SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A, AS AMENDED

ANNUAL REPORT PURSUANT TO SECTION 17
OF THE SECURITIES REGULATION CODE AND SECTION 141
OF THE CORPORATION CODE OF THE PHILIPPINES

1. For the fiscal year ended
   Dec 31, 2018
2. SEC Identification Number
   38683
3. BIR Tax Identification No.
   000-315-612-000
4. Exact name of issuer as specified in its charter
   THE PHILODRILL CORPORATION
5. Province, country or other jurisdiction of incorporation or organization
   METRO MANILA, PHILIPPINES
6. Industry Classification Code(SEC Use Only)

7. Address of principal office
   8TH FLOOR QUAD ALPHA CENTRUM, 125 PIONEER STREET., MANDALUYONG CITY
   Postal Code
   1550
8. Issuer's telephone number, including area code
   (632) 6318151
9. Former name or former address, and former fiscal year, if changed since last report
   n.a.
10. Securities registered pursuant to Sections 8 and 12 of the SRC or Sections 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
COMMON SHARES	191,868,805,358

11. Are any or all of registrant's securities listed on a Stock Exchange?
    ☑ Yes ☐ No
    If yes, state the name of such stock exchange and the classes of securities listed therein:
    PHILIPPINE STOCK EXCHANGE
12. Check whether the issuer:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 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 twelve (12) months (or for such shorter period that the registrant was required to file such reports)

☑ Yes ☐ No

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

☑ Yes ☐ No

13. State the aggregate market value of the voting stock held by non-affiliates of the registrant. The aggregate market value shall be computed by reference to the price at which the stock was sold, or the average bid and asked prices of such stock, as of a specified date within sixty (60) days prior to the date of filing. If a determination as to whether a particular person or entity is an affiliate cannot be made without involving unreasonable effort and expense, the aggregate market value of the common stock held by non-affiliates may be calculated on the basis of assumptions reasonable under the circumstances, provided the assumptions are set forth in this Form

PhP 1,178,152,435

APPLICABLE ONLY TO ISSUERS INVOLVED IN INSOLVENCY SUSPENSION OF PAYMENTS PROCEEDINGS DURING THE PRECEDING FIVE YEARS

14. Check whether the issuer has filed all documents and reports required to be filed by Section 17 of the Code subsequent to the distribution of securities under a plan confirmed by a court or the Commission.

☑ Yes ☐ No

DOCUMENTS INCORPORATED BY REFERENCE

15. If any of the following documents are incorporated by reference, briefly describe them and identify the part of SEC Form 17-A into which the document is incorporated:

(a) Any annual report to security holders

The Company's 2018 Audited Consolidated Financial Statements

(b) Any information statement filed pursuant to SRC Rule 20

-

(c) Any prospectus filed pursuant to SRC Rule 8.1

-

The Philodrill Corporation
OV

PSE Disclosure Form 17-1 - Annual Report
References: SRC Rule 17 and
Section 17.2 and 17.8 of the Revised Disclosure Rules

For the fiscal year ended	Dec 31, 2018
Currency	PHILIPPINE PESO

Balance Sheet

	Year Ending	Previous Year Ending
	Dec 31, 2018	Dec 31, 2017
Current Assets	918,114,898	1,065,607,826
Total Assets	3,480,333,205	3,641,120,454
Current Liabilities	149,872,056	46,778,289
Total Liabilities	180,961,421	75,780,539
Retained Earnings/(Deficit)	1,587,902,186	1,813,914,484
Stockholders' Equity	3,299,371,784	3,565,339,915
Stockholders' Equity - Parent	3,414,172,868	3,414,172,868
Book Value Per Share	0.02	0.02

Income Statement

	Year Ending	Previous Year Ending
	Dec 31, 2018	Dec 31, 2017
Gross Revenue	458,536,014	426,003,641
Gross Expense	810,986,066	444,335,735
Non-Operating Income	75,859,965	37,801,842
Non-Operating Expense	232,192,388	63,371,968

Income/(Loss) Before Tax	-352,450,052	-18,332,093
Income Tax Expense	-90,492,778	-11,965,347
Net Income/(Loss) After Tax	-261,957,274	-6,366,746
Net Income/(Loss) Attributable to Parent Equity Holder	-261,957,274	-6,366,746
Earnings/(Loss) Per Share (Basic)	-0	-0
Earnings/(Loss) Per Share (Diluted)	-0	-0

Financial Ratios

	Formula	Fiscal Year Ended	Previous Fiscal Year
		Dec 31, 2018	Dec 31, 2017
Liquidity Analysis Ratios:			
; ; Current Ratio or Working Capital Ratio	**Current Assets / Current Liabilities**	6.13	22.78
; ; Quick Ratio	**(Current Assets - Inventory - Prepayments) / Current Liabilities**	5.56	21.21
; ; Solvency Ratio	**Total Assets / Total Liabilities**	19.23	48.05
Financial Leverage Ratios			
; ; Debt Ratio	**Total Debt/Total Assets**	0.05	0.02
; ; Debt-to-Equity Ratio	**Total Debt/Total Stockholders' Equity**	0.05	0.02
; ; Interest Coverage	**Earnings Before Interest and Taxes (EBIT) / Interest Charges**	-	-
; ; Asset to Equity Ratio	**Total Assets / Total Stockholders' Equity**	1.05	1.02
Profitability Ratios			
; ; Gross Profit Margin	**Sales - Cost of Goods Sold or Cost of Service / Sales**	-51.25	1.86
; ; Net Profit Margin	**Net Profit / Sales**	-92.1	-4.72
; ; Return on Assets	**Net Income / Total Assets**	-7.53	-0.17
; ; Return on Equity	**Net Income / Total Stockholders' Equity**	-7.94	-0.18
Price/Earnings Ratio	**Price Per Share / Earnings Per Common Share**	-9.52	-361.6

Other Relevant Information
-

Filed on behalf by:

Name	Josephine Ilas
Designation	Assistant Corporate Secretary

COVER SHEET

3	8	6	8	3

S.E.C. Registration Number

THE PHILODRILL CORPORATION

(Company's Full Name)

8th Floor, Quad Alpha Centrum
Building, 125 Pioneer Street
Mandaluyong City

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

Reynaldo E. Nazarea
Contact Person

631-8151
Company Telephone Number

12 31
Month *Day*

SEC Form 17-A (2018)
FORM TYPE

06 19
Month *Day*
Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

8583
Total No. of Stockholders

0
Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

Remarks = pls. use black ink for scanning purposes

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

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

1. For the calendar year ended **December 31, 2018**

2. SEC Identification Number: **38683**

3. BIR Tax Identification No.: **000-315-612-000**

4. Exact name of issuer as specified in its charter: **THE PHILODRILL CORPORATION**

5. **Philippines**
Province, Country or other jurisdiction of incorporation or organization

6. _________ (SEC Use Only)
Industry Classification Code

7. **8th Floor, Quad Alpha Centrum, 125 Pioneer Street, MandaluyongCity** **1550**
Address of principal office — Postal Code

8. **(632) 631-8151/52**
Issuer's telephone number, including area code

9. **Not Applicable**
Former name, former address, and former fiscal year, if changed since last report.

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

    Number of shares of Common Stock Outstanding 191,868,805,358

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

    Yes [x] 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 [x] No [ ]

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

Yes [x] No [ ]

13. Aggregate market value of the voting stock held by non-affiliates: ₱1,178,152,435 (90,627,110,415 shares at P0.013 per share as of December 31, 2018)

14. Documents incorporated by reference:

    (a) The Company's 2018 Audited Consolidated Financial Statements

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PART 1 - BUSINESS AND GENERAL INFORMATION

Item 1. Business

(a) Description of Business

(1) Business Development

The Philodrill Corporation (the "Company") was incorporated in 1969, originally, with the primary purpose of engaging in oil, gas and mineral exploration and development. In 1989, realizing the need to balance the risk associated with its petroleum activities, the Company changed its primary purpose to that of a diversified holding company while retaining petroleum and mineral exploration and development as one of its secondary purposes. Thereafter, the Company has maintained investments in petroleum exploration and production, financial services, property development, mining and infrastructure development. On January 16, 2008, stockholders representing at least two-thirds of the Company's outstanding capital stock approved to change the Company's primary purpose back to petroleum exploration and development and to relegate and include as a secondary purpose the Company's holding company purpose clause, which the Securities and Exchange Commission (SEC) approved on April 13, 2009.

With the Company's corporate term expiring in 2019, an application for the amendment of its Articles of Incorporation was filed, extending its corporate term for another fifty (50) years. The SEC on January 18, 2018, approved The Philodrill Corporation's amended Articles of Incorporation extending its corporate term for another fifty (50) years, from and after June 25, 2019.

The Company's active petroleum projects cover production and exploration areas in offshore Palawan and onshore Mindoro under various Service Contracts (SC) with the Philippine government through the Department of Energy (DOE).

In the financial services sector, the Company is a 40% shareholder of Penta Capital Investment Corporation (PCIC), an investment house. PCIC holds equity interest in several companies such as, Penta Capital Finance Corporation, a finance company (98.75% owned), Penta Capital Holdings Inc. (PCHI), an investment holding company (29.54% owned), Penta Capital Realty Corporation (100% owned) and Intra-Invest Securities, Inc. (68.47% owned). The Company also holds a 13.21% direct equity investment in PCHI.

In the mining sector, the Company holds minor equity interests in the following companies: Atlas Consolidated Mining & Development Corporation (ACMDC) and United Paragon Mining Corporation.

PETROLEUM PROJECTS

SERVICE CONTRACT NO. 14 (Nido, Matinloc and North Matinloc)

Production Operations

The remaining producing wells in the Nido and Matinloc wells continued their steady decline owing to decreased flowing pressures expected of a maturing and depleting field reserve. The two fields produced a combined volume of about 94,800 barrels while the North Matinloc earlier ceased production in June 2017. Overall, the total produced volume in 2018 fell short of the 117,200 barrels forecast for the year.

The consortium completed a total of eight (8) crude shipments from the Nido and Matinloc fields in 2018, all with Pilipinas Shell Petroleum Corporation with whom Philodrill negotiated for the renewal of crude soil purchase agreement in August last year. As in the previous years, service for crude shipment was provided by Global Gas & Oil Carriers, Inc.

Plug & Abandonment and Decommissioning Activities

Philodrill reported in 2017 the continuation of the programmed plug and abandonment (P&A) activities in some of the production wells and platforms in Service Contract 14 in 2018, in compliance with government regulations and good industry practices. The P&A of the Pandan-1 well in the Matinloc Block was successfully carried out in 2014 while similar attempts on the Tara and Libro wells in the same year failed. Philodrill, on behalf of the SC 14B and SC 14 Tara Block consortia, engaged the services of contractor CWT Consultancy Limited and successfully completed in May 2018 the P&A program for the Tara South-1 and Libro wells both below budget and on schedule.

Being the operator taking advantage of the appreciating crude prices, Philodrill initiated to refurbish some of the existing facilities aimed at improving production operations but continued significant decline in the fields' production performance, however, strongly indicates that the reservoirs are already depleted and that the Nido and Matinloc Fields have already reached their end of life. It also did not help that the resource assessment conducted on the remaining attic volumes, particularly in the Matinloc complex as well as several undrilled structures within the area, are postulated to contain producible hydrocarbon volumes that are uneconomic to produce at current market environment.

With these developments, coupled with valid concerns over future integrity of wells and with the consideration that the platforms and production facilities have now significantly exceeded their design life, the JV partners have become more convinced to move forward with the P&A of the remaining wells in the Nido, Matinloc and North Matinloc fields. They eventually agreed on the P&A budgets and by 3rd quarter 2018 have engaged anew the services of CWT Group to plan and execute the eventual P&A of the wells which will start on the latter part of the 1st quarter 2019. By that time, the Nido, Matinloc and North Matinloc fields would have finally ceased production activities as programmed. The Department of Energy has approved the P&A of the wells while the final program to strip the platforms of production equipment during the period from June to end-December 2019 is pending on DOE's guidance for the final disposition of the production facilities.

SERVICE CONTRACT NO. 14 C-1 (Galoc)

Operations Review

The Galoc Field's full year production in 2018 totalled 1.166 MM barrels consistent with the forecast/budget volume of 1.10 MM barrels. Production declined by about 20% from the 2017 level of 1.46 MM barrels owing to the normal depletion of the field reserves. In order to effectively manage the field's production decline, production optimization continued to be implemented from the previous year wherein operator Galoc Production Company (GPC) gained additional crude volume through choke manipulation. While a modest increase in production from the Galoc-3 well was recorded in 2018, water production also slightly increased which may not be particularly attributed to choke changes in the well. A more robust well testing program is planned to be implemented on the other Galoc wells and the production riser in 2019, aimed at further optimizing hydrocarbon flow from the field.

GPC and its marketing agent Vitol Asia Pte Ltd. completed three (3) crude oil shipments in 2018 involving about 1.066 MM barrels. These were sold to repeat buyers SK Energy International of South Korea and first-time buyer China Oil Hong Kong Corporation. As at end-2018, about 20.9 MM barrels were sold and shipped to different buyers from across the East and Southeast Asia region.

Change in GPC Management and Block Operatorship

On July 1, 2018, Tamarind Galoc Pte Ltd (TGP) bought Bangchak Corporation Public Company Limited's entire interest in the Galoc Field through the acquisition of Bangchak's 100% shareholdings in GPC and Nido Production Galoc. TGP is a wholly owned subsidiary of Tamarind Resources Limited and was created to own, manage and operate the Galoc Field in behalf of the SC 14 C-1 joint venture. Tamarind Resources also operates the offshore Tui Field in New Zealand and the Cliff Head discovery in Australia. Tamarind considers the Galoc Field a good fit for their expertise in managing late field opportunities and will work on replicating the successes in their Tui Field by achieving extended life of the Galoc field by way of reservoir enhancement, in-fill drilling and additional production.

Way Forward

As the new operator, Tamarind started last year to investigate and implement some potential quick-win opportunities including continued production optimization and management aimed at improving production performance. They have also started working on revamping the geological model to better fit with the current understanding of the Galoc reservoir performance and to identify where potential in-fill and re-development or re-injection wells can be drilled and pursued in the future. Tamarind had also secured the JV partners approval to put up facilities for the recovery of condensates from the gas stream. They have already negotiated a contract with condensate recovery unit (CRU) technology provider NGLTech for the design and manufacture of the CRU. Offshore installation and commissioning are planned within the 2nd quarter of 2019 with First Gas expected by the 3rd quarter. Once operational, an incremental production of between 270 – 360 barrels of oil per day can be expected at the current gas production rate of approximately 18.5 MMscf/day.

Tamarind also negotiated for the sale of future Galoc cargoes to exclusive buyer Trafigura through Vitol Asia starting with the next offtake in May 2019. The new negotiated pricing mechanism for the Galoc crude guarantees a competitive and transparent premium.

SERVICE CONTRACT NO. 14 C-2 (West Linapacan)

In January last year, the Department of Energy approved a revised work program and budget for 2018 outlining the forward activities for the West Linapacan Block in the light of the preliminary results from the 2017 RISC study which indicated a sub-economic reserves base should re-development of the field is pursued at current market environments at the time. Under the revised work and budget, the SC 14 C-2 Joint Venture endeavoured to do various technical studies to assess the remaining viable options for the West Linapacan "A" field re-development and a parallel assessment of the potential of the nearby West Linapacan "B" discovery. The efforts also included a review of the cost-effective options for the eventual P&A of the old West Linapacan wells.

Block operator Philodrill engaged the services of Mr. David Thomson and his group at CWT Consultancy Services Limited which worked on the scoping study of the West Linapacan A field from July to September with results presented to the JV in October 2018. They have looked into the possible re-entry of the old West Linapacan A-1 well to gather pressure data and the conduct of a drill stem test which were found to be technically feasible with no major potential technical challenges. The study shows, however, that doing an extended production test (EPT) will require production operations setup similar to the Galoc Field, thus making it sub-economic at USD 80/barrel. Various costing scenarios were generated ranging from simple P&A of the existing wells to DST of the WL A-1 plus the P&A of the existing wells.

Parallel to the West Linapacan A scoping work, Philodrill completed the evaluation of the West Linapacan B structure including detailed mapping and interpretation of the 2014 re-processed PreSDM data and review of past resource assessments of the field. A potential re-entry and side-track of the West Linapacan B-1X is being considered for further study. The initial in-place resources being estimated for the West Linapacan B is believed to support a conceptual development scenariothat will facilitate production via a 25km subsea pipeline tied-back to the Galoc FPSO Rubicon Intrepid for storage and offloading. This development concept similarly provides opportunity for the joint development of the nearby West Linapacan A and the Linapacan A and B accumulations in the adjacent SC 74. Tamarind Resources have expressed interest to look into the opportunities offered by the West Linapacan Block. At the same time, SC 14 C2 and the SC 74 JVs have agreed on a joint seismic reprocessing work over contiguous areas of the two SCs that cover the West Linapacan and Linapacan fields.

Early this year, Philodrill received expressions of interest on the West Linapacan Block from two (2) international firms. The first, a British company incorporated in the British Virgin Islands, submitted a Non-Binding Offer to farm-in by carrying the SC 14 C-2 farming out partners through the drilling of a single production well to first oil. A confidentiality agreement with the potential farminee has been executed to provide them data access for their due diligence work. The farm-in offer is currently being evaluated by the West Linapacan joint venture partners.

Another company, Baker Hughes GE (BHGE), also indicated their interest on the re-development of the West Linapacan Field. Similarly, a non-disclosure agreement was signed and executed with BHGE providing them confidential access to West Linapacan Field data to evaluate feasible re-development options and arrangements that they can eventually propose to the joint venture.

SERVICE CONTRACT NO. 6A (Octon)

The DOE extended the submission of the 2018 work program and budget to 31 January 2018. This allowed the Octon JV to agree and adopt the forward activities for the block which include re-mapping of the previously identified prospects using the 2015 Pre-Stack Depth Migration seismic data and integrating the results of the Quantitative Interpretation from the previous year.

A risk and resource analysis was also programmed as well as preliminary well/drilling design and cost study. Results from these activities were used as basis to conduct scoping project studies aimed to assess viability of pursuing drilling and development of these prospects.

Philodrill's in-house interpretation of the pre-SDM data was complemented by attribute analysis to map suspected Galoc-level channels and to delineate where the Galoc sand reservoir may be expected to be better developed. The seismic mapping and resource evaluation work focused on the Malajon-Salvacion-Saddle Rock anticlinorium where, as a forward activity, Philodrill intends to undertake further attribute studies to better understand reservoir development and distribution within the structure to identify potential exploration well location.

Following their assumption as the new operator of the Galoc Field, Tamarind Resources was invited by Philodrill to look into the opportunity of developing the Octon Oil and Gas Discovery as a tie-back to the Galoc Field. The Octon oil which basically has the same fluids characteristics can be potentially produced via an 8-km subsea pipeline to the production facility at the Galoc Field, together with the gas that would fit well into the condensate recovery system that Tamarind is putting up in the Galoc FPSO in May 2019. Under a confidentiality agreement signed in October 2018, Tamarind was provided with vital technical data which they utilized in their preliminary screening works on the Octon discovery. Different scenarios have been identified, all of which require an independent processing module due mainly to the relatively high H_2S content of the Octon Field.

Presently, Tamarind sees the economic viability of having the field developed as a tie-back to the Galoc production facilities. In January 2019, Tamarind formally confirmed in writing their interests in pursuing a farm-in to SC 6A, predicated on an approved development of the Octon discovery. Moving forward with the farm-in, Tamarind has offered to undertake a robust work program that will enable them to formulate, at their expense, a Field Development Plan (FDP) for Octon. The JV partners have agreed to adopt this additional work program as supplementary capital expenditure to be submitted for the DOE's approval.

As programmed, the Octon FDP will incorporate the results of the "Concept Select" work with the elements of what is commonly referred to as Front-end Engineering Design (FEED). The FDP upon completion will allow a sanction decision on proceeding with the Octon field development to be made by middle of 2019 to maintain the Q3 2020 target for first oil.

Negotiations with Tamarind are ongoing with PetroEnergy designated to negotiate the commercial terms of the farm-in. Tamarind's farm-in offer proposal is for a full carry of the JV partners on the capital expenditure costs to 1st oil.

SERVICE CONTRACT NO. 6B (Bonita)

In September 2017, the Bonita Consortium approved and signed the farm-in agreement with the UK-based Manta Oil Company Limited, premised on the DOE approving the inclusion of the Cadlao Field and its historical cost into SC 6B. A formal request was submitted to the DOE which advised on the legal basis and requirements for the amendment. The DOE approved in March 2018 the request for the reconfiguration of SC 6B to include the Cadlao Field, subject to the signing of the Amendment to Service Contract 6B (ASC6B) which basically defines the geographical coordinates of SC6B with Cadlao Block appended to it. The DOE approval, however, did not include the Cadlao historical cost, one of the conditions-precedent of the farm-in which Manta Oil agreed to waive. As required by the DOE, the JV partners also issued a resolution mandating Philodrill to execute the ASC6B in behalf of the Bonita Joint Venture.

Also during the first quarter of 2018, the DOE approved the distribution of Phinma's (formerly TransAsia Petroleum Company) relinquished SC 6B participating interests to the continuing parties and the transfer of Philodrill Power Corp.'s remaining petroleum interests to Philodrill Corporation. As a result of these assignments, Philodrill further firmed up its majority interests on the Bonita Block to 58.182%.

The DOE approved on June 1, 2018 the First Amendment to Petroleum Service Contract 6B appending the Cadlao Field into the Bonita Block. Other than the inclusion of the field, the amendment also stipulated that all other provisions of SC 6B not covered by the amendment shall remain in full force and effect. Philodrill had provided Manta Oil a copy of the ASC6B for them to expedite and complete their legal, technical and financial documentations as required by the DOE for the evaluation of Manta's qualification to be a joint venture partner and operator of the Bonita Block.

The Deed of Assignment was formally submitted to the DOE on October 30, 2018, supported with a compendium of the required documents from Manta Oil and the SC 5B consortium partners. Additional documents were later separately submitted in December and January to complete Manta's documentation. If approved, the requested Deed of Assignment which as of time of writing remains pending with the DOE, will result in the transfer of 70% of the farmors' interests and the operatorship of the SC 5B Block to the farminee. Manta Oil is looking at re-developing the Cadlao Field as its farm-in commitment work program, as well as the opportunity of exploring other satellite structures within the block.

SERVICE CONTRACT NO. 41 (Sulu Sea)

The DOE formally launched in November 2018 the Philippine Conventional Energy Contracting Program (PCECP) for petroleum and coal. Under the PCECP, awarding of new service contracts are conducted either through the competitive bidding process or via nomination whereby the PCECP would allow prospective areas other than the 14 pre-determined area.

