

# COVER SHEET

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S.E.C. Registration Number

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(Company's Full Name)

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

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| Reynaldo E. Nazarea |
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Contact Person

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| 631-8151 |
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Company Telephone Number

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| 0 | 9 |
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Month

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Day

**SEC Form 17-Q (September 2018)**

**FORM TYPE**

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Month

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Annual Meeting

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Secondary License Type, If Applicable

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Total No. of Stockholders

Total Amount of Borrowings

|               |
|---------------|
| P10.0 million |
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Domestic

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Foreign

To be accomplished by SEC Personnel concerned

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**SECURITIES AND EXCHANGE COMMISSION  
SEC FORM 17-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES  
REGULATION CODE AND SECTION 141 OF THE CORPORATION CODE OF  
THE PHILIPPINES.**

1. For the quarterly period ended September 30, 2018
2. SEC Identification Number: 38683
3. BIR Tax Identification No.: 000-315-612-000
4. Exact name of registrant as specified in its charter: **THE PHILODRILL CORPORATION**
5. Philippines 6. \_\_\_\_\_ (SEC Use Only)  
Province, Country or other Industry Classification Code  
jurisdiction of incorporation or organization
7. 8th Floor, Quad Alpha Centrum, 125 Pioneer Street, Mandaluyong City 1550  
Address of principal office Postal  
Code
8. (632) 631-8151/52  
Registrant's telephone number, including area code
9. Not Applicable
10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sec. 4 and of the RSA

|                                       |
|---------------------------------------|
| Number of Common<br>Stock Outstanding |
| 191,868,805,358                       |

Amount of Debt Outstanding

Total Loans Payable ₱ 10,000,000.00

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

Yes  No

12. Check whether the issuer

- (a) has filed all reports required to be filed by Section 11 of the SRC and SRC Rule 17 thereunder or Section 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 that the registrant was required to file such reports);

Yes  No

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

Yes  No

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## PART 1 – FINANCIAL INFORMATION

### *Item 1. Financial Statements*

1. The unaudited Consolidated Financial Statements of the Company for the 3rd quarter ended 30 September 2018 are included in this report. The schedules listed in the accompanying Index to Supplementary Schedules are filed as part of the SEC Form 17Q.
2. Interim Statements of Operations for the current interim period (01 January to 30 September 2018), with comparative Statement of Operations for the comparable period (01 January to 30 September 2017) are attached to this report.
3. A statement showing changes in equity cumulatively for the current financial year to date (01 January to 30 September 2018), with a comparative statement for the comparable year-to-date period of the immediately preceding financial year (01 January to 30 September 2017) are attached to this report.
4. The basic and diluted earnings/loss per share are presented on the face of the attached Statement of Operations (01 January to 30 September 2018), as well as the basis of computation thereof.
5. The Company's interim financial report for the 3rd quarter 2018 is in compliance with Generally Accepted Accounting Principles ("GAAP"). Included in this report is a summary of the Company's significant accounting policies.
6. The Company follows the same accounting policies and methods of computation in its interim financial statements (01 January to 30 September, 2018) as compared with the most recent annual financial statements (2017), and no policies or methods have been changed. There were NO reclassifications of financial assets made into and from each category as of the current reporting period.
7. There were NO seasonal or cyclical aspects that had a material effect on the financial condition or results of interim operations of the Company.
8. There were NO unusual items during the interim period (01 January to 30 September 2018), the nature, amount, size or incidents of which have affected the assets, liabilities, equity, net income or cash flows of the Company.
9. There were NO changes in the estimates of amounts reported in prior financial year (2017), which had a material effect in the current interim period (01 January to 30 September, 2018).
10. There were NO issuances, repurchases and repayments of debt and equity securities during the current interim period (January 1 to September 30, 2018).

11. For the period January 1 to September 30, 2018, NO cash dividends were declared by the Board of Directors.
12. The Company does not generate revenues from any particular segment and its business is not delineated into any segment, whether by business or geography. The Company is not required to disclose segment information in its financial statements.
13. Up to the time of filing of this quarterly report, there were NO material events subsequent to the end of the interim period (January 1 to September 30, 2018) that have not been reflected in the financial statements for said interim period.
14. There were NO changes in the composition of the Company during the interim period (January 1 to September 30, 2018) and there were NO business combinations, acquisition or disposal of subsidiaries and long-term investments, restructurings and discontinuance of operations during said interim period.
15. The Company has NO contingent liabilities or contingent assets as of its last annual balance sheet date (December 31, 2017) and as of end of current interim period (September 30, 2018), EXCEPT those disclosed in Note 25 to the Company's 2017 Audited Financial Statements.
16. There are NO material contingencies and any other events or transactions that are material to an understanding of the current interim period (January 1 to September 30, 2018).

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

### **Financial Performance**

Total revenues for the first three quarters ended September 30, 2018 increased by ₱75.2 million or 22% to ₱408.2 million from ₱333.0 million for the same period last year. Petroleum revenues increased by ₱48.5 million or 17% to ₱329.8 million from ₱281.3 million for the same period last year. The increase was brought mainly by the increase in average crude prices for the first three quarters of 2018 as compared to the same period last year. The average price per barrel increased to \$76.57 for the period ended September 30, 2018 as compared to \$54.01 for the same period last year. The combined gross production decreased to 962,555 barrels for the first three quarters ended September 30, 2018, from 1,204,406 barrels produced for the same period last year. Equity in net earnings of associates decreased by ₱3.0 million while interest income decreased by ₱0.3 million. Foreign exchange gain amounted to ₱40.0 million for the first three quarters of 2018 as compared to ₱11.0 million for the same period last year.

Total costs and expenses increased by ₱135.9 million from ₱341.2 million for the first three quarters of 2017 to ₱477.1 million for the first three quarters of 2018. Operating costs decreased by 2%. For 2018, plug and abandonment costs for the Libro and Tara wells were

incurred, the company's share amounted to ₱126.7 million as of September 30, 2018. The company's net loss after tax amounted to ₱28.9 million for the first three quarters of 2018 as compared to net income of ₱2.3 million for the same period last year.

The Company's top five (5) key performance indicators are as follows:

|                             | Sept 30 , 2018    | Dec 31, 2017     |
|-----------------------------|-------------------|------------------|
| Current Ratio               | <i>19.51 : 1</i>  | <i>22.78 : 1</i> |
| Current Assets              | 1,019,193,059     | 1,065,607,826    |
| Current Liabilities         | 52,226,946        | 46,778,289       |
| Debt to Equity Ratio        | <i>0.02 : 1</i>   | <i>0.02 : 1</i>  |
| Total Liabilities           | 84,048,258        | 75,780,539       |
| Stockholders Equity         | 3,543,160,186     | 3,565,339,915    |
| Equity to Debt Ratio        | <i>42.16 : 1</i>  | <i>47.05 : 1</i> |
| Stockholders Equity         | 3,543,160,186     | 3,565,339,915    |
| Total Liabilities           | 84,048,258        | 75,780,539       |
| Book Value per Share        | <i>0.0185</i>     | <i>0.0186</i>    |
| Stockholders Equity         | 3,543,160,186     | 3,565,339,915    |
| Shares outstanding          | 191,868,805,358   | 191,868,805,358  |
| Earnings (Loss) per Share   | <i>(0.000151)</i> | <i>0.000012</i>  |
| Net Income (Loss)*          | (28,899,030)      | 2,296,393        |
| Weighted ave. no. of shares | 191,868,805,358   | 191,868,805,358  |

*\*for the period January 1 to September 30*

The current ratios as of December 31, 2017 and September 30, 2018 are 22.78:1 and 19.51:1, respectively. The Company's current assets exceeded its current liabilities by ₱967 million and ₱1.02 billion as of September 30, 2018 and December 31, 2017, respectively. The "Available-for-sale (AFS) financial assets" account in the balance sheet consists of shares of stock which are listed with the Philippine Stock Exchange and which could be sold to meet the Company's obligations as might be called for by future circumstances. These shares of stock had an aggregate market value of ₱72.6 million as of September 30, 2018 and ₱51.0 million as of December 31, 2017. If these shares would be considered part of Current Assets, the recomputed current ratio would be 20.90:1 as of September 30, 2018 and 23.87:1 as of December 31, 2017.

Total assets decreased from ₱3.641 billion as of December 31, 2017 to ₱3.627 billion as of September 30, 2018. Cash and cash equivalents reflected a net decrease of ₱16.4 million or 3% due to the payment of company's share in operating expenses of Galoc, and plug and abandonment costs of Tara and Libro wells. Receivables increased by ₱4.2 million, due accrual of trade and other receivables at end of the interim period. Crude oil inventory decreased by ₱32.5 million or 46% due to lower volume of crude oil on storage as of September 30, 2018. Other current assets decreased by ₱1.7 million due to the amortization of prepaid expenses. Property and equipment reflected a decrease of ₱52.8 million to ₱589.2 million as of September 30, 2018 mainly due to the booking of depletion and depreciation costs. Available-for-sale (AFS) financial assets increased by ₱21.6 million due to the adjustment in the valuation reserve of the company's listed stock investments. Deferred oil exploration costs increased by ₱9.4 million due to additional project costs. Deferred tax assets

increased by ₱41.5 million or 147% due to adjustments in the recognition of deferred tax assets as of end of the interim period. Other noncurrent assets increased by ₱3.6 million or 14% due to additional deferred costs booked during the interim period.

Total liabilities increased by 11% or ₱8.3 million from ₱75.8 million as of December 31, 2017 to ₱84.0 million as of September 30, 2018 mainly due to the ₱10.0 million loan availed from United Coconut Planters Bank (UCPB) during the interim period.

Stockholders' equity decreased by ₱22.2 million from ₱3.565 billion as of December 31, 2017 to ₱3.543 billion as of September 30, 2018. For the first three quarters, an adjustment for the decline in value of AFS financial assets of ₱6.7 million in the valuation reserve of the company's listed stock investments was booked. As of September 30, 2018, net unrealized loss on the decline in value of AFS financial assets amounted to ₱23.6 million as compared to ₱30.3 million as of December 31, 2017. The company's retained earnings amounted to ₱1.82 billion as of September 30, 2018 as compared to ₱1.85 billion as of December 31, 2017.

