

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
Jun 30, 2018
2. SEC Identification Number
12942
3. BIR Tax Identification No.
000-104-320-000
4. Exact name of issuer as specified in its charter
Marcventures Holdings Inc.
5. Province, country or other jurisdiction of incorporation or organization
Manila, Philippines
6. Industry Classification Code(SEC Use Only)

7. Address of principal office
4th Floor Citibank Center, Paseo de Roxas, Makati City
Postal Code
1227

8. Issuer's telephone number, including area code
632-8314479
9. Former name or former address, and former fiscal year, if changed since last report
-
10. Securities registered pursuant to Sections 8 and 12 of the SRC or Sections 4 and 8 of the RSA

| Title of Each Class | Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding |
|---------------------|---|
| COMMON | 3,014,820,305 |

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

Yes No

If yes, state the name of such stock exchange and the classes of securities listed therein:

Philippine Stock Exchange

12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the SRC 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 that the registrant was required to file such reports)

Yes No

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

Yes No

The Exchange does not warrant and holds no responsibility for the veracity of the facts and representations contained in all corporate disclosures, including financial reports. All data contained herein are prepared and submitted by the disclosing party to the Exchange, and are disseminated solely for purposes of information. Any questions on the data contained herein should be addressed directly to the Corporate Information Officer of the disclosing party.

Marcventures Holdings, Inc.

MARC

PSE Disclosure Form 17-2 - Quarterly Report

**References: SRC Rule 17 and
Sections 17.2 and 17.8 of the Revised Disclosure Rules**

| | |
|---|--------------|
| For the period ended | Jun 30, 2018 |
| Currency (indicate units, if applicable) | PHP |

Balance Sheet

| | Period Ended | Fiscal Year Ended (Audited) |
|--------------------------------------|---------------|-----------------------------|
| | Jun 30, 2018 | Dec 31, 2017 |
| Current Assets | 1,213,644,436 | 645,861,140 |
| Total Assets | 5,956,375,078 | 5,316,113,360 |
| Current Liabilities | 1,075,324,063 | 444,607,448 |
| Total Liabilities | 1,663,583,654 | 1,108,188,218 |
| Retained Earnings/(Deficit) | 973,307,959 | 963,441,676 |
| Stockholders' Equity | 4,292,791,424 | 4,207,925,142 |
| Stockholders' Equity - Parent | 4,059,364,316 | 4,023,049,894 |
| Book Value per Share | 1.35 | 1.59 |

Income Statement

| | Current Year (3 Months) | Previous Year (3 Months) | Current Year-To-Date | Previous Year-To-Date |
|--|----------------------------|-----------------------------|----------------------|-----------------------|
| Gross Revenue | 800,714,676 | 857,422,653 | 800,714,676 | 908,585,853 |
| Gross Expense | 658,771,130 | 737,734,261 | 780,108,582 | 859,871,729 |
| Non-Operating Income | 5,171,101 | 1,660,299 | 5,820,701 | 2,762,941 |
| Non-Operating Expense | 7,485,468 | 2,851,182 | 11,894,531 | 5,156,304 |
| Income/(Loss) Before Tax | 139,629,179 | 118,497,509 | 14,532,264 | 46,320,761 |
| Income Tax Expense | 4,665,982 | 22,177,056 | 4,665,982 | 22,177,056 |
| Net Income/(Loss) After Tax | 134,963,197 | 96,320,453 | 9,866,282 | 24,143,705 |
| Net Income Attributable to Parent Equity Holder | 134,963,197 | 96,320,453 | 9,866,282 | 24,143,705 |
| Earnings/(Loss) Per Share (Basic) | 0.04 | 0.05 | 0 | 0.01 |

| | | | | |
|--|------|------|---|------|
| Earnings/(Loss) Per Share (Diluted) | 0.04 | 0.05 | 0 | 0.01 |
|--|------|------|---|------|

| | Current Year (Trailing 12 months) | Previous Year (Trailing 12 months) |
|--|--|---|
| Earnings/(Loss) Per Share (Basic) | 0.02 | 0.12 |
| Earnings/(Loss) Per Share (Diluted) | 0.02 | 0.12 |

Other Relevant Information

Amended to correct typographical errors in the income statement and balance sheet.

Filed on behalf by:

| | |
|--------------------|--------------------|
| Name | Raquel Frondoso |
| Designation | Compliance Officer |

1 2 9 4 2

SEC Registration Number

M A R C V E N T U R E S H O L D I N G S I N C . A N D S U B
S I D I A R I E S

(Company's Full Name)

U N I T 4 - S 3 C I T I B A N K C E N T E R C O N D .
8 7 4 1 P A S E O D E R O X A S M A K A T I C I T Y

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

Diane Madelyn Ching
(Contact Person)

(02) 831-4479
(Company Telephone Number)

1 2 3 1
Month Day
(Calendar Year)

1 7 - Q
(Form Type)

Month Day
(Annual Meeting)

N/A

Secondary License Type, If Applicable)

Dept. Requiring this Doc.

June 30, 2018
Period Ending Date

Total Amount of Borrowings

2,176
Total No. of Stockholders

N/A
Domestic

N/A
Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

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SECURITIES AND EXCHANGE COMMISSION
SEC FORM 17-Q

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

1. For the quarterly period ended: **June 30, 2018**
2. Commission identification number **12942**
3. BIR Tax Identification No. **470-000-104-320**
4. Exact name of registrant as specified in its charter: **MARCVENTURES HOLDINGS INC.**
5. Province, country or other jurisdiction of incorporation or organization: **PHILIPPINES**
6. Industry Classification Code: (SEC Use Only)
7. Address of registrant's principal office:
**Unit 4-3 Citibank Center Cond.
8741 Paseo de Roxas , Makati City**
8. Registrant's telephone number, including area code: **(632) 831-4479**
9. Former name, former address and former fiscal year, if changed since last report. **N A.**
10. Securities registered pursuant to Sections 4 and 8 of the RSA

| <u>Title of each Class</u> | <u>Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding</u> |
|--------------------------------|--|
| Common Stock (₱1.00 par value) | 3,014,820,305 shares |

11. Are any or all of the securities listed on the Philippine Stock Exchange?
Yes. The common shares are listed on the Philippine Stock Exchange.
Note: only 1,821,327,687 are listed with PSE
12. Indicate by check mark whether the registrant:
 - (a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule (11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding 12 months (or for such shorter period the registrant was required to file such reports)
Yes
 - (b) has been subject to such filing requirements for the past 90 days.
Yes

Table of Contents

| | |
|--|----|
| PART I - FINANCIAL INFORMATION | 3 |
| Item 1- Financial Statements | 3 |
| Summary of Consolidated Balance Sheet as of June 30, 2018 and December 31, 2017 | 3 |
| Summary of Consolidated Income Statement for the three-month and six-month period ended June 30, 2018 and 2017 and | 3 |
| Summary of Consolidated Statement of Cash Flows for the three-month and six-month period ended June 30, 2018 and 2017..... | 4 |
| Item 2. - Management's Discussion and Analysis of Financial Condition and Results of Operation .4 | |
| Financial Condition and Results of Operation: | 4 |
| Horizontal and Vertical Analysis: | 7 |
| Key Performance Indicators..... | 10 |
| PART II - OTHER INFORMATION | 11 |
| PART III - FINANCIAL SOUNDNESS INDICATORS..... | 11 |
| SIGNATURES..... | 12 |
| Consolidated Financial Statements | 12 |

PART I - FINANCIAL INFORMATION

Item 1- Financial Statements

The unaudited Interim Consolidated Financial Statements of Marcventures Holdings Inc. (the Company) and its Subsidiaries as of June 30, 2018 (with comparative Audited Consolidated Statements of Financial Position as at December 31, 2017) and for the three-month and six-month period ended June 30, 2018 and 2017 are in compliance with generally accepted accounting principles. There were no changes made in accounting policies and methods of computation in the preparation of the interim financial statements.

Summary of Consolidated Balance Sheet as of June 30, 2018 and December 31, 2017

| | Amounts in ₱'000 | | | |
|---|----------------------------|--------------------------|---|---------------|
| | June 30, 2018 Unaudited | Dec. 31, 2017 Audited | Increase (Decrease) Amount Percentage | |
| Current assets | ₱1,213,644 | ₱645,861 | ₱567,783 | 87.91% |
| Noncurrent assets | 4,742,731 | 4,670,252 | 72,479 | 1.55% |
| Total Assets | ₱5,956,375 | ₱5,316,113 | ₱640,262 | 12.04% |
| Current Liabilities | ₱1,075,324 | ₱444,607 | ₱630,717 | 141.86% |
| Noncurrent liabilities | 588,260 | 663,581 | (75,321) | (11.35%) |
| Total Stockholders' Equity | 4,292,791 | 4,207,925 | 84,866 | 2.02% |
| Total Liabilities and Stockholders' Equity | ₱5,956,375 | ₱5,316,113 | ₱640,282 | 12.04% |

Summary of Consolidated Income Statement for the three-month and six-month period ended June 30, 2018 and 2017

| | Amounts in ₱'000 | | | |
|----------------------------------|--------------------------------|----------------|---------------------|---------------|
| | For three months ended June 30 | | Increase (Decrease) | |
| | 2018 | 2017 | Amount | Percentage |
| Revenues | ₱800,715 | ₱857,423 | (₱56,708) | (6.61%) |
| Cost of Sales | (567,415) | (605,020) | 37,605 | 6.22% |
| Gross Profit | 233,300 | 252,403 | (19,103) | (7.57%) |
| Operating expenses | (91,356) | (132,714) | 41,358 | (31.16%) |
| Income from operations | 141,944 | 119,689 | 22,255 | 18.59% |
| Other income (expenses) | (2,314) | (1,191) | (1,123) | 94.29% |
| Net income before income tax | 139,630 | 118,498 | 21,132 | 17.83% |
| Provision for income tax | (4,666) | (22,177) | 19,581 | (88.29%) |
| Net income for the period | ₱134,964 | ₱96,321 | ₱38,643 | 28.63% |

| | Amounts in P'000 | | | |
|------------------------------|------------------------------|-----------|---------------------|------------|
| | For six months ended June 30 | | Increase (Decrease) | |
| | 2018 | 2017 | Amount | Percentage |
| Revenues | P800,715 | P908,586 | (P107,871) | (11.87%) |
| Cost of Sales | (567,415) | (632,876) | 65,461 | (10.34%) |
| Gross Profit | 233,300 | 275,710 | (42,410) | (15.38%) |
| Operating expenses | (212,693) | (226,996) | 14,301 | (6.30%) |
| Income from operations | 20,605 | 48,714 | (28,109) | (57.70%) |
| Other income (expenses) | (6,073) | (2,393) | (3,680) | 153.78% |
| Net income before income tax | 14,532 | 46,321 | (31,789) | (68.63%) |
| Income tax expense | (4,665) | (22,177) | 17,512 | (78.96%) |
| Net income for the period | P9,867 | P24,144 | (P14,277) | (59.14%) |

Summary of Consolidated Statement of Cash Flows for the six-month period ended June 30, 2018 and 2017

| | Amounts in P'000 | |
|---|------------------------------|----------|
| | For Six Months Ended June 30 | |
| | 2018 | 2017 |
| Cash used in operating activities | (P215,480) | P7,580 |
| Cash used in investing activities | (118,826) | (21,713) |
| Cash provided by (used in) financing activities | 349,718 | (19,649) |
| Net decrease in cash | 15,412 | (33,782) |
| Cash - beginning | 47,063 | 164,575 |
| Cash - ending | P62,475 | P130,793 |

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

The following discussion is based on the unaudited interim consolidated financial statements as at June 30, 2018 (with comparative Audited Consolidated Statements of Financial Position as at December 31, 2017) and for the three month and six month period ended June 30, 2018 and 2017, prepared in conformity with Philippine Accounting Standards 34, Interim Financial Reporting and included herein, and should be read in conjunction with those unaudited interim consolidated financial statements.