The Sulu Sea area is again on offer where we submitted a joint bid with PXP Energy Corporation back in 2012 under the PECR4. Philodrill is considering reviving that bid over a block previously covered by Service Contract 41 and has invited service contract partners PNOC – Exploration Corporation ad Oriental Petroleum. Service Contract 41 remains in the company's financial books.

SERVICE CONTRACT NO. 53 (Onshore Mindoro)

There has been no update from block operator Mindoro-Palawan Oil & Gas, Inc. (MPOGI) as to their plans for the block, specifically the activities to execute the Joint Venture's commitments including the drilling of the Progreso-2 well which the JV should have drilled in December 2018 as per the contract's work program timetable. Since they took over the operatorship of the block from Pitkin Petroleum, MPOGI has never been successful in getting takers for their participating interests which they offer to sell at a premium.

Philodrill already indicated no interest in the offer but has extended help in the marketing of the Mindoro block. Philodrill has also been assisting MPOGI in providing technical data to Gas2Grid, the operator of SC 44 in onshore Cebu, for their evaluation of Onshore Mindoro. Gas2Grid indicated interest on the Progreso project through possible drill-for-equity engagement. Their initial offer is to acquire up to 70% participating interest in exchange for drilling of up to 2 wells. Gas2Grid's farm-in offer is phased and is premised on the success of the initial well. The company owns a land rig currently on stand-by in Cebu which they intend to utilize on the Progreso drilling project. As of time of writing, MPOGI has yet to formally advise the joint venture partners on the outcome of their negotiations with Gas2Grid.

In a letter issued in September 2018, the DOE enjoined MPOGI to secure a Certificate of Pre-Condition (CP) from the National Commission on Indigenous Peoples (NCIP) to enable the DOE to lift the moratorium on SC 53. A moratorium on all exploration activities on SC 53 has been in force since July 2015, which stemmed from the complaint lodged by the group Fakasadian Manga-guyang Tao-Buid Daga Incorporated (Famatodi) against the SC 53 joint venture. The Famatodi case was earlier dismissed by the NCIP in February 2018 for lack of jurisdiction. In a letter to the operator dated September 13, 2018, the DOE already indicated that inaction on securing of the CP from the NCIP and the regular submission of quarterly reports by MPOGI to the DOE may constitute grounds for the termination of the service contract.

SERVICE CONTRACT NO. 74 (Linapacan)

In early 2018, the DOE granted approval on the SC 74 Consortium's entry to Sub-Phase 3 which runs from 13 December 2017 to 13 December 2019. As the Joint Venture's amended work program for SP3, PXP Energy committed to complete Phase 2 of the gravity/magnetic data interpretation from the previous sub-phase, do seismic interpretation of PSDM 3D data over the Linapacan A and B fields, conduct geologic fieldwork and biostratigraphy of the Calamian Islands Group in collaboration with the UP – National Institute of Geological Sciences, and to complete the Linapacan resource evaluation and development engineering study.

The geological fieldwork and sampling was completed in June 2018 and the collected outcrop samples are currently undergoing age-dating and geochemical tests. In addition, seismic contractor CGG completed the test re-processing of select lines which will be the basis for the committed re-processing of the entire MC2D data acquired in 2016. PXP Energy is also wrapping up the gravity/magnetic modelling work but the initial results that the consortium is getting from the modelling, however, appear to be inconclusive. This prompted PXP to propose the conduct of Quantitative Interpretation on the 3D seismic over the Linapacan A and B as replacement for the committed 2D seismic re-processing which is not expected to improve the quality of the existing 2D data on the block.

PNOC-EC presented to the SC 74 JV in January 2019 the preliminary results of their ongoing development economic and engineering study, building on the results from the resources assessment of the Linapacan A and B discoveries by Philodrill. Several development scenarios for the Linapacan have been identified and considered, with results generally indicating that developing both fields independently (of the other nearby developable discoveries in the area) may not be viable owing to the fields' low hydrocarbon reserves. As such, the JV partners suggested to PNOC-EC to include a joint development scenario with the West Linapacan A and

B discoveries in the adjacent SC 14 C-2 block. In support of this concept, the SC 74 and SC 14 C-2 consortia have agreed to conduct Quantitative Interpretation work on a 400 sq km reprocessed PSDM seismic volume covering contiguous areas of the two blocks. Negotiations with the potential contractor Ikon Science have been started to firm up the proposed QI work.

As for the marketing study also by PNOC-EC, the Palawan Island province is identified as a potential market for natural gas and can benefit from the assumed gas production in addition to oil in the Linapacan A and B and the other nearby fields.

SWAN BLOCK (Deepwater Northwest Palawan)

Philodrill continued to wait for PNOC-EC to decide on the offer to acquire participating interests in Philodrill's contract areas for a potential interest swap in their Service Contracts which now cover the former SWAN Block. PNOC-EC had been working for the repeal or amendment of Executive Order 556 issued by the Office of the President of the Philippines that directs PNOC-EC to forge partnership with other entities through the normal farmin/farmout process, but only through a strict bidding process. In anticipation of the repeal and/or amendment of EO 556, Philodrill has retained the SWAN Block in its books.

Additional information required by Item 1 (a) is also contained in Note 10 to the Company's 2018 Audited Consolidated Financial Statements.

<u>INVESTMENTS IN ASSOCIATES</u>

The Company's associates are PCIC, PCHI and ACMDC, where the Company has 40%, 13.21% and 0.53% equity interest, respectively. In December 2015, the Company entered into a Joint Voting Agreement with Alakor Corporation, National Book Store, Inc. and Anglo Philippine Holdings Corporation, collectively known as the Ramos Group, to jointly vote their shares in ACMDC in all matters affecting their rights as stockholders effective January 1, 2015. As of December 31, 2018, the combined interest of the parties to the agreement represents 43.01% interest in ACMDC.

PCIC posted a total comprehensive income of P86.0 million in 2018, 7% higher than the 2017 comprehensive income of P80.0 million. Gross revenues amounted to P199.0 million in 2018 as compared to P206.6 million in 2017.

PCHI's net income increased to P45.2 million in 2018 from P22.2 million in 2017. Gross revenues increased to P93.7 million in 2018 as compared to P85.9 million in 2017.

ACMDC's comprehensive loss amounted to P1.7 billion in 2018, as compared to P1.9 billion in 2017. Gross revenues amounted to P13.3 billion in 2018 and P11.1 billion in 2017.

Additional information is also contained in Note 8 to the Company's 2018 Audited Consolidated Financial Statements.

The Company has no direct equity interest in Penta Capital Finance Corporation and as such, no disclosure on its business development was made.

No bankruptcy, receivership or similar proceeding has been filed by or against the Company during the last three (3) years.

No material reclassification, merger, consolidation, or purchase/sale of a significant amount of assets not in the ordinary course of business has been undertaken by the Company during the last three (3) years.

(2) Business of Issuer
(a) Description of Registrant

(1) Principal products or services and their markets -The Company and other participants (collectively referred to as "Contractor"), entered into several SCs with the Philippine government through the DOE, for the exploration, development and exploitation of the contract areas situated mostly in offshore Palawan where oil discoveries have been made. The aforementioned SCs provide for certain minimum work expenditure obligations and the drilling of a specified number of wells and are covered by operating agreements which set forth the participating interests, rights and obligations of the contractor.

The Company's share in the jointly controlled assets of the SCs is included under the "Wells, platforms and other facilities" and "Deferred oil exploration costs" accounts in the statements of financial position. The Company follows full cost method of accounting for all exploration costs relating to each SC. These costs are deferred pending determination of whether the contract area contains oil and gas in commercial quantities. The exploration costs relating to the SC area where oil and gas in commercial quantities are discovered are subsequently capitalized as "Wells, platforms and other facilities" shown under "Property and equipment" account in the statement of financial position upon commercial production. When the SC is permanently abandoned or the Company has withdrawn from the consortium, the related deferred oil exploration costs are written-off. Reserves are estimated by reference to available reservoir and well information, including production and pressure trends for producing reservoirs. All proven reserve estimates are subject to revision, either upward or downward, based on new information, such as from development drilling and production activities or from changes in economic factors, including product prices, contract terms or development plans. As a field goes into production, the amount of proven reserves will be subject to future revision once additional information becomes available. As those fields are further developed, new information may lead to revisions. Additional information required by Item 1 (2) (a) is also contained on Notes 7 and 10 to the Company's 2018 Audited Consolidated Financial Statements. The Company's present revenues and production and related expenses are from certain areas of SC 14 particularly Nido, Matinloc, North Matinloc and Galoc. The crude oil revenues from these oilfields contributed about 83.1% of the total gross revenues.

Information as to production volume follows (in barrels):

	2018	2017	2016
Galoc *(net)*	**1,152,943**	1,438,280	1,846,954
Nido	**51,749**	56,164	53,646
Matinloc	**43,040**	67,490	72,745
North Matinloc	**0**	2,102	9,122
Total	**1,247,732**	1,564,036	1,982,467

The Company also generates revenues from its equity investments by way of dividends received from, and/or equitizable share in the earnings of investee companies. Equitized earnings from affiliates constituted about 7% of the total gross revenues.

Investee Companies. The Company is a 40% shareholder of PCIC, an investment house. Aside from investment banking and financial advisory services, PCIC also specializes in providing securitization services, short-term bridge financing facilities and assistance in raising working capital funds.

The Company also has investment in PCHI with investment holdings in real estate, financial and securities transactions. The Company has a 13.21% ownership in PCHI. PCIC also has 29.54% ownership interest in PCHI, making the Company's effective ownership in PCHI at 25.03%.

The Company has 0.53% minor equity interest in ACMDC, as of December 31, 2018, together with the other companies in the Ramos Group, the combined interest represents 43.01% in ACMDC.

ACMDC is engaged in metallic mineral and mining exploration, and currently produces copper concentrate (with gold and silver), magnetite iron ore concentrate and laterite nickel.

(2) Percentage of sales or revenues and net income contributed by foreign sales - SC14C-1 crude oil were sold to foreign companies, the following are the percentages contributed by foreign sales:

	2018	2017	2016
Gross petroleum revenue	**62%**	67%	64%
Net operating income	**102%**	409%	296%

(3) Distribution Method of the Products or Service - As the lead operator of the SC14 Blocks A, B and B-1 consortium, the Company is in-charge of the sale, transfer and disposition of the oil produced from the Nido, Matinloc and North Matinloc oilfields. The oil produced and saved from these areas was sold to Pilipinas Shell. The proceeds from the sale of crude oil were distributed by the operator to the different consortium members in accordance with their respective participating interests. For SC14C-1 consortium, the operator, GPC sold the crude oil to several foreign firms.

(4) Status of any new product or service - There are NO new products or services.

(5) Competition - Crude oil production from SC14 A, B & B-1 (Nido, Matinloc and North Matinloc) were all sold to Pilipinas Shell. The Company's crude sales agreement with Pilipinas Shell remained in effect for 2018. For SC14 C-1, the crude oil production was sold to several foreign firms, namely, SK Energy International of South Korea and first-time buyer China Oil Hong Kong Corporation. Vitol Asia Pte., Ltd. continued to act as a marketing agent for the SC14C-1 consortium. Competition for market of petroleum does not have a significant bearing in the operations of the Company.

In the upstream local industry, group of companies form consortiums to explore certain areas. The DOE awards SCs to technically and financially capable companies based on competitive bidding. The Company competes in the acquisition of exploration rights with foreign firms and local exploration companies namely, PNOC-EC, Oriental Petroleum and Minerals Corporation, PetroEnergy Resources Corporation, Nido Production (Galoc) Pty. Ltd., Forum Energy Phils. Corporation. Competition in the acquisition of exploration rights also gives opportunities for partnership between local and foreign companies.

The Company is a recognized leader in the local petroleum industry. The Company is financially strong and the technical expertise of its staff is recognized by the DOE. The Company remains a strong player in the local exploration and production industry.

(6) Sources and availability of raw materials - Not applicable

(7) Dependence on One or a Few Major Customers and Identification of Such -

a) Petroleum Revenue - production from Galoc which is 62% of the total gross revenues were sold to several foreign firms namely, SK Energy International of South Korea and first-time buyer China Oil Hong Kong Corporation. Vitol Asia Pte., Ltd. continued to act as a marketing agent for the SC14C-1 consortium. While production from Nido, Matinloc and North Matinloc which is 22% of the total gross revenues were all sold to Pilipinas Shell under a crude oil sales agreement.

b) Investment Income - the Company's equity share in associates' earnings is dependent on the financial performance of its investee company, PCIC, PCHI and ACMDC.

(8) Transactions with and/or Dependence on Related Parties - the information required is contained on Note 15 to the Company's 2018 Audited Consolidated Financial Statements.

(9) Patents, Trademarks, Licenses, Franchises, Concessions, Royalty Agreements, or Labor Contracts, including Duration- The Company is a member of the following valid and subsisting Petroleum SCs, either in its capacity as Operator or Consortium Member:

Service Contract No.	*Location*	*Expiry*	*Company's Capacity (as of December 31, 2018)*
6A Octon Block	NorthWest Palawan	February 2024	Operator
6B Bonita Block	NorthWest Palawan	February 2024	Operator
14A Nido Block	NorthWest Palawan	December 2025	Operator
14B Matinloc Block	NorthWest Palawan	December 2025	Operator
14B-1 North Matinloc	NorthWest Palawan	December 2025	Operator
14 Tara Block	NorthWest Palawan	December 2025	Consortium Member
14C-1 Galoc Block	NorthWest Palawan	December 2025	Consortium Member
14C-2 West Linapacan	NorthWest Palawan	December 2025	Operator
14D Retention Block	NorthWest Palawan	December 2025	Operator
53 Onshore Mindoro	Mindoro	July 2055	Consortium Member
74 Linapacan	NorthWest Palawan	August 2063	Consortium Member

(10) Government Approvals – The Company is a participant in various SCs with the Philippine government through the DOE which provide for certain minimum work expenditure obligations and drilling of a specified number of wells and are covered by operating agreements which set forth the participating interests, rights and obligations of the Contractor.

(11) Effect of Existing or Probable Governmental Regulations on the Business - Existing government regulations do not adversely affect the business of the Company. We are not aware of any probable government regulation that may adversely affect the business of the Company and its subsidiary.

(12) Estimate of Amount Spent for Research and Development Activities - The Company incurs expenses in the oil exploration projects wherein the Company is a participant, expense on the evaluation and studies on these projects form part of deferred costs. The following are the expenses incurred for the last three (3) years:

Year	Amount
2018	**P15.0M**
2017	P15.2M
2016	P46.5M

(13) Costs and Effects of Compliance with Environmental Laws - Compliance with the environmental laws has not, and is not anticipated to adversely affect the businesses and financial condition of the Company. Petroleum service contractors are mandated to comply with all environmental laws in phases of exploration and production operations. The Company did not directly incur any expenses for such activities during the last three (3) years. Any costs of compliance with environmental laws will either be charged as ordinary operating expense or capitalized as part of project investment.

(14) Employees - As at December 31, 2018, the Company had 27 employees.

Type of employee	Exploration/ Technical	Finance/ Administration Legal/Stocks
Executive Officers - Administrative	1	3
AVP, Managers - Technical/Operations	3	3
Rank and File - Clerical	5	12
Total	9	18

The present employees are not subject to Collective Bargaining Agreement. For the past three (3) years, there had not been any strike threat. All regular officers and employees are entitled to supplemental benefits as provided under the applicable labor laws and existing Company's schedule of benefits (i.e. leaves, medical and other cash aid programs, bonuses, retirement, life/hospitalization insurances and others). The Company will continue to provide such benefits within the ensuing twelve (12) months. The Company does not anticipate hiring additional personnel within the ensuing twelve (12) months.

(15) Major risk/s involved in each of the business of the company and subsidiaries - Information required by this Item is contained in Note 21 to the Company's 2018 Audited Consolidated Financial Statements. Note 21 discussed the risks factors namely: credit risk, liquidity risk and market risk which includes foreign currency risk and equity price risk. In addition we would like to disclose the following risks:

Commodity price risk – The Company's petroleum revenues are based on international commodity quotations (i.e. primarily on the average Dubai oil prices) over which the Company has no significant influence or control. This exposes the Company's results of operations to commodity price volatilities that may significantly impact its cash inflows. However, the Company is exerting its efforts in reducing operating costs in order to counteract any decrease in commodity price.

Production risk - The Company's crude oil production from the Galoc, Nido, Matinloc and North Matinloc fields may experience decline that are due to normal reserve depletion, production shutdown, adverse weather condition and problems relating to availability of vessels. In the Galoc field, the SC14C-1 consortium upgraded the mooring and riser system (M&RS) of the FPSO which involved the installation of a revolving external turret on the bow of the FPSO. The installed turret practically eliminated the need for the risky and costly disconnection of the M&RS during adverse weather conditions and its subsequent reconnection which in the past had resulted in expensive damage and prolonged operating downtimes. Because of the improved M&RS system, the Galoc operations attained close to 100% process uptime in 2018.

(b) Additional Requirements as to Certain Issues or Issuers

(a) Debt issues - Not applicable
(b) Investment Company Securities - Not applicable
(c) Mining and Oil Companies - In line with its primary business purpose, the Company remains a participant in certain petroleum exploration projects. The amount of the Company's interests in these contracts and a brief description of the areas and status of works performed therein are provided in Item 1 (a) above under the heading "Petroleum Projects".

Item 2. Properties

The information required by Item 2 is contained in Notes 6 and 7 to the Company's 2018 Audited Consolidated Financial Statements.

As a participant in SC No.14, the Company reflects its proportionate share in the cost of the production facilities of the Nido, Matinloc, North Matinloc, Galoc and West Linapacan oilfields under the "Wells, platforms and other facilities" account. These production facilities are located in the offshore Palawan area, while the office condominium unit, furnitures, and other equipments are located at 125 Pioneer Street, Mandaluyong City. These properties are in good condition. The Company does not intend to make any substantial property acquisition in the next twelve (12) months.

The Company's exploration properties, which are presented as deferred oil exploration and development costs in the audited consolidated financial statements are presented below:

SC No.	The Company's Interest (%)	Partners	Operator /Contractor	Issue Date	Expiry Date	Location	Status
SC6A (Octon)	51.650	PetroEnergy Resources Corp. Anglo Phil. Holdings Corp. Phinma Petroleum & Geothermal, Inc. Forum Energy Phils.Corp. PXP Energy Corp. Alcorn Petroleum & Minerals	The Company	Sep 01, 1973	Feb 28, 2024	Northwest Palawan	Exploration
SC6B (Bonita)	58.182	Oriental Pet.& Minerals Corp Nido Petroleum Phils. Pty Forum Energy Phils. Corp. Alcorn Gold Resources Corp	The Company	Sep 01, 1973	Feb 28, 2024	Northwest Palawan	Exploration
SC53 (Onshore Mindoro)	22.000	Mindoro-Palawan Oil & Gas, Inc. Anglo Phil. Holdings Corp. Basic Cons. Mining Corp	Mindoro-Palawan Oil&Gas, Inc.	July 08, 2005	July 08, 2014	Mindoro	Exploration
SC74 (Linapacan)	25.000	PXP Energy Corp. PNOC-EC	PXP Energy	Sep 03, 2013	Aug 03, 2063	Northwest Palawan	Exploration
SC41 (Sulu Sea)	*					Sulu Sea	For bidding application
Swan Block (NW Palawan) Unified	**					Northwest Palawan	Ongoing negotiations with PNOC-EC

**For bidding application*
***Ongoing negotiations with PNOC-EC*

Item 3. Legal Proceedings

That as of this date, the claim for special retirement pay filed by Mr. Francisco A. Navarro, former President of the Company, with the National Labor Relations Commission last February 13, 2017 was dismissed by the Court of Appeals.

(a) After receiving his retirement pay of P19,839,500.00 in accordance with the Company's Retirement Plan, plus accrued and unused Sick Leave benefits of P963,418.68, Vacation Leave benefits of P733,728.27, and monetised value of Consultancy Fee of P2,000,000.00, the former President of the Company, Mr. Francisco A. Navarro, filed a labor case against the Company in February 2017 claiming: (1) a special retirement benefit of P19,893,000.00; (2) Profit Share of P1,391,721.00; and, (3) litigation expenses of P2,128,472.10.

Following a series of mediation meetings and filing of pleadings, Labor Arbiter Hernandez issued a Resolution on August 14, 2017 dismissing the labor case for lack of merit.

On appeal to the National Labor Relations Commission (NLRC), the NLRC, on December 28, 2017, reversed the ruling of the Labor Arbiter and ordered the Company to pay Mr. Navarro the special retirement pay amounting to

P17,893.000.00. The NLRC likewise denied the Company's Motion for Reconsideration of the NLRC Decision in a Resolution dated April 28, 2018.

The Company then filed a Petition for Certiorari with the Court of Appeals against the NLRC's Decision of December 28, 2017 and Resolution dated April 28, 2018. In a Decision promulgated on August 10, 2018, the Fifth Division of the Court of Appeals granted the Company's petition, reversed and set aside the December 28, 2017 NLRC Decision and April 28, 2018 NLRC Resolution, and dismissed Mr. Navarro's money claims against the Company for lack of jurisdiction and merit.

On September 13, 2018, Mr. Navarro filed a Motion for Reconsideration of the CA Decision of August 10, 2018. The Company filed its Comment/Opposition to the said Motion for Reconsideration on October 5, 2018.

On March 4, 2019, the Company through its counsel, Tan Venturanza Valdez, received a copy of the Resolution of the Former Fifth Division of the Court of Appeals promulgated on February 14, 2019, dismissing the Motion for Reconsideration on the CA Decision of August 10, 2018 filed by Mr. Navarro.

(b) On December 3, 2018 Mr. Francisco Navarro filed a Petition for Certiorari (under Rule 65) before the Court of Appeals seeking to nullify the Decision of the NLRC (Sixth Division) relating to the extraordinary remedy (LER) case of The Philodrill Corporation et.al., v. Navarro (NLRC LER Case No. 07-178-18).

Mr. Navarro sought nullification of (i) the Decision promulgated on August 17, 2018, which partly granted the Petition filed by Philodrill, ordering the withholding of the amount of P5,853,650 as tax from the judgment award of P17,839,000 in NLRC NCR Case No. 02-02562-17; and (ii) Resolution promulgated on September 27, 2018 denying his Motion for Reconsideration of the abovementioned Decision.