The Company has a majority-owned subsidiary, Philodrill Power Corporation (PPC) (formerly Phoenix Gas & Oil Exploration Co., Inc.). The Company acquired 100% of its capital stock in May 2007. Since PPC has NOT yet started commercial operations, disclosure on performance indicators are as follows:

|                            | Sept 30, 2018  | Dec 31, 2017   |
|----------------------------|----------------|----------------|
| Current Ratio              | -              | 223.69 :1      |
| Current Assets             | 8,729,409      | 8,768,609      |
| Current Liabilities        | -0-            | 39,200         |
|                            |                |                |
| Debt to Equity Ratio       | -              | 0.004 :1       |
| Total Liabilities          | -0-            | 39,200         |
| Stockholders' Equity       | 8,729,409      | 8,729,409      |
|                            |                |                |
| Equity to Debt Ratio       | -              | 222.69 :1      |
| Stockholders' Equity       | 8,729,409      | 8,729,409      |
| Total Liabilities          | -0-            | 39,200         |
|                            |                |                |
| Book Value per Share       | 0.000698       | 0.000698       |
| Stockholders Equity        | 8,729,409      | 8,729,409      |
| Average shares outstanding | 12,505,000,000 | 12,505,000,000 |
|                            |                |                |
| Income (loss) per Share    | -              | -              |
| Net Income (Loss)          | No operation   | No operation   |
| Average shares outstanding | 12,505,000,000 | 12,505,000,000 |

### Discussion and Analysis of Material Events and Uncertainties

In general, Management is not aware of any material event or uncertainty that has affected the current interim period and/or would have a material impact on future operations of the Company. The Company will continue to be affected by the Philippine business environment as may be influenced by any local/regional financial and political crises.

1. There are NO known trends, demands, commitments, events or uncertainties that have or are reasonably likely to have material impact on the Company's liquidity.



Should the Company's cash position be not sufficient to meet current requirements, the Company may consider:

- a) collecting a portion of Accounts Receivables;
  - b) selling a portion of its existing investments and assets;
  - c) generating cash from loans and advances; and
  - d) issuing subscriptions call on the balance of the subscriptions receivable.
2. 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.
  3. 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, EXCEPT those disclosed in Note 25 to the Company's 2017 Audited Financial Statements.
  4. The Company has NO material commitments for capital expenditures, except for the Company's share in the exploration and development expenditures in the SCs and GSECs. The Company expects to be able to fund such expenditures from: operations, collection of subscriptions and other receivables, and from loans/financing, or to avoid incurring these expenditures altogether by way of farm-outs.
  5. There are NO known trends, events or uncertainties that have had or are reasonably expected to have a material impact on the revenues or income of the Company from continuing operations.
  6. There are NO significant elements of income or loss that did not arise from the Company's continuing operations.
  7. There have been NO material changes from period to period in one or more line items of the Company's financial statements, except those discussed below:

Cash and cash equivalents reflected a net decrease of ₱16.4 million or 3% due to the payment of company's share in operating expenses of Galoc and plug and abandonment costs of Tara and Libro wells.

Crude oil inventory decreased by ₱32.5 million or 46% due to the lower volume of crude oil on storage as of end of the interim period.

Other current assets decreased by ₱1.7 million due to the amortization of prepaid expenses booked during the interim period.

Property and equipment reflected a decrease of ₱52.8 million to ₱589.2 million as of September 30, 2018 due to the booking of depletion and depreciation costs.

Available-for-sale (AFS) financial assets increased by ₱21.6 million or 42% due to the adjustment in the valuation reserve of the company's listed stock investments.

Deferred tax assets increased by ₱41.5 million or 147% due to adjustments in the recognition of deferred tax assets as of end of the interim period.

Other noncurrent assets increased by ₱3.6 million or 14% due to additional other deferred charges booked during the interim period.

Accounts payable and accrued liabilities reflected a ₱4.2 million decrease due to the payment of accrued expenses during the interim period.

For the interim period, the company availed from UCPB, a ₱10.0 million short term loan with maturity date of December 7, 2018.

Income tax payable reflected a decrease of ₱0.3 million due to the payment of income tax during the interim period.

Retirement benefit liability increased by ₱2.8 million or 58% mainly due the booking of additional pension liability as of the end of the interim period.

Net unrealized loss on the decline in value of AFS financial assets as of December 31, 2017 amounted to ₱30.3 million. For the interim period, ₱6.7 million adjustment in the valuation reserve pertaining to the listed stock investments of the Company was booked. As of September 30, 2018, net unrealized loss on the decline in market value of AFS financial assets amounted to ₱23.6 million.

The company's retained earnings amounted to ₱1.820 billion as of September 30, 2018 as compared to ₱1.849 billion as of December 31, 2017. The decrease of ₱28.9 million was due to the net loss booked for the first three quarters of 2018.

Petroleum revenues increased by ₱48.5 million or 17% to ₱329.8 million from ₱281.3 million for the same period last year due to higher average crude prices. The average price per barrel increased to \$76.57 for the period ended September 30, 2018 as compared to \$54.01 per barrel for the same period last year. While, the combined gross production decreased to 962,555 barrels for the first three quarters ended September 30, 2018 from 1,204,405 barrels produced for the same period last year.

Equity in net earnings of associates decreased by ₱3.0 million or 11% due to the lower level of income booked by affiliates.

Interest income increased by ₱0.3 million from ₱13.3 million to ₱13.6 million for the first three quarters ended September 30, 2018.

Foreign exchange gain amounted to ₱40.0 million for the first three quarters of 2018 as compared to ₱11.0 million for the same period last year. Foreign exchange gain of ₱40.0 million was brought about by the ₱4.09 depreciation in the reference rates from ₱49.93 to ₱54.02 as of December 31, 2017 and September 30, 2018, respectively.

Other income increased by ₱0.4 million due to higher level of miscellaneous income booked during the period.

Share in costs and operating decreased by ₱6.0million or 2% due to lower level of production costs booked during the first three quarters of 2018. For 2018, plug and abandonment costs for the Libro and Tara wells were incurred. The company's share in these costs amounted to ₱126.7 million as of September 30, 2018.

General and administrative expenses increased by ₱17.6 million or 39% due to higher level of expenses for the period.

Net loss amounted to ₱28.9 million for the first three quarters of 2018, as compared to net income of ₱2.3 million for the same period last year.

8. There are NO seasonal aspects that had material effect on the financial condition or results of operations.

### ***Item 3. Management's Assessment and Evaluation of Financial Risk Exposures***

#### **A. Financial Instruments**

Since there were NO financial assets reclassified into and from each category, disclosures on the following are:

- a. The financial assets reclassified into and from each category; - Not Applicable
- b. For each reporting period until derecognition, the carrying amounts and fair values of all financial assets reclassified in the current reporting period and previous reporting periods;- Not Applicable
- c. For financial assets reclassified in rare circumstances, the facts that would establish such kind of circumstances; -Not Applicable
- d. In the reporting period to which financial assets are reclassified, the fair value of the gains or losses of those assets as recognized either in profit or loss, or in equity (other comprehensive income) in that reporting period and previous reporting periods;- Not Applicable

- e. For the remainder of the instruments' lives, the gains or losses that would have been recognized in profit or loss, or equity had they not been reclassified, together with the gains, losses, income and expenses now recognized;-Not Applicable
- f. As at date of reclassification, the effective interest rates and estimated of cash flows the company expects to recover. – Not Applicable

### Fair Values of Financial Instruments

The following table shows the carrying amounts and fair values of the Group's financial assets and financial liabilities:

|   | Consolidated<br>Unaudited<br>September<br>2018 | Consolidated<br>Unaudited<br>September<br>2018 | Consolidated<br>Audited<br>December<br>2017 | Consolidated<br>Audited<br>December<br>2017 |
|---|--|--|---|---|
|   | Fair Values                                    | Carrying<br>Values                             | Fair Values                                 | Carrying<br>Values                          |
| <b>FINANCIAL ASSETS</b>                       |  |  |   |   |
| Cash and cash equivalents                     | 617,970,744                                    | 617,970,744                                    | 634,385,523                                 | 634,385,523                                 |
| Advances to related companies                 | 194,314,602                                    | 194,314,602                                    | 193,292,101                                 | 193,292,101                                 |
| Accounts with contract operators and partners | 132,203,988                                    | 132,203,988                                    | 131,930,071                                 | 131,930,071                                 |
| Accrued interest receivables                  | 32,479,658                                     | 32,479,658                                     | 28,910,346                                  | 28,910,346                                  |
| AFS financial assets                          |  |  |   |   |
| Quoted equity instruments                     | 72,585,665                                     | 72,585,665                                     | 50,974,224                                  | 50,974,224                                  |
|   | <b>1,049,554,657</b>                           | <b>1,049,554,657</b>                           | <b>1,039,492,265</b>                        | <b>1,039,492,265</b>                        |
| <b>FINANCIAL LIABILITIES</b>                  |  |  |   |   |
| Accounts payable and accrued liabilities      |  |  |   |   |
| Account with partners                         | 3,171,097                                      | 3,171,097                                      | 6,494,723                                   | 6,494,723                                   |
| Others  | 95,313   | 95,313   | 305,403                                     | 305,403                                     |
| Dividends payable                             | 33,288,207                                     | 33,288,207                                     | 33,316,756                                  | 33,316,756                                  |
|   | <b>36,554,617</b>                              | <b>36,554,617</b>                              | <b>40,116,882</b>                           | <b>40,116,882</b>                           |

Quoted AFS investments are carried at fair value based on the quoted values of the securities.

### B. Financial Risk Management Objectives and Policies

#### Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise mainly of cash and cash equivalents, receivables, AFS financial assets, accounts payables and accrued liabilities (except

withholding taxes) and dividends payable. The main purpose of these financial instruments is to provide financing for the Group's operations and capital intensive projects.

The Board of Directors (BOD) is mainly responsible for the overall risk management approach and for the approval of risk strategies and principles of the Group.

The main risks arising from the Group's financial instruments are credit risks, liquidity risk, and market risks. The market risks exposure of the Group can be further classified to foreign currency risk and equity price risk. The BOD reviews and approves the policies for managing some of these risks and they are summarized as follows:

Credit risks

Credit risk is the possibility of loss for the Group if its receivable counterparties fail to discharge their contractual obligations. With respect to credit risk arising from the other financial assets of the Group, which comprise of cash in banks, short term investments, receivables and AFS financial assets, advances to related parties and investments in bonds, the Group's exposure to credit risk could arise from default of the counterparty.

The Group trades only with recognized, creditworthy third parties. However, the Group's credit risk exposure is concentrated on a few counterparties as inherent in the oil exploration and production business.