Financial Condition and Results of Operation:

Six month period ended June 30, 2018 compared with six months ended June 30, 2017

Revenues

For the six month period ended June 30, 2018, total revenues amounted to P800.72 million, lower by P107.87 million or 11.87% as compared with P908.57 reported in the same period of prior year.

Marcventures Mining and Development Corporation (MMDC) was not able to make any shipment during the first quarter due to unfavorable weather condition in the area. During the same quarter, the Company also focused on preparatory activities consisting primarily of road widening, repair of haul roads, bridges and causeway improvement. Hence, revenues reported for the first half of the year are attributable, at its entirety, to operations which took place in the second quarter of the year. Contributing also to the decrease noted is the slight drop in price per wet metric ton and the number of vessels shipped during the year which was lesser compared with the same period in prior year.

Cost of Sales

Cost of sales decreased by 10.34% or ₱65.46 million from ₱632.88 million to ₱567.42 million due to the following:

- **Personnel costs** decreased by ₱24.43 million due to management retrenchment program initiated by MMDC during the year
- **Despatch** amounted to ₱14.29 million this year compared to demurrage in prior year amounted to ₱3.14 million since during the year, most of loadings were completed before the laytime expired
- **Depreciation** decreased by ₱19.51 million due to equipment disposals in the latter part of prior year, thus affecting depreciation
- **Inventory movement presented as part of Cost of Sales (COS)** decreased by ₱43.77 million which concurred with the increase in inventory due to preparation for shipment in the remaining months of the year wherein we expect a higher volume of sales/shipment as compared with earlier quarters

The decrease in COS caused by the abovementioned was offset by minimal upturns in various accounts such as expenses incurred for social development programs (SDP), rent expenses, repairs and maintenance, and office supplies. SDP is in compliance with implementing rules and regulation of 1995 Phil. Mining Act which requires that 1.5% of operating cost be allocated for the development of host and neighboring mining communities.

Operating expenses

Operating expenses decreased by 6.30% or ₱14.30 million from ₱227.00 million to ₱212.69 million in prior year. The decrease was mainly accounted for by the following:

- **Taxes and licenses** decreased by ₱4.19 million mainly attributable to business permits paid to Cantillan and Carrascal in prior year.
- **Outside services** decreased by ₱6.66 million due to lesser outside service engagements such as consultancy arrangements
- **Representation and utilities expenses** decreased by ₱6.67 million in line with the Group's effort to reduce expenses
- **Royalties** decreased by approximately ₱4.80 million anchored to the decrease in total sales

Minimal decreases in several accounts such as loading fees, community relations and transportation expenses also contributed to the total decrease in operating expenses.

Three months ended June 30, 2018 compared with six months ended June 30, 2017

Revenues

For the three month period ended June 30, 2018, MMDC reported a total revenue amounted to ₱800.72 million, lower by ₱56.71 million or 6.61% of the total revenue reported in the same period of prior year which amounted to ₱857.42 million. The decrease was driven by slightly drop in the price per wet metric ton of ore. Also, as compared with same period in prior year, there were lesser number of vessels shipped. For 2018, MMDC has shipped a total of 16 vessels while in 2017, MMDC has transported a total of 17 vessels.

| | 2018 | 2017 |
|-----------|------|------|
| Saprolite | 9.0 | 12.5 |
| Limonite | 7.0 | 4.5 |
| Total | 16.0 | 17.0 |

Cost of Sales

Cost of sales for the three month period ended June 30, 2018 decreased minimally by 6.22% or ₱37.61 million compared with the same period in prior year. Majority was due to the following:

- **Personnel costs** decreased by ₱24.43 million due to management retrenchment program initiated by MMDC during the year
- **Despatch** amounted to ₱14.29 million this year compared to demurrage in prior year amounted to ₱3.14 million since during the year, most of loadings were completed before the laytime expired.
- **Depreciation** decreased by ₱19.51 million due to equipment disposals in the latter part of prior year, thus affecting depreciation
- **Inventory movement presented as part of COS** decreased by ₱43.77 million which concurred with the increase in inventory due to preparation for shipment in the remaining months of the year wherein we expect a higher volume of sales/shipment as compared with earlier quarters

Operating Expenses

Operating expenses for the three month period ended June 30, 2018 is lower by 31.16% or approximately ₱41.36 million compared with the same period in prior year, noted decrease was driven by the following:

- **Lower taxes and licenses** due to timing of transactions and payment related to business taxes in prior year. On a period to period basis, amount reported in current year was lower by ₱13.14 million or 91%.
- **Outside services** decreased by ₱13.92 million or 94.67% due to lesser outside service engagements such as consultancy arrangements
- **Royalties** decreased by ₱4.26 million anchored to decrease in sales

Minimal decrease in various accounts such as representation, utilities, and transportation and travel expenses has also contributed to the decrease in total in operating expense, driven by the Group's effort to reduce costs and expenses.

STATEMENTS OF FINANCIAL POSITION

June 30, 2018 vs. December 31, 2017

Assets

The consolidated total assets of the Company increased by ₱639.82 million from ₱5,316.11 million as of December 31, 2017 to ₱5,956.38 million as of June 30, 2018. The 12.04% increase was mainly due to the following:

- **Increase in Cash** amounted to ₱15.41 million or 32.75% from ₱47.06 million to ₱62.48 million due to loan availments during the year counterbalanced by cash outflows for the Group's operations.
- **Increase in Trade and other receivables** from ₱232.79 million to ₱665.82 million or increase of ₱433.03 million equivalent to 186.01% of prior year balance due to sales in the latter part of the second quarter yet to be collected as of June 30, 2018.
- **Increase in Inventory** from ₱229.45 million to ₱328.85 million. The increase of ₱99.40 or 43.32% is attributable to the inventory buildup in preparation for the shipment operations.

Liabilities

The total consolidated liabilities of the Group increased by ₱555.40 million or 50.12% from ₱1,108.19 million as of December 31, 2017 to ₱1,663.58 million as of June 30, 2018. The increase noted is due to availment of bank loan during the year.

Equity

The stockholders' equity of the Company increased by ₱84.87 million or 2.02% from ₱4,207.93 million as of December 31, 2017 to ₱4,292.79 million as of June 30, 2018 due issuances of shares and reported net income during the year.

STATEMENT OF CASH FLOWS

The net cash used in operating activities amounted to ₱215.48 million for the six months ended June 30, 2018, lower by ₱223.06 million compared with the net cash provided by the operating activities in the same period in prior year. The decrease in cash from operating activities is the result of the following:

- Lower consolidated net income compared with same period in prior year
- Significant increase in trade and other receivables and inventory
- Payment of income taxes
- Payment of interest expenses anchored to the loan availed

Net cash used in investing activities amounted to ₱118.83 million for the period ended June 30, 2018, lower compared to ₱21.71 million for the same period in 2017 due to acquisition of property and equipment.

Net cash provided by financing activities amounted to ₱349.72 million during the year, significantly higher than the total cash used in financing activities amounted to ₱19.65 million last year due to availment of bank loans.

The effect of operating, investing and financing activities is a net increase of ₱15.41 million and a balance of ₱62.47 million in cash as of June 30, 2018.

Horizontal and Vertical Analysis:

| | Consolidated | | Increase (Decrease) | |
|--|-----------------------|-----------------------|---------------------|---------------|
| | June 30, 2018 | Dec. 31, 2017 | Amount | Percentage |
| ASSETS | | | | |
| Current Assets | | | | |
| Cash | ₱62,474,739 | ₱47,062,535 | ₱15,412,204 | 32.75% |
| Trade and other receivables | 666,259,339 | 232,793,388 | 433,465,951 | 186.20% |
| Inventories | 328,846,048 | 229,447,620 | 99,398,428 | 43.32% |
| Advances to related parties | 42,271,576 | 42,828,377 | (556,801) | (1.30%) |
| Other current assets | 113,792,734 | 93,729,220 | 20,063,514 | 21.41% |
| Total Current Assets | 1,213,644,436 | 645,861,140 | 567,783,296 | 87.91% |
| Non-current Assets | | | | |
| Property and equipment | 392,588,715 | 381,263,997 | 11,324,718 | 2.97% |
| Mining rights on explored resources | 3,931,304,324 | 3,865,845,679 | 65,458,645 | 1.69% |
| Net deferred tax assets | 11,308,435 | 11,308,435 | — | — |
| Other non current assets | 407,529,168 | 411,834,110 | (4,304,942) | (1.05%) |
| Total Noncurrent assets | 4,742,730,642 | 4,670,252,221 | 72,478,421 | 1.55% |
| TOTAL ASSETS | ₱5,956,375,078 | ₱5,316,113,361 | ₱640,261,717 | 12.04% |
| LIABILITIES AND EQUITY | | | | |
| Current Liabilities | | | | |
| Trade and other payable | ₱588,075,261 | ₱287,820,914 | ₱300,254,348 | 104.32% |
| Loan payable | 451,403,714 | 101,364,876 | 350,038,838 | 345.33% |
| Income tax payable | 4,665,982 | 40,713,773 | (36,047,791) | (88.54%) |
| Dividend payable | 4,707,886 | 4,707,886 | — | — |
| Advances from related party | 26,471,220 | 10,000,000 | 16,471,220 | 164.71% |
| Total Current liabilities | 1,075,324,063 | 444,607,449 | 630,716,614 | 141.86% |
| Non current Liabilities | | | | |
| Long-term loans - net of current portion | 36,799,028 | 37,120,206 | (321,178) | (0.87%) |
| Provision for mine site rehabilitation and decommissioning | 49,796,810 | 49,796,810 | — | — |
| Retirement liability | 36,400,994 | 36,400,994 | — | — |
| Deposit for future subscription | — | 75,000,000 | (75,000,000) | (100.00%) |
| Deferred tax liability | 465,262,759 | 465,262,759 | — | — |
| Total Non current liabilities | 588,259,591 | 663,580,769 | (75,321,178) | (11.35%) |
| | 1,663,583,655 | 1,108,188,218 | 555,395,437 | 50.12% |
| Equity | | | | |
| Capital stock | 3,014,820,305 | 2,969,088,599 | 45,731,706 | 1.54% |
| Additional paid in capital | 269,199,786 | 239,931,494 | 29,268,292 | 12.20% |
| Retained Earnings | 973,307,959 | 963,441,676 | 9,866,283 | 1.02% |
| Actuarial Gain | 35,463,374 | 35,463,374 | — | 0.00% |
| Total Equity | 4,292,791,424 | 4,207,295,143 | 84,866,280 | 2.02% |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | ₱5,956,375,078 | ₱5,316,113,361 | ₱640,261,717 | 12.04% |

OTHER INFORMATION

- a. There are no known trends or any known demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in the registrant's liquidity increasing or decreasing in any material way.
- b. There are no events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation.
- c. There are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period.
- d. Marcventures Mining and Development Corporation (MMDC) 2018 plan for capital expenditures are as follows:

| Project | Budgeted amount |
|------------------------------|---------------------|
| Carac-an Bridge Construction | ₱34,200,000 |
| Phase 2, Causeway Expansion | 12,450,000 |
| Almio Bridge Construction | 18,850,000 |
| Banban Bridge Construction | 18,400,000 |
| Road improvement | 35,798,788 |
| | <u>₱119,698,788</u> |

- e. Aside from the volatile prices of ore in the market and USD exchange rate, there are no other known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations
- f. The causes for the material changes from period to period in the financial accounts were explained in the management's discussion and analysis of financial condition and results of operation.
- g. There are no significant elements of income or loss that did not arise from the registrant's continuing operations.
- h. Due to continuous rain in the first quarter and Tropical Storm Basyang we MMDC there were no shipment made as compared to last year.
- i. There are no items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size, or incidents.
- j. There are no material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period.
- k. There are no changes in the composition of the issuer during the interim period including business combinations, acquisition or disposal of subsidiaries and long-term investments, restructurings, and discontinuing operations.
- l. There are no contingent liabilities or contingent assets since the last annual balance sheet date.
- m. There are no material contingencies and other material events or transactions during the interim period.