The NLRC *Decision* was promulgated on 17 August 2018. On the other hand, the *Supplemental Motion to Quash the Writ of Execution with Prayer to Lift Garnishment* which was filed by Philodrill before the Labor Arbiter on the basis of the favorable CA *Decision (August 10, 2018)* was received by the NLRC on 20 August 2018. Thus, the NLRC *Decision* was drafted by the Sixth Division without taking into account the reversal made by the CA of the earlier decision of the NLRC (Fourth Division).

Item 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

PART II - OPERATIONAL AND FINANCIAL INFORMATION

Item 5. Market for Registrant's Common Equity and Related Stockholders Matters

(a) Market Price of and Dividends on Registrant's Common Equity and Related Stockholder Matters

(1) Market Information
The Company's shares are listed and traded in the Philippine Stock Exchange (PSE). The high and low sales price of the Company's shares for each quarter during the last two (2) years 2018 and 2017 and the first quarter of the current year 2019, expressed in Philippine Peso, are as follows:

Stock Prices:		High	Low
2019	First Quarter	0.0130	0.0110
2018	First Quarter	0.0130	0.0110
	Second Quarter	0.0130	0.0110
	Third Quarter	0.0130	0.0110
	Fourth Quarter	0.0140	0.0110
2017	First Quarter	0.0150	0.0120
	Second Quarter	0.0140	0.0120
	Third Quarter	0.0130	0.0110
	Fourth Quarter	0.0120	0.0110

(2) Holders

There were 8,583 shareholders of record as of December 31, 2018. Common shares outstanding as of December 31, 2018 totaled 191,868,805,358 shares.

The Company offered to all its shareholders the right to subscribe to one (1) offer share for every four (4) common shares held as of record date of October 16, 2008. In February 2008, the Company filed its application for the listing and trading of the offer shares with the PSE and the PSE approved the application on September 24, 2008. On May 26, 2008, the Company filed a Registration Statement covering the offer shares with the SEC and it was approved by the SEC on September 18, 2008. Additional information required is also contained in Note 13 to the Company's 2018 Audited Consolidated Financial Statements.

Top 20 stockholders as of December 31, 2018:

NAME	NO. OF SHARES HELD	% TO TOTAL
1. PCD NOMINEE CORPORATION FILIPINO	174,392,050,735	90.89
2. PCD NOMINEE CORPORATION NON FILIPINO	1,414,978,813	0.74
3. ALSONS CONSOLIDATED RESOURCES, INC.	566,720,000	0.30
4. MARGARET S. CHUA CHIACO	530,000,000	0.28
5. TRAFALGAR HOLDINGS PHILS., INC.	360,993,600	0.19
6. ALBERTO MENDOZA &/OR JEANIE MENDOZA	317,910,514	0.17

7. CHRISTINE C. CHUA	254,097,005	0.13
8. RCBC TA# 32-314-4	190,900,000	0.10
9. PHIL. REMNANTS CO., INC.	188,247,468	0.10
10. AYALA CORPORATION	188,068,125	0.10
11. CARMENCITA O. REYES	176,415,750	0.09
12. INDEPENDENT REALTY CORPORATION	165,807,000	0.09
13. ANSELMO C. ROQUE	150,000,000	0.08
14. PAULINO G. PE	135,490,200	0.07
15. JOSEPH D. ONG	121,595,829	0.06
16. ANSALDO GODINEZ & CO., INC.	112,188,084	0.06
17. J.A. GONZALEZ	110,400,000	0.06
18. ANGLO PHILIPPINE HOLDINGS CORPORATION	108,936,264	0.06
19. LUCIO W. YAN &/OR CLARA Y. YAN	107,918,500	0.06
20. E. SANTAMARIA & CO., INC.	104,535,254	0.05

(3) Dividends
For the years 2018, 2017 and 2016, the Board of Directors approved the declaration of the following cash dividends:

Cash Dividend	Amount	Declared on	Record Date	Payment Date
2018- none	**N/A**	**N/A**	**N/A**	**N/A**
2017- none	**N/A**	**N/A**	**N/A**	**N/A**
2016-CD030	P0.00025/share	Sept 21, 2016	Oct 5, 2016	Nov 2, 2016

The Company's ability to declare and pay dividends is subject to the availability of funds and balance of the Retained Earnings.

(4) Recent Sales of Unregistered Securities
NO unregistered securities were sold during the past three (3) years. All of the Company's issued and outstanding shares of stock are duly registered in accordance with the provisions of the Securities Regulation Code.

(a) Securities Sold - not applicable; NO securities were sold
(b) Underwriters and Other Purchases - not applicable; NO securities were sold
(c) Consideration - not applicable; NO securities were sold
(d) Exemption from Registration Claimed - not applicable; NO securities were sold

Item 6. Management's Discussion and Analysis or Plan of Operation.

(a) Management's Discussion and Analysis or Plan of Operation

Audited Consolidated Financial Statements for Years 2016 to 2018

(In thousands of Pesos)	**As at 31 Dec 2018**	As at 31 Dec 2017	As at 31 Dec 2016
Income Statement			
Petroleum Revenues	**382,676**	388,202	358,688
Operating Income (Loss)	**(352,450)**	(18,332)	21,912
Net Income (Loss)	**(261,957)**	(6,367)	29,119
Assets			
Current Assets	**918,115**	1,065,608	1,110,145

Non-Current Assets	**2,562,218**	2,575,512	2,519,949
Total Assets	**3,480,333**	3,641,120	3,630,377
Liabilities			
Current Liabilities	**149,872**	46,778	40,254
Non-Current Liabilities	**31,089**	29,002	24,584
Stockholders' Equity	**3,299,371**	3,565,340	3,565,255
Earnings Per Share	**-**	-	P0.0002

(1) Plan of Operation

(A) The Company expects to be able to satisfy its working capital requirements for the next twelve (12) months. Should the Company's cash position be not sufficient to meet current requirements, the Company may consider:

Issuing subscriptions call on the balance of the Subscriptions Receivable as of December 31, 2018; collecting a portion of Accounts Receivables as of December 31, 2018; Selling a portion of its existing investments and/or assets; and or Generating cash from loans and advances.

(B) The Company continues to consider farm-in proposals from local and foreign oil companies which have offered to undertake additional exploration/development work and implement production enhancement measures at no cost to the Filipino companies in exchange for equity in the projects that they will be involved in.

(C) The Company does not expect to make any significant purchase or sale of any plant and equipment within the next twelve (12) months.

(D) The Company does not expect any significant change in the number of its employees in the next twelve (12) months.

(2) Management's Discussion and Analysis

Financial highlights for the years 2018, 2017 and 2016 are presented below:

(in thousands of pesos)	**2018**	2017	2016
Petroleum Revenues	**382,676**	388,202	358,688
Investment Income	**32,380**	15,781	14,182
Interest Income	**20,995**	19,319	19,609
Net Income (Loss)	**(261,957)**	(6,367)	29,119
Total Assets	**3,480,333**	3,641,120	3,630,093
Net Worth	**3,299,371**	3,565,340	3,565,255
Issued & Subscribed Capital	**1,918,688**	1,918,688	1,918,688

The key performance indicators of the Company are as follows:

	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2016
Current Ratio	6.13:1	22.78:1	27.58:1
Current Assets	918,114,898	1,065,607,826	1,110,144,826
Current Liabilities	149,872,054	46,778,289	40,254,223
Debt to Equity Ratio	0.05:1	0.02:1	0.02:1
Total Liabilities	180,961,421	75,780,539	64,838,163
Stockholders Equity	3,299,371,784	3,565,339,915	3,565,255,174
Equity to Debt Ratio	18.23:1	47.05:1	54.99:1
Stockholders Equity	3,299,371,784	3,565,339,915	3,565,255,174
Total Liabilities	180,961,421	75,780,539	64,838,163
Book Value per Share	0.01720	0.01858	0.01858
Stockholders Equity	3,299,371,784	3,565,339,915	3,565,255,174
Outstanding shares	191,868,805,358	191,868,805,358	191,868,805,358
Earnings (Loss) per Share	(0.0014)	(0.0000)	0.0002
Net Income (Loss)	(261,957,274)	(6,366,746)	29,119,304
Weighted Average shares outstanding	191,868,805,358	191,868,805,358	191,868,805,358

Current Ratio is 6.13:1 as of December 31, 2018; 22.78:1 as of December 31, 2017; and 27.58:1 as of December 31, 2016. As of December 31, 2018, December 31, 2017 and December 31, 2016, current assets exceeded the current liabilities by P768.2 million, P1.019 billion and P1.070 billion, respectively. However, a portion of the "Investments" account in the statements of financial position consists mainly of shares of stock which are listed with the PSE and which could be sold to meet the Company's obligations as might be called for by future circumstances. These shares of stock have an aggregate market value of P70.5 million as of December 31, 2018, P47.6 million as of December 31, 2017 and P60.3 million as of December 31, 2016. If these shares would be considered part of Current Assets, the recomputed current ratio would be 6.60:1 as of December 31, 2018; 23.80:1 as of December 31, 2017; and 29.08:1 as of December 31, 2016.

The Company has a wholly-owned subsidiary, Philodrill Power Corporation (PPC) (formerly Phoenix Gas & Oil Exploration Co., Inc.). The Company acquired 100% of PPC's capital stock in May 2007. Since PPC has NO operations, disclosure on performance indicators are as follows:

	December 31, 2018
Current Ratio	***194.4:1***
Current Assets	**8,710,208**
Current Liabilities	**44,800**
Debt to Equity Ratio	***0.0052:1***
Total Liabilities	**44,800**
Stockholders' Equity	**8,665,408**
Equity to Debt Ratio	***193.4:1***
Stockholders' Equity	**8,665,408**

Total Liabilities	**44,800**
Book Value per Share	***0.0007***
Stockholders' Equity	**8,665,408**
Average shares outstanding	**12,505,000,000**
Income per Share	***-0-***
Net Income (Loss)	**(64,000)**
Average shares outstanding	**12,505,000,000**

(i) Trends, events or uncertainties that have or are reasonably likely to have a material impact on the Company's short-term or long-term liquidity, the information required by this item is contained in Note 21 to the Company's 2018 Audited Consolidated Financial Statements.

(ii) The Company's internal source of liquidity comes from revenues generated from operations. The Company's external sources of liquidity come from stock subscriptions, loans and advances.

(iii) The Company is expected to contribute its share in the exploration and development expenditures in the SCs. However, most of the funding for such expenditures is expected to be provided by operations, collection of subscriptions and other receivables, loans/financing from banks and potential farminees to these projects.

(iv) Trends, events or uncertainties that have had or reasonably expected to have a material impact on the revenues or income from continuing operations, the information required by this item is contained in Notes 10 and 21 to the Company's 2018 Audited Consolidated Financial Statements.

(v) 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:

a) Total assets increased from P3.63 billion as of year-end 2016 to P3.64 billion as of year-end 2017. From the December 31, 2017 balance, total assets decreased by P160.8 million to its December 31, 2018 balance of P3.48 billion.

- Cash account decreased by P85.5 million from P719.9 million as of December 31, 2016 to P634.4 million as of December 31, 2017 mainly due to the payment of the Company's share in Galoc-7 drilling costs. From its December 31, 2017 balance to December 31, 2018 balance of P536.6 million, a decrease of P97.8 million was also reflected mainly due to the payment of the Company's share in the plug and abandonment costs of Libro and Tara wells.

- Receivables account increased by P24.6 million from P332.9 million as of December 31, 2016 to P357.6 million as of December 31, 2017. Receivables decreased by P61.4 million from its December 31, 2017 balance to December 31, 2018 balance of P296.1 million due to the booking of provision and loss in impairment of certain receivables.

- Crude oil inventory increased by P16.5 million from P54.7 million as of December 31, 2016 to P71.2 million for the Company's share in inventory for the SC14 Galoc, Nido, Matinloc and North Matinloc crude. From its year-end 2017 balance to year-end 2018 balance of P83.7 million, an increase of P12.5 million was reflected due to higher level of crude oil in storage.

- Other current assets decreased from its December 31, 2016 balance of P2.6 million to December 31, 2017 balance of P2.5 million. From its year-end 2017 balance to year-end 2018 balance of P1.7 million, a decrease of P0.8 million was reflected, due to lower level of prepayments as of year-end.

- Property and equipment increased by P1.3 million from its December 31, 2016 balance of P640.7 million to December 31, 2017 balance of P642.0 million. From its year-end 2017 balance to year-end 2018 balance of P489.8 million, a decrease of P152.2 million was reflected. The decrease was mainly due to the write off of exploration costs on plugged and abandoned projects in Service Contract 14 (P79.0M) and depletion expense booked for the 2018 (P88.4M).

- Investments in associates increased by P21.9 million from the year-end 2016 balance of P762.9 million to year-end 2017 balance of P784.9 million. While the year-end 2017 balance increased by P5.3 million to year-end 2018 balance of P790.1 million due the equity share in associates' earnings, adjustment in the other comprehensive income of associates net of cash dividend booked during the period. Additional information is also contained in Note 8 of the Audited Consolidated Financial Statements for 2018.

- Financial assets at Fair Value through OCI and Available-for-sale (AFS) investments decreased by P11.6 million from its year-end 2016 balance of P62.6 million to year-end 2017 balance of P51.0 million. While for year-end 2017 to year-end 2018 balance of P74.3 million, a net increase of P23.3 million was reflected due to the acquisition of additional investment amounting to P24.9 million, net of adjustment in the quoted shares carried at fair market value at end of 2018. Additional information is also contained in Note 9 of the Audited Consolidated Financial Statements for 2018.

- Deferred oil exploration costs increased by P15.2 million from its year-end 2016 balance of P1.03 billion to year-end 2017 balance of P1.04 billion. While for year-end 2017 to year-end 2018 balance of P1.06 billion, an increase of P15.0 million was also reflected. The increases were mainly due to the additional costs incurred for the various petroleum exploration projects.

- Deferred tax asset (DTA) increased from its year-end 2016 balance of P14.4 million to P28.2 million as of year-end 2017. By year-end 2018, additional P93.0M adjustment on recognized DTA mainly on net operating loss carryover was booked increasing the balance to P121.2 million.

- Other non-current assets increased by P14.9 million from its year-end 2016 to year-end 2017 balance of P26.0 million due to the additional other deferred charges booked. The year-end 2017 balance further increased by P2.4 million to year-end 2018 balance of P28.3 million.

b) Total liabilities increased from its balance of P64.8 million in 2016 to P75.8 million balance in 2017. From the December 31, 2017 balance, total liabilities increased by P105.2 million to its December 31, 2018 balance of P181.0 million.

   - Accounts payable and accrued liabilities increased by P4.4 million from its year-end 2016 balance of P8.7 million to year-end 2017 balance of P13.1 million due to the booking of additional accounts payable with partners during the period. Accrued liabilities decreased by P1.4 million from its year-end 2017 balance to P11.7 million as of December 31, 2018.

   - As of year-end 2018, the company accrued its share in the provision for the plug and abandonment costs of the remaining Nido, Matinloc and North Matinloc wells amounting to P104.9 million presented as “Current portion of provision for plug and abandonment costs” in the financial statements. Additional information is also contained in Note 12 of the Audited Consolidated Financial Statements for 2018.

   - Income tax payable as of year-end 2017 amounted to P0.3 million. From year-end 2017 balance to year-end 2018 balance of P0.04 million, a decrease of P0.3 million was reflected due to lower income tax liability accrued as of end of period.

   - Dividends payable increased from its year-end 2016 balance of P31.5 million to year-end 2017 balance of P33.3 million, the increase of P1.7 million was reflected due to additional unclaimed cash dividends. For year-end 2017 balance to year-end 2018 balance of P33.2 million, a slight decrease of P0.06 million was reflected due to payments made during the period.

   - For 2016, full provision was made for the future cost of decommissioning Galoc oilfield, the company’s estimated share in decommissioning liability amounted to P21.9 million as of December 31, 2016. From its year-end 2016 balance to 2017 year-end balance of P24.2 million, an increase of P2.2 million was reflected. For year-end 2017 balance to year-end 2018 balance of P21.1 million, adjustment of P3.0 million was also booked. The movements on the balances were adjustments on the revaluation of the liability. In relation to this decommissioning liability, a decommissioning fund equivalent to its current contribution to settle its share in the decommissioning costs of Galoc oilfield is also established and is reflected under "Property and equipment" account. Additional information is also contained in Note 12 of the Audited Consolidated Financial Statements for 2018.

- Retirement benefit liability increased by P2.2 million from its year-end 2016 balance of P2.6 million to year-end 2017 balance of P4.8 million. From its year-end 2017 balance to year-end 2018 balance of P9.9 million, an increase of P5.1 million was reflected due to the adjustment in the recognized retirement benefit liability as of end of the period.

c) Stockholders' equity slightly increased by P0.08 million from its year-end 2016 balance to year-end 2017 balance of P3.56 billion. While for year-end 2017 to year-end 2018, the stockholders' equity decreased by P266.0 million.

- Issued capital stock balance remained at P1.568 billion for the years-ended 2016, 2017 and 2018.

- Subscribed capital stock and subscriptions receivable balances also remained at P350.7 million for the years-ended 2016, 2017 and 2018.

- The unrealized loss on the decline in value of AFS financial assets and financial assets at fair value through other comprehensive income increased by 14.0 million from year-end 2016 balance of P16.3 million to year-end 2017 balance of P30.3 million. While from its year-end 2017 balance to year-end 2018 balance of P31.9 million, a decrease of P1.7 million was reflected due to the additional adjustment in the valuation allowance. Additional information is also contained in Note 9 of the Audited Consolidated Financial Statements for 2018.

- Retained Earnings from year-end 2016 balance of P1.82 billion to year-end 2017 balance of P1.81 billion, reflected a net decrease of P5.4 million was due to the net loss booked (P6.4 million) and remeasurement of retirement obligation (P1.0 million) during the period. While for year-end 2017 to year-end 2018 balance of P1.6 billion, the decrease of P261.9 million was due to the net loss booked for the period.

d) Petroleum revenues in 2018 totaled P382.7 million as compared to P388.2 million in 2017 and P358.7 million in 2016. For the year 2018, the decrease in revenues was mainly brought about by the decrease in production volume. Production decreased by 20% from its 2017 level of 1.56 million barrels to 1.25 million barrels in 2018. Combined average prices for 2018 and 2017 were US$70.98 and US$57.34, respectively. For 2016, total production volume was 1.98 million barrels and average price per barrel was US$45.68.

Equity in net earnings of associates amounted to P32.4 million in 2018 and P15.8 million in 2017. The net increase of P16.6 million from year-end 2017 to year-end 2018 balance was due to higher level of income of PCIC, offset by equity share in ACMDC's loss. For 2016, equity in net earnings of associates amounted to P14.2 million.

Interest income totaled to P21.0 million in 2018, P19.3 million in 2017 and P19.6 million in 2016.

Foreign exchange gains amounted to P22.5 million in 2018, P2.6 million for 2017 and P35.5 million for 2016.

e) Total costs and expenses totaled to P811.0 million in 2018, P444.3 million in 2017 and P406.0 million in 2016.

For 2018, loss on write off of exploration costs of plugged and abandoned projects under SC14, receivables and investment were booked totaling to P128.2 million. Provision for expected credit loss amounting to P20.9 million was also booked for the period.

Share in production and plug and abandonment costs totaled to P490.4 million in 2018, P291.2 million in 2017 and P250.1 million in 2016. For 2018, the P200M increase in these costs was mainly due to the plug and abandonment costs incurred for the Libro and Tara wells and the remaining nine (9) wells at the Nido, Matinloc and North Matinloc fields. Additional information is also contained in Note 12 of the Audited Consolidated Financial Statements for 2017.

Depletion costs amounted to P88.4 million in 2018, P89.8 million in 2017 and P105.1 million in 2016.

General and administrative expenses totaled to P82.0 million in 2018, P59.7 million in 2017 and P50.6 million in 2016.

Current provision for income taxes amounted to P2.1 million in 2018, P2.3 million in 2017 and P1.6 million for 2016. Recognition of deferred tax asset resulted to benefit from income tax amounting to P92.6 million in 2018 and P14.3 million in 2017 and P8.8 million in 2016.

(vi) There have been NO seasonal aspects that had material effect on the financial condition or results of operations of the Company.

(vii) 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.

(viii) 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.

(3) Interim Periods

No interim financial statements are included in this report.

Item 7. Financial Statements

The 2018 Audited Consolidated Financial Statements of the Company is incorporated herein by reference. The schedules listed in the accompanying Index to Supplementary Schedules are filed as part of this Form 17-A.

Item 8. Information on Independent Accountant and other Related Matters

Information on Independent Accountant. The accounting firm of SyCip Gorres Velayo & Company (SGV) with address at 6760 Ayala Avenue, Makati City was appointed as the external auditor of the Company in the 2016, 2017 and 2018 annual stockholders' meetings.

External Audit Fees and Services. The fees of the external auditor in the past three (3) years are as follows:

Year	Audit & Audit Related Fees	Tax Fees	Other Fees
2018	**P1,260,000**	**-0-**	**-0-**
2017	P1,030,000	-0-	-0-
2016	P995,000	-0-	-0-

For the past three (3) years, the Company has engaged the services of SGV for the audit of the annual consolidated financial statements in connection with statutory and regulatory filings for years 2018, 2017 and 2016. The amounts under the caption "Audit and Audit Related Fees" for the years 2018, 2017 and 2016 pertain to these services.

The Audit Committee has an existing policy, which prohibits the Company from engaging the independent accountant to provide services that may adversely impact their independence, including those expressly prohibited by SEC regulations.

Changes in and Disagreements with Accountants on Accounting and Financial Disclosure. There have been NO changes in and disagreements with accountants on any matter of accounting principles or practices, financial statement disclosures, or auditing scope or procedure.

The Company did NOT engage any new independent accountant, as either principal accountant to audit the Company's consolidated financial statements or as an independent accountant on whom the principal accountant has expressed or is expected to express reliance in its report regarding a significant subsidiary, during the two (2) most recent fiscal years or any subsequent interim period.

NO independent accountant engaged by the Company as principal accountant, or an independent accountant on whom the principal accountant has expressed or is expected to express reliance on its report regarding a significant subsidiary, has resigned, or has declined to stand for re-election after completion of the current audit, or was dismissed.

The Audit Committee reviews and recommends to the Board and stockholders the appointment of the external auditor and the fixing of the audit fees for the Company. For year 2019, SGV will be recommended for appointment as external auditors during the stockholders' meeting.