As of September 30, 2018, all of the outstanding trade receivables are from the SC14 A, B & C-1 consortiums. At present, the SC14 A&B consortium has a supply agreement with Pilipinas Shell Petroleum Corporation (Pilipinas Shell), assuring Pilipinas Shell with sale of the SC14 A&B consortium's petroleum products. For SC14 C-1 consortium, the operator, Galoc Production Company has a crude agency agreement with Vitol Asia Pte. Ltd. for the marketing of the Galoc production.

The table below summarizes the Group's gross maximum credit risk exposure from its financial instruments. These amounts are gross of collateral and credit enhancements, but net of any amounts offset and allowance for impairment losses:

|   | Unaudited balances as of Sept 30, 2018 |
|---|--|
| Loans and receivables                         |  |
| Cash and cash equivalents                     | 617,970,744                            |
| Accounts with contract operators and partners | 132,203,988                            |
| Advances to related companies                 | 194,314,602                            |
| Accrued interest                              | 32,479,658                             |
| AFS investments                               |  |
| Quoted  | 72,585,665                             |
| Gross maximum credit risk exposure            | 1,049,554,657                          |

The table below shows the credit quality of the Group's financial assets by class as of September 30, 2018 based on the Group's credit evaluation process:

|   | Neither past due nor impaired High Grade | Neither past due nor impaired Standard Grade | Past due but not impaired |            |              | Impaired Financial Assets | Total         |
|---|--|--|---------------------------|------------|--------------|---------------------------|---------------|
|   |  |  | 1-30 days                 | 31-90 days | Over 90 days |                           |               |
| Loans and receivables                         |  |  |                           |            |              |                           |               |
| Cash and cash equivalents                     | 617,970,744                              |  |                           |            |              |                           | 617,970,744   |
| Accounts with contract operators and partners | 132,203,988                              |  |                           |            |              |                           | 132,203,988   |
| Advances to related companies                 | 188,505,001                              |  |                           |            | 5,809,601    |                           | 194,314,602   |
| Accrued interest                              |  |  | 528,542                   | 1,093,389  | 30,857,726   |                           | 32,479,657    |
| AFS investments:                              |  |  |                           |            |              |                           |               |
| Quoted equity instruments                     | 72,585,665                               |  |                           |            |              |                           | 72,585,665    |
| Total   | 1,011,265,398                            | 0  | 528,542                   | 1,093,389  | 36,667,327   |                           | 1,049,554,657 |

Credit quality of cash and cash equivalents, receivables and AFS financial assets are based on the nature of the counterparty.

“High grade” credit quality financial assets pertain to financial assets with insignificant risk of default based on historical experience and/or counterparty credit standing. “Standard grade” credit quality financial assets are not yet past due, yet are from counterparties with a history of default. However, the Group cannot declare any of these amounts as uncollectible because they arise from related companies for which there is a common control.

“Past due but not impaired” are items which are already past their maturity dates, but the amount due is still judged as collectible by the Group based on its assessment of the age and creditworthiness of the counterparties. Lastly, “Impaired financial assets” are those that are long-outstanding and has been provided with allowance for impairment losses.

#### Liquidity risk

Liquidity risk is the risk where the Group becomes unable to meet its payment obligations when they fall due under normal and stress circumstances. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and operating cash flows. The Group addresses liquidity concerns primarily through cash flows from operations and short-term borrowings.

The table below summarizes the aging analyses of the Group's financial assets as of September 30, 2018 that is used to manage the liquidity risk of the Company:

|   | Less than three months | Three to twelve months | Total         |
|---|------------------------|------------------------|---------------|
| Cash and cash equivalents                     | 617,970,744            | 0                      | 617,970,744   |
| Receivables                                   |                        |                        |               |
| Advances to related parties                   | 188,505,001            | 5,809,601              | 194,314,602   |
| Accounts with contract operators and partners | 132,203,988            | 0                      | 132,203,988   |
| Accrued interest                              | 1,621,931              | 30,857,726             | 32,479,657    |
| AFS financial assets                          | 72,585,665             | 0                      | 72,585,665    |
|   | 1,012,887,330          | 36,667,327             | 1,049,554,657 |

The table below summarizes the maturity profile of the Group's accounts payable, accrued liabilities and dividends payable based on contractual undiscounted payments.

|                    | Less than three months | Three to twelve months | Total      |
|--------------------|------------------------|------------------------|------------|
| September 30, 2018 | 36,554,617             |                        | 36,554,617 |

#### Market Risk

Market risk is the risk of loss to future earnings, to fair values or to future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in foreign currency exchange rates and equity price.

#### Foreign currency risk

Foreign currency risk is the risk that the value of the Group's financial instruments diminishes due to unfavorable changes in foreign exchange rates. The Group's transactional currency exposures arise from cash and cash equivalents, receivables and investment in bonds. The Parent Company's entire share in petroleum operations revenue is denominated in United States Dollar (USD). Consequently, the Group is exposed to foreign exchange risk arising from its USD-denominated receivables and cash and cash equivalents.

As of September 30, 2018, the exchange rate of the Philippine peso to the US\$ is ₱54.02 to US\$1.00.

#### Equity price risk

Equity price risk is the risk that the fair values of investments in quoted equity securities could decrease as a result of changes in the prices of equity indices and the value of individual stocks. The Group is exposed to equity securities price risk because of investments held by the Parent Company, which are classified in the consolidated statements of financial position as AFS financial assets.

### PETROLEUM PROJECTS

#### **1.0 Service Contract 6A (Octon)**

Philodrill completed its in-house interpretation and mapping work using the 2015 PreSDM data. The work was complemented by attribute analysis work to delineate areas where the reservoir is indicated to be better developed. As at end-September, Philodrill was reviewing and refining the reservoir parameters and correlating them with the seismic interpretation work for the subsequent re-run of the resource analysis and identification of potential well location(s). Preparation of geologic prognoses for the identified drilling targets will be done prior to undertaking the scoping well design, program and costing.

#### **2.0 Service Contract 6B (Bonita)**

For the quarter ending September 2018, Philodrill continued to wait for Manta Oil Company Limited to complete their technical, legal and financial documentations required by the

Department of Energy for the approval of the Deed of Assignment (DOA). An end-October 2018 deadline was set for the submission of the DOA that, if approved, will result in the transfer of 70% of the farmors interests and the operatorship of the SC 6B block to Manta Oil. An amendment of Service Contract 6B to append the Cadlao Field to the SC was secured earlier this year. Manta Oil is looking at re-developing the Cadlao Field as well as other satellite structures within the block.

### **3.0 Service Contract No. 14 (Nido/Matinloc)**

For the period July 1 to September 30, 2018, the Nido and Matinloc fields produced a total of 22,151 barrels. Two (2) crude shipments were completed during the 3<sup>rd</sup> quarter of 2018 involving about 21,320 barrels of combined Nido and Matinloc crudes including the inventory from the previous quarter. As at end-September, about 3,900 barrels of Matinloc crude remain in storage.

During the SC 14A&B meeting in September, the Joint Venture approved the budget for the temporary plugging of the Matinloc-3 well which will also necessitate the refurbishment of the Matinloc platform crane. The actual work on the M-3 well intervention was completed on September 30. In addition, investigation runs on Matinloc-2 and the North Matinloc-3 wells were also completed.

Also during the 3<sup>rd</sup> quarter, the resource assessment of the attic volumes for the Pandan, Matinloc and North Matinloc fields was completed. These structures are postulated to contain sub-economic gas volumes. Several undrilled structures within the area were likewise examined and are deemed to also contain hydrocarbon accumulations albeit uneconomic to develop at current crude prices. With these results, the JV partners are now more convinced to move forward with the P&A of the remaining wells in the Matinloc and North Matinloc as well as in the Nido field. The final P&A program is expected to be executed in the latter part of the 1<sup>st</sup> quarter of 2019.

### **4.0 Service Contract No. 14 C-1 (Galoc)**

The Galoc Field produced 273,329 barrels during the period from July 1 to September 30, 2018. Production reached the 21 MM barrels mark on the first week of September. Operator Galoc Production Company (GPC) completed in August the lifting of Cargo# 61 of about 375,850 barrels for first-time buyer China Oil Hongkong Corporation. As of September 30, 2018, an inventoried volume of about 112,930 barrels remained on board the FPSO Rubicon Intrepid.

On July 1, 2018, Tamarind Resources Limited concluded the purchase of the entire interest of the Thailand-based Bangchak Corporation Public Company Ltd in the Galoc Field through the purchase of the latter's 100% shareholding in GPC and Nido Production Galoc. Tamarind Galoc Pte Ltd, a wholly owned subsidiary of Tamarind Resources, was created to own and manage the Galoc Field. GPC is retained as the operator.

As the new operator, Tamarind Resources/GPC held its first TCM/OCM in September at their Manila office wherein they discussed their 2-phase redevelopment program for the Galoc



Field. For the first phase, Tamarind will investigate and implement potential quick-win opportunities to improve and optimize production as well as putting up facilities for recovery of condensate from the gas stream. Tamarind started to implement some of these activities this year. The second phase will involve the study of longer term programs for production enhancement including water or gas injection on some of the existing wells. The opportunity for in-field well drilling or exploratory drilling will likewise be investigated starting next year.

#### **5.0 Service Contract No. 14 C-2 (West Linapacan)**

Philodrill engaged the services of Mr. David Thomson of CWT Consulting Services to do the scoping study for the possible re-entry of the West Linapacan A-1 well and the requirements for the eventual P&A of the old West Linapacan wells. The scoping study commenced in July and was about to be completed by end-September.

Parallel to the West Linapacan A scoping work, Philodrill continued its evaluation of the resource potential of the West Linapacan “B” structure including detailed seismic mapping and interpretation and the review of past resource assessments. The West Linapacan B is only about 10 kilometers to the west of the Linapacan A and B accumulations in the adjacent SC 74. The possibility of a joint development of the West Linapacan A and B structures in SC 14 C-2 and the Linapacan A and B in SC 74 with PXP and PNOC-Exploration Corporation (PNOC-EC) is being looked into.

#### **6.0 Service Contract No. 53 (Onshore Mindoro)**

There has been no update from block operator Mindoro-Palawan Oil & Gas Inc. as to their plans for the block, specifically the activities to execute the Joint Venture’s commitments including the drilling of Progreso-2 well. Philodrill has been extending help to Gas2Grid which indicated interests on the Progreso project through possible drill-for-equity arrangement with the Onshore Mindoro JV.