Key Performance Indicators

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

| | June 30, 2018 | June 30, 2017 |
|-------------------------------------|----------------------|----------------------|
| Net Income | ₱9,866,283 | ₱24,143,705 |
| Quick assets | 728,734,078 | 507,217,088 |
| Current assets | 1,213,644,436 | 850,579,179 |
| Total Assets | 5,956,375,078 | 3,567,396,826 |
| Current liabilities | 1,075,324,063 | 422,019,788 |
| Total liabilities | 1,663,583,655 | 570,881,058 |
| Stockholders' Equity | 4,292,791,423 | 2,996,515,768 |
| Number of common shares outstanding | 3,014,820,305 | 1,821,358,599 |

| | | |
|---|---------------|---------------|
| Liquidity ratios: | | |
| Current ratio ⁽¹⁾ | 1.13:1 | 2.02:1 |
| Quick ratio ⁽²⁾ | 0.68:1 | 1.20:1 |
| Solvency Ratios: | | |
| Debt ratio ⁽³⁾ | 0.28:1 | 0.16:1 |
| Debt to Equity ratio ⁽⁴⁾ | 0.39:1 | 0.19:1 |
| Profitability ratios: | | |
| Return on Assets | 0.002 | 0.007 |
| Earning (loss) per share ⁽⁵⁾ | 0.003 | 0.013 |
| Book value per share ⁽⁶⁾ | 1.42 | 1.65 |

Note:

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

PART II - OTHER INFORMATION

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

NONE

PART III - FINANCIAL SOUNDNESS INDICATORS

Liquidity Ratio

- a. Current Ratio

Total Current Assets/ Total Current Liabilities = 1.13:1

- b. Quick Ratio

Quick asset / Total Current Laibilities = 0.68:1

Solvency Ratio

- a. Debt Ratio

Total liabilities / Total assets = 0.28:1

- b. Debt to Equity Ratio

Total liabilities / Shareholder's Equity = 0.39:1

Profitabilty Ratio

- a. Return on Equity Ratio

Net income / Average shareholder's equity = 0.003:1

- b. Return on Assets

Net income / Average Total assets = 0.002:1

- c. Asset to Equity Ratio:

Total Assets / Stockholders' Equity = 1.39:1

- d. Asset Turnover

Revenue/Total Assets = 0.13

Interest Coverage Ratio

Net Income / Interest expense = (1.21):1


SIGNATURES

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

Issuer: **MARCVENTURES HOLDINGS INC.**

Signature and Title:  **ROLANDO S. SANTOS**
SVP-Finance

Date: August 14, 2018

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

Date: August 14, 2018

Marcventures Holdings, Inc. and Subsidiaries

Unaudited Interim Consolidated Financial Statements

June 30, 2018

and for the Three Months & Six Months Ended June 30, 2018 and 2017

*(With Comparative Audited Consolidated Statements of Financial Position
as at December 31, 2017)*

MARCVENTURES HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| | Note | June 30, 2018 | Dec. 31, 2017 |
|---|------|-----------------------|----------------|
| ASSETS | | | |
| Current Assets | | | |
| Cash | 5 | ₱62,474,739 | ₱47,062,535 |
| Trade and other receivables | 6 | 666,259,339 | 232,793,388 |
| Inventories | 7 | 328,846,048 | 229,447,620 |
| Advances to related parties | 21 | 42,271,576 | 42,828,377 |
| Other current assets | 8 | 113,792,734 | 93,729,220 |
| Total Current Assets | | 1,213,644,436 | 645,861,140 |
| Noncurrent Assets | | | |
| Property and equipment | 9 | 392,588,715 | 381,263,997 |
| Mining rights and other mining assets | 10 | 3,931,304,324 | 3,865,845,679 |
| Net deferred tax assets | 23 | 11,308,435 | 11,308,435 |
| Other noncurrent assets | 11 | 407,529,169 | 411,834,110 |
| Total Noncurrent Assets | | 4,742,730,643 | 4,670,252,221 |
| | | ₱5,956,375,079 | ₱5,316,113,361 |
| LIABILITIES AND EQUITY | | | |
| Current Liabilities | | | |
| Trade and other payables | 12 | ₱588,075,262 | ₱287,820,914 |
| Loans payable | 14 | 451,403,714 | 101,364,876 |
| Advances from a related party | 21 | 26,471,220 | 10,000,000 |
| Dividends payable | 15 | 4,707,886 | 4,707,886 |
| Income tax payable | | 4,665,982 | 40,713,773 |
| Total Current Liabilities | | 1,075,324,064 | 444,607,449 |
| Noncurrent Liabilities | | | |
| Long-term debt - net of current portion | 14 | 36,799,028 | 37,120,206 |
| Provision for mine rehabilitation and decommissioning | 13 | 49,796,810 | 49,796,810 |
| Retirement benefit liability | 20 | 36,400,994 | 36,400,994 |
| Deposit for future stock subscription | 15 | - | 75,000,000 |
| Deferred tax liability | 4 | 465,262,759 | 465,262,759 |
| Total Noncurrent Liabilities | | 588,259,591 | 663,580,769 |
| Total Liabilities | | 1,663,583,655 | 1,108,188,218 |
| Equity | | | |
| Capital stock | 15 | 3,014,820,305 | 2,969,088,599 |
| Additional paid-in capital (APIC) | 15 | 269,199,786 | 239,931,494 |
| Retained earnings | | 973,307,959 | 963,441,676 |
| Other comprehensive income | 20 | 35,463,374 | 35,463,374 |
| Total Equity | | ₱4,292,791,424 | 4,207,925,143 |
| | | ₱5,956,375,079 | ₱5,316,113,361 |

See accompanying Notes to Consolidated Financial Statements.

MARCVENTURES HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| | Note | Three Months Ended June 30 | | Six Months Ended June 30 | |
|--|------|----------------------------|---------------|--------------------------|---------------|
| | | 2018 | 2017 | 2018 | 2017 |
| REVENUE | 16 | ₱800,714,676 | ₱857,422,653 | 800,714,676 | 908,585,853 |
| COST OF SALES | 17 | (567,415,592) | (605,020,461) | (567,415,592) | (632,876,109) |
| GROSS INCOME (LOSS) | | 233,299,084 | 252,402,192 | 233,299,084 | 275,709,744 |
| OPERATING EXPENSES | 18 | (91,355,537) | (132,713,800) | (212,692,990) | (226,995,620) |
| INCOME (LOSS) FROM OPERATIONS | | 141,943,5467 | 119,688,392 | 20,606,094 | 48,714,124 |
| INTEREST EXPENSE | 14 | (7,485,468) | (2,851,182) | (11,894,531) | (5,156,304) |
| INTEREST INCOME | 5 | 31,165 | 42,691 | 58,984 | 73,575 |
| OTHER INCOME (CHARGES) - Net | 19 | 5,139,937 | 1,617,608 | 5,761,718 | 2,689,366 |
| INCOME (LOSS) BEFORE INCOME TAX | | 139,629,181 | 118,497,509 | 14,532,265 | 46,320,761 |
| BENEFIT FROM (PROVISION FOR) INCOME TAX | 23 | (4,665,982) | (22,177,056) | (4,665,982) | (22,177,056) |
| NET INCOME (LOSS) | | 134,963,199 | 96,320,453 | 9,866,283 | 24,143,705 |
| Basic and diluted earnings (loss) per share | 24 | ₱0.045 | ₱0.053 | ₱0.003 | ₱0.013 |

see accompanying Notes to Consolidated Financial Statements.

MARCVENTURES HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

| | Note | June 30, 2018 | June 30, 2017 |
|--|--------|-----------------------|----------------|
| CAPITAL STOCK - ₱1 par value | 15 | | |
| Authorized - 4,000,000,000 shares in 2017 and 2,000,000,000 shares in 2016 | | | |
| Issued and outstanding: | | | |
| Balance at beginning of year | | ₱2,969,088,599 | ₱1,821,358,599 |
| Issuance during the year | | 45,731,706 | - |
| Balance at end of year | | 3,014,820,305 | 1,821,358,599 |
| ADDITIONAL PAID-IN CAPITAL | 15 | | |
| Balance at the beginning of the year | | 239,931,494 | 212,655,494 |
| Proceeds in excess of par value | | 29,268,292 | - |
| Balance at end of year | | 269,199,786 | 212,655,494 |
| RETAINED EARNINGS | 15 | | |
| Balance at beginning of year | | 963,441,676 | 916,160,463 |
| Net income | | 9,866,283 | 24,143,705 |
| Balance at end of year | | 973,307,959 | 940,304,168 |
| OTHER COMPREHENSIVE INCOME | | | |
| Balance at beginning of year | | 34,463,374 | 22,197,503 |
| Remeasurement gain on retirement benefit liability - net of deferred income tax | 20 | - | - |
| Balance at end of year | | 34,463,374 | 22,197,503 |
| | | ₱4,292,791,423 | ₱2,996,515,764 |

See accompanying Notes to Consolidated Financial Statements.

MARCVENTURES HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

| | | Six Months Ended June 30 | |
|---|------|--------------------------|----------------------|
| | Note | 2018 | 2017 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Income before income tax | | ₱14,532,264 | ₱46,320,761 |
| Adjustments for: | | | |
| Depletion | 10 | 13,886,348 | 55,020,620 |
| Depreciation | 9 | 32,460,839 | 55,977,898 |
| Interest expense | 14 | 11,894,531 | 5,156,304 |
| Interest income | 5 | (58,984) | (73,575) |
| Operating income before working capital changes | | 72,714,999 | 162,402,008 |
| Decrease (increase) in: | | | |
| Trade and other receivables | | (433,465,951) | (51,403,279) |
| Inventories | | (99,398,428) | (55,466,773) |
| Advances to related parties | | 556,801 | 8,846,435 |
| Other current assets | | (20,063,515) | (4,635,590) |
| Increase (decrease) in: | | | |
| Trade and other payables | | 300,254,348 | 32,915,871 |
| Advances from a related party | | 16,471,220 | - |
| Net cash generated from operations | | (162,930,525) | (103,423,395) |
| Income tax paid | | (40,713,773) | |
| Interest paid | | (11,894,531) | |
| Interest received | | 27,819 | 30,884 |
| Net cash provided by operating activities | | (215,479,845) | (103,392,511) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Additions to: | | | |
| Property and equipment | 9 | (43,785,557) | (2,040,601) |
| Mine and mining properties | 10 | (79,344,993) | (1,523,605) |
| Other noncurrent assets | | 4,304,941 | (13,342,948) |
| Net cash used in investing activities | | (118,825,609) | (16,907,154) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from: | | | |
| Availment of loan | | 411,854,585 | |
| Payments of: | | | |
| Loans | | (50,242,396) | (4,664,377) |
| Interest | | (11,894,531) | (2,305,122) |
| Net cash provided by (used in) financing activities | | 349,717,658 | (6,969,499) |
| NET DECREASE IN CASH | | 15,412,204 | (127,269,164) |
| CASH AT BEGINNING OF YEAR | | 47,062,535 | 164,574,543 |
| CASH AT END OF YEAR | | ₱62,474,739 | ₱37,305,379 |

See accompanying Notes to Consolidated Financial Statements.

MARCVENTURES HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

General Information

Marcventures Holdings, Inc. (the Parent Company), singly and collectively with its subsidiaries, is referred herein as “the Company”.

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

The Parent Company’s shares of stock were initially listed in the Philippine Stock Exchange, Inc. (PSE) on January 10, 1958. As at June 30, 2018 and December 31, 2017, 1,821,358,599 shares of the Parent Company’s shares of stock are listed in the PSE.

The registered address of the Parent Company is at 4th Floor, Citibank Center, 8741 Paseo de Roxas, Makati City.