PART III - CONTROL AND COMPENSATION INFORMATION

Item 9. Directors and Executive Officers of the Registrant

(a) Directors, Executive Officers Promoters and Control Persons

(1) Identify Directors and Executive Officers

(A) Names and Ages of all Directors and Executive Officers

Name	Age	Citizenship	Position	Period of Service	
				From	To
Alfredo C. Ramos	75	Filipino	Chairman of the Board	Dec 2, 1992	Present
			President	Apr 24, 1989	Mar 31, 2014
				Jan 1, 2017	Present
Presentacion S. Ramos	77	Filipino	Director	May 28, 1997	Present
Christopher M. Gotanco	69	Filipino	Director	Aug 17, 2005	Present
Adrian S. Ramos	40	Filipino	Director	Jan 18, 2006	Present
Gerard Anton S. Ramos	44	Filipino	Director	Dec 16, 2015	Present
Alexandra Ramos-Padilla	46	Filipino	Director	Jun 19, 2013	Present
Honorio A. Poblador III	72	Filipino	Independent Director	Feb 26, 2003	Present
Nicasio I. Alcantara	76	Filipino	Independent Director	Feb 26, 2003	Present
Reynaldo E. Nazarea	67	Filipino	Director	Jun 21, 2017	Present
			Treasurer	May 1, 2005	Present
			VP Administration	May 1, 1992	Present
Alessandro O. Sales	60	Filipino	VP Exploration & Production	Mar 11, 2008	Present
Isabelita L. Matela	64	Filipino	AVP Finance	Oct 1, 2009	Present
Dennis V. Panganiban	56	Filipino	AVP Exploration & Production	Sep 1, 2011	Present
Adrian S. Arias	55	Filipino	Corporate Secretary	Dec 2, 1992	Present

The Company's Independent Directors are Messrs. Honorio A. Poblador III and Nicasio I. Alcantara.

(B) Positions and offices that each person named above held with the Company

Mr. Alfredo C. Ramos has been the Chairman of the Board of the Company since December 2, 1992. He also served as President of the Company from April 24, 1989 until March 31, 2014. On January 1, 2017, he was re-elected President of the Company.

Ms. Presentacion S. Ramos has been a Director since May 28, 1997.

Mr. Christopher M. Gotanco was elected Director on August 17, 2005.

Mr. Adrian S. Ramos was elected Director on January 18, 2006.

Mr. Gerard Anton S. Ramos was elected Director on December 16, 2015.

Ms. Maureen Alexandra Ramos-Padilla was elected Director on June 19, 2013.

Mr. Nicasio I. Alcantara has been a Director of the Company since 1991 and was elected Independent Director on February 26, 2003. Mr. Alcantara has all the qualifications and none of the disqualifications as an Independent Director since his election in 2003.

Mr. Honorio A. Poblador III has been a Director of the Company since 1992 and was elected Independent Director on February 26, 2003. Mr. Poblador possesses all the qualifications and none of the disqualifications as Independent Director since his election in 2003.

Mr. Reynaldo E. Nazarea was appointed Vice President for Finance in 1987. He concurrently serves as Vice President for Administration since 1992, and as Company Treasurer since May 1, 2005. On June 21, 2017, he was elected as Director of the Company.

Mr. Alessandro O. Sales became the Vice President for Exploration on May 15, 2005, then subsequently Vice President for Exploration and Production beginning March 11, 2008.

Ms. Isabelita L. Matela was appointed Asst. Vice President for Finance on October 1, 2009. She was previously Finance Manager of the Company for 23 years prior to her assumption as AVP.

Mr. Dennis V. Panganiban was appointed Asst. Vice President for Exploration and Production on September 1, 2011.

Atty. Adrian S. Arias has been the Company's Corporate Secretary since December 2, 1992.

(C) Term of Office as Director and Period of Service

The Directors of the Company are elected at the Annual Stockholders' meeting to hold office until the next succeeding annual meeting and until their respective successors have been elected and qualified. Officers are appointed or elected annually by the Board of Directors during its organizational meeting following the Annual Meeting of Stockholders, each to hold office until the corresponding meeting of the Board of Directors in the next year or until a successor shall have been elected, appointed or shall have qualified, in accordance with the Company's By Laws.

(D) Business experience of directors/officers during the past five (5) years

MR. ALFREDO C. RAMOS has been the Chairman of the Board since December 1992. He was President and Chief Executive Officer of **The Philodrill Corporation** from April 24, 1989 to March 31, 2014. On January 1, 2017, he was re-elected President of the Company. Mr. Alfredo C. Ramos concurrently serves as Chairman of the Board of Anglo Philippine Holdings Corporation;

Chairman of Atlas Consolidated Mining & Development Corporation, Vulcan Industrial & Mining Corporation and United Paragon Mining Corporation.

Mr. Ramos maintains business interests in companies involved in printing, publication, sale and distribution of books, magazines and other printed media since 1962 (*Anvil Publishing, Inc., National Bookstore, Inc., NBS Express, Inc., Power Books, Inc., Abacus Book and Card Corporation*), mining since 1988 (*Berong Nickel Corporation and Carmen Copper Corporation.*), property development since 1991 *(Shang Properties, Inc.)* and transportation since 1996 *(MRT Development Corp., MRT Holdings Corporation*) among others.

PRESENTACION S. RAMOS is a Member of the Board of **The Philodrill Corporation** since May 1997. Mrs. Ramos also serves as Chairman & President of Alakor Securities Corporation and sits in the Board of Anglo Philippine Holdings Corporation (1984 to date), United Paragon Mining Corporation (1993 to date), Vulcan Industrial & Mining Corporation (1993 to date) and Philippine Red Cross. Mrs. Ramos also serves as Executive Officer of Peakpres Corporation, Abacus Book & Card Corp., National Book Store, Inc., NBS Express, Inc., Power Books, Inc., Zenith Holdings Corporation and Alakor Corporation.

GERARD ANTON S. RAMOS joined **The Philodrill Corporation** in December 2015. He is a member of the Board of Atlas Consolidated Mining & Development Corporation and Carmen Copper Corporation. He serves as Executive Vice President for Investments at Anglo Philippine Holdings Corp.; Vice President at Alakor Corporation and President of United Paragon Mining Corp.; Vice President & Corp. Secretary of National Bookstore, Inc.

ADRIAN PAULINO S. RAMOS. Apart from being a member of the Board of The Philodrill Corporation, Mr. Adrian Ramos holds key position in several listed companies: President & COO of Anglo Philippine Holdings Corporation; President of Atlas Consolidated Mining & Development Corp.; Treasurer & Director of Vulcan Industrial & Mining Corporation and United Paragon Mining Corporation. He is also the current Vice President of Alakor Corporation, Vice President and CFO of National Book Store, Inc. He also serves as Corporate Secretary and Director at Alakor Securities Corporation.

MAUREEN ALEXANDRA RAMOS-PADILLA joined the company as Director in June, 2013. She also serves as Director of Anglo Philippine Holdings Corporation and Zenith Holdings Corporation. Her other business affiliations include, Managing Director of National Book Store, Inc. and President of Anvil Publishing Corp.

CHRISTOPHER M. GOTANCO is a Director of The Philodrill Corporation from 2006 to date. He is currently a Senior Advisor and member of the Board of Directors of Anglo Philippine Holdings Corporation.

Mr. Gotanco's current affiliations include: Vulcan Materials Corporation (Vice Chairman & Director from 2012 to date), Bataan Aggregates Corporation (Director from April 2017 to date), MRT Holdings, Inc. (Director from 1995 to date), MRT Development Corporation (Director from 1995 to date), North Triangle Development Corp. (Director from 2004-2014), Vulcan Industrial and Mining Corporation (Director from 1989 to date), (Vice Chairman & COO from 2012 to date) United Paragon and Mining Corporation (Director from 2006 to date), Penta Capital Investment Corporation (Vice Chairman from 2007 to date), Penta Capital Finance Corporation (Chairman from 2007 to date), and Boulevard Holdings, Inc (Director from 2007 to date).

REYNALDO E. NAZAREA joined the Company as Vice President for Finance in 1987. He was appointed Treasurer in 2005, and has concurrently been serving as Vice President for Administration since 1992. Before joining the Company, Mr. Nazarea practiced public accounting under Sycip, Gorres, Velayo & Co. and held accounting, finance, controllership and administrative positions in Vulcan Industrial & Mining Corporation and Semirara Coal Corporation (now Semirara Mining Corporation). Mr. Nazarea also serves in the Board of Anglo Philippine Holdings Corporation, PentaCapital Investment Corporation, PentaCapital Finance Corporation, PentaCapital Holdings, Inc.

NICASIO I. ALCANTARA has been an Independent Director of the Company since 2003. For the past five years, he has been serving the Board of these corporations - Seafront Resources Corp., Alsons Insurance Brokers Corp., Alsons Aquaculture Corp., Alsons Corporation, Alsons Dev't. & Investment Corp., Alsons Land Corporation, Alsons Power Holdings Corporation, Lima Land Corporation, C. Alcantara & Sons, Inc., BDO Private Bank, Site Group International Ltd., Indophil Resources NL, Alsing Power Holdings, Inc., Southern Philippines Power Corp, Western Mindanao Power Corporation, and Conal Holdings Corporation, Conal Corporation, among others.

HONORIO A. POBLADOR III served as Independent Director of the company since 2003. He is currently Chairman of Elnor Investment Corporation, Pneumatic Air Corporation, F&C Realty, Asuncion Agro-Realty Corporation and President of ASMACO Inc. Mr. Poblador holds several Directorships among them, PobCor Inc. and Alsons Consolidated Resources.

ALESSANDRO O. SALES is the Company's Vice President for Exploration since 2005. He is responsible for implementing Philodrill's oil exploration and development programs for the past thirteen (13) years. He previously served as Asst. Vice President of the Company in 1997.

ISABELITA L. MATELA was appointed Asst. Vice President for Finance on October 1, 2009. She served the Company as Finance & Administration Manager for 23 years prior to her assumption as AVP.

DENNIS V. PANGANIBAN was appointed Asst. Vice President for Exploration and Production on September 1, 2011. Prior to joining Philodrill, he held a Managerial position in NorAsian Energy Ltd., as Joint Venture and Asset Manager for several years.

ATTY. ADRIAN S. ARIAS is the Company's Corporate Secretary. He has been in active corporate law practice for twenty-seven (27) years and serves as a director of companies involved in investments holding (Anglo Philippine Holdings Corp.), financial services (Penta Capital Finance Corporation and Penta Capital Investment Corp.), retail (Vulcan Industrial & Mining Corp.), and distribution support services (QFI-Central Integrated Services, Inc.).

(E) Directors with directorship(s) held in reporting companies

Alfredo C. Ramos	Anglo Philippine Holdings Corporation
	Atlas Consolidated Mining & Dev't. Corp.
	Shang Properties, Inc.
	United Paragon Mining Corporation
	Vulcan Industrial & Mining Corporation
Presentacion S. Ramos	Anglo Philippine Holdings Corporation
	United Paragon Mining Corporation
	Vulcan Industrial & Mining Corporation
Christopher M. Gotanco	Anglo Philippine Holdings Corporation
	Boulevard Holdings, Inc.
	United Paragon Mining Corporation
	Vulcan Industrial & Mining Corporation
Adrian S. Ramos	Anglo Philippine Holdings Corporation
	Atlas Consolidated Mining & Dev't. Corp.
	United Paragon Mining Corporation
	Vulcan Industrial & Mining Corporation
Maureen Alexandra Ramos-Padilla	Anglo Philippine Holdings Corporation
Gerard Anton S. Ramos	Anglo Philippine Holdings Corporation
	Atlas Consolidated Mining & Dev't. Corp.
	United Paragon Mining Corporation
Nicasio I. Alcantara	Seafront Resources Corporation
Honorio A. Poblador III	Alsons Consolidated Resources
Reynaldo E. Nazarea	Anglo Philippine Holdings Corporation

(2) Significant Employees

Other than its executive officers, the Company has not engaged the services of any person who is expected to make significant contribution to the business of the Company.

(3) Family Relationships

Mr. Alfredo C. Ramos, President and Chairman of the Board, is the husband of Ms. Presentacion S. Ramos, Director. Mr. Gerard Anton S. Ramos, Mr. Adrian S. Ramos, and Ms. Maureen Alexandra Ramos-Padilla, all Directors, are siblings, sons and daughter of Mr. Alfredo C. Ramos and Ms. Presentacion S. Ramos.

(4) Involvement in Certain Legal Proceedings

On 22 January 2018, Mr. Navarro filed three (3) separate Petitions for Review with the Department of Justice (DOJ) of the three (3) resolutions dismissing the following cases:

- Violation of Article 183 of the Revised Penal Code/Perjury Case against Mr. Nazarea and Ms. Matela.
- Violation of Article 183 of the Revised Penal Code/Perjury Case against Mr. Nazarea and Ms. Laurente.
- Violation of Sec. 28 in relation to Sec. 144 of the Corporation Code/Corporation Code Case against Mr. Nazarea, Mr. Alfredo C. Ramos, Ms. Presentacion S. Ramos, Mr. Gerard Anton S. Ramos, Mr. Christopher M. Gotanco, Mr. Maureen Alexandra R. Padilla, and Atty. Arias.

On 19 February 2018, all the respondents in the foregoing cases filed their respective Comment/Opposition to the 3 Petitions for Review. The matter remains pending with the DOJ.

Other than the foregoing case, the company is not aware of:

(1) any bankruptcy petition filed by or against any business of which a director, person nominated to become a director, executive officer, promoter, or control person of the Company was a general partner or executive officer either at the time of the bankruptcy or within two (2) years prior that time;

(2) any conviction by final judgment in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign excluding traffic violations and other minor offenses of any director, person nominated to become a director, executive officer, promoter, or control person of the Company;

(3) any order, judgment or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily, or being subject to a pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses of any director, executive officer, promoter or control person; and

(4) judgment against a director, person nominated to become a director, executive officer, promoter, or control person of the Company found by a domestic or foreign court of competent jurisdiction (in a civil action), the Philippine SEC or comparable foreign body, or a domestic or foreign exchange or electronic marketplace or self-regulatory organization, to have violated a securities or commodities law, and the judgment has not been reversed, suspended or vacated.

Item 10. Executive Compensation

(1) Summary Compensation Table

Information as to aggregate compensation paid or accrued during the last two (2) years and to be paid in the ensuing year to the Company's Chief Executive Officer and four other most highly compensated officers as follows:

Name	Position *(as of Dec 31, 2018)*	Year	Salary	Bonus	Other annual Compensation
Alfredo C. Ramos Reynaldo E. Nazarea Alessandro O. Sales Isabelita L. Matela Dennis V. Panganiban	Chairman & President Treasurer & VP-Admin VP-Exploration& Production AVP-Finance AVP-Exploration&Production				
		2017	15,759,105	-0-	1,678,157
		2018	15,568,547	-0-	-0-
		2019 (estimate)	16,346,975	-0-	-0-
All Officers and directors as a group unnamed					
		2017	21,470,168	-0-	3,386,012
		2018	21,353,133	-0-	650,000
		2019 (estimate)	22,420,790	-0-	650,000

(2) Compensation of Directors

(A) Standard Arrangement

For the most recently completed year, directors received a per diem of P10,000 per month to defray their expenses in attending board meetings, which will continue to be received in the ensuing year. There are no other arrangements for compensation of directors, as such, during the last year and for the ensuing year.

(B) Other Arrangements

Except for the entitlement to receive bonuses as determined by the management and to receive additional remuneration under the provisions of the Company's Stock Appreciation Rights Plan, there are no other arrangements for compensation of directors, as such, during the last year and ensuing year.

(3) Employment Contracts and Termination of Employment and Change-in-Control

The Company maintains standard employment contracts with Messrs. Alfredo C. Ramos, Reynaldo E. Nazarea, Alessandro O. Sales, Ms. Isabelita L. Matela and Dennis V. Panganiban, all of which provide for their respective compensation and benefits, including entitlement to health benefits, representation expenses and company car plan.

Other than what is provided under applicable labor laws, there are no compensatory plans or arrangements with executive officers entitling them to receive more than ₱2,500,000.00 as a result of their resignation, or any other termination of employment, or from change in control of the Company.

The Company maintains a retirement plan pursuant to which an eligible employee will receive an amount equal to a percentage of his final monthly salary for every year of credited service. Based on the policy, the retirement pay of some officers of the Company may exceed ₱2,500,000.00.

Certain employees, including directors of the Company, receive stock appreciation right, further details of which are given in Note 11 to the Company's 2018 Audited Consolidated Financial Statements.

There are no warrants or options outstanding in favor of directors and officers of the Company.

Item 11. Security Ownership of Certain Beneficial Owners and Management

(1) Security Ownership of Certain Record and Beneficial Owners

As of December 31, 2018 the Company is not aware of anyone who beneficially owns more than 5% of the Company's common stock, except as set forth in the table below:

Class	Name/Address of Record Owner	Relationship With Issuer	Name of Beneficial Owner	Citizenship	No of Shares Held	Percentage Ownership
Common	PCD Nominee Corporation 37/F Tower 1 Enterprise Center 6766 Ayala Ave, Makati	Stockholder	Various clients (Notes A, B and C)	Filipino	74,674,270,869	38.919%
Common	National Book Store, Inc. 4/F Quad Alpha Centrum 125 Pioneer, Mandaluyong	Stockholder	National Book Store Inc	Filipino	16,735,965,802	8.723%
Common	Alakor Corporation 9/F Quad Alpha Centrum 125 Pioneer, Mandaluyong	Stockholder	Alakor Corporation	Filipino	16,735,965,801	8.723%
Common	Alakor Securities Corporation 5/F Quad Alpha Centrum 125 Pioneer, Mandaluyong	Stockholder	Anglo Philippine Holdings Corp./Alakor Corporation/National Bookstore, Inc.	Filipino	30,770,793,010	16.037%
Common	BDO Securities Corporation 27th Floor, Tower 1 & Exchange Plaza, Ayala Ave., Makati City	Stockholder	Anglo Philippine Holdings Corp.	Filipino	36,462,800,000	19.004%
Common	Anglo Philippine Holdings Corp. 6/F Quad Alpha Centrum 125 Pioneer, Mandaluyong	Stockholder	Anglo Philippine Holdings Corp.	Filipino	536,170,330	0.279%

<u>Note A</u>: The number of shares held by PCD Nominee Corporation (PCD) is net of the 101,132,758,679 shares held by National Book Store Inc (NBS), Alakor Corporation (AC) and Anglo Philippine Holdings Corp. (Anglo).

<u>Note B</u>: Of the 74,674,270,869 shares held by PCD, 73,506,579,342 shares have been fully paid and issued, while 1,167,691,527 are subscribed. The 16,735,865,802 shares held by NBS and the 16,735,965,801 shares held by

AC are all subscribed. Of the 65,840,287,728 shares held (directly and indirectly) by Anglo, 65,413,053,662 shares have been fully paid and issued, while 427,234,066 shares are subscribed.

Note C: The shares registered in the name of PCD are beneficially owned by its clients. Thus, PCD does not vote the number of shares registered in its name; instead, PCD issues a general proxy constituting and appointing each of its participants as PCD's proxy to vote for the number of shares owned by such participant in PCD's books as of Record Date. The proxies of NBS, AC and Anglo are appointed by their respective Boards of Directors and the Company becomes aware of such proxies only when the appointments are received by the Company. Mr. Alfredo C. Ramos has been appointed proxy for NBS, Anglo and AC. Mr. Ramos has direct/indirect interest/shareholdings in NBS, AC and Anglo.

(2) Security Ownership of Management

The Company's directors (D), Chief Executive Officer (CEO), and four (4) most highly compensated executive officers (O) own the following number of voting shares as of December 31, 2018:

Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership		Citizenship	Percent of Class
		Direct	Indirect		
Common	Alfredo C. Ramos (D,O)	P50,110	P1,000,795	Filipino	0.055%
Common	Nicasio I. Alcantara (D)	10,000	3,622,000	Filipino	0.189
Common	Honorio A. Poblador III (D)	299,000	0	Filipino	0.016
Common	Presentacion S. Ramos (D)	1,250	770,000	Filipino	0.040
Common	Christopher M. Gotanco (D)	48,600	2,454,634	Filipino	0.130
Common	Gerard Anton S. Ramos (D)	1,000	0	Filipino	<0.000
Common	Adrian S. Ramos (D)	12,500	333,231	Filipino	0.018
Common	Alexandra R. Padilla (D)	100	800	Filipino	<0.000
Common	Reynaldo E. Nazarea (D,O)	1,000	860,563	Filipino	0.045
Common	Alessandro O. Sales (O)	0	0	Filipino	0
Common	Isabelita L. Matela (O)	2,731	6,058	Filipino	<0.000
Common	Dennis V. Panganiban (O)	0	10,000	Filipino	<0.000

As of December 31, 2018, the aggregate number of shares owned by the Company's directors, Chief Executive Officer and four (4) most highly compensated executive officers, as a group, is 948,437,237 shares, or approximately 0.4943% of the Company's outstanding capital stock.

(3) Voting Trust Holders of 5% or More

To the extent known to the Company, there is NO PERSON holding more than 5% of any class of the Company's securities under a voting trust or similar agreement.

(4) Changes in Control

To the extent known to the Company, there are no arrangements, which may result in a change in control of the Company.

Item 12. Certain Relationships and Related Transactions

Related Party Transactions. There had been NO transaction during the last two (2) years to which the Company was or is to be a party in which any director or executive officer of the Company, or nominee for election as director, or owner of more than 10% of the Company's voting stock, or voting trust holder of 10% or more of the Company's shares, or any member of the immediate family (including spouse, parents, siblings, and in-laws) of any of these persons, had or is to have a direct or indirect material interest.

In the ordinary and regular course of business, the Company had transactions with related parties (i.e. companies with shareholders common with the Company) during the last two (2) years consisting principally of advances to related parties. The identities of these related parties, including the amounts and details of the transactions are disclosed in Note 15 to the Company's 2018 Audited Consolidated Financial Statements, a copy of which is included in this Annual Report.

(a) Business purpose of the arrangement. The business purpose of related party transaction is to address immediate working capital requirements of related parties (in case of advances to related parties).

(b) Identification of the related parties' transaction business with the registrant and nature of the relationship. See Note 16 to the Company's 2018 Audited Consolidated Financial Statements.

(c) How transaction prices were determined by parties. All transactions with related parties are based on prevailing market/commercial rates at the time of the transaction.

(d) If disclosures represent that transactions have been evaluated for fairness, a description of how the evaluation was made. There are NO disclosures representing that the transactions with related parties have been evaluated for fairness inasmuch as the bases of all transactions with related parties were the prevailing market/commercial rates at the time of the transaction, or a valuation study conducted by a third party consultant over which neither the Company nor the related parties have control or influence whatsoever.

(e) Any on-going contractual or other commitments as a result of the arrangement. NONE, other than the repayment of money lent or advanced.

(f) There were NO transactions with parties that fall outside the definition of "related parties" under SFAS/IAS No. 24. Neither were there any transactions with persons with whom the Company or its related parties have a relationship that enabled the parties to negotiate terms of material transaction that may not be available from other, more clearly independent parties on an arms' length basis.