#### **7.0 Service Contract No. 74 (Linapacan)**

The collected outcrop samples from the fieldwork undertaken last June in conjunction with the UP-NIGS are currently undergoing age-dating and geochemical tests. Operator PXP is also wrapping up their gravity/magnetic works while the complementary studies being run by the other JV partners including the Engineering and Market Study by PNOC-EC and the resource assessment of the Linapacan A and B discoveries by Philodrill are being continued. Also during the 3<sup>rd</sup> quarter, PXP started negotiations with prospective geophysical services providers for possible seismic data re-processing or quantitative interpretation work.

#### **8.0 SWAN Block (Deepwater Northwest Palawan)**

There are no significant developments to report on the SWAN Block from the previous quarter.

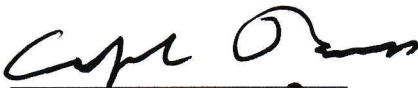
**PART II – OTHER INFORMATION**

There were NO items for disclosure that were not made under SEC Form 17C during the current interim period (01 January to 30 September 2018).

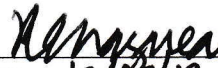
**SIGNATURES**

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

By:



Date: 10/29  
ALFREDO C. RAMOS  
President



Date: 10/29/18  
REYNALDO E. NAZAREA  
Treasurer & VP-Administration

**THE PHILODRILL CORPORATION**  
**INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES**  
**SEC FORM 17Q**

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\*These schedules, which are required by Part IV(e) of RSA 48, have been omitted because they are either not required, not applicable or the information required to be presented is included in the Company's financial statements or the notes to financial statements.

## THE PHILODRILL CORPORATION

## Consolidated Statements of Financial Position

|  | (Unaudited)<br>September 30 | (Audited)<br>December 31 |
|--|-----------------------------|--------------------------|
|  | 2018                        | 2017                     |
| <b>ASSETS</b>  |                             |                          |
| <b>Current Assets</b>  |                             |                          |
| Cash & cash equivalents  | 617,970,744                 | 634,385,523              |
| Receivables  | 361,805,518                 | 357,567,495              |
| Crude oil inventory  | 38,627,682                  | 71,172,655               |
| Other current assets   | 789,115                     | 2,482,153                |
| <b>Total Current Assets</b>                                    | <b>1,019,193,059</b>        | <b>1,065,607,826</b>     |
| <b>Noncurrent Assets</b>                                       |                             |                          |
| Property and equipment - net                                   | 589,192,083                 | 641,980,601              |
| Investments - Associates                                       | 793,961,299                 | 784,862,938              |
| Available-for-sale investments                                 | 72,585,665                  | 50,974,223               |
| Deferred oil exploration and development costs                 | 1,052,964,554               | 1,043,525,798            |
| Deferred tax assets  | 69,738,701                  | 28,200,777               |
| Other noncurrent assets  | 29,573,084                  | 25,968,291               |
| <b>Total Noncurrent Assets</b>                                 | <b>2,608,015,386</b>        | <b>2,575,512,628</b>     |
| <b>TOTAL ASSETS</b>  | <b>3,627,208,445</b>        | <b>3,641,120,454</b>     |
| <b>LIABILITIES AND EQUITY</b>                                  |                             |                          |
| <b>Liabilities</b>   |                             |                          |
| Accounts payable and accrued liabilities                       | 8,885,138                   | 13,121,443               |
| Loans Payable  | 10,000,000                  | 0                        |
| Income tax payable   | 53,601                      | 340,090                  |
| Dividends payable  | 33,288,207                  | 33,316,756               |
| <b>Total Current Liabilities</b>                               | <b>52,226,946</b>           | <b>46,778,289</b>        |
| <b>Noncurrent Liability</b>                                    |                             |                          |
| Provision for decommissioning costs                            | 24,171,093                  | 24,171,093               |
| Retirement benefit liability                                   | 7,650,219                   | 4,831,157                |
| <b>Total Noncurrent Liabilities</b>                            | <b>31,821,312</b>           | <b>29,002,250</b>        |
| <b>TOTAL LIABILITIES</b>                                       | <b>84,048,258</b>           | <b>75,780,539</b>        |
| <b>Equity</b>  |                             |                          |
| <b>Capital stock - P0.01 par value</b>                         |                             |                          |
| Authorized - 200 billion shares                                |                             |                          |
| Issued   | 1,568,018,150               | 1,568,018,150            |
| Subscribed   | 350,669,903                 | 350,669,903              |
| Subscriptions receivable                                       | (175,334,286)               | (175,334,286)            |
| Paid in capital from sale of treasury                          | 1,624,012                   | 1,624,012                |
| Share in other comprehensive income of an associate            | 36,732,814                  | 36,732,814               |
| Unrealized losses on decline in market value<br>of investments | (23,565,861)                | (30,285,162)             |
| Remeasurement Loss on Retirement Benefit Liability             | (35,944,976)                | (35,944,976)             |
| Retained Earnings  | 1,820,960,430               | 1,849,859,460            |
| <b>Total Equity</b>  | <b>3,543,160,186</b>        | <b>3,565,339,915</b>     |
| <b>TOTAL LIABILITIES AND EQUITY</b>                            | <b>3,627,208,444</b>        | <b>3,641,120,454</b>     |

## THE PHILODRILL CORPORATION

## Consolidated Statements of Comprehensive Income

|   | Jan 1<br>to Sep 30<br>2018 | Jan 1<br>to Sep 30<br>2017 | Jul 1<br>to Sep 30<br>2018 | Jul 1<br>to Sep 30<br>2017 |
|---|----------------------------|----------------------------|----------------------------|----------------------------|
| <b>PETROLEUM REVENUE</b>  | <b>329,778,080</b>         | <b>281,271,870</b>         | <b>107,365,951</b>         | <b>99,404,255</b>          |
| <b>COSTS AND EXPENSES</b>                                       |                            |                            |                            |                            |
| Share in costs and operating                                    | (288,300,051)              | (294,325,415)              | (99,925,110)               | (96,807,103)               |
| Share in plug and abandonment costs                             | (126,661,387)              | (2,336,285)                | (2,195,749)                | (39,273)                   |
| General and administrative                                      | (62,123,889)               | (44,524,298)               | (30,402,871)               | (14,372,405)               |
|   | <b>(477,085,327)</b>       | <b>(341,185,998)</b>       | <b>(132,523,730)</b>       | <b>(111,218,781)</b>       |
| <b>OTHER INCOME (CHARGES)</b>                                   |                            |                            |                            |                            |
| Equity in net earnings of associates - net                      | 23,740,757                 | 26,764,085                 | 10,159,775                 | 12,800,210                 |
| Interest income   | 13,618,685                 | 13,337,388                 | 5,297,924                  | 4,855,125                  |
| Foreign exchange gains (losses)                                 | 39,988,158                 | 10,980,783                 | 6,906,595                  | 3,437,806                  |
| Others  | 1,061,430                  | 636,587                    | 132                        | 85,263                     |
|   | <b>78,409,030</b>          | <b>51,718,843</b>          | <b>22,364,426</b>          | <b>21,178,404</b>          |
| <b>INCOME (LOSS) BEFORE INCOME TAX</b>                          | <b>(68,898,217)</b>        | <b>(8,195,285)</b>         | <b>(2,793,353)</b>         | <b>9,363,878</b>           |
| <b>PROVISION FOR INCOME TAX</b>                                 | <b>(39,999,187)</b>        | <b>(10,491,678)</b>        | <b>(7,121,593)</b>         | <b>(2,371,926)</b>         |
| <b>NET INCOME (LOSS)</b>  | <b>(28,899,030)</b>        | <b>2,296,393</b>           | <b>4,328,240</b>           | <b>11,735,804</b>          |
| <b>OTHER COMPREHENSIVE INCOME (LOSS)</b>                        |                            |                            |                            |                            |
| Changes in fair value of available-for-sale<br>financial assets | 6,719,301                  | (4,267,997)                | 9,790,556                  | (5,283,811)                |
| <b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>                        | <b>(22,179,729)</b>        | <b>(1,971,604)</b>         | <b>14,118,796</b>          | <b>6,451,993</b>           |

Earnings (loss) per share was computed as follows:

|                                |                  |                 |                 |                 |
|--------------------------------|------------------|-----------------|-----------------|-----------------|
| Net income (loss)              | (28,899,030)     | 2,296,393       | 4,328,240       | 11,735,804      |
| Weighted average no. of shs    | 191,868,805,358  | 191,868,805,358 | 191,868,805,358 | 191,868,805,358 |
| <b>Income (Loss) per share</b> | <b>(0.00015)</b> | <b>0.00001</b>  | <b>0.00002</b>  | <b>0.00006</b>  |

**THE PHILODRILL CORPORATION**  
**Consolidated Statements of Cash Flows**  
**(Unaudited)**

|   | January 1<br>to September 30<br>2018 | January 1<br>to September 30<br>2017 |
|---|--------------------------------------|--------------------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>         |                                      |                                      |
| Income (Loss) before income tax                     | (28,899,030)                         | 2,296,393                            |
| Adjustments for:                                    |                                      |                                      |
| Depletion, depreciation and amortization            | 79,540,059                           | 82,235,767                           |
| Equity in net losses (earnings) of associates - net | (23,740,757)                         | (26,764,085)                         |
| Operating loss before working capital changes       | 26,900,272                           | 57,768,075                           |
| Decrease (increase) in:                             |                                      |                                      |
| Receivables   | (6,539,149)                          | (2,874,464)                          |
| Crude oil inventory                                 | 32,544,973                           | (12,655,511)                         |
| Other current assets                                | 1,693,039                            | 871,118                              |
| Retirement benefits assets                          | 2,819,062                            | 2,726,259                            |
| Increase in accounts payable and accrued expenses   | (1,199,166)                          | (2,321,687)                          |
| Net cash from (used in) operating activities        | 56,219,030                           | 43,513,789                           |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>         |                                      |                                      |
| Cash dividends received                             | 14,642,395                           | 13,302,992                           |
| Reductions in (additions to):                       |                                      |                                      |
| Property and equipment                              | (26,751,541)                         | (91,834,579)                         |
| Deferred oil exploration costs and other inv        | (9,438,756)                          | (10,616,422)                         |
| Advances to affiliated companies - net              | (1,022,500)                          | (4,673,827)                          |
| Investments   | (14,892,140)                         | (2,424,556)                          |
| Other noncurrent assets                             | (45,142,717)                         | (23,729,874)                         |
| Net cash from (used in) investing activities        | (82,605,259)                         | (119,976,265)                        |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>         |                                      |                                      |
| Proceeds/Adjustments (Payments) of:                 |                                      |                                      |
| Dividends payable                                   | (28,550)                             | 1,781,789                            |
| Loans payable                                       | 10,000,000                           | 0                                    |
| Net cash from (used in) financing activities        | 9,971,450                            | 1,781,789                            |
| NET INCREASE (DECREASE) IN CASH                     | (16,414,779)                         | (74,680,687)                         |
| CASH, BEGINNING                                     | 634,385,523                          | 719,935,136                          |
| CASH, ENDING  | 617,970,744                          | 645,254,449                          |

