's shares as traded in the PSE.

The issuance of the private placement shares was entered into for purposes of providing funding for the settlement of contractual obligations, and working capital for the Group's projects. Over time, ultimate benefit to shareholders is expected as shareholders' value will be enhanced.

The total transaction value of the issuance of the private placement shares is ₱388 million. The shares issued in line with the above subscription agreements are pending for listing with the PSE.

There were no dividend declarations made in 2015, 2014 and 2013.

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## 12. Basic Earnings (Loss) Per Share

Earnings (loss) per share amounts for the period ended June 30, 2016 and for the years ended December 31, 2015 and 2014 were computed as follows:

	<b>June 30, 2016</b>	Dec. 31, 2015	Dec. 31, 2014
Net loss (a)	<b>(₱3,331,799)</b>	(₱165,362,701)	(₱46,564,918)
Weighted average number of common shares (b)	<b>1,010,000,000</b>	1,010,000,000	913,000,000
Basic/Diluted loss per share			
Based on net loss (a/b)	<b>(₱0.003)</b>	(₱0.16)	(₱0.05)

There were no dilutive shares as at June 30, 2016, December 31, 2015 and 2014.

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## 13. Related Party Transactions

Related party relationships exist when one party has the ability to control, directly or indirectly through one or more intermediaries, the other party or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting enterprise, or between and/or among the reporting enterprise and their key management personnel, directors, or its stockholders.

### Transactions with Related Parties

In the normal course of business, the Group enters into transactions with certain related parties. Transactions covering the first two quarters of 2016 and the year 2015 included the following:

<u>Category</u>	<u>Amount</u>	<u>Outstanding receivable (payable)</u>	<u>Terms</u>	<u>Conditions</u>
<b><u>First two quarters of 2016</u></b>				
<i>Under common control</i>				
Geogen	₱–	₱46,008	Collectible on demand, non-interest bearing, settlement occurs through cash	Unsecured, and unguaranteed
GNA Resources International Ltd. (GNA)	–	101,444	Collectible on demand, non-interest bearing, settlement occurs	Unsecured, and unguaranteed

Category	Amount	Outstanding receivable (payable)	Terms through cash	Conditions
	₱-	₱147,452		
<hr/>				
Category	Amount	Outstanding receivable (payable)	Terms	Conditions
<i>2015</i>				
<i>Under common control</i>				
GNA	₱-	₱46,008	Collectible on demand, non-interest bearing, settlement occurs through cash	Unsecured, and unguaranteed
Geogen	101,344	101,444	Collectible on demand, non-interest bearing, settlement occurs through cash	Unsecured, and unguaranteed
	₱101,344	₱147,452		

- The management and accounting functions of the subsidiaries are being handled by the Parent Company.
- The Group extended non-interest bearing advances for Geogen's expenses.

Category	Amount	Outstanding receivable (payable)	Terms	Conditions
<b>First Two Quarters of 2016</b>				
<b>Under common control</b>				
<b>Service income and trade receivable</b>				
<b>(Note 4)</b>				
Geogen	₱-	₱-	Collectible on demand, non-interest bearing, settlement occurs through cash	Unsecured, no impairment and unguaranteed
<hr/>				
<b>Management fee</b>				
Asiabest Group International, Inc. (ABG)	₱-	(₱3,039,361)	Payable on demand, non-interest bearing, settlement occurs through cash	Unsecured, no impairment and unguaranteed



Category	Amount	Outstanding receivable (payable)	Terms	Conditions
<b>2015</b>				
<b>Under common control</b>				
<b>Service income and trade receivable (Note 4)</b>			<b>Collectible on demand, non- interest bearing, settlement occurs through cash</b>	<b>Unsecured, no impairment and unguaranteed</b>
<b>Geogen</b>	<b>₱15,331,082</b>	<b>₱17,170,812</b>		
<b>Management fee</b>				
			<b>Payable on demand, non- interest bearing, settlement occurs through cash</b>	<b>Unsecured, no impairment and unguaranteed</b>
<b>Asiabest Group International, Inc. (ABG)</b>	<b>₱6,488,734</b>	<b>(₱3,039,361)</b>		

- c. Pursuant to the Operating Agreement with Geogen, Geogen shall pay the Group an amount equivalent to 90% of invoice value of the nickel ore sold by Geogen to third parties in consideration of the services to be performed by the Group. Service income amounted to nil and ₱15.3 million in 2015 and 2014, respectively.
- d. Pursuant to the Operating Agreement with Geogen, the Group shall pay ABG management fee equivalent to 5% of the revenue from the shipment of nickel ore. The Group made partial payments to ABG amounting to ₱9.5 million and ₱1 million in 2015 and 2014, respectively.

#### 14. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprises of cash and cash equivalents and due from related parties. The purpose of these financial instruments is to fund the Group's operations. The Group has other financial assets and liabilities such as receivables and accrued expenses and other liabilities which arise directly from its operations.