PART IV – CORPORATE GOVERNANCE

(a) The Company uses the evaluation system established by the SEC in its Memorandum Circular No. 5 series of 2003, including the accompanying Corporate Governance Self Rating Form (CG-SRF) to measure or determine the level of compliance of the Board of Directors and top-level management with the Company's Corporate Governance Manual.

(b) The Company undertakes a self-evaluation process regularly in accordance with its Revised Manual on Corporate Governance (May 2017) and any deviation from the Company's corporate Governance Manual is reported to the Management and the Board together with the proposed measures to achieve compliance.

(c) The Company is in full compliance with global best practices on good corporate governance, applicable to it, as embodied in its Revised Manual on Corporate Governance (May 2017).

1. The Company has adopted a Code of Conduct for the Board and its employees, and is being assessed regularly to cope with the dynamics of the business. The Company has existing policies and procedures that can identify and resolve potential conflicts of interest.

2. Employees and officers undergo professional development programs subject to meeting the criteria set by the Company. The Corporate Governance & Nominations Committee (CG&NC) is engaged, together with the Management Committee, in the Succession Planning of the Executive officers, including the President. In the latter case, the CG&NC coordinates closely with the Chairman any and all activities involved in planning for the President's succession.

(d) The Company shall adopt improvement measures on its corporate governance as the exigencies of its business will require from time to time.

PART V - EXHIBITS AND SCHEDULES

Item 13. Exhibits and Reports on SEC Form 17-C

(a) Exhibits - see Index to Financial Statements and Supplementary Schedules
(b) Reports on SEC Form 17-C – see List

THE PHILODRILL CORPORATION
LIST OF ITEMS REPORTED UNDER SEC FORM 17C

Date of Report	Description
January 8, 2018	Dismissal of the complaint for False Testimony in Other Cases and Perjury in Solemn Affirmation filed by Mr. Francisco A. Navarro.
January 8, 2018	Dismissal of the complaint filed by Mr. Francisco A. Navarro for violation of Section 28 in relation to Section 144 of Batas Pambansa Bilang 68 (Corporation Code of the Phils.).
January 8, 2018	Dismissal of the complaint filed by the Company against Francisco A. Navarro for attempted estafa.
January 25, 2018	Setting the schedule of the Company's Annual Stockholders' Meeting to June 27, 2018 at The Legend Villas.
February 2, 2018	NLRC decision on the Appeal filed by Mr. Navarro, ordering respondent The Philodrill Corp. to pay Mr. Francisco A. Navarro special retirement pay in the amount of P17,839,000.00.
February 8, 2018	Philodrill filed a Motion for Reconsideration on the decision of the NLRC.
February 19, 2018	Mr. Francisco A. Navarro filed a Petition for Review with the DOJ seeking reversal of the dismissal of his complaint for False Testimony in Other Cases and Perjury in Solemn Affirmation.
February 19, 2018	Mr. Francisco A. Navarro filed a Petition for Review with the DOJ seeking reversal of the dismissal of his complaint for violation of Section 28 in relation to Section 144 of Batas Pambansa Blg. 68 (Corporation Code of the Phils.).
March 9, 2018	Submission of DOE's Certification on the company's existing petroleum service contracts including that of Philodrill Power Corporation.
March 22, 2018	Approval of the Company's 2017 Audited Financial Statements.
March 23, 2018	List of Stockholders as of Record Date, March 21, 2018.
April 10, 2018	Receipt of the Resolution denying the Motion for Reconsideration in relation to the case of attempted estafa filed against Mr. Francisco A. Navarro.
April 17, 2018	Disclosure on the updated Audited Financial Statements for December 31, 2017 – report on net loss
May 10, 2018	Resolution of the NLRC (Fourth Division) in LAC No. 10-003221-17 denying the Motion for Partial Reconsideration filed by Mr. Navarro and Motion for

	Reconsideration filed by Philodrill. The NLRC decision dated December 28, 2017 is upheld.
May 24, 2018	Board approval of Corporate Governance Policies and Charter.
June 22, 2018	Entry of Judgment in NLRC LAC No. 10-003221-17
June 28, 2018	Result of the 2018 Annual Stockholders' Meeting and election of Board of Directors.
June 25, 2018	Receipt of Resolution issued by the Court of Appeals ordering Mr. Navarro to show cause why a TRO and/or Writ of Preliminary Injunction should not be granted.
July 12, 2018	Writ of Execution issued by the NLRC for the recovery of the complainant's monetary award in the amount of P17,839,000 plus execution fee of P177,890 and deposit fee of P89,215.
July 12, 2018	Philodrill filed a Motion to Quash Writ of Execution, with alternative prayer to set another pre-execution conference. Philodrill seeks reconsideration of the issuance of a Writ of Execution dated July 6, 2018 since there was a change in the situation of parties making execution inequitable or unjust.
August 30, 2018	Received the Decision of the Court of Appeals dismissing the complaint for money claims filed by Mr. Navarro for lack of jurisdiction and for lack of merit. As such, the December 28, 2017 NLRC decision and April 26, 2018 Resolution are reversed and set aside.
October 11, 2018	Comment/Opposition was filed on behalf of the company, pursuant to the Court of Appeals Resolution directing the Philodrill to comment on the Motion for Reconsideration (of the Decision dated August 10, 2018) filed by Mr. Navarro.
December 20, 2018	Extension of Subscription Call on the Company's 2009 SRO at any time on or before December 31, 2019.

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Mandaluyong on April __, 2019.

By:

ALFREDO C. RAMOS
Principal Executive Officer/
Principal Operating Officer

REYNALDO E. NAZAREA
Principal Financial Officer/
Comptroller

ADRIAN S. ARIAS
Corporate Secretary

ISABELITA L. MATELA
Principal Accounting Officer

APR 12 2019 MANDALUYONG CITY

SUBSCRIBED AND SWORN to before me this _____ day of April 2019 affiants exhibiting to me their Passport, as follows:

NAMES	Passport no.	DATE OF ISSUE	PLACE OF ISSUE
ALFREDO C. RAMOS	EC8370209	07-21-16	DFA NCR East
REYNALDO E. NAZAREA	EC5102755	08-27-15	DFA NCR East
ADRIAN S. ARIAS	P9176511A	10-16-18	DFA NCR East
ISABELITA L. MATELA	P4783651A	10-21-17	DFA NCR South

IRIS MARIE U. CARPIO
NOTARY PUBLIC
ROLL NO. 51028
MANDALUYONG CITY METRO MANILA

DOC. NO. 091;
PAGE NO. 20;
BOOK NO. IV;
SERIES OF 2019

Notary Public

ATTY. IRIS MARIE U. CARPIO
NOTARY PUBLIC – CITY OF MANDALUYONG
APPT. NO. 0374-18 / UNTIL DECEMBER 31, 2019
QUAD ALPHA CENTRUM, 125 PIONEER STREET
MANDALUYONG CITY 1550
PTR NO. 3833035/ MANDALUYONG CITY / 01-08-19
IBP NO. 061291 / 01-07-19 / QC CHAPTER
MCLE COMPLIANCE NO. IV-0014403 / 04-14-2019
ROLL NO. 51028 (2005)

THE PHILODRILL CORPORATION
INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES
FORM 17-A, Item 7

THE PHILODRILL CORPORATION
QUAD ALPHA CENTRUM, 125 PIONEER, MANDALUYONG CITY, PHILIPPINES
TEL. NOS. 631-1801 TO 05 ; 631-8151/52 ; FAX: (632) 631-8080 , (632) 631-5310

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of The Philodrill Corporation and Subsidiary is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, for the years ended December 31, 2018 and 2017, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

The Board of Directors reviews and approves the financial statements including the schedules attached therein, and submits the same to the stockholders or members.

SyCip, Gorres, Velayo& Co., the independent auditor appointed by the stockholders, has audited the financial statements of the company in accordance with Philippine Standards on Auditing, and in its report to the stockholders or members, has expressed its opinion on the fairness of presentation upon completion of such audit.

Alfredo C. Ramos
Chairman of the Board and Chief Executive Officer/President

Reynaldo E. Nazarea
Chief Financial Officer

Signed this 20th day of March 2019

SUBSCRIBED AND SWORN to before me this APR 03 2019 MANDALUYONG CITY day of April 2019 affiants exhibiting to me their Passports, as follows:

NAMES	PASSPORT NO.	DATE OF ISSUE	PLACE OF ISSUE
ALFREDO C. RAMOS	EC8370209	July 21, 2016	DFA-NCR East
REYNALDO E. NAZAREA	EB5102755	August 27, 2015	DFA-NCR East

Doc. No. 053
Page No. 12
Book No. IV
Series of 2019.

ATTY. IRIS MARIE U. CARPIO
NOTARY PUBLIC – CITY OF MANDALUYONG
APPT. NO. [illegible] / UNTIL DECEMBER 31, 2019
QUAD ALPHA CENTRUM, 125 PIONEER STREET
MANDALUYONG CITY 1550
PTR NO. [illegible] MANDALUYONG CITY / 01-08-19
IBP NO. [illegible] / 01-07-19 / QC CHAPTER
MCLE COMPLIANCE NO. IV-[illegible]14403 / 04-14-2019
ROLL NO. 51028 (2005)

C O V E R   S H E E T
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

3 8 6 8 3

C O M P A N Y   N A M E

THE PHILODRILL CORPORATION AND SUBSIDIARY

PRINCIPAL OFFICE *(No. / Street / Barangay / City / Town / Province)*

8th Floor, Quad Alpha Centrum, 125 Pioneer St., Mandaluyong City

Form Type	Department requiring the report	Secondary License Type, If Applicable
AACFS	CRMD	N/A

C O M P A N Y   I N F O R M A T I O N

Company's Email Address	Company's Telephone Number	Mobile Number
info@philodrill.com	(632) 631-8151	N / A

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
8,583	06/21	12/31

CONTACT PERSON INFORMATION

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

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Mr. Reynaldo E. Nazarea	renazarea@philodrill.com	(632) 631-8151	N / A

CONTACT PERSON's ADDRESS

8th Floor, Quad Alpha Centrum, 125 Pioneer St., Mandaluyong City

NOTE 1 : *In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.*

2 : *All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.*

SGV
Building a better working world

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
The Philodrill Corporation
8th Floor, Quad Alpha Centrum
125 Pioneer St., Mandaluyong City

Opinion

We have audited the consolidated financial statements of The Philodrill Corporation and Subsidiary (the Group), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2018 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the matters below, our description of how our audit addressed the matters is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements

Estimation of Oil Reserves

The estimation of oil reserves involves significant management estimates and assumptions (i.e., oil price and other operating and economic parameters) and involvement of external experts. Oil reserves are key inputs to depletion expense for the wells, platforms, and other facilities and decommissioning assets and impairment testing of the Group. As at December 31, 2018, the carrying values of the Group's wells, platforms, and other facilities and decommissioning assets amounted to ₱471.1 million and ₱4.2 million, respectively, which are material to our audit.

The Group's disclosures on wells, platforms, and other facilities and decommissioning assets are included in Notes 3 and 7 to the consolidated financial statements.

Audit Response

We evaluated the competence, capabilities and objectivity of the external experts by considering their qualifications, experience and reporting responsibilities. We reviewed the external experts' report and obtained an understanding of the nature, scope and objectives of their work, and basis of the estimates, inputs and assumptions, including any changes in the reserves during the year. In addition, we tested the reserves estimate applied to the depletion expense and impairment testing.

Recoverability of Deferred Oil Exploration Costs

As at December 31, 2018, the carrying value of the Group's deferred oil exploration costs amounted to ₱1,058.5 million and represents 30% of the Group's consolidated total assets. Under PFRS 6, *Exploration for and Evaluation of Mineral Resources*, these deferred oil exploration costs shall be assessed for impairment when facts and circumstances suggest that the carrying amounts exceed the recoverable amounts. The ability of the Group to recover its deferred oil exploration costs would depend on the commercial viability of the oil reserves. We considered this as a key audit matter because of the materiality of the amount involved, and the significant management judgment required in assessing whether there is any indication of impairment.

The Group's disclosures about deferred oil exploration costs are included in Notes 3 and 10 to the consolidated financial statements.

Audit Response

We obtained management's assessment on whether there is any indication that deferred oil exploration costs may be impaired. We reviewed the summary of the status of each exploration project as at December 31, 2018. We inspected the licenses/permits of each exploration project to determine that the period for which the Group has the right to explore in the specific area has not expired, will not expire in the near future, and will be renewed accordingly. We also inquired about the existing concession areas that are expected to be abandoned or any exploration activities that are planned to be discontinued in those areas.

Estimation of Provisions for Plug and Abandonment Costs

As at December 31, 2018, the Group's provisions for plug and abandonment costs amounted to ₱126.0 million (current - ₱104.9 million; noncurrent - ₱21.1 million) and, in 2018, the Group recognized plug and abandonment costs amounting to ₱242.0 million. The estimation of provisions for plug and abandonment costs, which are primarily in respect of upstream assets, requires significant management judgement because of the inherent complexity in estimating future costs. The estimation of provisions for plug and abandonment costs involves external experts who consider the current/existing laws and regulations, the provisions of the service contracts and planned approach to plug and abandon. The Group recognizes its share on the estimated plug and abandonment costs based on its participating interests in the joint operations and considers the discount rate and effect of foreign exchange rate.

The Group's disclosures about provisions for plug and abandonment costs are included in Note 12 to the consolidated financial statements.

Audit Response

We evaluated the competence, capabilities and objectivity of the external experts who performed the estimation by considering their qualifications, experience and reporting responsibilities. We performed recalculation of the Group's share based on its participating interest in the service contracts. We tested the inputs and assumptions used by the management (i.e., discount rate and foreign exchange rate) by comparing these against available market data and checked the adjustment recognized in relation to changes in estimate. We also reviewed disclosures relating to estimated plug and abandonment costs in the consolidated financial statements.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20 IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2018, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20 IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2018 are expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Jaime F. del Rosario.

SYCIP GORRES VELAYO & CO.

Jaime F. del Rosario
Partner
CPA Certificate No. 56915
SEC Accreditation No. 0076-AR-4 (Group A),
May 1, 2016, valid until May 1, 2019
Tax Identification No. 102-096-009
BIR Accreditation No. 08-001998-72-2018,
February 14, 2018, valid until February 13, 2021
PTR No. 7332543, January 3, 2019, Makati City

March 20, 2019

THE PHILODRILL CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31	
	2018	2017
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	**₱536,627,072**	₱634,385,523
Receivables (Note 5)	**296,119,832**	357,567,495
Crude oil inventory (Note 6)	**83,675,982**	71,172,655
Other current assets	**1,692,012**	2,482,153
Total Current Assets	**918,114,898**	1,065,607,826
Noncurrent Assets		
Property and equipment (Note 7)	**489,779,532**	641,980,601
Investments in associates (Note 8)	**790,123,956**	784,862,938
Financial assets at fair value through other comprehensive income (FVOCI) (Note 9)	**74,250,675**	–
Available-for-sale (AFS) financial assets (Note 9)	–	50,974,223
Deferred oil exploration costs (Notes 6 and 10)	**1,058,527,067**	1,043,525,798
Deferred income tax assets - net (Note 19)	**121,198,148**	28,200,777
Other noncurrent assets	**28,338,929**	25,968,291
Total Noncurrent Assets	**2,562,218,307**	2,575,512,628
TOTAL ASSETS	**₱3,480,333,205**	₱3,641,120,454
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities (Note 11)	**₱11,707,062**	₱13,121,443
Current portion of provision for plug and abandonment costs (Notes 6 and 12)	**104,864,027**	–
Dividends payable (Note 13)	**33,258,021**	33,316,756
Income tax payable	**42,946**	340,090
Total Current Liabilities	**149,872,056**	46,778,289
Noncurrent Liabilities		
Noncurrent portion of provision for plug and abandonment costs (Notes 6 and 12)	**21,149,782**	24,171,093
Retirement benefit liability (Note 18)	**9,939,583**	4,831,157
Total Noncurrent Liabilities	**31,089,365**	29,002,250
Total Liabilities	**180,961,421**	75,780,539
Equity		
Capital stock (Note 13)	**1,743,353,767**	1,743,353,767
Paid-in capital from sale of treasury shares	**1,624,012**	1,624,012
Share in other comprehensive income of associates	**35,335,091**	36,732,814
Net unrealized loss on decline in value of financial assets at FVOCI (Note 9)	**(31,953,522)**	–
Net unrealized loss on decline in value of AFS financial assets (Note 9)	–	(30,285,162)
Remeasurement loss on retirement benefit liability	**(36,889,750)**	(35,944,976)
Retained earnings	**1,587,902,186**	1,849,859,460
Total Equity	**3,299,371,784**	3,565,339,915
TOTAL LIABILITIES AND EQUITY	**₱3,480,333,205**	₱3,641,120,454

See accompanying Notes to Consolidated Financial Statements.

THE PHILODRILL CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31		
	2018	2017	2016
SHARE IN PETROLEUM REVENUE (Note 6)	**₱382,676,049**	₱388,201,800	₱358,687,873
COSTS AND EXPENSES			
Share in costs and operating expenses (Notes 6 and 16)	**490,385,695**	291,193,355	250,092,686
Depletion expense (Notes 6 and 7)	**88,407,983**	89,770,412	105,082,440
General and administrative expenses (Note 17)	**81,987,389**	59,725,033	50,250,215
	660,781,067	440,688,800	405,425,341
OTHER INCOME (CHARGES)			
Loss on write-off of:			
Property and equipment (Note 7)	**(79,012,162)**	–	–
Receivables (Note 5)	**(38,070,669)**	–	–
Investment in associates (Note 8)	**(11,078,715)**	–	–
Share in net income of associates (Note 8)	**32,379,852**	15,781,372	14,182,107
Foreign exchange gains - net	**22,484,713**	2,616,446	35,472,183
Interest income - net (Notes 4, 11, 15 and 18)	**20,995,400**	19,318,922	19,282,556
Provision for expected credit loss (Note 5)	**(20,920,198)**	–	–
Accretion expense (Note 12)	**(1,345,063)**	(1,407,057)	(363,025)
Gain on sale of investments	–	85,102	–
Others - net	**221,808**	(2,239,878)	75,663
	(74,345,034)	34,154,907	68,649,484
INCOME (LOSS) BEFORE INCOME TAX	**(352,450,052)**	(18,332,093)	21,912,016
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 19)			
Current	**2,099,690**	2,315,405	1,570,872
Deferred	**(92,592,468)**	(14,280,752)	(8,778,160)
	(90,492,778)	(11,965,347)	(7,207,288)
NET INCOME (LOSS)	**(₱261,957,274)**	(₱6,366,746)	₱29,119,304
EARNINGS (LOSS) PER SHARE (Note 14)			
Basic/Diluted	**(₱0.0014)**	(₱0.0000)	₱0.0002

See accompanying Notes to Consolidated Financial Statements.

THE PHILODRILL CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2018	2017	2016
NET INCOME (LOSS)	**(₱261,957,274)**	(₱6,366,746)	₱29,119,304
OTHER COMPREHENSIVE INCOME (LOSS)			
Items to be reclassified to profit or loss in subsequent periods:			
Unrealized gains (losses) on AFS financial assets (Note 9)	–	(14,008,599)	7,990,976
	–	(14,008,599)	7,990,976
Items not to be reclassified to profit or loss in subsequent periods:			
Unrealized losses on financial assets at FVOCI (Note 9)	**(1,668,360)**	–	–
Share in other comprehensive income (loss) of associates (Note 8)	**(1,397,723)**	19,442,677	27,887,618
Remeasurement gain on retirement benefit liability, net of tax (Note 18)	**(944,774)**	1,017,409	6,768,089
	(4,010,857)	20,460,086	34,655,707
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	**(4,010,857)**	6,451,487	42,646,683
TOTAL COMPREHENSIVE INCOME (LOSS)	**(₱265,968,131)**	₱84,741	₱71,765,987

See accompanying Notes to Consolidated Financial Statements.

THE PHILODRILL CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016

	Capital Stock (Note 13)	Paid-in Capital from Sale of Treasury Shares	Share in Other Comprehensive Income (Loss) of Associates (Note 8)	Net Unrealized Income (Loss) on Decline in Value of AFS Financial Assets (Note 9)	Net Unrealized Income (Loss) on Decline in Value of Financial Assets at FVOCI (Note 9)	Remeasurement Loss on Retirement Benefit Liability (Note 18)	Retained Earnings	Total
Balances at December 31, 2015	₱1,743,353,767	₱1,624,012	(₱10,597,481)	(₱24,267,539)	₱–	(₱43,730,474)	₱1,875,074,103	₱3,541,456,388
Cash dividends declared (Note 13)	–	–	–	–	–	–	(47,967,201)	(47,967,201)
	1,743,353,767	1,624,012	(10,597,481)	(24,267,539)	–	(43,730,474)	1,827,106,902	3,493,489,187
Net income	–	–	–	–	–	–	29,119,304	29,119,304
Other comprehensive income	–	–	27,887,618	7,990,976	–	6,768,089	–	42,646,683
Total comprehensive income	–	–	27,887,618	7,990,976	–	6,768,089	29,119,304	71,765,987
Balances at December 31, 2016	1,743,353,767	1,624,012	17,290,137	(16,276,563)	–	(36,962,385)	1,856,226,206	3,565,255,174
Net loss	–	–	–	–	–	–	(6,366,746)	(6,366,746)
Other comprehensive income (loss)	–	–	19,442,677	(14,008,599)	–	1,017,409	–	6,451,487
Total comprehensive income	–	–	19,442,677	(14,008,599)	–	1,017,409	(6,366,746)	84,741
Balances at December 31, 2017	₱1,743,353,767	₱1,624,012	₱36,732,814	(₱30,285,162)	₱–	(₱35,944,976)	₱1,849,859,460	₱3,565,339,915
Balance as at January 1, 2018, as previously reported	₱1,743,353,767	₱1,624,012	₱36,732,814	(₱30,285,162)	₱–	(₱35,944,976)	₱1,849,859,460	₱3,565,339,915
Reclassification due to adoption of PFRS 9 (Note 2)	–	–	–	30,285,162	(30,285,162)	–	–	–
Crude oil inventory as at January 2018 previously charged against share in costs and operating expenses (Note 2)	–	–	–	–	–	–	71,172,655	71,172,655
Crude oil inventory as at January 2018 previously recognized as petroleum revenue (Note 2)	–	–	–	–	–	–	(71,172,655)	(71,172,655)
Balance as at January 1, 2018 as adjusted	1,743,353,767	1,624,012	36,732,814	–	(30,285,162)	(35,944,976)	1,849,859,460	3,565,339,915
Net loss	–	–	–	–	–	–	(261,957,274)	(261,957,274)
Other comprehensive income (loss)	–	–	(1,397,723)	–	(1,668,360)	(944,774)	–	(4,010,857)
Total comprehensive income (loss)	–	–	(1,397,723)	–	(1,668,360)	(944,774)	(261,957,274)	(265,968,131)
Balances at December 31, 2018	₱1,743,353,767	₱1,624,012	₱35,335,091	₱–	(₱31,953,522)	(₱36,889,750)	₱1,587,902,186	₱3,299,371,784

See accompanying Notes to Consolidated Financial Statements.