Merger of the Parent Company, Brightgreen Resources Holdings Inc. (BHI) and Asia Pilot Mining Phils. Corp. (APMPC)

On December 29, 2017, the SEC approved the application for merger of the Parent Company, BHI and APMPC, with the Parent Company as the surviving entity and the increase in authorized capital stock of the Parent Company to accommodate the merger from 2,000,000,000 shares at ₱1 par value to 4,000,000,000 shares at ₱1 par value a share. Out of this increase, a total of 1,125,000,000 of the Parent Company’s common shares were issued to BHI and APMPC shareholders at ₱1 per share.

BHI owns 100% interest in BrightGreen Resources Corporation (BGRC) and APMPC owns 100% interest in Alumina Mining Philippines, Inc. (AMPI) and Bauxite Resources, Inc. (BARI).

Information about the Subsidiaries

All of the subsidiaries of the Parent Company are wholly-owned.

Marcventures Mining and Development Corporation (MMDC). MMDC was incorporated and registered with the SEC on January 18, 1995 primarily to engage and/or carry on the business of extracting, mining, smelting, refining and converting mineral ores such as, but not limited to nickel, chromites, copper, gold, manganese and other similar ores and/natural metallic or non-metallic resource.

MMDC has been granted by the Department of Environment and Natural Resources (DENR) Mineral Production Sharing Agreement (MPSA) No. 016-93-X (SMR) covering an area of approximately 4,799 hectares located in the municipalities of Carrascal, Cantilan and Madrid, Surigao Del Sur.

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

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

On February 13, 2017, MMDC received an order dated February 8, 2017 from the DENR cancelling its MPSA. Management and its legal counsel believe that the order has no basis and the outcome of legal actions taken will not have a material adverse effect on the Company's operations (see Note 25). Accordingly, the Company has continued its mining operations in areas covered by the MPSA.

BGRC. BGRC was incorporated and registered with the SEC on July 20, 1989 to engage in the mining business.

On July 1, 1993, the DENR approved BGRC's application for MPSA No. 015-93-XI (SMR) covering an area of approximately 4,860 hectares located in the municipalities of Carrascal and Cantilan, Surigao del Sur. BGRC is undertaking its continuous exploratory drilling program to block mineral resources at indicated and measured category.

AMPI. AMPI was incorporated and registered with the SEC on August 31, 2001 to engage in the mining business.

On December 5, 2002, the DENR approved AMPI's application for MPSA No. 179-2002-VIII-SBMR covering 6,694 hectares in the municipalities of San Jose de Buan and Paranas Samar in Eastern Visayas (Region VIII) , valid for 25 years and renewable for another 25 years.

BARI. was incorporated and registered with the SEC on August 31, 2001 to engage in the mining business.

On December 5, 2002, the DENR approved BARI's application for MPSA No. 180-2002-VIII-SBMR covering 5,519 hectares in the Municipalities of Gandara, San Jose de Buan, Matuguinao, and San Jorge, Province of Samar (formerly known as Western Samar) in Eastern Visayas (Region VIII) , valid for 25 years and renewable for another 25 years.

BGRC, AMPI and BARI received Show-Cause Orders dated February 13, 2017 from the DENR to explain why their MPSA should not be cancelled pursuant to an alleged violation (see Note 25).

BGRC submitted a reply explaining that it has prior legal right.

AMPI and BARI submitted replies that their contract areas are not part of any watershed and are even declared as Bauxite Mineral Reservations which allows development of bauxite deposits (see Note 25).

2. Summary of Significant Accounting Policies

Basis of Preparation

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

Measurement Bases

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

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

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

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

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

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

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

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

Adoption of New and Amended PFRS

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following relevant amended PFRS which the Company adopted effective for annual periods beginning January 1, 2018:

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

PFRS 9 requires all recognized financial assets to be subsequently measured at amortized cost or fair value (through profit or loss or through other comprehensive income), depending on their classification by reference to the business model within which they are held and their contractual cash flow characteristics.

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

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

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

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

- PFRS 15, *Revenue from Contracts with Customers* – The new standard replaces PAS 11, *Construction Contracts*, PAS 18, *Revenue* and related interpretations. It establishes a single comprehensive framework for revenue recognition to apply consistently across transactions, industries and capital markets, with a core principle (based on a five-step model to be applied to all contracts with customers), enhanced disclosures, and new or improved guidance (e.g. the point at which revenue is recognized, accounting for variable considerations, costs of fulfilling and obtaining a contract, etc.).
- Amendment to PFRS 15 - *Clarification to PFRS 15* – The amendments provide clarifications on the following topics: (a) identifying performance obligations; (b) principal versus agent considerations; and (c) licensing. The amendments also provide some transition relief for modified contracts and completed contracts.
- Philippine Interpretation IFRIC 22, *Foreign Currency Transactions and Advance Consideration* – The interpretation provides guidance clarifying that the exchange rate to use in transactions that involve advance consideration paid or received in a foreign currency is the one at the date of initial recognition of the non-monetary prepayment asset or deferred income liability.

New and Amended PFRS in Issue But Not Yet Effective

Relevant new PFRS which are not yet effective for the year ended December 31, 2018 and have not been applied in preparing the consolidated financial statements are summarized below. The Company intends to adopt these standards when they become effective.

Effective for annual periods beginning January 1, 2019:

- PFRS 16, *Leases* – This standard replaces PAS 17, *Leases* and its related interpretations. The most significant change introduced by the new standard is that almost all leases will be brought onto lessees’ statement of financial position under a single model (except leases of less than 12 months and leases of low-value assets), eliminating the distinction between operating and

finance leases. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance lease is retained.

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

Basis of Consolidation

The consolidated financial statements include the accounts of the Parent Company and its subsidiaries as at June 30, 2018 and December 31, 2017 and for the periods ended June 30, 2018 and 2017.

Subsidiaries

A subsidiary is an entity that is controlled by the Parent Company. A subsidiary is consolidated from the date on which control is transferred to the Parent Company directly or through the holding companies. Control is achieved when the Company is exposed or has rights to variable returns from its investment with the investee and has the ability to affect those returns through its power over the investee. A subsidiary is deconsolidated from the date on which control ceases.

The financial statements of the subsidiaries are prepared for the same reporting year as that of the company using uniform accounting policies. Significant intercompany transactions and balances, including intercompany profits and unrealized profits and losses, are eliminated in full.

A change in ownership interest in a subsidiary, without a change in control, is accounted for as an equity transaction.

If the Parent Company loses control over a subsidiary, the Company: (a) derecognizes the assets and liabilities of the subsidiary; (b) derecognizes the carrying amounts of any non-controlling interest; (c) derecognizes the cumulative translation differences recorded in equity; (d) recognizes the fair value of consideration received; (e) recognizes the fair value of any investment retained; (f) recognizes any surplus or deficit in profit or loss; and (g) reclassifies the Company's share of components previously recognized in other comprehensive income to profit or loss.

Financial Assets and Liabilities

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

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

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

As at June 30, 2018 and December 31, 2017, the Company does not have financial assets and liabilities at FVPL, HTM investments and AFS financial assets.

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

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

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

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

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

This category includes trade and other payables (excluding excise tax and other statutory payables), loans payable, long-term debt, advances from a related party and dividends payable.

Derecognition of Financial Assets and Liabilities

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

- the right to receive cash flows from the asset has expired; or
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

- the Company has transferred its right to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the assets, or (b) has neither transferred nor retained substantially all the risk and rewards of the assets, but has transferred control over the asset.

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

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

Offsetting Financial Assets and Liabilities

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

Impairment of Financial Assets

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

Cash

Cash in the consolidated statements of financial position comprise cash on hand and in banks, excluding any restricted cash. Restricted cash, which includes RCF and MTF, is not available for use by the Company and therefore is not considered highly liquid.

Inventories

Inventories, which consist of ore stockpiles, are physically measured or estimated and valued at the lower of cost and net realizable value (NRV). Cost consists of contractual services, personnel costs, depletion, depreciation and other costs that are directly attributable in bringing the ore in its saleable conditions. Cost is determined using the moving average method. NRV is the estimated selling price in the ordinary course of business, less the estimated cost necessary to make the sale.

Other Current Assets

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

Prepaid Income Tax. Prepaid income tax represents creditable withholding tax and other tax credits of the Parent Company.

Mining and Office Supplies. Mining and office supplies comprise purchase costs of mechanical, electrical and other materials determined on a moving average method.

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

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

Property and Equipment

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

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

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

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

| | <u>Number of Years</u> |
|--|------------------------|
| Building and improvements | 5-20 |
| Office furniture, fixtures and equipment | 2-5 |
| Heavy and transportation equipment | 4-10 |

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

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

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

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

Mining Rights and Other Mining Assets

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

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

Deferred Exploration Costs. Deferred exploration costs include costs incurred in connection with exploration activities. Deferred exploration cost is carried at cost less accumulated impairment losses.

Exploration and evaluation activities involve the search for mineral resources, the determination of technical feasibility and the assessment of commercial viability of the mineral resource.

Exploration and evaluation activities include:

- Gathering exploration data through geological studies;
- Exploratory drilling and sampling; and
- Evaluating the technical feasibility and commercial viability of extracting the mineral resource.

Once the reserves are established and development is sanctioned, deferred exploration costs are tested for impairment and reclassified to mine development costs.

Mine and Mining Properties. Upon start of commercial operations, mine development costs are reclassified as part of mine and mining properties. These costs are subject to depletion, which is computed using the units-of-production method based on proven and probable reserves, which is reviewed periodically to ensure that the estimated depletion is consistent with the expected pattern of economic benefits from the mine and mining properties.

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

Impairment of Nonfinancial Assets

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

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. In such instance, the carrying amount of the asset is increased to its recoverable amount. However, that increased amount cannot exceed the carrying amount that would have been determined, net of any depreciation and depletion, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss. After such reversal, the depreciation and depletion charges are adjusted in future years to allocate the asset's revised carrying amount, on a systematic basis over its remaining useful life.

Employee Benefits

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

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

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

Current service costs are the increase in the present value of the defined benefit obligation resulting from employee service and are recognized in profit or loss.

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

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

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

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

Borrowing Costs

Borrowing costs directly attributable to the development, construction or production of a qualifying asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the asset. Capitalization of borrowing costs commences when activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred.

Capitalization ceases when substantially all the activities necessary to prepare the asset for its intended use or sale are complete. Borrowing costs consist of interest and other financing costs that the Company incurs in connection with the borrowing of funds.

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

Equity

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

APIC. APIC is the excess over par value of consideration received for the subscription and issuance of shares of stock. Incremental costs directly attributable to the issuances of capital stock are recognized as a deduction from equity.

Retained Earnings. Retained earnings represent the cumulative balance of the Company's operating results, dividend distributions, effect of change in accounting policy and other capital adjustments.

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

Deposit for Future Stock Subscription

Deposit for future subscription represents funds received from existing or potential stockholders to be applied as payment for future issuance of capital stock. Deposit for future stock subscription is recognized as equity if and only if, all of the following elements set forth by the SEC are present as of end of the reporting period:

- The unissued authorized capital stock of the entity is insufficient to cover the amount of shares indicated in the contract;

- There is BOD and stockholders' approval on the proposed increase in authorized capital stock (for which a deposit was received by the corporation);
- The application for the approval of the proposed increase has been filed with the SEC.

If any or all of the foregoing elements are not present, the transaction should be recognized as a liability.

Revenue Recognition

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

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

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

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

Other Income. Income from other sources is recognized when earned during the period.

Cost and Expense Recognition

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

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

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

Leases

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

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

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

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

Foreign Currency-Denominated Transactions

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

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

Income Taxes

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

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

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

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

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

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

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

Value Added Tax (VAT)

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

- where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of tax included.

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

Deferred Input VAT

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

Related Parties

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

Provisions and Contingencies

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

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

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

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

Earnings Per Share

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

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

Events After the Reporting Date

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

Segment Reporting

The Company has one operating segment which consists of mining exploration, development and production. The Company's asset producing revenues are located in the Philippines.