**THE PHILODRILL CORPORATION**  
**Consolidated Statements of Changes in Equity**

|  | Unaudited            |                      |
|--|----------------------|----------------------|
|  | September 2018       | September 2017       |
| <b>CAPITAL STOCK - P0.01 par value</b>                                       |                      |                      |
| <b>Authorized - 200 billion shares</b>                                       |                      |                      |
| <b>Issued</b>  |                      |                      |
| Balance at the beginning of year   | 1,568,018,150        | 1,568,018,150        |
| Issuances for the period   | 0                    | 0                    |
| <b>Balance at end of second quarter</b>                                      | <b>1,568,018,150</b> | <b>1,568,018,150</b> |
| <b>Subscribed</b>  |                      |                      |
| Balance at the beginning of year   | 350,669,903          | 350,669,903          |
| Issuances for the period   | 0                    | 0                    |
| <b>Balance at end of second quarter</b>                                      | <b>350,669,903</b>   | <b>350,669,903</b>   |
| <b>Subscriptions receivable</b>  |                      |                      |
| Balance at the beginning of year   | (175,334,286)        | (175,334,286)        |
| Collection of subscriptions receivable                                       |                      |                      |
| Adjustment   | 0                    | 0                    |
| <b>Balance at end of second quarter</b>                                      | <b>(175,334,286)</b> | <b>(175,334,286)</b> |
| <b>Paid in capital from sale of treasury</b>                                 |                      |                      |
| Balance at the beginning of year   | 1,624,012            | 1,624,012            |
| Movements during the period  | 0                    | 0                    |
| <b>Balance at end of second quarter</b>                                      | <b>1,624,012</b>     | <b>1,624,012</b>     |
| <b>Unrealized Losses on Decline in Market Value of Long-term Investments</b> |                      |                      |
| Balance at the beginning of year   | (30,285,162)         | (16,276,563)         |
| Adjustment during the period   | 6,719,302            | (4,267,996)          |
| <b>Balance at end of second quarter</b>                                      | <b>(23,565,861)</b>  | <b>(20,544,560)</b>  |
| <b>Share in other comprehensive income of associates</b>                     |                      |                      |
| Balance at the beginning of year   | 36,732,814           | 17,290,137           |
| Movements during the period  | 0                    | 0                    |
| <b>Balance at end of second quarter</b>                                      | <b>36,732,814</b>    | <b>17,290,137</b>    |
| <b>Remeasurement loss on retirement benefit liability</b>                    |                      |                      |
| Balance at the beginning of year   | (35,944,976)         | (36,962,385)         |
| Movements during the period  |                      |                      |
| <b>Balance at end of second quarter</b>                                      | <b>(35,944,976)</b>  | <b>(36,962,385)</b>  |
| <b>Retained Earnings</b>   |                      |                      |
| Balance at the beginning of year   | 1,849,859,460        | 1,856,318,986        |
| Cash dividend declared   | 0                    | 0                    |
| Net income (loss) for the period   | (28,899,030)         | 2,296,393            |
| <b>Balance at end of second quarter</b>                                      | <b>1,820,960,430</b> | <b>1,858,615,379</b> |
| <b>Total Stockholders' Equity</b>  | <b>3,543,160,186</b> | <b>3,563,376,350</b> |

**THE PHILODRILL CORPORATION**  
**SCHEDULE B - AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS**  
**EMPLOYEES, RELATED PARTIES AND PRINCIPAL STOCKHOLDERS (OTHER THAN AFFILIATES)**  
**FOR THE QUARTER ENDED SEPTEMBER 30, 2018**

| Name and Designation of Debtor | Beginning Balance | Additions      | Amounts Collected | Amounts Written off | Current          | Not Current | Ending Balance   |
|--------------------------------|-------------------|----------------|-------------------|---------------------|------------------|-------------|------------------|
| Various officers and employees | 3,290,753         | 619,648        | 1,103,130         |                     | 2,807,271        |             | 2,807,271        |
|                                | <u>3,290,753</u>  | <u>619,648</u> | <u>1,103,130</u>  | <u>0</u>            | <u>2,807,271</u> | <u>0</u>    | <u>2,807,271</u> |



THE PHILODRILL CORPORATION  
SCHEDULE C - LONG TERM INVESTMENTS IN SECURITIES  
(NONCURRENT MARKETABLE EQUITY SECURITIES,  
OTHER LONG TERM INVESTMENTS IN STOCK  
INVESTMENTS IN BONDS AND OTHER DEBT SECURITIES)  
FOR THE QUARTER ENDED SEPTEMBER 30, 2018

| Name of Issuing Entity and Description of Investment                       | BEGINNING BALANCE  |                    | ADDITIONS  |            | DEDUCTIONS                                  |           | ENDING BALANCE   |                    | Dividends Received/<br>Accrued from<br>Investments Not<br>Accounted for by<br>the Equity Method |
|--|--|--------------------|--|------------|---|-----------|--|--------------------|---|
|  | Number of Shares<br>or Principal<br>Amount of<br>Bonds and Notes | Amount in<br>Pesos | Equity in<br>Earnings (Losses)<br>of Investees<br>for the Period | Others     | Distribution of<br>Earnings by<br>Investees | Others    | Number of Shares<br>or Principal<br>Amount of<br>Bonds and Notes | Amount in<br>Pesos |   |
| <b>Investments in associates:</b>  |  |                    |  |            |   |           |  |                    |   |
| Penta Capital Investment Corp.   | 1,600,000  | 278,917,068        | 14,579,520   |            |   |           | 1,600,000  | 293,496,588        |   |
| Penta Capital Holdings, Inc.   | 300,000  | 67,056,124         | 2,053,561  |            |   |           | 300,000  | 69,109,685         |   |
| Atlas Consolidated Mining and<br>Development Corporation                   | 19,502,293   | 437,828,331        | (6,473,305)  |            |   |           | 19,502,293   | 431,355,026        |   |
|  |  | 783,801,523        | 10,159,776   | 0          | 0   | 0         |  | 793,961,299        | 0   |
| <b>Amount shown under the caption<br/>"Available For Sale Investments"</b> |  |                    |  |            |   |           |  |                    |   |
| United Paragon Mining Corp.  | 6,839,068,254  | 72,983,955         |  |            |   |           | 6,839,068,254  | 72,983,955         |   |
| Vulcan Industrial & Mining Corp.   | 3,200,000  | 4,150,876          |  |            |   | 0         | 3,200,000  | 4,150,876          |   |
| Oriental Petroleum & Mining Corp   | 223,000,000  | 2,424,556          |  | 14,892,140 |   |           | 1,362,000,000  | 17,316,696         |   |
| CJH Golf Club, Inc.  | 17   | 1,700,000          |  |            |   |           | 17   | 1,700,000          |   |
|  |  | 81,259,387         | 0  | 14,892,140 | 0   | 0         |  | 96,151,527         | 0   |
| less-allowance for decline in market value                                 |  | (33,356,417)       |  |            |   | 9,790,556 |  | (23,565,861)       |   |
|  |  | 47,902,970         | 0  | 14,892,140 | 0   | 9,790,556 | 0  | 72,585,666         | 0   |
|  |  | 831,704,493        | 10,159,776   | 14,892,140 | 0   | 9,790,556 | 0  | 866,546,965        | 0   |

**THE PHILODRILL CORPORATION**  
**SCHEDULE D - INDEBTEDNESS OF UNCONSOLIDATED SUBSIDIARIES AND AFFILIATES**  
**FOR THE QUARTER ENDED SEPTEMBER 30, 2018**

| Name of Affiliate                 | Beginning<br>Balance | Ending<br>Balance  |
|-----------------------------------|----------------------|--------------------|
| Alakor Corporation                | 188,335,000          | 188,505,000        |
| Fil-Energy Corporation            | 4,753,762            | 4,753,762          |
| United Paragon Mining Corporation | 1,055,838            | 1,055,838          |
|                                   | <u>194,144,600</u>   | <u>194,314,600</u> |

**THE PHILODRILL CORPORATION**  
**SCHEDULE E - PROPERTY AND EQUIPMENT**  
**FOR THE QUARTER ENDED SEPTEMBER 30, 2018**

| Classification                            | Beginning<br>Balance | Additions<br>at Cost | Retirements    | Other Changes-<br>Additions<br>(Deductions) | Ending<br>Balance    |
|---|----------------------|----------------------|----------------|---|----------------------|
| Wells, platforms and other facilities     | 1,449,517,798        | 23,338,400           |                |   | 1,472,856,197        |
| Office condominium units and improvements | 18,114,623           | 847,306              |                |   | 18,961,929           |
| Office furniture, fixtures and equipment  | 7,760,492            | 122,000              | (4,500)        |   | 7,877,992            |
| Transportation equipment                  | 13,887,100           |                      |                |   | 13,887,100           |
|   | <b>1,489,280,013</b> | <b>24,307,706</b>    | <b>(4,500)</b> | <b>0</b>                                    | <b>1,513,583,219</b> |

**THE PHILODRILL CORPORATION**  
**SCHEDULE F - ACCUMULATED DEPLETION, DEPRECIATION AND AMORTIZATION**  
**FOR THE QUARTER ENDED SEPTEMBER 30, 2018**

| Classification                            | Beginning Balance  | Additions Charged to Costs and Expenses | Retirements | Other Changes-Additions (Deductions) | Ending Balance     |
|---|--------------------|---|-------------|--------------------------------------|--------------------|
| Wells, platforms and other facilities     | 871,065,219        | 27,850,997                              |             |                                      | 898,916,215        |
| Office condominium units and improvements | 11,847,358         | 127,393                                 |             |                                      | 11,974,751         |
| Office furniture, fixtures and equipment  | 7,650,439          | 18,437                                  |             |                                      | 7,668,876          |
| Transportation equipment                  | 5,224,853          | 606,440                                 |             |                                      | 5,831,293          |
|   | <b>895,787,868</b> | <b>28,603,267</b>                       | <b>0</b>    | <b>0</b>                             | <b>924,391,135</b> |