THE PHILODRILL CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2018	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Income (loss) before income tax	**(₱352,450,052)**	(₱18,332,093)	₱21,912,016
Adjustments for:			
Depletion and depreciation expense (Note 7)	**91,437,360**	92,686,227	107,668,537
Write-off of:			
Property and equipment (Note 7)	**79,012,162**	–	–
Receivables (Note 5)	**38,070,669**	–	–
Investment in associates (Note 8)	**11,078,715**	–	–
Interest income - net (Notes 4, 11 and 15)	**(21,122,215)**	(19,311,996)	(19,608,519)
Provision for expected credit loss (Note 5)	**20,920,198**	–	–
Share in net income of associates (Note 8)	**(32,379,852)**	(15,781,372)	(14,182,107)
Unrealized foreign exchange gains – net	**(21,087,548)**	(682,229)	(24,952,432)
Amortization of other deferred charges	**5,380,488**	1,870,650	1,084,673
Retirement benefit expense (Note 18)	**3,758,749**	3,635,012	5,323,368
Accretion expense (Note 12)	**1,345,063**	1,407,057	363,025
Gain on sale of investment	**–**	(85,102)	–
Operating income (loss) before working capital changes	**(176,036,263)**	45,406,154	77,608,561
Decrease (increase) in:			
Receivables	**10,000,116**	(18,998,992)	140,006,654
Crude oil inventory	**(12,503,327)**	(16,483,014)	(37,652,696)
Other current assets	**790,141**	128,859	(865,135)
Increase (decrease) in accounts payable and accrued liabilities	**103,449,646**	6,598,052	(19,826,265)
Cash generated from (used in) operations	**(74,299,687)**	16,651,059	159,271,119
Income taxes paid including creditable taxes applied	**(2,396,834)**	(1,975,315)	(19,320,847)
Interest received	**13,578,895**	13,652,530	15,848,358
Dividends received (Note 8)	**14,642,396**	13,302,992	6,000,000
Net cash flows from (used in) operating activities	**(48,475,230)**	41,631,266	161,798,630
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to:			
Property and equipment (Note 7)	**(26,981,201)**	(92,310,313)	(21,108,085)
Financial assets at FVOCI	**(24,944,812)**	–	–
Deferred oil exploration costs (Note 10)	**(15,001,269)**	(15,241,619)	(33,715,797)
Other noncurrent assets	**(7,751,126)**	(16,961,077)	(1,111,202)
AFS financial assets	**–**	(2,339,454)	–
Cash flows used in investing activities	**(74,678,408)**	(126,852,463)	(55,935,084)

Forward

	Years Ended December 31		
	2018	2017	2016
CASH FLOWS FROM FINANCING ACTIVITY			
Payments of dividends	**(₱58,735)**	(₱414,076)	(₱46,287,211)
NET EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS (Note 4)	**25,453,922**	85,660	25,486,229
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(97,758,451)**	(85,549,613)	85,062,564
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**634,385,523**	719,935,136	634,872,572
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱536,627,072**	₱634,385,523	₱719,935,136

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information and Authorization for Issuance of Financial Statements

Corporate Information
The Philodrill Corporation (the Parent Company) was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on June 26, 1969. The Parent Company and Philodrill Power Corp. (PPC, formerly Phoenix Gas and Oil Exploration Co., Inc., a wholly owned subsidiary, incorporated in the Philippines and has not yet started commercial operations), collectively referred to as “the Group”, are primarily engaged in oil exploration and production and the development, exploitation, and processing of energy resources. The Parent Company is also an investment holding company with investments in financial services and mining.

The registered business address of the Group is 8th Floor, Quad Alpha Centrum, 125 Pioneer St., Mandaluyong City.

The Parent Company’s shares are listed and are currently traded at the Philippine Stock Exchange (PSE).

Acquisition of PPC
On May 2, 2007, the Parent Company acquired 100% of the shares of PPC, an entity which had participating interests in various oil properties in the Philippines and has not yet started commercial operations as at December 31, 2018. On July 20, 2016, an amended articles of incorporation of PPC was adopted, changing its name and primary purpose from oil exploration to power generation.

The Parent Company, which is operating in only one business segment, has two associates engaged in financial services and one associate which has significant holdings in mineral resources in the Philippines. The Parent Company and its associates have no geographical segments as they were incorporated and are operating within the Philippines. Financial information regarding these associates as at and for the years ended December 31, 2018 and 2017 is presented in Note 8.

The Group has a portfolio of oil exploration projects in the Philippines. The Group’s ability to realize their deferred oil exploration costs (see Note 10) depends on the success of their exploration and future development work in proving the viability of their oil properties to produce oil in commercial quantities, which cannot be determined at this time.

The consolidated financial statements do not include any adjustment that might result from these uncertainties. The effect of these uncertainties will be reported in the consolidated financial statements as they become known and estimable.

Authorization for Issuance of Financial Statements
The accompanying consolidated financial statements of the Group as at December 31, 2018 and 2017 and for the years ended December 31, 2018, 2017 and 2016 were authorized for issue by the Board of Directors (BOD) on March 20, 2019.

2. **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), financial assets at FVOCI and quoted 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 (PFRSs).

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year, except that the Group has adopted the following new accounting pronouncements starting January 1, 2018. Adoption of these pronouncements did not have any significant impact on the Group's financial position or performance unless otherwise indicated.

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

- PFRS 9, *Financial Instruments*

PFRS 9 Financial Instruments replaces PAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after January 1, 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group applied PFRS 9 prospectively, with an initial application date of January 1, 2018. The Group has not restated the comparative information, which continues to be reported under PAS 39. Difference arising from the adoption of PFRS 9 has no material impact, thus has not been recognized.

a. *Classification and measurement*
   Under PFRS 9, debt instruments are subsequently measured at fair value through profit or loss (FVTPL), amortized cost, or FVOCI. The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding.

   The assessment of the Group's business model was made as of the date of initial application, January 1, 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

   The classification and measurement requirements of PFRS 9 did not have a significant impact on the Group. The Group continued measuring at fair value all financial assets previously held at fair value under PAS 39. The following are the changes in the classification of the Group's financial assets:

- Cash and cash equivalents, receivables and other noncurrent assets previously classified as loans and receivables as at December 31, 2017 are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are classified and measured as financial assets at amortized cost beginning January 1, 2018.
- Listed equity investments previously classified as AFS financial assets are now classified and measured as FVOCI. The Group elected to classify irrevocably its listed equity investments under this category as it intends to hold these investments for the foreseeable future. There were no impairment losses recognized in profit or loss for these investments in prior periods.

The Group has not designated any financial liabilities as at FVTPL. There are no changes in classification and measurement for the Group's financial liabilities.

In summary, the Group had the following required or elected reclassifications:

	PFRS 9 measurement category		
	FVTPL	Amortized cost	FVOCI
PAS 39 measurement category			
Loans and receivable			
Cash and cash equivalents	₱–	₱634,385,523	₱–
Receivables (except for advances to officers and employees)	–	269,587,046	–
Other noncurrent assets	–	5,630,540	–
AFS financial assets	–	–	50,974,223
	₱–	₱909,603,109	₱50,974,223

Upon adoption of PFRS 9, net unrealized loss on decline in value of AFS financial assets is reclassified to net unrealized loss on decline in value of financial assets at FVOCI.

b. Impairment

The adoption of PFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing PAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. PFRS 9 requires the Group to recognize an allowance for ECLs for all debt instruments not held at FVTPL and contract assets.

Upon adoption of PFRS 9, impairment losses did not reduce the carrying amount of the Group's cash and cash equivalents and receivables as at January 1, 2018.

c. Hedge accounting

The Group has no existing hedge relationships as at December 31, 2017, thus will not have an impact on the consolidated financial statements of the Group.

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

- PFRS 15, *Revenue from Contracts with Customers*

PFRS 15 supersedes PAS 18 *Revenue* and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. PFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be 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.

PFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Group is a member of various jointly controlled operations in oil drilling. These jointly controlled operations are entered into within the Philippine Government through Service Contracts. The Group holds different participating interests to these Service Contracts. The Group's sale of petroleum products is out of scope of PFRS 15 since the Group is recognizing its revenue on the basis of its entitlement from the sale of its joint operations with other consortium members which is in accordance of par. 20(c) of *PFRS 11, Joint Arrangements* which states "A joint operator shall recognize in relation to its interest in a joint operation its share of the revenue from the sale of the output by the joint operation".

The Group assessed that the adoption of PFRS 15 has no material impact since the Group's main source of revenues is from its share in revenue from the joint operation. Under PFRS 15, an entity shall apply the new standard to all contracts with customers, except for contractual rights and obligations that are within the scope of PFRS 11.

Meanwhile, the Group assessed that the adoption of PFRS 15 has an impact on recognizing revenue from share in the ending inventory of the consortium. Prior to adoption of PFRS 15, the Group recognizes its share in the ending crude oil inventory as revenue and charged it against share in costs and operating expenses. Upon adoption of PFRS 15, the share in the ending crude oil inventory is not recognized as revenue and charged against share in costs and operating expenses since the consortium has not yet transferred the control over the crude oil inventory to its customer. Accordingly, the share in crude oil inventory as at January 1, 2018 is recognized as petroleum revenue in 2018 and charged against share in cost and operating expenses since the consortium has transferred the control over the crude oil inventory to its customer. The following table summarizes the impact of PFRS 15 adoption to the consolidated financial statements as at January 1, 2018:

Retained earnings as at January 1, 2018 before adoption of PFRS 15	₱1,849,859,460
Add: Crude oil inventory as at January 1, 2018 previously charged against share in costs and operating expenses	71,172,655
Less: Crude oil inventory as at January 1, 2018 previously recognized as petroleum revenue	(71,172,655)
Retained earnings as at January 1, 2018 upon adoption of PFRS 15	₱1,849,859,460

The Group did not adjust the 2017 consolidated statement of income since the Group applied modified retrospective approach. Furthermore, the adjustments have no impact on the Group's consolidated statement of cash flows.

- Amendments to PAS 28, *Investments in Associates and Joint Ventures*, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)

- Amendments to PAS 40, *Investment Property*, *Transfers of Investment Property*

- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*

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 financial statements. The Group intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2019

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*

  Under PFRS 9, a debt instrument can be measured at amortized cost or at FVOCI, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from January 1, 2019, with earlier application permitted.

  These amendments have no impact on the consolidated financial statements of the Group.

- 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.

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 PFRS 16.

- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*

  The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

  - Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event
  - Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

  The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in OCI.

  The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after January 1, 2019, with early application permitted. These amendments have no impact on the consolidated financial statements of the Group.

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*

  The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the ECL model in PFRS 9 applies to such long-term interests.

  The amendments also clarified that, in applying PFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying PAS 28.

  The amendments should be applied retrospectively and are effective from January 1, 2019, with early application permitted. The Group is currently assessing the impact of adopting PAS 28.

- 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, *Income Taxes*, 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:
- o Whether an entity considers uncertain tax treatments separately
- o The assumptions an entity makes about the examination of tax treatments by taxation authorities
- o How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- o 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.

This interpretation is not relevant to the Group because there is no uncertainty involved in the tax treatments made by management in connection with the calculation of current and deferred taxes as of December 31, 2018 and 2017.

- *Annual Improvements to PFRSs* 2015-2017 Cycle

  - o Amendments to PFRS 3, *Business Combinations,* and PFRS 11, *Joint Arrangements*, *Previously Held Interest in a Joint Operation*

    The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

    A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in PFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

    An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019 and to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted. These amendments are currently not applicable to the Group but may apply to future transactions.

  - o Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*

    The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, OCI or equity according to where the entity originally recognized those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application is permitted. These amendments are not applicable to the Group.

- Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

  The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

  An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted.

  Since the Group's current practice is in line with these amendments, the Group does not expect any effect on its consolidated financial statements upon adoption.

Effective beginning on or after January 1, 2020

- Amendments to PFRS 3, *Definition of a Business*

  The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

  An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

  These amendments will apply on future business combinations of the Group.

- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, *Definition of Material*

  The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements.

  An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

Effective beginning on or after January 1, 2021

- PFRS 17, *Insurance Contracts*

  PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted.

Deferred effectivity

- Amendments to PFRS 10, *Consolidated Financial Statements*, 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. 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 (IASB) 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.

<u>Summary of Significant Accounting Policies and Financial Reporting Practices</u>

<u>Presentation of Financial Statements</u>
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.

<u>Cash and Cash Equivalents</u>
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 – initial recognition and subsequent measurement effective January 1, 2018

Financial assets

Initial Recognition and Measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, FVOCI, and FVTPL.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. The Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

In order for a financial asset to be classified and measured at amortized cost or FVOCI, it needs to give rise to cash flows that are "solely payment of principal and interest (SPPI)" on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets that refers to how it manages its financial assets in order to generate cash flows. The business model determine whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchase or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (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

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortized cost (debt instruments)
- Financial assets at FVOCI with recycling of cumulative gains and losses upon derecognition (debt instruments)
- Financial assets designated at FVOCI with no recycling of cumulative gains and losses upon recognition (equity instruments)
- Financial assets at FVTPL

Financial assets at amortized cost

This category is the most relevant to the Group. The Group measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on a specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

The Group's financial assets at amortized cost includes cash and cash equivalents and receivables (except advances to officers and employees).

Financial assets at FVOCI (debt instruments)

The Group measures debt instruments at FVOCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt instruments at FVOCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognized in the consolidated statement of income and computed in the same manner as for financial assets measured at amortized cost. The remaining fair value changes are recognized in OCI. Upon derecognition, the cumulative fair value changed in OCI is recycled to profit or loss.

The Group does not have debt instruments at FVOCI.

Financial assets designated at FVOCI (equity instruments)
Upon initial recognition, the Group can elect to classify irrevocably its equity instruments as equity instruments designated at FVOCI when they meet the definition of equity under PAS 32, *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as other income in the consolidated statement of income when the right to payment as been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at FVOCI are not subject to impairment assessment.

The Group's financial assets at FVOCI includes investment in quoted equity instruments.

Financial assets at FVTPL
Financial assets at FVTPL include financial assets held for trading, financial assets designated upon initial recognition at FVTPL, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at FVTPL irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at FVOCI, as described above, debt instruments may be designated at FVTPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at FVTPL are carried in the consolidated statement of financial position at fair value with net changes in fair value recognized in the consolidated statement of income.

A derivative embedded in a hybrid contract with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if: the economic characteristics and risk are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at FVTPL. Reassessment only occurs if there is a change in in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

Derecognition
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or

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

When the Group has transferred it rights to receive cash flows from an asset or has entered into 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 of 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 its continuing involvement. 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.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of Financial Assets
The Group recognizes an allowance for ECLs for all debt instruments not held at FVTPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original EIR. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

For financial assets such as advances to related parties, accrued interest, accounts with partners, ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For cash and cash equivalents, the Group applies the low credit risk simplification. The probability of default and loss given defaults are publicly available and are considered to be low credit risk investments. It is the Group's policy to measure ECLs on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. The Group considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The key inputs in the model include the Group's definition of default and historical data of three years for the origination, maturity date and default date. The Group considers accounts with contract operators in default when contractual payment are 90 days past due, except for certain circumstances when the reason for being past due is due to reconciliation with customers of payment records which are administrative in nature which may extend the definition of default to 90 days and beyond. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

Determining the stage for impairment
At each reporting date, the Group assesses whether there has been a significant increase in credit risk for financial assets since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The Group considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and forward-looking analysis.

The Group considers that there has been a significant increase in credit risk when contractual payments are more than 90 days past due.

An exposure will migrate through the ECL stages as asset quality deteriorates. If, in a subsequent period, asset quality improves and also reverses any previously assessed significant increase in credit risk since origination, then the loss allowance measurement reverts from lifetime ECL to 12-month ECL.

Financial liabilities
Initial measurement and recognition
Financial liabilities are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and borrowings, payables, or as designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of attributable transaction costs.

The Group’s financial liabilities include trade and other payables.

Subsequent measurement
The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at FVTPL
Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by PFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognized in the consolidated statement of income. Financial liabilities designated upon initial recognition at FVTPL are designated at the initial date of recognition, and only if the criteria in PFRS 9 are satisfied. The Group has not designated any financial liability as at FVTPL.

Loans and borrowings
This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the consolidated statement of income.

This category generally applies to short term and long term debt.

Derecognition
A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When 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 the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the consolidated statement of income.

Financial Instruments - initial recognition and subsequent measurement prior to January 1, 2018

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 FVTPL, 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 FVTPL, 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, 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, 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, the Group has no financial assets at FVTPL, 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 FVTPL, 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 are in the nature of trade and other payables. The Group has no financial liabilities at FVTPL 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 FVTPL 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, the Group classifies its accounts payable and accrued liabilities, and dividends payable as trade and other payables (see Note 11).

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 of Financial Instruments

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

Fair Value Measurement

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

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

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

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

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 consolidated 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 at 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.). Prior to adoption of PFRS 15, the Group recognizes its share in the ending inventory as revenue and charged it against share in costs and operating expenses. Upon adoption of PFRS 15, the share in the ending crude oil inventory is not recognized as revenue and charged against share in costs and operating expenses.

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:

Category	Number of Years
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 plug and abandonment 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
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 by the consortium operator to third party customers 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 11.

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 Plug and abandonment 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 plug and abandonment 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 no 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.

<u>Contingencies</u>
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.

3. Significant Judgments, Accounting Estimates and Assumptions

The preparation of the consolidated financial statements in accordance with PFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial information and the reported amounts of income and expenses during the year. The judgments, estimates and assumptions used in the preparation of the consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the consolidated financial statements. Future events may occur which can cause the assumptions used in arriving at those judgments and estimates to change. The effects will be reflected in the consolidated financial statements as they become reasonably determined.

Judgments
In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations and assumptions, which have the most significant effect on the amounts recognized in the consolidated financial statements. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the assets or liability affected in the future periods.

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

Determining the stage for impairment
At each reporting date, the Group assesses whether there has been a significant increase in credit risk for financial assets since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The Group considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and forward-looking analysis. Quantitative criteria may include downgrade in investment grade, defaulted assets, counterparties with objective evidence of impairment. A significant increase in credit risk is also presumed if a debtor is more than 90 days past due in making a contractual payment. Qualitative criteria may include significant adverse changes in business, financial or economic conditions in which the counterparty operates, actual or expected restructuring.

Exposures that have not deteriorated significantly since origination, or where the deterioration remains within the Group's investment grade criteria are considered to have a low credit risk. The provision for credit losses for these financial assets is based on a 12-month ECL. The low credit risk exemption has been applied on debt investments that meet the investment grade criteria of the Group from the time of origination.

An exposure will migrate through the ECL stages as asset quality deteriorates. If, in a subsequent period, asset quality improves and also reverses any previously assessed significant increase in credit risk since origination, then the loss allowance measurement reverts from lifetime ECL to 12-months ECL.

Significant increase in credit risk
In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, information obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organizations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:
- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor; or
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 90 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if i) the financial instrument has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a financial asset to have low credit risk when it has an internal or external credit rating of "investment grade" as per globally understood definition.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Determining and Classifying a Joint Arrangement
The Group determines a joint arrangement in accordance with its control over the entity or joint operations rather than its legal form.

The Group is a member in various jointly controlled operations in oil drilling. These jointly controlled operations are entered into with the Philippine Government though SCs and Geophysical Survey and Exploration Contracts (GSECs). Significant influence in each SCs is held by the lead operator. As at December 31, 2018 and 2017, the Group's joint arrangements are in the form of a joint operation (see Notes 7 and 10).

Determining and Classifying Investments in Associates
The Group has investments in associates. These are shares purchased not for the purpose of trading. The Group considers that it has a significant influence in the associates as the Group is represented in the governance of the associates. In assessing whether significant influence still exists, the Group considered not only its percentage ownership but other factors such as the Board seat representations it has in the associate's governing body. Significant influence in the associate is also established by virtue of the agreement entered.

As at December 31, 2018 and 2017, the Group has investments in associates that were assessed with significant influence (see Note 8).

Assessing Production Start Date
The Group assesses the stage of each oil field to determine when the project moves from the exploration to the production phase. When a project moves into the production stage, the capitalization of certain exploration or development costs ceases and costs are either regarded as inventory or expensed, except for capitalizable costs related to wells, platforms, and other facilities additions or improvements. It is also at this point that depletion commences.

Assessing Units-of-Production Depletion
Estimated recoverable proved and probable reserves are used in determining the depletion of wells, platforms, and oil fields assets. This results in a depletion charge proportional to the depletion of the anticipated remaining life. Each item's life, which is assessed annually, has regard to both physical life limitations and to present assessments of economically recoverable reserves of the oil field.

The calculations require the use of estimates of future capital expenditure. The Company uses barrels of oil produced as the basis for depletion. Any change in estimates is accounted for prospectively. The rate used by the Company in computing depletion is ₱1,003.9 and ₱806.9 per barrel for SC-14C1 Galoc for the years ended December 31, 2018 and 2017, respectively.

Assessing Recoverability of Deferred Income Tax Assets
The Group reviews the carrying amount of deferred income tax assets at each end of the reporting period and is adjusted accordingly to the extent that it is probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. The Group's assessment on the recognition of deferred income tax assets on NOLCO and deductible temporary differences is based on the level and timing of forecasted taxable income of subsequent reporting periods. The forecast is based on past results and future expectations on revenues and expenses as well as future tax planning strategies. The Group has recognized deferred income tax assets amounting to ₱121.2 million and ₱28.2 million as at December 31, 2018 and 2017, respectively (see Note 19).

<u>Estimates and Assumptions</u>
The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial reporting period are discussed below:

Significant accounting estimates applied before January 1, 2018

Assessing Impairment of Receivables
The Group assesses on a regular basis if there is objective evidence of impairment of receivables. The amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original EIR. The Group uses individual impairment assessment on its receivables. The Group did not assess its receivables for collective impairment due to the few counterparties which can be specifically identified and which can no longer be grouped according to similar credit risk characteristics.

The amount of impairment loss is recognized in the consolidated statement of income with a corresponding reduction in the carrying value of the receivables through an allowance account.