3. Significant Judgment, Accounting Estimates and Assumptions

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

Judgment

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

Assessing the Ability of the Company to Continue as a Going Concern. The Company received an order from the DENR for the cancellation of its MPSA. The management and its legal counsel believe that the order has no basis and the outcome of the legal actions taken will not have a material adverse effect on the Company's operations (see Note 1). Accordingly, the management has assessed that the company will continue as a going concern.

Establishing Control over the Subsidiaries. The Parent Company determined that it has control over the subsidiaries by considering, among others, its power over the investee, exposure or rights to variable returns from its involvement with the investee, and the ability to use its power over the investee to affect its returns.

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

Determining Operating Segments. Determination of operating segments is based on the information about the components that management uses to make decisions about the operating matters of the Company. Operating segments use internal reports that are regularly reviewed by the Company's chief operating decision maker, which is defined to be the Company's BOD, in order to allocate resources to the segment and assess its performance.

Management has assessed that the Company has only one operating segment which consists of mining exploration, development and production.

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

Rent expense amounted to ₱2.3 million and ₱2.2 million for the period ended June 30, 2018 and 2017, respectively (see Note 18).

Accounting Estimates and Assumptions

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

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

Allowance for receivable impairment amounted to ₱11.0 million as at June 30, 2018 and December 31, 2017 (see Note 6).

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

| | Note | 2018 | 2017 |
|-----------------------------|------|---------------------|--------------|
| Trade and other receivables | 6 | ₱253,637,264 | ₱232,793,388 |
| Advances to related parties | 21 | 42,271,576 | 42,828,377 |

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

The carrying amount of inventories, which is measured at the lower of cost and NRV, amounted to ₱328.9 million and ₱229.4 million as at June 30, 2018 and December 31, 2017, respectively (see Note 7).

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

The carrying amount of input VAT, which is included as part of “Other noncurrent assets” account in the consolidated statements of financial position, amounted to ₱298.8 million and ₱302.4 million as at June 30, 2018 and December 31, 2017, respectively (see Note 11).

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

There were no changes in estimated useful lives of property and equipment as at June 30, 2018 and December 31, 2017. Property and equipment, net of accumulated depreciation, amounted to ₱392.6 million and ₱381.3 million as at June 30, 2018 and December 31, 2017, respectively (see Note 9).

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

The carrying amounts of mining rights and other mining assets are as follows:

| | Note | 2017 | 2017 |
|----------------------------|------|-----------------------|----------------|
| Mining rights | 10 | ₱2,625,567,305 | ₱2,625,357,305 |
| Mine and mining properties | 10 | 1,227,901,445 | 1,162,652,800 |

Estimating Provision for Mine Rehabilitation and Decommissioning. The Company recognizes provision for its obligation to decommission and rehabilitate mine sites at the end of term of its MPSA. The provision represents the best estimate of the expenditures required to settle the present obligation at the current reporting date. The amount of provision depends on the completeness of rehabilitation and decommissioning activities performed by the Company during and immediately after every mining operation. Changes in rehabilitation and decommissioning costs are recognized as additions or charges to the corresponding provision when these occur.

While the Company has made its best estimate in establishing the decommissioning and rehabilitation provision, because of potential changes in technology as well as safety and environmental requirements, plus the actual time scale to complete decommissioning and rehabilitation activities, the ultimate provision requirements could either increase or decrease significantly from the Company's current estimates. The obligation to rehabilitate and decommission a mine generally arises when the ground/environment is disturbed at the production location.

Mine rehabilitation asset, recognized under the mine and mining properties and presented as part of "Mining assets" in the statements of financial position, amounted to ₱35.9 million as at June 30, 2018 and December 31, 2017 (see Note 10).

Provision for mine site rehabilitation and decommissioning amounted ₱49.8 million as at June 30, 2018 and December 31, 2017 (see Note 13).

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

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

No impairment loss was recognized in 2018 and 2017.

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

| | Note | 2018 | 2017 |
|--|------|-----------------------|-----------------------|
| Mining rights and other mining assets | 10 | ₱3,931,304,324 | ₱3,865,845,679 |
| Property and equipment | 9 | 392,588,715 | 381,263,997 |
| Other current assets | 8 | 113,792,735 | 93,729,220 |
| Other noncurrent assets (excluding financial assets and input VAT) | 11 | 108,726,897 | 103,397,035 |

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

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

Retirement benefit liability amounted to ₱36.4 million as at June 30, 2018 and December 31, 2017, (see Note 20).

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

The Company's recognized deferred tax assets amounted to ₱11.6 million as at June 30, 2018 and December 31, 2017 (see Note 23).

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

The Company's unrecognized deferred tax assets amounted to ₱15.8 million as at June 30, 2018 and December 31, 2017 (see Note 23).

4. Acquisition of Group of Assets

On December 29, 2017, the SEC approved the application for merger of the Parent Company, BHI and APMPC, with the Parent Company as surviving entity (see Note 1). As at the acquisition date, BHI's and APMPC's assets consist mainly of mining rights and deferred exploration costs. Management determined that based on the substance of the underlying circumstances at that date, BHI and APM did not constitute a business and, accordingly, was not accounted for as a business combination. The transaction was accounted for as an acquisition of a group of assets, wherein the acquisition cost was allocated among the individual identifiable assets net of liabilities assumed in the group based on their relative fair values.

Allocation of the acquisition cost of the group of assets and liabilities of BHI and APM are as follows:

| | BHI | APM | Allocation |
|----------------------------|---------------------|---------------------|-----------------------|
| Assets | | | |
| Current assets | ₱2,862,560 | ₱111,725 | ₱2,974,285 |
| Mining rights | 695,649,865 | 945,163,500 | 1,640,813,365 |
| Deferred exploration costs | 75,640,185 | 2,195,389 | 77,835,574 |
| Property and equipment | 2,062,499 | – | 2,062,499 |
| | 776,215,109 | 947,470,614 | 1,723,685,723 |
| Liabilities | | | |
| Due to related parties | 111,856,563 | 14,897,589 | 126,754,152 |
| Deferred tax liability | 211,153,999 | 254,108,760 | 465,262,759 |
| Loans payable | 1,742,257 | – | 1,742,257 |
| Other liabilities | 1,462,290 | 3,464,265 | 4,926,555 |
| | 326,215,109 | 272,470,614 | 598,685,723 |
| Net assets acquired | ₱450,000,000 | ₱675,000,000 | ₱1,125,000,000 |

The consideration for the acquisition cost consists of 1,125,000,000 common shares of the Parent Company issued at ₱1 per share.

The fair value of the mining rights used as basis for allocating the acquisition cost are based on report by Competent Persons (CP) dated June 30, 2017 and was arrived at using the Discounted Cash Flow method (DCF) under the income approach methodology. Under this approach, the value of an asset is determined by reference to the value of income, cash flow or cost savings generated by the asset.

Under the DCF method, the forecasted cash flows is discounted back to the valuation date, resulting in a present value of the asset.

The significant unobservable inputs used in the fair value measurement categorized within Level 3 of the fair value hierarchy of the Group's mining rights follows:

| | BHI | APM |
|--|----------------|------------------|
| Mining life | 10 | 20 |
| Discount rate | 12% | 12% |
| Estimated mineral ore reserves (WMT): | | |
| Nickel ore | 9,513,459 | – |
| Bauxite ore | – | 28,904,888 |
| Market price (per WMT) | ₱850 to ₱1,550 | ₱1,350 to ₱1,550 |
| Estimated annual shipment of mineral ore (WMT) | 951,345 | 1,445,244 |
| Production costs: | | |
| Average variable cost | ₱477 to ₱479 | ₱663 |
| Fixed | ₱448 | ₱490 |
| Operating costs (percentage of gross revenue) | 18% | 19% to 33% |
| Estimated project costs | ₱976,901,820 | ₱1,693,192,588 |
| Exchange rate of Philippine Peso to US Dollar | ₱50: \$1 | ₱50: \$1 |

Discount Rate. The risk inherent in the pre-feasibility study stage and scale of production was considered in determining the Risk Adjusted Discount Rate that was used to discount the net cash flows generated from shipments during the period of analysis.

Estimated Mineral Ore Reserves. Ore reserve estimation is performed by the CP in accordance with Philippine Mineral Reporting Code.

Market Prices. Market prices are based on the Bloomberg conservative Nickel ore price forecast and Shanghai metal market for the nickel and bauxite mineral ore, respectively.

Production Costs. Estimated costs incurred in extracting mineral ores that composed of variable and fixed costs.

Operating Cost. Estimated cost of administering the business and costs incurred to sell and market goods.

Estimated Project Costs. Project costs pertain to project-related capital expenditures such as mining equipment fleet, mine support services equipment and tools, mine development works and infrastructures, safety equipment, environmental facilities, exploration expenses, permits and licenses and final mine rehabilitation and decommissioning program.

Sensitivity Analysis

Significant increases (decreases) in estimated mineral ore reserves, market price and exchange rate in isolation would result in a significantly higher (lower) fair value measurement. Significant increases (decreases) in discount rate, production and operating costs and estimated project costs in isolation would result in a lower (higher) fair value measurement.

Information about the absorbed companies

BHI. BHI was incorporated and registered with SEC on January 11, 2017 to deal with any and all properties of every kind and description to the extent permitted by law provided it shall not engage in the business of an investment company as defined in the Republic Act 2629, Investment Company Act, or act as a securities broker or dealer. BHI owns 100% interest in BGRC (see Note 1).

APMPC. APMPC was incorporated and registered with SEC on August 14, 2013 to engage in mining activities. APM owns 100% interests in AMPI and BARI (see Note 1).

5. Cash

This account consists of:

| | June 30, 2018 | December 31, 2017 |
|---------------|--------------------|--------------------|
| Cash on hand | P265,546 | P155,951 |
| Cash in banks | 62,209,193 | 46,906,584 |
| | P62,474,739 | P47,062,535 |

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

| | Note | June 30, 2018 | December 31, 2017 |
|-------------------------|------|----------------|-------------------|
| Cash in banks | | P58,984 | P156,379 |
| Other noncurrent assets | 11 | - | 55,898 |
| | | P58,984 | P212,277 |

6. Trade and Other Receivables

This account consists of:

| | June 30, 2018 | December 31, 2017 |
|------------------------------------|---------------------|---------------------|
| Trade receivables | P632,403,060 | P201,115,654 |
| Advances to officers and employees | 11,901,385 | 28,547,655 |
| Advances to suppliers | 1,693,469 | - |
| Others | 31,297,950 | 14,166,606 |
| | 677,295,864 | 243,829,915 |
| Allowance for impairment | (11,036,525) | (11,036,527) |
| | P666,259,339 | P232,793,388 |

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

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

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

No provision for impairment loss was recognized in 2018 and 2017.

Aging of Trade Receivables as at June 30, 2018:

| <i>Current</i> P'000 | <i>1 to 30 days past due</i> P'000 | <i>31 to 60 days past due</i> P'000 | <i>61 to 90</i> P'000 | <i>120+ past due</i> P'000 | <i>Total</i> P'000 |
|-------------------------|---------------------------------------|--|--------------------------|-------------------------------|-----------------------|
| ₱512,577 | ₱- | ₱- | ₱- | ₱153,682 | ₱666,259 |

7. Inventories

This account consists of beneficiated nickel ore amounting to ₱328.8 million and ₱229.4 million which is stated at cost as at June 30, 2018 and December 31, 2017. The cost of inventories is lower than its NRV.

8. Other Current Assets

This account consists of:

| | June 30, 2018 | December 31, 2017 |
|---------------------------------------|----------------------|-------------------|
| Prepaid income tax | ₱53,362,685 | ₱49,646,183 |
| Mining and office supplies | 23,076,855 | 22,537,023 |
| Prepaid expenses | 14,898,291 | 7,926,806 |
| Advances to contractors and suppliers | 17,373,243 | 5,825,769 |
| Others | 5,081,660 | 7,793,439 |
| | 113,792,734 | ₱93,729,220 |

Prepaid income tax represents creditable withholding tax and other tax credits of the Parent Company.