**THE PHILODRILL CORPORATION**  
**SCHEDULE G - INTANGIBLE ASSETS AND OTHER ASSETS**  
**FOR THE QUARTER ENDED SEPTEMBER 30, 2018**

| Classification                                 | Beginning Balance | Additions at Cost | Charged to Costs and Expenses | Charged to Other Accounts | Other Changes Additions (Deductions) | Ending Balance |
|--|-------------------|-------------------|-------------------------------|---------------------------|--------------------------------------|----------------|
| Deferred oil exploration and development costs | 1,050,018,520     | 2,946,034         |                               |                           |                                      | 1,052,964,554  |
|  | 1,050,018,520     | 2,946,034         | 0                             | 0                         | 0                                    | 1,052,964,554  |

**THE PHILODRILL CORPORATION**  
**SCHEDULE M - CAPITAL STOCK**  
**FOR THE QUARTER ENDED SEPTEMBER 30, 2018**

| Title of Issue                          | Authorized             | Issued and<br>Outstanding | Subscribed            | Number of shares<br>Reserved for<br>Options, etc. | Number of shares<br>held by Directors,<br>Officers and Employees | Others                 |
|---|------------------------|---------------------------|-----------------------|---|--|------------------------|
| <b>Common shares at P0.01 par value</b> | <b>200,000,000,000</b> | <b>156,801,815,022</b>    | <b>35,066,990,336</b> | <b>0</b>  | <b>969,071,573</b>   | <b>190,899,733,785</b> |

THE PHILODRILL CORPORATION  
SCHEDULE N - AGING OF ACCOUNTS RECEIVABLES  
FOR THE SECOND QUARTER ENDED SEPTEMBER 30, 2018

## 1) AGING OF ACCOUNTS RECEIVABLE

| Type of Accounts Receivable   | Total              | 1 month           | 2-3 months       | 4-6 months         | 7 months to 1 year | 1-2 years         | 3-5 years          | 5 years above     | past due accts & items in litigation |
|---|--------------------|-------------------|------------------|--------------------|--------------------|-------------------|--------------------|-------------------|--------------------------------------|
| <b>a) Trade receivables</b>   |                    |                   |                  |                    |                    |                   |                    |                   |                                      |
| 1) Account with contract operator<br>less allowance for doubtful accounts | 130,997,382<br>0   | 28,502,970        |                  | 102,494,412        |                    |                   |                    |                   |                                      |
| 2) Account with partners  | 841,531            |                   | 841,531          |                    |                    |                   |                    |                   |                                      |
| <b>Net Trade Receivables</b>  | <b>131,838,913</b> | <b>28,502,970</b> | <b>841,531</b>   | <b>102,494,412</b> | <b>0</b>           | <b>0</b>          | <b>0</b>           | <b>0</b>          | <b>0</b>                             |
| <b>b) Non-trade receivables</b>   |                    |                   |                  |                    |                    |                   |                    |                   |                                      |
| 1) Accrued interest receivable<br>less allowance for doubtful accounts    | 32,479,658<br>0    | 528,542           | 1,093,389        | 2,150,473          | 3,171,951          | 9,368,867         |                    | 16,166,436        |                                      |
| 2) Account with officers and employees                                    | 2,807,271          | 233,305           | 379,157          | 993,973            | 1,200,836          |                   |                    |                   |                                      |
| 3) Advances to related companies<br>less allowance for doubtful accounts  | 194,314,602<br>0   |                   |                  |                    | 13,505,000         | 15,000,000        | 160,000,000        | 5,809,602         |                                      |
| 4) Others<br>less allowance for doubtful accounts                         | 365,075<br>0       |                   |                  |                    | 365,075            |                   |                    |                   |                                      |
| <b>Net Non-Trade Receivables</b>  | <b>229,966,605</b> | <b>761,846</b>    | <b>1,472,546</b> | <b>3,144,446</b>   | <b>18,242,862</b>  | <b>24,368,867</b> | <b>160,000,000</b> | <b>21,976,038</b> | <b>0</b>                             |
| <b>Net Receivables</b>  | <b>361,805,518</b> | <b>29,264,816</b> | <b>2,314,077</b> | <b>105,638,858</b> | <b>18,242,862</b>  | <b>24,368,867</b> | <b>160,000,000</b> | <b>21,976,038</b> | <b>0</b>                             |

## 2) ACCOUNTS RECEIVABLE DESCRIPTION

| Type of Accounts Receivable            | Nature/Description   | Collection Period |
|--|--|-------------------|
| <b>a) Trade receivables</b>            |  |                   |
| 1) Account with contract operator      | share in crude oil revenue net of<br>share in production costs | 30 days           |
| <b>b) Non-trade receivables</b>        |  |                   |
| 1) Accrued interest receivable         | interest receivable on advances                                |                   |
| 2) Account with officers and employees | other advances to officers and employees                       |                   |
| 3) Advances to related companies       | loans and advances to related parties                          |                   |

**THE PHILODRILL CORPORATION**  
**SCHEDULE O - FINANCIAL RATIOS**  
**SEPTEMBER 30, 2018**

| <b>Profitability Ratios:</b>      | September 2018 | December 2017 |
|-----------------------------------|----------------|---------------|
| Return on assets                  | -0.80%         | -0.17%        |
| Return on equity                  | -0.82%         | -0.18%        |
| Gross profit margin               | 12.58%         | 1.86%         |
| Net profit margin                 | -20.89%        | -4.72%        |
| <br>                              |                |               |
| <b>Liquidity Ratios:</b>          |                |               |
| Current ratio                     | 19.51 :1       | 22.78 :1      |
| Quick ratio                       | 18.76 :1       | 21.21 :1      |
| <br>                              |                |               |
| <b>Financial Leverage Ratios:</b> |                |               |
| Asset to equity ratio             | 1.02 :1        | 1.02 :1       |
| Debt to equity ratio              | 0.02 :1        | 0.02 :1       |



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1. **Basis of Preparation, Basis of Consolidation, Statement of Compliance, Changes in Accounting Policies and Disclosures, Summary of Significant Accounting Policies and Financial Reporting Practices**

Basis of Preparation

The consolidated financial statements of the Group have been prepared on a historical cost basis, except for crude oil inventory which is valued at net realizable value (NRV) and quoted available-for-sale (AFS) financial assets which are measured at fair value. The consolidated financial statements are presented in Philippine Peso, which is the Parent Company's and its subsidiary's functional and presentation currency, rounded off to the nearest peso, except when otherwise indicated.

The consolidated financial statements provide comparative information in respect of the previous period.

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Group as at December 31 of each year, after eliminating intercompany balances and transactions. The financial statements of the subsidiary are prepared for the same reporting year as the Parent Company using consistent accounting policies. Control is achieved when the Parent Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Parent Company controls an investee if and only if the Parent Company has all of the following:

- 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 the amount of the Parent Company's returns.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Parent Company has less than a majority of the voting or similar rights of an investee, the Parent Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Parent Company's voting rights and potential voting rights.

The Parent Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Parent Company obtains control over the subsidiary and ceases when the Parent Company loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of income from the date the Parent Company gains control until the date the Parent Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Parent of the Group. When necessary, adjustments are made to the financial statements of the subsidiary to bring its accounting policies into line with the Parent Company's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Parent Company loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any non-controlling interests;
- Derecognizes the cumulative translation differences recorded in equity;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained;
- Recognizes any surplus or deficit in profit or loss; and
- Reclassifies the Parent Company's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Parent Company had directly disposed of the related assets or liabilities.

Statement of Compliance

The consolidated financial statements of the Group have been prepared in compliance with the Philippine Financial Reporting Standards (PFRS).

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the following new and amended PFRS, Philippine Accounting Standards (PAS), Philippine Interpretations based on International Financial Reporting Interpretations Committee (IFRIC) and improvements to PFRS which were adopted as at January 1, 2017.

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

- Amendments to PFRS 12, *Disclosure of Interests in Other Entities, Clarification of the Scope of the Standard* (Part of *Annual Improvements to PFRSs 2014 - 2016 Cycle*)

The amendments clarify that the disclosure requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

Adoption of these amendments did not have any impact on the Group's consolidated financial statements.

- Amendments to PAS 7, *Statement of Cash Flows, Disclosure Initiative*  
The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and noncash changes (such as foreign exchange gains or losses).

The Group has provided the required information in Note 24 to the consolidated financial statements. As allowed under the transition provisions of the standard, the Group did not present comparative information for the year ended December 31, 2016.

- Amendments to PAS 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses*  
The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions upon the reversal of the deductible temporary difference related to unrealized losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

The Group applied the amendments retrospectively. However, their application has no effect on the Group's consolidated financial position and performance as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

#### Standards and Interpretations Issued but not yet Effective

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

#### *Effective beginning on or after January 1, 2018:*

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

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

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

The Group is currently assessing the potential effect of the amendments on its consolidated financial statements.

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

The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the new insurance contracts standard. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018. An entity may elect the overlay approach when it first applies PFRS 9 and apply that approach retrospectively to financial assets designated on transition to PFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying PFRS 9.

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

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

The Group is currently assessing the impact of adopting this standard.

- *PFRS 15, Revenue from Contracts with Customers*  
PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted.

The Group is currently assessing the impact of adopting this standard.

- *Amendments to PAS 28, Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)*  
The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss (FVPL). They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. The amendments should be applied retrospectively, with earlier application permitted.
- *Amendments to PAS 40, Investment Property, Transfers of Investment Property*  
The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.

The amendments are not applicable to the Group since the Group does not have any investment properties.

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

*Effective beginning on or after January 1, 2019:*

- *Amendments to PFRS 9, Prepayment Features with Negative Compensation*  
The amendments to PFRS 9 allow debt instruments with negative compensation prepayment features to be measured at amortized cost or fair value through other comprehensive income. An entity shall apply these amendments for annual financial reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

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

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

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

PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17.

Early application is permitted, but not before an entity applies PFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

The Group is currently assessing the impact of adopting this standard.

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

The Group is currently assessing the potential effect of the amendments on its consolidated financial statements.

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

The interpretation specifically addresses the following:

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

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

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

*Deferred effectivity:*

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

On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board completes its broader review of the

research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

The Group is currently assessing the impact of adopting the amendments to this standard on its consolidated financial statements.

The revised, amended and additional disclosures or accounting changes provided by the standards and interpretations will be included in the consolidated financial statements in the year of adoption, if applicable.

#### Summary of Significant Accounting Policies and Financial Reporting Practices

##### Presentation of Financial Statements

The Group has elected to present all items of recognized income and expense in two statements: a statement displaying components of profit or loss in the consolidated statement of income and a second statement beginning with profit or loss and displaying components of OCI in the consolidated statement of comprehensive income.