Total carrying value of receivables amounted to ₱357.6 million as at December 31, 2017. There was no allowance for impairment on these receivables as at December 31, 2017. No impairment losses were recognized in 2017 (see Note 5).

Assessing Impairment of AFS Financial Assets
The Group treats quoted AFS investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists '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. The Group evaluates the financial health of the issuer, among others.

In the case of AFS equity instruments, the Group expands its analysis to consider changes in the issuer's industry and sector performance, legal and regulatory framework, changes in technology and other factors that affect the recoverability of the Group's investments.

The fair values of quoted AFS financial assets amounted to ₱51.0 million as at December 31, 2017. The Group has a net unrealized loss on the decline of fair value recognized in equity on these financial assets of ₱30.3 million as at December 31, 2017. Net unrealized gains (losses) on decline in value of AFS financial assets amounted to (₱14.0 million) in 2017.

Significant accounting estimates applied after January 1, 2018

Measurement of ECLs
ECLs are derived from unbiased and probability-weighted estimates of expected loss. The ECLs for the Group's financial assets which are not credit-impaired at the reporting date are measured as the present value of all cash shortfalls over the expected life of the financial asset discounted by the EIR. The cash shortfall is the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive.

The Group leverages existing risk management indicators, credit risk rating changes and reasonable and supportable information which allows the Company to identify whether the credit risk of financial assets has significantly increased. The Group's ECL is measured on either a 12-month basis.

ECLs are the discounted product of the PD, LGD, and EAD, defined as follows:

- *Probability of default*
  The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next twelve (12) months, or over the remaining life of the obligation. PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

  The 12-months and lifetime PD represent the expected point-in-time probability of a default over the next 12 months and remaining lifetime of the financial instrument, respectively, based on conditions existing at the balance sheet date and future economic conditions that affect credit risk.

- *Loss given default*
  LGD represents the Company's expectation of the extent of loss on a defaulted exposure, taking into account the mitigating effect of collateral, its expected value when realized and the time value of money. LGD varies by type of counterparty, type of seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default EAD. LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next twelve (12) months and lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

- *Exposure at default*
  EAD is based on the amounts the Company expects to be owed at the time of default, over the next 12 months or over the remaining lifetime. For example, for a revolving commitment, the Company includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.

The ECL is determined by projecting the PD, LGD, and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

Incorporation of Forward-looking Information
The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL.

The Group has identified and documented key drivers of credit risk and credit losses of each financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

Predicted relationship between the key indicators and default and loss rates on financial assets have been developed based on analyzing historical data.

The Group has not identified any uncertain event that it has assessed to be relevant to the risk of default occurring but where it is not able to estimate the impact on ECL due to lack of reasonable and supportable information.

Total carrying value of receivables amounted to ₱296.1 million as at December 31, 2018. Provision amounting to ₱20.9 million for ECLs were recognized on the Group's receivables as at December 31, 2018. The Group has written off receivable amounting to ₱38.1 million (see Note 5).

Estimating Oil Reserves
Hydrocarbon reserves are estimates of the amount of hydrocarbons that can be economically and legally extracted from the Group's oil properties. The Group estimates its commercial reserves and resources based on information compiled by appropriately qualified persons relating to the geological and technical data on the size, depth, shape and grade of the hydrocarbon body and suitable production techniques and recovery rates. Commercial reserves are determined using estimates of oil in place, recovery factors and future commodity prices, the latter having an impact on the total amount of recoverable reserves and the proportion of the gross reserves which are attributable to the host government under the terms of the Production-Sharing Agreements. Future development costs are estimated using assumptions as to the number of wells required to produce the commercial reserves, the cost of such wells and associated production facilities, and other capital costs.

All proved and probable reserve estimates are subject to revision, either upward or downward, based on new information, such as from development drilling and production activities or from changes in economic factors, including product prices, contract terms or development plans. Estimates of reserves for undeveloped or partially developed fields are subject to greater uncertainty over their future life than estimates of reserves for fields that are substantially developed and depleted. As those fields are further developed, new information may lead to revisions.

The change in estimate during the year resulted to lower depletion of wells, platforms, and other facilities amounting to ₱88.4 million and ₱89.8 million for the years ended December 31, 2018 and 2017, respectively (see Notes 6 and 7).

Estimating Depletion Based on UOP
Wells, platforms, and other facilities are depleted using the UOP method over the total proved and probable developed reserves. This results in amortization charge proportional to the depletion of the anticipated remaining production from the field.

Each item's life, which is assessed annually, has regard to both its physical life limitations and to present assessments of economically recoverable reserves of the field at which the asset is located. These calculations require the use of estimates and assumptions, including the amount of recoverable reserves and estimates of future capital expenditure. The calculation of the UOP rate of depletion could be impacted to the extent that actual production in the future is different from current forecasted production based on total proved and probable reserves, or future capital expenditure estimate changes. Changes to proved and probable reserves could arise due to changes in the assumptions used in estimating the reserves. Changes are accounted for prospectively.

As at December 31, 2018 and 2017, the carrying values of wells, platforms, and other facilities amounted to ₱475.3 million and ₱625.4 million, respectively (see Note 7). In 2018, 2017 and 2016, depletion expense incurred by the Group amounted to ₱88.4 million, ₱89.8 million and ₱105.1 million, respectively (see Notes 6 and 7).

Assessing Recoverability of Deferred Oil Exploration Costs
The Group assesses impairment on deferred oil exploration costs when facts and circumstances suggest that the carrying amount of the asset may exceed its recoverable amount. Until the Group has sufficient data to determine technical feasibility and commercial viability, deferred oil exploration costs need not be assessed for impairment. Facts and circumstances that would require an impairment assessment as set forth in PFRS 6, *Exploration for and Evaluation of Mineral Resources*, are as follows:

- The period for which the Group has the right to explore in the specific area has expired or will expire in the near future, and is not expected to be renewed;
- Substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;
- Exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area; and
- Sufficient data exist to indicate that, although a development in the specific area is likely to proceed in full from successful development or by sale.

As at December 31, 2018 and 2017, the carrying values of deferred oil exploration costs amounted to ₱1,058.5 million and ₱1,043.5 million, respectively. There was no allowance for unrecoverable deferred oil exploration costs as at December 31, 2018 and 2017. No impairment losses were recognized in 2018, 2017 and 2016 (see Note 10).

Estimating NRV of Crude Oil Inventory
The NRV of crude oil inventory is based on the estimated selling price in the ordinary course of business less estimated costs of completion and estimated costs necessary to make the sale. Based on these estimates, an inventory write-down is recognized for any excess of carrying value over the NRV of the inventory.

The carrying value of crude oil inventory amounted to ₱83.7 million and ₱71.2 million as at December 31, 2018 and 2017, respectively. There was no allowance for impairment on these inventory as at December 31, 2018 and 2017. No provision for impairment losses on inventory is recognized in 2018, 2017 and 2016 (see Note 6).

Estimating Provision for Plug and Abandonment Costs
Significant estimates and assumptions are made in determining the provision for decommissioning. Factors affecting the ultimate amount of liability include estimates of the extent and costs of decommissioning activities, technological changes, regulatory changes, cost increases, and changes in discount and foreign exchange rates. Those uncertainties may result in future actual expenditure differing from the amounts currently provided. The Group recognized accretion expense amounting to ₱1.3 million, ₱1.4 million and ₱0.4 million in 2018, 2017 and 2016, respectively, and related provision for plug and abandonment costs amounted to ₱126.0 million and ₱24.1 million as at December 31, 2018 and 2017, respectively (see Note 12). In 2018, the Group also recognized plug and abandonment costs in consolidated statement of income amounting to ₱242.0 million which pertains to estimated and actual costs to plug and abandon Libro-1, Tara South-1 wells, and 9 wells from Nido, Matinloc and North Matinloc fields (see Note 16).

Estimating Retirement Benefit Expense
The cost of defined benefit retirement plans and other benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, investment yield and future salary increases, among others.

While management believes that its assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in the assumptions may materially affect the Group's retirement obligations. The Group recognized retirement benefit expense amounting to ₱3.8 million, ₱3.6 million and ₱5.3 million in 2018, 2017 and 2016, respectively, and related retirement benefit liability amounted to ₱9.9 million and ₱4.8 million as at December 31, 2018 and 2017, respectively (see Note 18).

Assessing Recoverability of Nonfinancial Assets
Wells, platforms, and other facilities, investments in associates and other current and noncurrent assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount is not recoverable. The factors that the Group considers important which could trigger an impairment review include the following:

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

An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's fair value less costs to sell and value-in-use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

There was no allowance for impairment on these nonfinancial assets as at December 31, 2018 and 2017. In 2018, 2017 and 2016, the Group has not recognized impairment losses on its crude oil inventory, wells, platforms, and other facilities, investment in associates, and other current and noncurrent assets.

During the year, the Group has written off property and equipment amounting ₱79.0 million. As at December 31, 2018 and 2017, the carrying values of wells, platforms, and other facilities amounted to ₱475.3 million and ₱625.5 million, respectively (see Note 7).

Acquisition cost of investment in associates amounted to ₱633.5 million as at December 31, 2018 and 2017. During the year, the Group has written off investments amounting to ₱11.1 million. The carrying value of these investments in associates amounted to ₱790.1 million and ₱784.9 million as at December 31, 2018 and 2017, respectively (see Note 8).

The carrying amount of other nonfinancial assets, which include advances to officers and employees, other current assets and other noncurrent assets, amounted to ₱13.7 million and ₱11.5 million as at December 31, 2018 and 2017, respectively.

Estimating Contingencies
By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

4. Cash and Cash Equivalents

	2018	2017
Cash on hand and in banks	**₱27,467,792**	₱25,999,116
Short-term investments	**509,159,280**	608,386,407
	₱536,627,072	₱634,385,523

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

Interest earned from cash in banks and short-term investments in 2018, 2017 and 2016 amounted to ₱14.5 million, ₱13.3 million and ₱13.8 million, respectively. Accrued interest receivable as at December 31, 2018 and 2017 amounted to ₱2.2 million and ₱1.3 million, respectively (see Note 5).

As at December 31, 2018 and 2017, the Group has United States (US$) dollar-denominated cash and cash equivalents which amounted to $8.6 million and $10.1 million, respectively (see Note 21).

In 2018, 2017 and 2016, unrealized foreign exchange gains attributable to foreign-currency denominated cash and cash equivalents amounted to ₱25.5 million, ₱0.1 million and ₱25.5 million, respectively. In 2018, 2017 and 2016, realized foreign exchange gains amounted to ₱0.3 million, ₱0.1 million and ₱2.5 million, respectively.

5. **Receivables**

	2018	2017
Advances to related parties (see Note 15)	**₱193,954,601**	₱193,292,101
Accounts with contract operators (see Note 6)	**82,511,014**	129,825,101
Accrued interest from related parties (see Note 15)	**34,093,191**	27,627,059
Advances to officers and employees	**2,494,973**	3,434,975
Accrued interest from banks (see Note 4)	**2,233,660**	1,283,287
Accounts with partners (see Note 6)	**1,445,917**	1,739,897
Others	**306,674**	365,075
	317,040,030	357,567,495
Less allowance for ECL	**20,920,198**	–
	₱296,119,832	₱357,567,495

The receivables are generally collectible on demand. These are also non-interest bearing except for advances to related parties (see Note 15).

Accounts with contract operators represent the excess of proceeds from crude oil liftings over the amounts advanced by the contract operators for the Group's share in exploration, development and production expenditures relating to SC-14.

Accrued interest is earned from advances to related parties, short-term investments and investment in bonds.

The Group makes advances for the operating expenses of the consortiums wherein it is the operator. The Group records this under the "accounts with partners" account which represent receivables from these consortium's members.

Advances to officers and employees pertain to cash advances for the operations of the Group subject to liquidation.

The Group recognized provision for ECL amounting to ₱20.9 million as at December 31, 2018. Furthermore, the Group has written off receivables amounting to ₱38.1 million.

As at December 31, 2018 and 2017, the Group foreign-currency denominated receivables amounting to $1.6 million and $2.9 million, respectively (see Note 21).

In 2018, 2017 and 2016, unrealized and realized foreign exchange gains attributable to foreign-currency denominated receivables amounted to ₱0.8 million, ₱1.8 million and ₱7.9 million, respectively.

6. Interest in Jointly Controlled Operations

The Group's interest in the jointly controlled operations in the various SCs, and any assets and liabilities incurred jointly with the other partners, as well as the related revenues and expenses of the joint operation, which are included in the consolidated financial statements, are as follows:

	2018	2017
Current assets:		
Receivables (see Note 5):		
Accounts with contract operators	**₱82,511,014**	₱129,825,101
Accounts with partners	**1,445,917**	1,739,897
Crude oil inventory	**83,675,982**	71,172,655
	167,632,913	202,737,653
Noncurrent assets:		
Property and equipment (see Note 7):		
Wells, platforms, and other facilities	**1,385,319,077**	1,447,087,460
Accumulated depletion	**(910,048,505)**	(821,640,522)
	475,270,572	625,446,938
Deferred oil exploration costs (see Note 10)	**1,058,527,067**	1,043,525,798
	1,533,797,639	1,668,972,736
Current liabilities:		
Accounts with partners (see Note 11)	**(1,552,586)**	(6,494,723)
Current portion of provision for plug and abandonment costs (see Note 12)	**(104,864,027)**	–
	(106,416,613)	(6,494,723)
Noncurrent liability:		
Noncurrent portion of provision for plug and abandonment costs (see Note 12)	**(21,149,782)**	(24,171,093)
	₱1,573,864,157	₱1,841,044,573

	2018	2017	2016
Revenue:			
Share in petroleum revenue	**₱382,676,049**	₱388,201,800	₱358,687,873
Other income:			
Foreign exchange gains - net	**(3,225,592)**	2,445,936	7,455,479
	379,450,457	390,647,736	366,143,352
Cost of petroleum operations:			
Share in costs and operating expenses (see Note 16)	**490,385,695**	291,193,355	250,092,686
Depletion (see Note 7)	**88,407,983**	89,770,412	105,082,440
	578,793,678	380,963,767	355,175,126
	(₱199,343,221)	₱9,683,969	₱10,968,226

7. Property and Equipment

Decebér 31, 2018	Wells, Platforms, and Other Facilities (see Note 6): SC-14 Block, Tara, West Linapacan, Verde and Deepwater	SC-14 Block A, B, B - 1, C - 1 and C - 2	Subtotal	Office Condominium Units and Improvements	Transportation Equipment	Office Furniture, Fixtures and Equipment	Total
Cost:							
Beginning of year	**₱412,708,679**	**₱1,034,378,781**	**₱1,447,087,460**	**₱18,114,624**	**₱13,887,100**	**₱7,746,995**	**₱1,486,836,179**
Additions	**2,159,700**	**23,816,827**	**25,976,527**	**847,308**	**–**	**157,366**	**26,981,201**
Retirement	**–**	**–**	**–**	**–**	**–**	**(4,500)**	**(4,500)**
Write-off	**(79,012,162)**	**–**	**(79,012,162)**	**–**	**–**	**–**	**(79,012,162)**
Adjustment to capitalized cost of decommissioning asset (see Note 12)	**–**	**(8,732,748)**	**(8,732,748)**	**–**	**–**	**–**	**(8,732,748)**
End of year	**₱335,856,217**	**₱1,049,462,860**	**₱1,385,319,077**	**₱18,961,932**	**₱13,887,100**	**₱7,899,861**	**₱1,426,067,970**
Accumulated depletion and depreciation:							
Beginning of year	**12,285,641**	**809,354,881**	**821,640,522**	**11,594,987**	**4,011,974**	**7,608,095**	**844,855,578**
Depletion and depreciation (see Notes 6 and 17)	**–**	**88,407,983**	**88,407,983**	**516,542**	**2,425,760**	**87,075**	**91,437,360**
Retirement	**–**	**–**	**–**	**–**	**–**	**(4,500)**	**(4,500)**
End of year	**12,285,641**	**897,762,864**	**910,048,505**	**12,111,529**	**6,437,734**	**7,690,670**	**936,288,438**
Net book values	**₱323,570,576**	**₱151,699,996**	**₱475,270,572**	**₱6,850,403**	**₱7,449,366**	**₱209,191**	**₱489,779,532**

December 31, 2017	Wells, Platforms, and Other Facilities (see Note 6): SC-14 Block, Tara, West Linapacan, Verde and Deepwater	SC-14 Block A, B, B - 1, C - 1 and C - 2	Subtotal	Office Condominium Units and Improvements	Transportation Equipment	Office Furniture, Fixtures and Equipment	Total
Cost:							
Beginning of year	₱402,774,451	₱962,642,060	₱1,365,416,511	₱17,934,624	₱1,825,100	₱7,690,267	₱1,392,866,502
Additions	9,934,228	70,077,357	80,011,585	180,000	12,062,000	56,728	92,310,313
Adjustment to capitalized cost of decommissioning asset (see Note 12)	–	1,659,364	1,659,364	–	–	–	1,659,364
End of year	412,708,679	1,034,378,781	1,447,087,460	18,114,624	13,887,100	7,746,995	1,486,836,179
Accumulated depletion and depreciation:							
Beginning of year	12,285,641	719,584,469	731,870,110	11,099,243	1,787,247	7,412,751	752,169,351
Depletion and depreciation (see Notes 6 and 17)	–	89,770,412	89,770,412	495,744	2,224,727	195,344	92,686,227
End of year	12,285,641	809,354,881	821,640,522	11,594,987	4,011,974	7,608,095	844,855,578
Net book values	₱400,423,038	₱225,023,900	₱625,446,938	₱6,519,637	₱9,875,126	₱138,900	₱641,980,601

For SC-14 C1 Galoc, depletion rates used in 2018, 2017 and 2016 are ₱1,003.9 per barrel, ₱806.9 per barrel and ₱768.1 per barrel, respectively.

As at December 31, 2018 and 2017, the carrying values of decommissioning assets amounted to ₱4.2 million and ₱16.8 million, respectively.

For SC-14 B1 North Matinloc, depletion rates used in 2018, 2017 and 2016 are nil due to full depletion of the capitalized costs of wells.

The depletion expense recognized amounted to ₱88.4 million, ₱89.8 million and ₱105.1 million in 2018, 2017 and 2016, respectively (see Note 6), while total depreciation expense related to general and administrative expenses amounted to ₱3.0 million, ₱2.9 million and ₱2.6 million in 2018, 2017 and 2016, respectively (see Note 17).

In 2018, the Group has written off wells, platforms and other facilities with carrying values amounting to ₱79.0 million under SC 14 Tara, Verde, Nido 1x1 and Deepwater blocks since these projects' plug and abandonment are completed. As at December 31, 2018 and 2017, the Group continues to utilize fully depreciated property and equipment with an aggregate acquisition cost of ₱17.3 million and ₱16.8 million, respectively.

The Group's participating interests (in percentage) in the different SCs under production as at December 31, 2018 and 2017 are as follows:

Area	Participating Interest (in percentage) 2018	2017
SC-14 (Northwest Palawan):		
Block A (Nido)	**26.10600**	26.10600
Block B (Matinloc)	**41.60800**	41.60800
Block B-1 (North Matinloc)	**33.11100**	33.11100
Block C-1 (Galoc)	**7.21495**	7.21495
Block C-2 (West Linapacan)	**28.07000**	28.07000
Block D (Retention Block)	**33.75100**	33.75100
Tara Block	**50.00000**	27.50000

In December 19, 2016, PPC assigned its remaining participating interests in SC-14 Tara Block of 22.50% to the Parent Company by creating a Deed of Assignment and Assumption. On April 12, 2018, DOE approved the transfer of PPC's remaining participating interests to the Parent Company.

SC-14 A & B

Production from the Nido, Matinloc and North Matinloc Fields in SC 14 continued to decline, owing to the decreasing pressure from the reservoir, indicative of depleting reserves. As at end of 2018, the Nido and Matinloc managed to produce about 51,750 barrels and about 43,050 barrels, respectively, while the remaining production well in North Matinloc ceased operation in June 2017.

With the decreasing output from the fields, the Parent Company shifted its focus from purely production activities to planning and execution of the mandatory plug & abandonment of existing wells and the eventual decommissioning of fixed offshore facilities. In 2014, EDSL Consultants was contracted to do the plug and abandonment of the Libro, Pandan and Tara South wells using the vessel MEO Glory. The first attempt to plug and abandon Pandan was successful while similar attempts on the Tara and Libro wells failed. With CWT Consultancy Limited as the new contractor, the plug and abandonment of Tara South and Libro wells were successfully plugged and abandoned in May 2018 for which the Group incurred ₱115.9 million. The same group has been engaged anew to plan and execute the plug and abandonment of the remaining SC 14 wells and the decommissioning of the fixed offshore facilities in 2019. To be able to accomplish this, the Parent Company needed to terminate all production activities, with the Matinloc finally stopping commercial production in February 2019 and the Nido Field in March 2019. The final plug and abandonment activities are set to commence in April 2019, to be followed with the facilities decommissioning from June to December of 2019.

SC-14 C1 Galoc Block

Phase 2 Development

For SC 14 C-1 Block (Galoc), discussion traces back to the period when Galoc Production Company (GPC) drilled the Phase 2 development wells in the Galoc Central Field Area in 2013. Using the semi-submersible rig "Ocean Patriot", GPC drilled Galoc 5 and Galoc-6 wells back-to-back from June to September 2013. Both wells drilled a combined total of 3,177 meters through horizontal reservoir sections within which about 1,650 meters of net oil pay has been encountered. These wells were immediately put on production in December 2013 at an initial combined rate of 12,000 barrels of oil per day.

By the end of 2015, the Galoc Field had already produced a cumulative total of 16.8 million barrels of oil since it was first put on stream in October 2008. In that year, Nido Petroleum formally took control and ownership of the field from erstwhile operator Otto Energy. Earlier in September 2014, the majority share of Nido Petroleum was bought by Thailand-based Bangchak Petroleum.

Galoc Mid Area Exploration

GPC first recommended in 2015 the drilling of an appraisal and sidetrack well in the Galoc Mid Area aimed to prove reservoir presence and quality and provide crucial data to optimize the placement of the succeeding horizontal production wells. The programmed Galoc appraisal and sidetrack well program and budget were approved in October 2016, paving the way for the drilling preparation, contracting, services and equipment procurement. GPC carried out their 2-well drilling campaign in late-March to early May using the drillship Deepsea Metro I. Galoc-7 drilled through the reservoir objective which was found to contain hydrocarbons while Galoc-7ST, a sidetrack from Galoc-7, drilled through the prognosed hydrocarbon-charge Galoc Clastic Unit. The 2 wells encountered 7 to 12 meters of net sand which was below the prognosed thickness. With these results, GPC decided to temporarily suspend all activities related to a possible Phase 3 development.