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

Prepaid expenses pertain to insurance and rent.

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

Others pertain to advances made to National Commission of Indigenous People (NCIP).

9. Property and Equipment

Movements in this account are as follows:

| June 30, 2018 | | | | | | |
|---------------------------------|--------------------|---------------------------|--|------------------------------------|--------------------------|---------------------|
| | Land | Building and Improvements | Office Furniture, Fixtures and Equipment | Heavy and Transportation Equipment | Construction in-progress | Total |
| Cost | | | | | | |
| Balance at beginning of year | ₱57,933,414 | ₱168,864,919 | ₱81,028,227 | ₱376,871,520 | ₱36,453,775 | ₱721,151,855 |
| Additions | 664,070 | 8,881,927 | 9,270,300 | 1,333,929 | 37,728,259 | 57,878,485 |
| Balance at end of year | 58,597,484 | 177,746,846 | 90,298,527 | 378,205,449 | 74,182,034 | 779,030,340 |
| Accumulated Depreciation | | | | | | |
| Balance at beginning of year | – | 51,153,091 | 66,069,105 | 222,665,662 | – | 339,887,858 |
| Depreciation | – | 14,399,140 | 6,873,907 | 25,280,720 | – | 46,553,767 |
| Balance at end of year | – | 65,552,231 | 72,943,012 | 247,946,382 | – | 386,441,625 |
| Net Carrying Amount | ₱58,597,484 | ₱112,194,615 | ₱17,355,515 | ₱130,259,067 | ₱74,182,034 | ₱392,588,715 |

| December 31, 2017 | | | | | | |
|----------------------------------|--------------------|---------------------------|--|------------------------------------|--------------------------|---------------------|
| | Land | Building and Improvements | Office Furniture, Fixtures and Equipment | Heavy and Transportation Equipment | Construction in-progress | Total |
| Cost | | | | | | |
| Balance at beginning of year | ₱57,933,414 | ₱135,501,310 | ₱82,148,260 | ₱828,844,631 | ₱11,747,667 | ₱1,116,175,282 |
| Additions | – | 33,363,609 | 6,324,538 | 55,965,429 | 24,706,108 | 120,359,684 |
| Acquired through merger (Note 4) | – | – | – | 2,062,499 | – | 2,062,499 |
| Disposal | – | – | (7,444,571) | (510,001,039) | – | (517,445,610) |
| Balance at end of year | 57,933,414 | 168,864,919 | 81,028,227 | 376,871,520 | 36,453,775 | 721,151,855 |
| Accumulated Depreciation | | | | | | |
| Balance at beginning of year | – | 40,079,998 | 54,165,998 | 630,525,977 | – | 724,771,973 |
| Depreciation | – | 11,073,093 | 16,533,178 | 57,414,362 | – | 85,020,633 |
| Disposal | – | – | (4,630,071) | (465,274,677) | – | (469,904,748) |
| Balance at end of year | – | 51,153,091 | 66,069,105 | 222,665,662 | – | 339,887,858 |
| Net Carrying Amount | ₱57,933,414 | ₱117,711,828 | ₱14,959,122 | ₱154,205,858 | ₱36,453,775 | ₱381,263,997 |

Construction-in-progress pertains to on-going mine developments which are expected to be completed in 2019.

Heavy and transportation equipment with carrying value of ₱63.8 million and ₱92.4 million as at June 30, 2018 and December 31, 2017, respectively, are held as collaterals for loans payable. In 2017, the Company obtained additional long-term debt with transportation equipment held as collateral with carrying amount of ₱1.5 million (see Note 14).

In 2017, the Company disposed of property and equipment with a carrying value of ₱47.5 million, resulting to loss of ₱19.5 million (see Note 19). No disposals were made during the first quarter ended June 30, 2018.

Depreciation is allocated to profit or loss as follows:

| | Note | June 30, 2018 | December 31, 2017 |
|---------------------------------------|------|--------------------|-------------------|
| Charged to: | | | |
| Cost of sales | 17 | ₱4,646,395 | ₱21,473,667 |
| Operating expenses | 18 | 27,814,444 | 52,866,447 |
| Inventory | | – | – |
| | | 32,460,839 | 74,340,114 |
| Capitalized to mine development costs | 10 | 14,092,928 | 10,680,519 |
| | | ₱46,553,767 | ₱85,020,633 |

Fully depreciated property and equipment with cost of ₱72.3 million as at June 30, 2018 and December 31, 2017 are still being used by the Company and retained in the accounts.

10. Mining Rights and Other Mining Assets

This account consists of:

| | June 30, 2018 | | | | | |
|------------------------------|----------------|----------------------------|----------------------------|---------------------------|----------------|----------------|
| | Mining Rights | Deferred Exploration Costs | Mine and Mining Properties | | Total | Total |
| | | | Mine Development Costs | Mine Rehabilitation Asset | | |
| Cost | | | | | | |
| Balance at beginning of year | ₱2,935,579,522 | ₱77,835,574 | ₱1,383,428,703 | ₱42,170,134 | ₱1,425,598,837 | ₱4,439,013,933 |
| Additions | 210,000 | – | 79,134,993 | – | 79,134,992 | 79,344,993 |
| Balance at end of year | 2,935,789,522 | 77,835,574 | 1,462,563,696 | 42,170,134 | 1,504,733,829 | 4,518,358,925 |
| Accumulated Depletion | | | | | | |
| Balance at beginning of year | 310,222,217 | – | 256,636,424 | 6,309,613 | 262,946,037 | 573,168,254 |
| Depletion | – | – | 13,886,348 | – | 13,886,348 | 13,886,348 |
| Balance at end of year | 310,222,217 | – | 270,522,772 | 6,309,613 | 276,832,385 | 587,054,602 |
| Net Carrying Amount | ₱2,625,567,305 | ₱77,835,574 | ₱1,192,040,924 | ₱35,860,521 | ₱1,227,901,445 | ₱3,931,304,324 |

| | December 31, 2017 | | | | | |
|----------------------------------|-------------------|----------------------------|----------------------------|---------------------------|----------------|----------------|
| | Mining Rights | Deferred Exploration Costs | Mine and Mining Properties | | Total | Total |
| | | | Mine Development Costs | Mine Rehabilitation Asset | | |
| Cost | | | | | | |
| Balance at beginning of year | ₱1,294,766,157 | – | ₱1,110,194,730 | ₱42,170,134 | ₱1,152,364,864 | ₱2,447,131,021 |
| Additions | – | – | 273,233,973 | – | 273,233,973 | 273,233,973 |
| Acquired through merger (Note 4) | 1,640,813,365 | 77,835,574 | – | – | – | 1,718,648,939 |
| Balance at end of year | 2,935,579,522 | 77,835,574 | 1,383,428,703 | 42,170,134 | 1,425,598,837 | 4,439,013,933 |
| Accumulated Depletion | | | | | | |
| Balance at beginning of year | 250,558,591 | – | 188,352,511 | 4,136,456 | 192,488,967 | 443,047,558 |
| Depletion | 59,663,626 | – | 68,283,913 | 2,173,157 | 70,457,070 | 130,120,696 |
| Balance at end of year | 310,222,217 | – | 256,636,424 | 6,309,613 | 262,946,037 | 573,168,254 |
| Net Carrying Amount | ₱2,625,357,305 | ₱77,835,574 | ₱1,126,792,279 | ₱35,860,521 | ₱1,162,652,800 | ₱3,865,845,679 |

Mining Rights

Mining rights of the Group consist of:

| | Note | 2018 | 2017 |
|--------------------------------------|------|-----------------------|----------------|
| Mining rights on explored resources | | ₱984,543,940 | ₱984,543,940 |
| Mining rights of BGRC, AMPI and BARI | 4 | 1,641,023,365 | 1,640,813,365 |
| | | ₱2,625,567,305 | ₱2,625,357,305 |

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

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

Deferred Exploration Costs

Deferred exploration costs pertains to the capitalized expenditures associated with finding specific mineral resources such as acquisition of rights to explore, geological and geophysical studies and exploration drilling and sampling.

Mine and Mining Properties

Mine Development Costs. Mine development costs include the costs incurred on an already operating mine area. Such costs pertain to expenses incurred in sourcing new resources and converting these into reserves, road developments and developing additional mine yards.

The additions in mine and mining properties include construction of roads, bridges and mine yards, and depreciation of heavy equipment used for developing additional mine yards and road improvements amounting to ₱14.09 million and ₱10.68 million in 2018 and 2017, respectively (see Note 9).

Mine Rehabilitation Asset. Mine rehabilitation asset is the estimated rehabilitation cost of MMDC's mine site upon termination of MMDC's ore activities, as required in MMDC's MPSA (see Note 13).

11. Other Noncurrent Assets

This account consists of:

| | Note | June 30, 2018 | December 31, 2017 |
|--------------------------|------|---------------------|-------------------|
| Input VAT | | ₱298,802,273 | ₱302,373,370 |
| Advances to a contractor | | 101,653,122 | 101,139,441 |
| RCF | | 5,421,898 | 5,433,209 |
| MTF | | 164,076 | 164,537 |
| Rental deposit | 22 | 882,145 | 465,959 |
| Others | | 605,655 | 2,257,594 |
| | | ₱407,529,169 | ₱411,834,110 |

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

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

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

Interest income from RCF and MTF amounted to ₱55,898 in 2017 (see Note 5).

12. Trade and Other Payables

This account consists of:

| | Note | June 30, 2018 | December 31, 2017 |
|---|------|---------------------|----------------------|
| Trade payables | | ₱471,381,062 | ₱230,248,768 |
| Advances from customer | | 63,145,775 | – |
| Excise tax and other statutory payables | | 23,933,488 | 40,576,834 |
| Accrued expenses: | | | |
| Interest | 14 | – | 138,547 |
| Others | | 27,869,577 | 14,649,017 |
| Others | | 1,745,361 | 2,207,748 |
| | | ₱588,075,262 | ₱287,820,914 |

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

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

Other accrued expenses include accrual of expenditures for social development management program as required by the MGB.

Others pertain to advances from a former related party.

13. Provision for Mine Rehabilitation and Decommissioning

The movements in this account are as follows:

| | Note | June 30, 2018 | December 31, 2017 |
|------------------------------|------|--------------------|-------------------|
| Balance at beginning of year | | ₱49,796,810 | ₱47,707,979 |
| Accretion of interest | 14 | – | 2,088,831 |
| | | ₱49,796,810 | ₱49,796,810 |

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

14. Loans Payable

This account consists of:

| | June 30, 2018 | December 31, 2017 |
|------------------------|----------------------|-------------------|
| Short-term loan – MMDC | ₱430,697,753 | ₱80,000,000 |
| Long-term debt: | | |
| MMDC | ₱55,921,898 | ₱56,742,825 |
| BGRC | 1,583,091 | 1,742,257 |
| | 57,504,989 | 58,485,082 |
| Less current portion | 20,705,961 | 21,364,876 |
| | ₱36,799,028 | ₱37,120,206 |

Short-term Loan

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

On April 30 2018, MMDC obtained credit facility amounted to ₱197.75 million.

On January 12, 2018, the Company obtained a credit facility limited to ₱200.0 million. The purpose of the loan will be used to finance sales contracts or purchase order of the Company. The facility will be made via Promissory Note (PN) with a term of 60 days. The credit facility is secured by shares of the Company in MMDC covering 150% of the credit facility limit.

On January 12, 2015, MMDC obtained credit facility amounted to ₱200.0 million, ₱20.0 million and ₱100.0 million of which was paid in 2017 and 2015, respectively, and domestic bills purchase line amounting to ₱5.0 million from a local bank. The credit facility is secured by the interests and rights of the Parent Company over 647,692 shares of stocks of MMDC.