##### Cash and Cash Equivalents

Cash includes cash on hand and with banks. Cash equivalents are short-term investments made for varying periods of up to three (3) months depending on the immediate cash requirements of the Group and earn interest at the respective short-term cash investment rates.

##### Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

##### Financial Assets

###### *Initial Recognition and Measurement*

Financial assets are classified, at initial recognition as financial assets at fair value through profit or loss (FVPL), loans and receivables, held-to-maturity (HTM) investments, AFS financial assets or derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognized initially at fair value plus, in case of financial assets not recorded at FVPL, transaction costs that are attributable to the acquisition of the financial assets.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the trade date i.e., the date that the Group commits to purchase or sell the asset.

###### *Subsequent Measurement*

###### *Loans and Receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest rate (EIR) method, less allowance for impairment losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. Gains and losses are recognized in the consolidated statement of income when the loans are derecognized or impaired as well as through the amortization process.

Loans and receivables are included in current assets if maturity is within twelve (12) months from the end of the reporting period or within the Group's operating cycle, whichever is longer. Otherwise, these are classified as noncurrent assets.

As at December 31, 2017 and 2016, the Group's loans and receivables consist of cash and cash equivalents and receivables (see Notes 4 and 5).

###### *AFS Financial Assets*

AFS financial assets are non-derivative financial assets that are designated as AFS or are not classified in any of the three other categories. The Group designates financial instruments as AFS financial assets if they are purchased and held indefinitely and may be sold in response to liquidity requirements or changes in market conditions. After initial recognition, AFS financial assets are measured at fair value with unrealized gains or losses being recognized directly in equity as "Net unrealized gains (losses) on decline in value of AFS financial assets".

When the financial asset is disposed of, the cumulative gains or losses previously recorded in equity are recognized in the consolidated statement of income. Interest earned on the investments is reported as interest income using the EIR method. Dividends earned on investments are recognized in the consolidated statement of income as "Dividend income" when the right of payment has been established. The Group considers several factors in making a decision on the eventual disposal of the investment. The major factor of this decision is whether or not the Group will experience inevitable further losses on the investment. These financial assets are classified as noncurrent assets unless the intention is to dispose of such assets within twelve months from the end of the reporting period.

As at December 31, 2017 and 2016, the Group classifies its investments in shares of stocks as AFS financial assets (see Note 9).

#### *Derecognition*

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

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

#### *Impairment of Financial Assets*

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred “loss event”) has an impact on the estimated future cash flows of the financial asset or the group of the financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

#### *Financial Assets at Amortized Cost*

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, the asset is included in the group of financial assets with similar credit risk and characteristics, and that group of financial assets is collectively assessed for impairment. Those similar credit risk characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtor’s ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in the collective assessment of impairment.

If there is objective evidence that an impairment loss on financial assets carried at amortized cost has been incurred, the amount of loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original EIR (i.e., the EIR computed at initial recognition). All impairment losses are recorded only through the use of an allowance account. The amount of loss is recognized in consolidated statement of income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in consolidated statement of income, to the extent that the carrying value of the asset does not exceed what its amortized cost could have been had there been no impairment at the reversal date.

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

#### *AFS Financial Assets*

For AFS financial assets, the Group assesses at end of the reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. In case of equity investments classified as AFS financial assets, this

would include a significant or prolonged decline in the fair value of the investments below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in OCI, is removed from equity and recognized in consolidated statement of income.

Impairment losses on equity investments are not reversed through the consolidated statement of income while increases in fair value after impairment are recognized directly in equity through the consolidated statement of comprehensive income.

If there is objective evidence of impairment on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return of a similar financial asset.

The Group's financial assets are in the nature of AFS financial assets and loans and receivables. As at December 31, 2017 and 2016, the Group has no financial assets at FVPL, HTM investments and derivatives designated as hedging instruments in an effective hedge.

#### Financial Liabilities

##### *Initial Recognition and Measurement*

Financial liabilities are classified, at initial recognition, as financial liabilities at FVPL, loans and borrowings, trade and other payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of interest-bearing loans and borrowings and trade and other payables, net of directly attributable transaction costs.

The Group's financial liabilities as at December 31, 2017 and 2016 are in the nature of trade and other payables. The Group has no financial liabilities at FVPL and derivatives designated as hedging instruments in an effective hedge.

##### *Subsequent Measurement*

##### *Trade and Other Payables*

This category pertains to financial liabilities that are not held for trading, not derivatives, or not designated at FVPL upon the inception of the liability.

After initial recognition, these liabilities are subsequently measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses are recognized in consolidated statement of income when the liabilities are derecognized as well as through the amortization process.

As at December 31, 2017 and 2016, the Group classifies its accounts payable and accrued liabilities, and dividends payable as trade and other payables (see Note 12).

##### *Derecognition*

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

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

##### Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

##### Fair Value Measurement

The Group measures financial instruments, such as AFS financial assets, at fair value at each end of financial reporting period.

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

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

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a nonfinancial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

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

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

The fair value of financial instruments that are actively traded in organized financial markets is determined by reference to quoted market close prices at the close of business on the end of the reporting period.

For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques include comparison to similar investments for which market observable prices exist and discounted cash flow analysis or other valuation models.

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

#### Interest in Jointly Controlled Operations

A joint operation is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities, relating to the arrangement.

In relation to its interests in joint operations, the Group recognizes its:

- Assets, including its share of any assets held jointly
- Liabilities, including its share of any liabilities incurred jointly
- Revenue from the sale of its share of the output arising from the joint operation
- Expenses, including its share of any expenses incurred jointly

These are consolidated on a line by line basis.

#### Crude Oil Inventory

Crude oil inventory is carried at NRV at the time of production. NRV is the estimated selling price less cost to sell. The estimated selling price is the market value of crude oil inventory based on Platt's Dubai monthly average of the mid-day crude oil prices for the reporting month and is adjusted taking into account fluctuations of price directly relating to events occurring after the end of the reporting period to the extent that such events confirm conditions existing at the end of the



reporting period. Estimated cost to sell is the cost incurred necessary to complete the sale (e.g., freight charges, transportation costs, etc.).

#### Property and Equipment

Property and equipment are stated at cost less accumulated depletion and depreciation, and any impairment in value. Such cost includes the cost of replacing part of such property and equipment when that cost is incurred and the recognition criteria are met.

The initial cost of property and equipment, other than wells, platforms, and other facilities, comprises its purchase price, including import duties, nonrefundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance, are normally charged to income in the period the costs are incurred.

In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property and equipment. Major maintenance and major overhaul costs that are capitalized as part of property and equipment are depreciated on a straight-line basis over the shorter of their estimated useful lives, typically the period until the next major maintenance or inspection, and the estimated useful lives of the related property and equipment.

Wells, platforms, and other facilities are depleted on a field basis under the unit-of-production (UOP) method based upon estimates of proved developed reserves except in the case of assets whose useful life is shorter than the lifetime of the field, in which case the straight-line method is applied. The depletion base includes the exploration and development cost of producing oil fields.

Depreciation of property and equipment, other than wells, platforms, and other facilities, is computed using the straight-line method over the estimated useful lives of the assets as follows:

| <u>Category</u>                           | <u>Number of Years</u> |
|---|------------------------|
| Office condominium units and improvements | 20                     |
| Transportation equipment                  | 5                      |
| Furniture and fixtures                    | 5                      |
| Office equipment                          | 3                      |

Depletion and depreciation of an item of property and equipment begins when it becomes available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Depletion and depreciation ceases when an item of property and equipment is fully depleted or depreciated or at the earlier of the date that the item is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with PFRS 5,

*Non-current Assets Held for Sale and Discontinued Operations*, and the date the asset is derecognized.

When assets are retired or otherwise disposed of, the cost and related accumulated depletion, and depreciation, and any allowance for impairment are removed from the accounts and any gain or loss resulting from their disposals is recognized in consolidated statement of income.

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

Fully depreciated assets are retained in the account until they are no longer in use and no further depreciation is charged to current operations.

#### Decommissioning and Restoration Costs

Estimated decommissioning and restoration costs are based on current requirements, technology and price levels and are stated at net present value. The associated decommissioning costs are capitalized as part of the carrying amount of the related property and equipment account subject to the appropriate depreciation and amortization method. In respect of oil and natural gas production activities, the net present value calculation of the liability is based on the economic life of the production assets and discounted using the risk-free rate for the Group that existed when the liability was initially measured. That amortization is recognized as an increase in the carrying amount of the liability and as an expense classified as accretion expense in the consolidated statement of income.

The obligation is reflected under decommissioning liability in the consolidated statements of financial position. The effects of changes resulting from revisions to the timing or the amount of the original estimate of the liability are incorporated on a prospective basis.

#### Investments in Associates

Associates are entities which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. The investment in associates are accounted using equity method.

The Group's share of its associates' post-acquisition profits or losses is recognized in the consolidated statement of income and its share of post-acquisition movements in OCI is recognized in the consolidated statement of comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Distributions received from an investee reduce the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivable/s, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group.

#### Deferred Oil Exploration Costs

Exploration and evaluation activity involves the search for hydrocarbon resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource. Once the legal right to explore has been acquired, costs directly associated with exploration are capitalized under "Deferred oil exploration costs" account. The Group's deferred oil exploration costs are specifically identified of each Service Contract (SC) area. All oil exploration costs relating to each SC are deferred pending the determination of whether the contract area contains oil reserves in commercial quantities. Capitalized expenditures include costs of license acquisition, technical services and studies, exploration drilling and testing, and appropriate technical and administrative expenses. General overhead or costs incurred prior to having obtained the legal rights to explore an area are recognized as expense in the consolidated statement of income when incurred.

If no potentially commercial hydrocarbons are discovered, the deferred oil exploration asset is written off through the consolidated statement of income. If extractable hydrocarbons are found and, subject to further appraisal activity (e.g., the drilling of additional wells), it is probable that they can be commercially developed, the costs continue to be carried under deferred oil exploration costs account while sufficient/continued progress is made in assessing the commerciality of the hydrocarbons. Costs directly associated with appraisal activity undertaken to determine the size, characteristics and commercial potential of a reservoir following the initial discovery of hydrocarbons, including the costs of appraisal wells where hydrocarbons were not found, are initially capitalized as deferred oil exploration costs.

At the completion of the exploration phase, if technical feasibility is demonstrated and commercial reserves are discovered, then, following the decision to continue into the development phase, the oil exploration costs relating to the SC, where oil in commercial quantities are discovered, is first assessed for impairment and (if required) any impairment loss is recognized, then the remaining balance is transferred to "Wells, platforms, and other facilities" account shown under the "Property and equipment" account in the consolidated statement of financial position.