The main risks arising from the Group's financial instruments are credit risk and liquidity risk. The Group has no significant financial instruments that are exposed to interest rate risk as at June 30, 2016 and December 31, 2015. The BOD reviews and approves policies for managing each of these risks and they are summarized below:

##### Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Group's credit risk is the risk that counterparty will not meet its obligations under a financial instrument leading to a financial loss. The Group is exposed to credit risk from its deposits with banks. The Group's maximum exposure to credit risk is equal to the carrying amount of these instruments as summarized below:

	<b>June 30, 2016</b>	Dec. 31, 2015
Cash and cash equivalents*	<b>₱135,065,544</b>	₱132,634,534
Receivables	<b>9,318,358</b>	26,489,170
Due from related parties	<b>147,452</b>	147,452
	<b>₱144,531,354</b>	₱159,271,156

\*excluding cash on hand

As at June 30, 2016 and December 31, 2015, the credit quality and aging of the Group's financial assets are as follows:

2016					
	Neither past due nor impaired		Past due but not impaired (More than 90 days)	Impaired	Total
	High Grade	Standard Grade			
Cash and cash equivalents	₱135,065,544	₱-	₱-	₱-	₱135,065,544
Receivables	-	9,318,358	-	-	9,318,358
Due from related parties	-	-	147,452	-	147,452
	<b>₱135,065,544</b>	<b>9,318,358</b>	<b>147,452</b>	<b>-</b>	<b>144,531,354</b>

  

2015					
	Neither past due nor impaired		Past due but not impaired (More than 90 days)	Impaired	Total
	High Grade	Standard Grade			
Cash and cash equivalents	₱132,634,534	₱-	₱-	₱-	₱132,634,534
Receivables	-	26,489,170	-	-	26,489,170
Due from related parties	-	-	147,452	-	147,452
	<b>₱132,634,534</b>	<b>26,489,170</b>	<b>147,452</b>	<b>-</b>	<b>159,271,156</b>

Cash and cash equivalents and short-term deposits were classified as high grade since these were deposited and invested with a reputable bank and can be withdrawn anytime.

Receivables were classified as high grade and standard grade. High grade receivables include receivable from a reputable bank. Standard grade receivable include receivables that are collected more than one (1) month to less than three (3) months.

Due from related parties amounting to ₱147,452 as at June 30, 2016 and December 31, 2015, are classified as past due but not impaired. These are collectible on demand (see Note 13).

#### *Credit quality*

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

- Cash and cash equivalents are assessed as high grade since these are deposited in reputable banks, which have a low probability of insolvency.
- Receivables assessed as high grade pertain to those receivables from customers that consistently pay before the maturity date. Standard grade include receivables that are collected on their due dates even without an effort from the Group to follow them up.
- Due from related parties are assessed as standard grade since amounts are settled several days after the incurrence of the liability.

#### Liquidity Risk

Liquidity risk is defined as the risk that the Group could not be able to settle or meet its obligations on time or at a reasonable price.

The Group's exposure to liquidity risk relate to raising funds. The Group manages its liquidity profile to be able to finance capital expenditures and service maturing debts. To cover its financing requirements, the Group intends to use internally generated funds and available short-term credit facilities.

As part of its liquidity risk management, the Group regularly evaluates its projected and actual cash flows. It also continuously assesses conditions in the financial markets for opportunities to pursue fund raising activities, in case any requirements arise.

The Group's other financial liabilities consists of accrued expenses and other liabilities, excluding taxes payable, amounting to ₱30.4 million and ₱41.9 million as at June 30, 2016 and December 31, 2015, respectively.

As at June 30, 2016 and December 31, 2015, the Group's financial assets amounting to ₱144.5 million and ₱159.3 million, respectively, were determined by management to be realizable within one year.

#### Capital Management

The primary objective of the Group's management is to ensure that it maintains healthy capital ratios in order to support its business and maximize shareholder value. The Group manages its capital structure and makes appropriate adjustments, in light of changes in economic conditions.

The Group monitors capital on the basis of the debt-to-equity ratio. This ratio is calculated as total debt divided by equity. Total debt is the sum of accounts payable and other current liabilities, income tax payable and advances from related parties.

The table below summarizes the total capital considered by the Group:

	<b>June 30, 2016</b>	Dec. 31, 2015
Capital stock	<b>₱1,010,000,000</b>	₱1,010,000,000
APIC	<b>673,377,974</b>	673,377,974
	<b>₱1,683,377,974</b>	₱1,683,377,974

The Group's debt-to-equity ratio as at June 30, 2016 and December 31, 2015 were as follows:

	<b>June 30, 2016</b>	Dec. 31, 2015
Total debt (a)	<b>₱31,358,031</b>	₱44,627,407
Total equity (b)	<b>1,037,664,763</b>	1,041,010,567
Debt-to-equity ratio (a/b)	<b>0.03:1</b>	0.04:1