Long-term Debt

MMDC

In 2017, the Company obtained a five (5) year promissory note of ₱1.6 million from a local bank. The note which is covered by a chattel mortgage on transportation equipment, bears an annual interest rate of 10.34% and is maturing on July 11, 2022.

The carrying amount of transportation equipment held as collateral amounted to ₱1.5 million as at December 31, 2017 (see Note 9).

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

The carrying amount of transportation equipment held as collateral amounted to ₱63.8 million and ₱92.4 million as at June 30, 2018 and December 31, 2017, respectively (see Note 9).

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

BGRC

On June 30, 2016, BGRC obtained secured promissory notes with chattel mortgage from a local bank amounting to ₱2.6 million. The loans bear a fixed interest rate of 9.02% per annum. The principal and interest are payable monthly starting July 30, 2016 until May 30, 2020.

Interest expense of the Company was incurred from the loans payable of the Company.

Interest payable amounted to nil and ₱0.1 million as at June 30, 2018 and December 31, 2017, respectively (see Note 12).

15. Equity

Movements in this account are as follows:

| | 2018 | 2017 |
|--|-----------------------|----------------|
| Authorized capital stock - ₱1 par value | ₱4,000,000,000 | ₱4,000,000,000 |
| Capital stock | | |
| Balance at beginning of year | ₱2,969,088,599 | ₱1,821,358,599 |
| Issuance during year: | | |
| Issuance | 45,731,706 | 1,125,000,000 |
| Additional subscription by a stockholder | - | 22,730,000 |
| Balance at end of year | ₱3,014,820,305 | ₱2,969,088,599 |
| Additional paid-in capital | | |
| Balance at beginning of year | ₱239,931,494 | ₱212,655,494 |
| Proceeds in excess of par value | 29,268,292 | 27,276,000 |
| Balance at end of year | ₱269,199,786 | ₱239,931,494 |

On December 29, 2017, the SEC approved the increase in authorized capital stock of the Parent Company to accommodate the merger, as stated in Note 1, from 2,000,000,000 shares at ₱1 par value to 4,000,000,000 shares at ₱1 par value a share. Out of this increase, a total of 1,125,000,000 of the Parent Company's common shares were issued to BHI and APMPC shareholders at ₱1 per share.

In 2017, a stockholder subscribed additional 22,730,000 shares of the Parent Company at ₱2.2 per share with the total proceeds of ₱50.0 million resulting to ₱27.3 million proceeds in excess of par value.

In 2017, the Parent Company received an advances from a stockholder amounting ₱75.0 million intended for future stock subscription.

Retained Earnings

Cash dividends declared by the Company are as follows:

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

Dividends payable amounted to ₱4.7 million as at June 30, 2018 and December 31, 2017.

16. Revenue

This account consists of:

| | Six Months Ended June 30 | |
|------------------------------------|--------------------------|--------------|
| | 2018 | 2017 |
| Sale of ore | ₱800,714,676 | ₱908,585,853 |
| Reservation fee for ore allocation | – | – |
| | ₱800,714,676 | ₱908,585,853 |

17. Cost of Sales

This account consists of:

| | Note | Six Months Ended June 30, | |
|-----------------------------|------|---------------------------|--------------|
| | | 2018 | 2017 |
| Contractual services | | ₱424,120,020 | ₱368,657,359 |
| Personnel costs | | 36,638,053 | 61,051,819 |
| Production overhead | | 54,898,856 | 52,965,881 |
| Depletion | 10 | 13,886,348 | 55,020,620 |
| Demurrage (despatch) costs | | (14,293,987) | 3,141,575 |
| Excise tax | | 15,541,207 | 14,328,894 |
| Hustling | | 22,187,345 | – |
| Depreciation | 9 | 4,646,395 | 24,153,885 |
| | | 557,624,238 | ₱579,320,033 |
| Net movement in inventories | | 9,791,354 | 53,556,076 |
| | | ₱567,415,592 | ₱632,876,109 |

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

Production overhead consists of repairs and maintenance of heavy equipments, utilities, mining supplies used, among others.

Demurrage costs are fees charged by the chartered ship for failure to load the mineral ores to ship within the agreed period.

18. Operating Expenses

This account consists of:

| | Note | Six Months Ended June 30, | |
|--------------------------------|------|---------------------------|--------------|
| | | 2018 | 2017 |
| Salaries and allowances | | ₱65,312,910 | ₱58,316,588 |
| Taxes and licenses | | 28,130,225 | 32,316,787 |
| Depreciation | 9 | 27,814,444 | 25,010,351 |
| Outside services | | 14,511,541 | 21,166,703 |
| Professional fees | | 17,977,465 | 12,424,500 |
| Environmental expenses | 22 | 13,499,777 | 16,083,638 |
| Directors Fee | | 8,040,000 | 6,285,000 |
| Social development program | 22 | 7,758,936 | 3,765,163 |
| Office supplies | | 2,618,132 | 1,973,039 |
| Representation | | 2,658,790 | 8,067,680 |
| Rent expense | 22 | 2,270,729 | 2,203,350 |
| Communication, light and water | | 1,596,870 | 2,861,005 |
| Community relations | | 795,627 | 2,464,532 |
| Repairs and maintenance | | 474,923 | 219,587 |
| Advertisement | | 642,440 | 1,093,906 |
| Loading fees | | – | 5,449,198 |
| Royalties | 22 | 4,079,934 | 8,879,948 |
| Others | | 14,510,245 | 18,414,644 |
| | | ₱212,692,990 | ₱226,995,620 |

Others include insurance, trainings and seminars, security services, among others.

19. Other Income (Charges) - Net

This account consists of:

| | Six Months Ended June 30, | |
|-----------------------|---------------------------|--------------|
| | 2018 | 2017 |
| Foreign exchange gain | ₱4,070,224 | ₱1,224,603 |
| Interest income | 58,984 | 73,575 |
| Interest expense | (11,894,531) | (5,156,304) |
| Others | 1,253,918 | 1,464,763 |
| | (₱6,511,405) | (₱2,393,363) |

20. Retirement Benefit Liability

The Company has an unfunded, noncontributory defined benefit plan covering all its permanent employees. Under this plan, the employees are entitled to retirement benefits ranging from 50% to 200% of the final monthly salary for each year of credited service. This plan is in accordance with Republic Act No. 7641, which mandates a minimum retirement benefit equivalent to one-half month salary per year of service.

An independent actuary conducted a valuation of the retirement benefit obligation using the projected unit credit method. The latest actuarial valuation is for the year ended December 31, 2017.

The retirement benefit liability recognized in the consolidated statements of financial position as at June 30, 2018 and December 31, 2017 and changes in the present value of defined benefit obligation are as follows:

| | 2018 | 2017 |
|------------------------------|--------------------|---------------------|
| Balance at beginning of year | 36,400,994 | ₱45,939,509 |
| Current service cost | – | 6,939,581 |
| Net interest cost | – | 2,473,147 |
| Net actuarial gain | – | (18,951,243) |
| Balance at end of year | ₱36,400,994 | ₱36,400,994 |

The principal actuarial assumptions used to determine retirement benefit for 2017 are as follows:

| | |
|-----------------------|--------------|
| Discount rates | 5.68% |
| Salary increase rates | 5.00% |

The plan exposes the Company to actuarial risks, such as interest rate risk and salary risk.

Sensitivity analysis on defined benefit obligation as at December 31, 2017 is as follows:

| | Change in basis points | Effect on defined benefit obligation |
|----------------------|---------------------------|---|
| Discount rate | +100 | (₱4,127,508) |
| | -100 | 5,018,493 |
| Salary increase rate | +100 | 5,006,393 |
| | -100 | (4,175,499) |

Each sensitivity analysis on the significant actuarial assumptions was prepared by remeasuring the defined benefit obligation at the end of each reporting date after adjusting one of the current assumptions according to the applicable sensitivity increment or decrement (based on changes in the relevant assumption that were reasonably possible at the valuation date) while all other assumptions remained unchanged.

The changes assumed to be reasonably possible at the valuation date are open to subjectivity, and do not consider more complex scenarios in which changes other than those assumed may be deemed more responsible.

The expected future benefit payments follow:

| Financial Year | Amount |
|----------------|------------|
| 2018 | ₱2,445,076 |
| 2019 | 10,820 |
| 2020 | 13,465 |
| 2021 | 550,785 |
| 2022 and after | 14,722,072 |

21. Related Party Transactions

Significant transactions with related parties include the following:

Related Parties under Common Management

| Related Parties | Transaction Amounts | | Outstanding Balances | | Nature and Terms |
|-------------------------------|---------------------|--------------------|----------------------|--------------------|---|
| | 2018 | 2017 | 2018 | 2017 | |
| Advances to related parties | ₱556,801 | ₱42,828,377 | ₱42,271,576 | ₱42,828,377 | Working fund; unsecured; noninterest-bearing; payable on demand |
| Advances from a related party | ₱16,471,220 | ₱5,000,000 | ₱26,471,220 | ₱10,000,000 | Working fund; unsecured; noninterest-bearing; payable on demand |

As at June 30, 2018 and December 31, 2017, the Company has not provided any allowance for impairment losses for amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related parties and the market in which the related parties operate.

22. Commitments

Social and Environmental Responsibility

Social Development Management Programs (SDMP)

SDMP are five (5) year programs of the projects identified and approved for implementation, in consultation with the host communities. The Company provides an annual budget for SDMP projects that focus on health, education, livelihood, public utilities and socio-cultural preservation. The implementation of the program is monitored by the MGB.

The Company's implemented programs to host communities amounted to ₱7.8 million, ₱3.8 million for the six month period ended June 30, 2018 and 2017, respectively (see Note 18).

Environmental Protection and Enhancement Program (EPEP)

EPEP refers to comprehensive and strategic environmental management plan to achieve the environmental management objectives, criteria and commitments including protection and rehabilitation of the affected environment. This program is monitored by the Multipartite Monitoring Team, a group headed by a representative from the Regional MGB and representatives of Local Government Units (LGU), other government agencies, non-government organizations, the church sector and the representatives of the Company.

The Company implemented projects amounted to ₱13.5 million and ₱16.1 million for the six month period ended June 30, 2018 and 2017, respectively (see Note 18).

Royalty Agreement

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

Royalty payable presented under “Excise tax and other statutory payables” amounted to ₱4.0 million and ₱4.1 million as at June 30, 2018 and December 31, 2017, respectively. Royalty expense amounted to ₱4.1 million and ₱8.9 million for the six month period ended June 30, 2018 and 2017, respectively (see Note 18).

Lease Commitments

The Company leases an office space for its operations. The lease is for a period of five (5) years and in 2017 the lease agreement was renewed for two (2) years. Rental deposit amounted to ₱0.4 million as at June 30, 2018 and December 31, 2017 (see Note 11).

Rental expense charged to operations amounted to ₱2.3 million and 2.2 million for the period ended June 30, 2018 and 2017, respectively.