Deferred oil exploration costs are assessed at each reporting period for possible indications of impairment. This is to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case or is considered as areas permanently abandoned, the costs are written off through the consolidated statement of income. Exploration areas are considered permanently abandoned if the related permits of the exploration have expired and/or there are no definite plans for further exploration and/or development.

The recoverability of deferred oil exploration costs is dependent upon the discovery of economically recoverable reserves, the ability of the Group to obtain necessary financing to complete the development of reserves and future profitable production or proceeds from the disposition of recoverable reserves.

#### Farm-ins and Farm-outs

The Group does not record any expenditure made by the farminee on its account. It also does not recognize any gain or loss on its exploration and evaluation farm-out arrangements, but redesignates any cost previously capitalized in relation to the whole interest. Any cash consideration received directly from the farminee is credited against costs previously capitalized in relation to the whole interest with any excess accounted for by the farmor as a gain on disposal.

### Impairment of Nonfinancial Assets

#### *Crude Oil Inventory*

The Group determines the NRV of inventories at the time of production. If the cost of the inventories exceeds its NRV, the asset is written down to its NRV and impairment loss is recognized in the consolidated statement of income in the period. In the case when NRV of the inventories increased subsequently, the NRV will increase the carrying amounts of inventories but only to the extent of their original acquisition costs.

#### *Investments in Associates*

The Group determines at each end of the reporting period whether there is any objective evidence that the investment in associates is impaired. If this is the case, the Group calculates the amount of impairment being the difference between the recoverable amount of the associate and the carrying value and recognizes the amount as part of "Others - net" in the consolidated statement of income.

An assessment is made at the end of the reporting period as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indications exist, 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 investment's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the investments is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined had no impairment loss been recognized for the assets in prior years. Such reversal is recognized in the consolidated statement of income.

#### *Deferred Oil Exploration Costs*

An impairment review is performed, either individually or at the cash generating unit (CGU) level, when there are indicators that the carrying amount of the deferred oil exploration costs may exceed their recoverable amounts. To the extent that this occurs, the excess is fully provided against in the reporting period in which this is determined. Deferred oil exploration costs are reassessed on a regular basis and these costs are carried forward provided that at least one of the following conditions is met:

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

#### *Property and Equipment, Nonfinancial Prepayments and Other Current and Noncurrent Assets*

The Group assesses, at each reporting period, whether there is an indication that an asset may be impaired. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If any such indication exists and where the carrying amount of an asset exceeds its recoverable amount, the asset or CGU is written down to its recoverable amount. The estimated recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The fair value less costs to sell is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date less the costs of disposal, while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. 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 as part of "Other income - net" in the consolidated statement of income.

Recovery of impairment loss recognized in prior years is recorded when there is an indication that the impairment loss recognized for the asset no longer exists or has decreased. The recovery is recorded in the consolidated statement of income. However, the increased carrying amount of an asset due to a recovery of an impairment loss is recognized to the extent it does not exceed the carrying amount that would have been determined (net of depreciation, depletion and amortization) had no impairment loss been recognized for that asset in prior years.

### Capital Stock

Capital stock is measured at par value for all shares issued. When the Group issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax.

Own equity instruments which are reacquired (treasury shares) are recognized at cost and deducted from equity. No gain or loss is recognized in consolidated statement of income on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration received is recognized in paid-in capital from sale of treasury shares.

### Retained Earnings

Retained earnings represent the cumulative balance of net income or loss, dividend distributions, prior period adjustments, effects of changes in accounting policy and other capital adjustments.

#### Earnings per Share (EPS)

Basic EPS is computed by dividing net income attributable to ordinary equity holders to the Parent Company by the weighted average number of common shares outstanding, after giving retroactive effect for any stock dividends, stock splits or reverse stock splits during the year.

Diluted EPS is computed by dividing net income ordinary equity holders to the Parent Company by the weighted average number of common shares outstanding during the year, after giving retroactive effect for any stock dividends, stock splits or reverse stock splits during the year, and adjusted for the effect of dilutive options.

Outstanding stock options will have a dilutive effect under the treasury stock method only when the average market price of the underlying common share during the period exceeds the exercise price of the option. Where the effect of the exercise of all outstanding options has anti-dilutive effect, basic and diluted EPS are stated at the same amount.

#### Dividends on Capital Stock

Dividends on common shares are recognized as a liability and deducted from equity when approved by the Parent Company's BOD. Dividends for the year that are approved after the end of the reporting period are dealt with as an event after the reporting period.

#### Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the amount of revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts and other sales taxes or duty. The following specific recognition criteria must also be met before revenue is recognized:

##### *Petroleum Revenue*

Revenue is derived from sale of petroleum to third party customers. Sale of petroleum is recognized upon lifting based on the Group's participating interest. Revenue is measured at the fair value of consideration receivable, excluding discounts, and other sales tax or duty based on the Group's participating interest.

##### *Interest Income*

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

##### *Dividend Income*

Dividend income is recognized when the right to receive the payment is established.

#### Costs and Expenses

Costs and expenses are recognized in the consolidated statement of income when a decrease in future economic benefit related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably. Costs and expenses are recognized in the consolidated statement of income in the year in which they are incurred.

##### *Share in Costs and Operating Expenses*

Share in costs and operating expenses include production costs of SC-14 and transportation costs per lifting and ending inventory which is recognized upon the allocation of the amounts mentioned by the SC. Allocation is done by the use of the Group's participating interest in the SC.

##### *General and Administrative Expenses*

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

#### OCI

OCI comprises items of income and expenses (including items previously presented under the consolidated statement of changes in equity) that are not recognized in the consolidated statement of income for the year in accordance with PFRS.

#### Share-Based Payment Transactions

Certain employees (including directors) of the Parent Company receive remuneration in the form of share appreciation right (SAR). This entitles the employees to receive cash which is equal to the excess of the market value of the Group's shares over the award price as of a given date.

In valuing cash-settled transactions, the entity measures the goods or services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the entity remeasures the fair value of the liability at each end of the reporting period and at the date of settlement, with any changes in fair value recognized in consolidated statement of

income for the period. The fair value is determined using an appropriate pricing model, further details of which are given in Note 12.

#### Provisions

Provisions are recognized when: (a) the Group has a present obligation (legal or constructive) as a result of a past event; (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. If the effect of time value of money is material, provisions are determined by discounting the expected future cash flows at a pretax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to passage of time is recognized as an interest expense.

#### *Provision for Decommissioning Costs*

The Group records the present value of estimated costs of legal and constructive obligations required to restore oil fields in the period in which the obligation is incurred. The nature of these restoration activities includes dismantling and removing structures, rehabilitating wells and platforms, and dismantling operating facilities. The obligation generally arises when the asset is installed or the environment is disturbed at the production location. When the liability is initially recognized, the present value of the estimated cost is capitalized by increasing the carrying amount of the related oil assets. Over time, the discounted liability is increased for the change in present value based on the discount rates that reflect current market assessments and the risks specific to the liability. The periodic unwinding of the discount is recognized in the consolidated statement of income under "Accretion expense". Additional disturbances or changes in decommissioning costs will be recognized as additions or charges to the corresponding assets and provision for decommissioning when they occur.

Where decommissioning is conducted systematically over the life of the operation, rather than at the time of closure, provision is made for the estimated outstanding continuous decommissioning work at each end of the reporting period and the cost is charged to the consolidated statement of income. For closed oil fields, changes to estimated costs are recognized immediately in the consolidated statement of income.

The ultimate cost of decommissioning is uncertain and cost estimates can vary in response to many factors including changes to the relevant legal requirements, the emergence of new restoration techniques or experience. The expected timing of expenditure can also change, for example in response to changes in oil reserves or production rates. As a result, there could be significant adjustments to the provision for decommissioning, which would affect future financial results.

Decommissioning fund committed for use in satisfying environmental obligations are included under "Other noncurrent assets" in the consolidated statement of financial position.

#### Retirement Benefit Liability

The Group has a funded, non-contributory defined benefits retirement plan. The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method. This method reflects service rendered by employees to the date of valuation and incorporates assumptions concerning the employees' projected salaries.

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as "Retirement benefit expense" under personnel costs in the consolidated statement of income. Past service costs are recognized when plan amendment or curtailment occurs.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as "Interest income" in the consolidated statement of income.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to the consolidated statement of income in subsequent periods. Remeasurements are recognized in "Retained earnings" after the initial adoption of the Revised PAS 19.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The Group's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

The standard requires an entity to recognize short-term employee benefits when an employee has rendered service in exchange of those benefits.

### Income Taxes

#### *Current Income Tax*

Current income tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the tax authority. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the end of the reporting period.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statement of income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

#### *Deferred Income Tax*

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

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

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

Deferred income tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits from excess of minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT) and unused tax losses, to the extent that it is probable that taxable income will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilized except:

- where the deferred income tax asset relating to the deductible temporary differences 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 income or loss; and
- in respect of deductible temporary differences associated with investment in foreign subsidiaries and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable income will be available against which the temporary differences can be utilized.

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

In respect of deductible temporary differences associated with investment in associates, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

Deferred income 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 rates and tax laws that have been enacted or substantively enacted at the end of the reporting period.

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

#### Contingencies

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

#### Foreign Currency Transactions

Transactions denominated in foreign currencies are recorded using the applicable exchange rate at the date of the transaction. Outstanding monetary assets and liabilities denominated in foreign currencies are translated using the applicable closing functional currency exchange rate at the end of the reporting period. Foreign exchange gains or losses arising from foreign currency-denominated transactions and translations are recognized in the consolidated statement of income.

Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transaction. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on transaction of nonmonetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in the fair value of the item.

#### Segment Reporting

Currently, the Group has only one business segment. The Parent Company is primarily involved in oil exploration and production while PPC is primarily engaged in production, supply, trading and generation of electric power using various energy sources. Revenue generated consists mainly of revenue from petroleum operations. Other income is derived from equity in net earnings of associates. PPC has not yet started commercial operation since its incorporation therefore, expenses were only incurred during the year.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the President and Chairman of the Parent Company who makes strategic decisions.

#### Events After the End of the Reporting Period

Events after the end of the reporting period that provide additional information about the Group's position at the end of the reporting period (adjusting events) are reflected in the consolidated financial statements. Events after the end of the reporting period are not adjusting events are disclosed in the notes to consolidated financial statements when material to the consolidated financial statements.