The Company has outstanding commitments under noncancellable operating lease that fall due as follows:

| | 2018 | 2017 |
|-------------------------------------|-----------------|-----------------|
| Within 1 year | ₱100,000 | ₱100,000 |
| More than 1 year but within 5 years | - | - |
| | ₱100,000 | ₱100,000 |

23. Income Taxes

The Company’s net deferred tax assets arising from temporary differences as at June 30, 2018 and December 31, 2017 are summarized as follows:

| | 2018 | 2017 |
|--|--------------------|-------------|
| Deferred tax assets: | | |
| Retirement benefit liability | ₱8,409,563 | ₱8,409,563 |
| Provision for mine rehabilitation | 1,799,603 | 1,799,603 |
| Allowance for impairment loss on receivables | 1,341,890 | 1,341,890 |
| | 11,551,056 | 11,551,056 |
| Deferred tax liability on unrealized foreign exchange gain | (242,621) | (242,621) |
| | ₱11,308,435 | ₱11,308,435 |

Management believes that it may not be probable that future taxable profit will be available in the future against which the benefits of the following deferred tax assets can be utilized. Details of unrecognized deferred tax assets for the period ended June 30, 2018 and December 31, 2017 are as follows:

| | |
|------------------------------|--------------------|
| NOLCO | ₱8,090,404 |
| MCIT | 5,201,000 |
| Retirement benefit liability | 2,510,735 |
| | ₱15,802,139 |

Details of NOLCO of the Parent Company are as follows:

| Year incurred | Expiry date | Amount | Expired | Balance |
|---------------|-------------|-------------|---------|-------------|
| 2017 | 2020 | ₱100,933 | ₱- | ₱100,933 |
| 2015 | 2018 | 26,867,079 | - | 26,867,079 |
| | | ₱26,968,012 | ₱- | ₱26,968,012 |

Details of MCIT of the Parent Company are as follows:

| Year incurred | Expiry date | Amount | Expired | Balance |
|---------------|-------------|------------|-------------|------------|
| 2017 | 2020 | ₱1,700,000 | ₱- | ₱1,700,000 |
| 2016 | 2019 | 1,800,000 | - | 1,800,000 |
| 2015 | 2018 | 1,701,000 | - | 1,701,000 |
| 2014 | 2017 | 2,500,000 | (2,500,000) | - |
| | | ₱7,701,000 | ₱- | ₱5,201,000 |

24. Earnings Per Share

Earnings per share are computed as follows:

| | 2018 | 2017 |
|--|----------------------|---------------|
| Net income (loss) shown in the consolidated statements of comprehensive income (a) | ₱9,866,283 | ₱24,143,705 |
| Weighted average number of common shares (b) | 2,984,332,500 | 1,821,358,599 |
| Basic earnings (loss) per share (a/b) | (₱0.003) | (₱0.013) |

The Company does not have potentially dilutive common shares.

25. Contingencies

Cancellation of MMDC's MPSA

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

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

As to the alleged non-compliance to the planting of three million seedlings, MMDC was prevented from implementing the same due to previous inaction of the DENR. The Company submitted the program for the tree planting of three million seedlings as early as February 24, 2015. There were

several communications between MMDC and the DENR/MGB regarding this matter. In a letter dated April 22, 2016, MMDC informed MGB that there is a strong objection from the LGU in the host communities of MMDC since they will not benefit from the Program as MGB directed MMDC to plant in different regions. Thereupon, MMDC suggested DENR/MGB to implement the program through its National Greening Project to be funded by MMDC. After several follow-ups, on December 21, 2016, MMDC received a letter from Secretary Lopez dated December 1, 2016 finally directing MMDC to plant the three million seedlings in its host communities. MMDC immediately coordinated with the Regional Director of DENR. Hence, an inventory of seedlings available in the area was then made. Based on the report of DENR Region XIII, a total of 1,513,928 seedlings are available in the area. To ensure immediate and proper implementation of the tree planting activity, MMDC entered into a Memorandum of Agreement with the mayors of the municipalities in its host communities on February 9, 2017. This action demonstrates MMDC's readiness and willingness to implement program. Thus, no fault can be attributed to MMDC with regard to the implementation of the three million seedlings.

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

It bears to note that the Technical Committee Report on MMDC shows only a recommendation for fine and suspension. Thus, the management strongly believes that the cancellation of MMDC's MPSA is unwarranted and should be overturned. Thus, on February 17, 2017, MMDC filed a Notice of Appeal to the Office of the President. Subsequently, on March 17, 2017, MMDC filed its Appeal Memorandum.

The Company has continued mining operations in areas covered by the MPSA (see Note 1).

Show-Cause Orders of BGRC, AMPI and BARI

BGRC, AMPI and BARI received a Show-Cause Orders dated February 13, 2017. In the Show-Cause Orders, it was alleged that the contract area covered by their MPSAs is within a watershed, such that if mining operations will be conducted therein, its ecological functions will be impaired.

On February 27, 2017, BGRC submitted a reply to the Show-Cause Orders explaining that BGRC has prior legal right considering that the BGRC's MPSA was approved on July 1, 1993, while Proclamation No. 1747 on the proclamation of watershed areas was only issued on March 23, 2009. Notably, Proclamation No. 1747 provides that prior rights should be respected. Thus, BGRC should be allowed to continue their operations over their contract areas.

AMPI and BARI submitted replies that their contract areas are not part of any watershed and are even declared as Bauxite Mineral Reservations which allows development of bauxite deposits. Subsequently, AMPI and BARI obtained certifications from the Forest Management Bureau that their mining tenements are outside officially designated proclaimed watersheds. This was further confirmed by the MGB in its letter dated August 10, 2017.

The management and its legal counsel believe that the alleged violation is without basis in fact and in law.

26. Financial Risk Management Objectives and Policies

General

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

Financial Risk Management Objectives and Policies

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

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

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

The following table shows the Company's US dollar-denominated monetary financial assets and their Philippine Peso equivalent as at June 30, 2018 and December 31, 2017:

| | June 30, 2018 | | December 31, 2017 | |
|---------------------------|---------------------|---------------------|-------------------|-------------|
| | Philippine Peso | US Dollar | Philippine Peso | US Dollar |
| Current financial assets: | | | | |
| Cash in banks | ₱1,062,157 | \$19,913 | ₱12,730,575 | \$254,968 |
| Trade receivables | 630,517,275 | 11,820,721 | 201,115,654 | 4,027,952 |
| | ₱631,579,432 | \$11,840,634 | ₱213,846,229 | \$4,282,920 |

For purposes of restating the outstanding balances of the Company's foreign currency-denominated financial assets and liabilities as at June 30, 2018 and December 31, 2017, the exchange rates applied were and **₱53.34** and **₱49.72 per US\$1**, respectively.

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

The Company's short-term loan is exposed to changes in market interest rates since the loans are subject to variable interest rates.

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

The tables below show the credit quality per class of financial assets as at June 30, 2018 and December 31, 2017. The Company does not have financial assets that are past due but not impaired.

| June 30, 2018 | | | | | | | |
|------------------------------|-------------------------------|----------------|-------------------|---------------------------|-------------|--------------|--|
| | Neither Past Due nor Impaired | | | Past Due but not Impaired | Impaired | Total | |
| | High Grade | Standard Grade | Substandard Grade | | | | |
| Cash in banks | ₱62,209,193 | ₱- | ₱- | ₱- | ₱- | ₱62,209,193 | |
| Trade and other receivables* | - | 220,218,560 | - | - | 11,036,527 | 231,255,087 | |
| Advances to related parties | - | 42,271,576 | - | - | - | 42,271,576 | |
| RCF and MTF | 5,585,974 | - | - | - | - | 5,585,974 | |
| Rental deposit | - | 882,145 | - | - | - | 882,145 | |
| | ₱67,795,167 | ₱263,372,281 | ₱- | ₱- | ₱11,036,527 | ₱342,203,975 | |

*Excluding advances to officers and employees amounting to ₱28.5 million in 2018.

| December 31, 2017 | | | | | | | |
|------------------------------|-------------------------------|----------------|-------------------|---------------------------|-------------|--------------|--|
| | Neither Past Due nor Impaired | | | Past Due but not Impaired | Impaired | Total | |
| | High Grade | Standard Grade | Substandard Grade | | | | |
| Cash in banks | ₱46,906,584 | ₱- | ₱- | ₱- | ₱- | ₱46,906,584 | |
| Trade and other receivables* | - | 201,115,654 | 3,130,079 | - | 11,036,527 | 215,282,260 | |
| Advances to related parties | - | 42,828,377 | - | - | - | 42,828,377 | |
| RCF and MTF | 5,597,746 | - | - | - | - | 5,597,746 | |
| Rental deposit | - | 465,959 | - | - | - | 465,959 | |
| | ₱52,504,330 | ₱244,409,990 | ₱3,130,079 | ₱- | ₱11,036,527 | ₱311,080,926 | |

*Excluding advances to officers and employees amounting to ₱28.5 million in 2017.

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

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

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

The table below set forth the estimated change in the Company's income before tax to a reasonably possible change in the market prices of loans payable brought about by reasonably possible change in interest rates as at December 31, 2017.

| | Increase/Decrease in Interest Rate | Effect on Income before Tax |
|--------------------------|---------------------------------------|-----------------------------|
| December 31, 2017 | +3.32% | ₱98,239 |
| | -3.32% | (98,239) |
| December 31, 2016 | +4.15% | ₱184,947 |
| | -4.15% | (184,947) |

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

Fair Value of Financial Assets and Financial Liabilities

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

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

| | 2018 | | 2017 | |
|------------------------------|---------------------|---------------------|----------------|--------------|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Cash | ₱62,474,739 | ₱62,474,739 | ₱47,062,535 | ₱47,062,535 |
| Trade and other receivables* | 654,357,953 | 654,357,953 | 204,245,733 | 204,245,733 |
| Advances to related parties | 42,271,576 | 42,271,576 | 42,828,377 | 42,828,377 |
| RCF and MTF | 5,585,975 | 5,585,975 | 5,597,746 | 5,597,746 |
| Rental deposit | 882,145 | 882,145 | 465,959 | 465,959 |
| | ₱765,572,388 | ₱765,572,388 | ₱300,200,350 | ₱300,200,350 |

*Excluding advances to officers and employees amounting to ₱11.90 million and ₱28.55 million as at June 30, 2018 and December 31, 2017, respectively.

| | 2018 | | 2017 | |
|-------------------------------|---------------------|---------------------|----------------|--------------|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Trade and other payables* | ₱198,310,072 | ₱198,310,072 | ₱247,105,533 | ₱247,105,533 |
| Dividends payable | 4,707,886 | 4,707,886 | 4,707,886 | 4,707,886 |
| Loans payable | 337,504,989 | 337,504,989 | 138,485,082 | 142,593,120 |
| Advances from a related party | 17,344,955 | 17,344,955 | 10,000,000 | 10,000,000 |
| | ₱557,867,902 | ₱557,867,902 | ₱400,298,501 | ₱404,406,539 |

*Excluding excise tax and other statutory payables amounting to ₱40.6 million and ₱35.1 million as at June 30, 2018 and December 31, 2017, respectively.

Cash, Trade and Other Receivables, RCF and MTF, Advances to Related Parties, Trade and Other Payables, Dividends Payable. and Advances from a Related Party Due to the short-term nature of transactions, the fair values approximate the amount of consideration at reporting period.

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

Loans Payable and Long-term Debt. Estimated fair values have been calculated on the instruments' expected cash flows using the prevailing PDST-R2 rates that are specific to the tenor of the instruments' cash flows at reporting dates (Level 2).

27. Capital Management Objectives, Policies and Procedures

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

There were no changes in the Company's objectives, policies or processes in 2018 and 2017.

28. Notes to Statements of Cash Flows

The table below details changes in the liabilities and equity of the Company arising from financing activities, including both cash and non-cash changes.

| | Note | Balance as at December 31, 2017 | Cash Flows from Financing Activities | Noncash Changes | | Balance as at June 30, 2018 |
|--|------|---------------------------------------|--|------------------------|--|--------------------------------|
| | | | | Subscription of Shares | | |
| Capital stock | | ₱2,969,088,599 | ₱- | ₱45,731,706 | | ₱3,014,820,305 |
| APIC | | 239,931,494 | - | - | | 239,931,494 |
| | | 3,209,020,093 | - | - | | 3,254,751,799 |
| Loans payable | 14 | 138,485,082 | 349,717,658 | - | | 488,202,740 |
| Accrued interest | 14 | 138,547 | - | - | | 138,547 |
| | | 138,623,629 | 349,717,658 | 45,731,706 | | 488,341,287 |
| Dividends payable | | 4,707,886 | - | - | | 4,707,886 |
| Deposit for future stock subscription | | 75,000,000 | - | - | | 75,000,000 |
| | | ₱3,427,351,608 | 349,717,658 | ₱45,731,706 | | ₱3,822,800,972 |