Change in management and block operatorship

In July 2018, Tamarind Galoc Pte Ltd (Tamarind), a subsidiary of Singapore-based Tamarind Resources, acquired Nido Petroleum's subsidiaries GPC and Nido Production (Galoc) Pte Ltd, giving Tamarind majority equity and operatorship of the Galoc Field. GPC plans to install a Condensate Recovery Unit (CRU) onboard the FPSO Rubicon Intrepid that is capable of recovering 15 to 20 barrels of oil condensate for every 1 million cubic feet of gas produced.

In 2018 and 2017, the field produced around 1.07 million and 1.46 million barrels of oil, respectively.

SC-14 C-2 West Linapacan Block

The DOE approved the farm-in and the transfer of 58.29075% participating interests and operatorship of the block to Pitkin Petroleum in September 2008. Later in February 2011, Pitkin concluded a farm-out agreement whereby Pitkin transferred 29.145375% participating interest to Resource Management Associates (HK) Limited (RMA) in exchange for being carried through the drilling and testing of the West Linapacan A appraisal/development well. The farm-out agreement with RMA was approved by the DOE in July 2011.

Following the DOE approval, Pitkin and RMA started rig pre-qualification, review and costing for the 2 planned wells (WL A7 and WL A8) to be drilled on the fourth quarter 2014. Unfortunately, the drilling did not push through despite the several extensions granted to RMA to perform its commitments, prompting the farming-out partners to terminate the agreement. The contract reverted to its old participation structure with the Parent Company as the new operator effective March 12, 2015. As the new operator, the Parent Company carried out a 6-month technical and commercial audit of the service contract aimed at reconstituting the joint venture records and resources and better planning of all forward activities for the block. Later, a re-mapping of the West Linapacan Field was undertaken and this allowed continued geological and geophysical work on SC 14C-2 which was inadvertently put on hold by the RMA impasse.

Since then, the Parent Company continued to evaluate the West Linapacan A through in-house assessment studies and by engaging third-party consultants to re-validate reserves and to investigate viable re-development options for West Linapacan. In-depth interpretation of the 3D seismic data was carried out in 2017 and 2018 while for 2019, the Consortium approved plans to conduct QI work using re-processed 3D seismic and well data from existing WL A and WL B wells in conjunction with the parallel QI works in Service Contract 74.

8. Investments in Associates

The Group's associates include Penta Capital Investment Corporation (PCIC), Penta Capital Holdings, Inc. (PCHI), and Atlas Consolidated Mining and Development Corporation (ACMDC), companies incorporated in the Philippines, where the Group holds 40.00%, 13.21%, and 0.53% ownership interest, respectively. PCIC also has 29.54% ownership interest in PCHI, making the Group's effective ownership in PCHI at 25.03%.

On December 18, 2015, the Company entered into a Joint Voting Agreement with Alakor Corporation (Alakor), National Book Store, Inc. (NBS) and Anglo Philippine Holdings Corporation (APHC), collectively known as the Ramos Group, to jointly vote their shares in ACMDC in all matters affecting their rights as stockholders effective January 1, 2015. The combined interest of the parties to the agreement represents 43.01% interest in ACMDC. By virtue of this agreement, significant influence in the associate is established.

The details of investments in associates carried under the equity method follow:

	2018	2017
Acquisition costs	**₱633,485,090**	₱633,485,090
Accumulated equity in net earnings:		
Beginning of year	**151,377,848**	129,456,791
Share in net income	**32,379,852**	15,781,372
Share in OCI of associates	**(1,397,723)**	19,442,677
Dividends	**(14,642,396)**	(13,302,992)
Write-off	**(11,078,715)**	–
End of year	**156,638,866**	151,377,848
	₱790,123,956	₱784,862,938

During the year, the Group has written off its investment in ACMDC amounting to ₱11.1 million.

Following are the summarized financial information of ACMDC, PCIC and PCHI as at and for the years ended December 31, 2018 and 2017 (in thousands):

	2018			2017		
	ACMDC	**PCIC**	**PCHI**	ACMDC	PCIC	PCHI
Total current assets	**₱7,252,006**	**₱801,897**	**₱386,179**	₱5,443,457	₱509,806	₱368,059
Total noncurrent assets	**71,743,872**	**240,990**	**168,363**	68,959,417	670,688	190,119
Total current liabilities	**16,101,446**	**217,547**	**14,209**	12,364,406	397,012	23,501
Total noncurrent liabilities	**27,281,681**	**22,727**	**–**	25,647,265	21,245	–
Total equity	**35,612,751**	**802,613**	**540,333**	36,391,203	762,237	534,677

	2018			2017			2016		
	ACMDC	**PCIC**	**PCHI**	ACMDC	PCIC	PCHI	ACMDC	PCIC	PCHI
Revenue	**₱13,295,914**	**₱198,959**	**₱93,719**	₱11,070,571	₱206,084	₱85,900	₱10,924,490	₱141,697	₱153,052
Costs and expenses	**13,091,958**	**94,604**	**32,620**	10,096,189	98,518	41,753	10,385,324	82,563	30,121
Total comprehensive income (loss)	**(1,757,695)**	**85,971**	**45,238**	(1,873,562)	80,054	22,187	240,660	54,988	88,906

The financial statements of the associates are prepared under the same reporting period as the Group.

9. Financial Assets at FVOCI and AFS Financial Assets

As of December 31, 2018, financial assets at FVOCI consists of investments in quoted shares:

Quoted shares of stock	**₱106,204,197**
Net unrealized loss	**(31,953,522)**
	₱74,250,675

During the year the Group acquired an additional investment in the shares of Oriental Petroleum and Minerals Corporation with a total carrying value of ₱24.9 million.

As of December 31, 2017, AFS financial assets consists of investments in quoted shares:

Quoted shares of stock	₱81,259,385
Net unrealized loss	(30,285,162)
	₱50,974,223

AFS financial assets represent equity instruments on investments in quoted shares carried at fair market value as at the end of the reporting period.

The following table illustrates the movement of the "Net unrealized loss on decline in value of financial assets at FVOCI and AFS financial assets" account in the equity section of the consolidated statements of financial position:

	2018	2017
Beginning of year	**₱30,285,162**	₱16,276,563
Fair value changes during the year	**1,668,360**	14,008,599
End of year	**₱31,953,522**	₱30,285,162

10. Deferred Oil Exploration Costs

The full recovery of deferred oil exploration costs incurred in connection with the Group's participation in the acquisition and exploration of petroleum concessions is dependent upon the discovery of oil in commercial quantities from the respective petroleum concessions and the success of future development thereof.

The following table illustrates the movements in the deferred oil exploration costs account:

	2018	2017
Beginning of year	**₱1,043,525,798**	₱1,028,284,179
Additions	**15,001,269**	15,241,619
End of year	**₱1,058,527,067**	₱1,043,525,798

And below is the composition of the deferred oil exploration costs per SCs:

	2018	2017
SC-6 Block A (Octon)	**₱529,930,659**	₱523,707,275
SC-53 (Onshore Mindoro)	**188,793,411**	185,307,500
SC-41 (Sulu Sea)	**146,206,530**	146,206,530
SWAN Block	**99,392,028**	99,392,028
SC-6 Block B (Bonita)	**47,585,938**	45,450,644
SC-74 (Linapacan)	**46,618,501**	43,461,821
	₱1,058,527,067	₱1,043,525,798

Under the SCs entered into with the Department of Energy (DOE) covering certain petroleum contract areas in various locations in the Philippines, the participating oil companies (collectively known as Contractors) are obliged to provide, at their sole risk, the services, technology and financing necessary in the performance of their obligations under these contracts. The Contractors are also obliged to spend specified amounts indicated in the contract in direct proportion to their work obligations.

However, if the Contractors fail to comply with their work obligations, they shall pay the government the amount they should have spent in direct proportion to their work obligations.

The Contractors have Operating Agreements among themselves which govern their rights and obligations under these contracts.

The Contractors entered into several SCs with the Philippine Government, through the DOE, for the exploration, development and exploitation of the contract areas situated mostly in offshore Palawan where oil discoveries were made. The Group's present petroleum revenues and production costs and related expenses are from certain areas of SC-14, particularly Nido, Matinloc, North Matinloc and Galoc.

The aforementioned SCs provide for certain minimum work expenditure obligations and the drilling of a specified number of wells and are covered by operating agreements which set forth the participating interests, rights and obligations of the Contractor. The Group's share in the jointly controlled assets of the aforementioned SCs is included principally under the "Receivables", "Crude oil inventory", "Property and equipment" and "Deferred oil exploration costs" accounts in the consolidated statements of financial position.

The Group's participating interests (in percentage) in the different SCs under exploration as at December 31, 2018 and 2017 are as follows:

	Participating Interest (in percentage)	
Area	**2018**	2017
SC-6 (Northwest Palawan):		
Block A (Octon)	**51.65000**	51.65000
Block B (Bonita)	**58.18200**	21.87500
SC-53 (Onshore Mindoro)	**22.00000**	22.00000
SC-74 (Linapacan)	**25.00000**	25.00000
SWAN Block (Northwest Palawan)	**28.12500**[1]	28.12500[1]
SC 41 (Sulu Sea)	**60.00000**	60.00000

[1] *Ongoing negotiations with PNOC-EC.*

Assignment of PPC's participating interest to the Parent Company

In December 19, 2016, PPC assigned its remaining participating interests of 28.125% in SC 6B Block B (Bonita) to the Parent Company by creating a Deed of Assignment and Assumption. On April 12, 2018, DOE approved the transfer of PPC's remaining participating interests to the Parent Company.

SC-6 BLOCK A (Octon)
In June 2009, the Department of Energy extended the production of term SC 6A (Octon Block) for a series of three 5-year terms, subject to compliance with certain conditions such as yearly submission of work program and budget and payments of technical assistance and training fund to the DOE. The term extension is reckoned from March 1, 2009. Block operatorship remained with the Parent Company.

In April 2011, the SC 6A Joint Venture executed the farm-in of Pitkin Petroleum Plc (Pitkin). The farm-in agreement was signed on July 11, 2011 and approved by the DOE on December 6, 2011. Pitkin was appointed as the new operators with an earned interest of 70%. By virtue of the farm-in, Pitkin acquired some 500 sq km of 3D seismic data over the northern block with Seabird Exploration and Fairfield Limited as the acquisition and processing contractor, respectively.

In August 2014, Pitkin withdrew from the farm-in agreement and consequently from the Service Contract by the end of December 2014. The Parent Company was designated as the new block operator effective January 1, 2015. A Deed of Assignment formalized the transfer of Pitkin's interest back to the continuing partners.

In 2016, the SC 6A joint venture undertook quantitative interpretation (QI) work which entailed re-processing of a sizeable volume of 3D data to broadband quality, with DownUnder Geosolutions as contractor. The project was completed in November 2016.

In 2017, the SC 6A Consortium carried out the reprocessing of about 500 sq km of 3D PSDM data, which was followed by a re-run of QI work that was undertaken on the 3D dataset using PSTM processing.

As the 2018 work plan, the Parent Company undertook the interpretation of newly re-processed 3D seismic and integrated the results of the QI work for the risk and resource analysis of some structures of interest within the block. Much of these works will form part of the programmed activities for 2019 that were approved by the DOE including scoping project studies to assess viability of pursuing drilling in the northern sector of the block.

SC-6 BLOCK B (Bonita)
Similar to SC 6A, the DOE had likewise extended the production term of SC 6B (Bonita Block) which also reckoned from March 1, 2009. The Parent Company remained as block operator.

In 2014 to 2015, various works focused on the evaluation of the three major structures of interests within the Bonita Block. These are the Elephant prospect which has been identified as an upside, and the East Cadlao prospect and the Bonita discovery which were both deemed uneconomic to develop on a stand-alone basis. Further works were undertaken aimed at refining the interpretation and evaluation of these structures.

In August 2016, the SC 6B joint venture requested for the amendment of SC 6B (Bonita) to include the Cadlao Field as most of the partners can only support a forward program for SC 6B with the Cadlao Field appended to it. While the request was still pending, the Parent Company received from a potential Europe-based company a farm-in offer premised on the DOE approving the inclusion of Cadlao Field. A farm-in agreement was eventually signed in September 2017, with the indicative work program geared towards reviving production from the Cadlao Field. The DOE formally approved the joint venture request on March 18, 2018 subject to the execution of the Amendment to SC 6B which basically defines the geographical coordinates of SC 6B with Cadlao Block appended to it. The DOE approved on June 1, 2018 the First Amendment to Petroleum Service Contract 6B. The Deed of Assignment and the farminee's qualification documents were submitted to the DOE for evaluation where they remain pending.

SC-53
The DOE approved in June 2008 the transfer of interest previously held by erstwhile operator Laxmi Organic Industries Ltd to Pitkin Petroleum. Under the first sub-phases of the contract term, Pitkin carried out low-key and limited geophysical activities owing to the scarce available data Mindoro. In April 2009 in response to Pitkin's request, the DOE merged the first 2 sub-phases into a new Sub-Phase 1, requiring a commitment to drill 2 wells.

Pitkin later transferred 35% participating interest to RMA with Pitkin retaining the operatorship of the block. It then acquired airborne gravity and LIDAR data under the merged sub-phase. From 2011 to 2015, Pitkin carried out various activities in preparation for the drilling of Progreso-2, including acquisition of requisite government permits, equipment and services bid tenders. For some reasons, the target schedule for the well drilling has been moved to various dates. This prompted the DOE to revoke in July 2015 the approval of the Deed of Assignment between Pitkin and RMA and the corresponding transfer of Pitkin's 35% interests to RMA. This came after RMA failed to present categorical proof of financial capability to perform its obligations under the DOA. This development again prevented any drilling to happen in 2015.

In January 2016, Pitkin started to negotiate with Mindoro-Palawan Oil and Gas Inc. (MPOGI) for the sale and transfer of Pitkin's 70% interest to MPOGI. The DOE approved the transfer of interest and the appointment of MPOGI as the new block operator later in October 2017. During a December 2016 TCM that MPOGI presided for the first time as operator, the joint venture approved to delay the spudding of the Progreso-2 well to December 2017. This was set further back due to MPOGI's lack of manpower and technical expertise to prosecute the work commitments. They offered instead to divest its stake on the Onshore Mindoro.

At the end of 2018, MPOGI has yet to provide the joint venture with a concrete plan for the block, specifically the activities to execute the JV's commitments including the drilling of Progreso as well as the status of their negotiations with Gas2Grid which earlier indicated interests on the Progreso project through possible drill-for-equity arrangement with the Onshore Mindoro joint venture.

SC-74
Service Contract 74 was awarded in September 2013 following the successful joint bid of the Parent Company and Pitkin under PECR4. Pitkin, as operator, owned 70% interest and the Parent Company the remaining 30%. Prior to the submission of the bid, the Parent Company agreed to assign 5% from the Parent Company's interests to PNOC-EC. The block covers an area of 4,240 sq km and is located in shallow waters of the NW Palawan area.

For the most part of 2013 to 2014, Pitkin carried out seismic data re-processing, petrophysical well analyses and geological fieldwork as part of the activities under the contract's Phase 1 which the DOE extended to August 2015 and further extended to February 2016. As this developed, Pitkin's affiliate Philex had already initiated the transfer of Pitkin's interest to them. The transfer, which was approved by the DOE in April 2016, paved the way for PXP Energy to assume the operatorship of the block. PXP eventually acquired for the Joint Venture a significant broadband seismic, gravity and magnetic data during its seismic survey campaign in 2016.

The SC 74 JV worked together on the evaluation of the potential of the Linapacan Block using the MC2D data that CGG acquired in 2016, with the Parent Company and PNOC-EC completing their respective share of the works to complement PXP's interpretation work on the MC2D data. The Parent Company was tasked to evaluate the Linapacan A and B structures and provide preliminary resource estimates for the 2 fields. PNOC-EC, on the other hand, was tasked to undertake engineering studies, screening concepts and development plans to determine the viability of the Linapacan discoveries.

In early 2019, the DOE approved the SC 74 joint venture's proposed work program including the conduct of joint quantitative interpretation with the SC14 C-2 joint venture. As of time of reporting, PXP and the Parent Company are negotiating with service provider IKON Science to firm up the methodology and data requirements for the joint QI work.

SWAN Block
Despite the inclusion of the SWAN Block in NW Palawan in the first edition of the Philippine Energy Contracting Round in 2004, the SWAN Block consortium did not receive any notification from the DOE rescinding the GSEC application which the consortium later converted into a full service contract application. However, the DOE granted instead new service contracts that both partially covered the area being applied for. PNOC-EC's SC 57 and SC 58 were awarded in September 2005 and January 2006, respectively.

From 2007 and up to the time of writing, the Parent Company continued to wait for PNOC-EC to agree to a possible interest swap that will pave the way for the SWAN Group's participation in the two deepwater SCs of PNOC-EC. Under this set-up, the SWAN consortium will get 15% carried interests in each of SC 57 and SC 58 in exchange for the 5% interest in West Linapacan Block to be assigned to PNOC-EC. The offer was amended in 2012 with PNOC-EC to acquire interests instead in the Nido Ix-1 project. In both cases, PNOC-EC requested that they be given ample time to conduct due diligence to evaluate the merits of the proposed interest swap.

Efforts in finalizing an agreement with PNOC-EC, however, are hampered by Executive Order (EO) 556 issued by the Office of the President of the Philippines which directs PNOC-EC to forge partnership with other service contractors through the normal means of farm-in/farm-out mechanisms but only through a strict bidding process. PNOC-EC had been working on the repeal and/or amendment of the EO.

The Parent Company is still the holder of the GSEC pertaining to SWAN Block and such is still binding and effective since there is no cancellation or revocation made by the Department of Energy

SWAN Block is within the disputed West Philippine Sea where force majeure is in effect and all contracts are in moratorium. As such, the DOE cannot take action in any of these contracts.

SC-41
In 2012, the Parent Company and Philex Petroleum Corporation (Philex) submitted a joint bid for Area 15 that the offered for bidding under the 4th Philippine Energy Contracting Round (PECR4). Area 15 covers the old SC 41 block previously operated by Tap Oil Limited. Back then, the bid of the Parent Company/Philex was reportedly chosen based on the proposed work program, but for some reason, the result of the bidding for Area 15 was not released by the DOE.

A new bidding round, PECR5, was launched by the DOE in May 2014. Unfortunately, the Sulu Sea area was not included among the blocks on offer as the area is within the contemplated regions proposed to be covered by the Bangsamoro Basic Law. The Parent Company, PXP Energy 1(formerly Philex) and Anglo Philippine Holdings Corporation would have likely participated in the PECR5 bidding if Area 15 was again offered.

The DOE launched in November 2018 the Philippine Conventional Energy Contracting Program (PCECP) for petroleum and coal. Under the PCECP, awarding of new service contracts is conducted either through competitive bidding process or via nomination whereby the PCECP would allow participants to nominate prospective areas other than the 14 pre-determined areas on offer. The Company considers to participate in the bid together with PXP and Anglo. The bid documents are currently being prepared for submission by May 2019.

11. Accounts Payable and Accrued Liabilities

	2018	2017
Accrued liabilities	**₱3,859,616**	₱74,576
Accounts with partners (see Note 6)	**1,552,586**	6,494,723
Share-based liability	**4,839,924**	4,344,718
Withholding taxes	**943,418**	1,253,848
Others	**511,518**	953,578
	₱11,707,062	₱13,121,443

Accrued liabilities include accrual for bonus, salaries and other employee benefits.

Accounts with partners represent payables arising from transactions of the consortium.

Share-based liability pertains to the share appreciation rights (SAR) plan.

On April 11, 2011, the Parent Company's BOD approved the initial award of 2.0 billion rights to the Parent Company's qualified employees and directors in accordance with the SAR plan. The award price is ₱0.0143, based on the average of the Parent Company's share price for the period March 14, 2011 to April 8, 2011. The SARs are only redeemable from the Parent Company in cash. The fair value of the SARs is measured at each reporting period using binomial option pricing model taking into account the terms and conditions upon which the instruments were granted. Maximum number of outstanding rights as of any given time should not exceed 4% of the outstanding common shares of the Parent Company. The SARs shall become vested as follows: 35% upon award, 35% on first anniversary of award and 30% on second anniversary of award.

On May 2, 2011, the initial award under the SAR plan was implemented. The period during which the SAR may be exercised shall be specified by the compensation committee provided that no SAR shall be exercisable after the expiration of ten (10) years from the date of award.

The following illustrates the movement of SARs as at December 31, 2018 and 2017:

	2018		2017	
	Number	**Amount**	Number	Amount
Beginning of year	**816,500,000**	**₱4,344,718**	876,500,000	₱4,033,598
SAR expense	**–**	**495,206**	–	311,120
Forfeited during the year	**–**	**–**	(60,000,000)	–
End of year	**816,500,000**	**4,839,924**	816,500,000	4,344,718
Exercisable at December 31	**816,500,000**	**₱4,839,924**	816,500,000	₱4,344,718

The following table lists the inputs to the binomial model used for the years ended December 31, 2018 and 2017:

	2018	2017
Dividend yield	**0.000%**	0.000%
Expected volatility	**77.08%**	66.20%
Risk-free interest rate	**6.68%**	4.49%
Expected life of SARs (in years)	**2.25**	3.250
Weighted average share price (in PHP)	**0.0143**	0.0143
Spot price (in PHP)	**0.0130**	0.0120

Withholding taxes are payable within 14 days after the close of the month.

Other payables mainly consist of accrued professional fees and are normally settled within 15 to 30 days.

12. Provision for Plug and Abandonment Costs

SC 14 Block C-1 (Galoc)

Beginning October 1, 2016, the Group makes full provision for the future cost of decommissioning Galoc oil field on a discounted basis. The provision represents the present value of plug and abandonment costs relating to Galoc oil field, which are expected to be incurred up to 2022. This provision has been created based on the estimates and assumptions stated in the Revised Decommissioning Plan and Budget of the Galoc Oil field approved by the DOE last October 3, 2016. Assumptions, based on the current economic environment, have been made which management believes, are reasonable basis upon which to estimate the future liability.

The final plug and abandonment costs are uncertain and cost estimates can vary in response to many factors, including estimates of the extent and costs of decommissioning activities, technological changes, regulatory changes and changes in discount rates of 7.02% and 4.75% as at December 31, 2018 and 2017, respectively. These uncertainties may result in future actual expenditure differing from the amounts currently provided. Therefore, significant estimates and assumptions are made in determining the provision for decommissioning. As a result, there could be significant adjustments to the provision established, which could affect future financial results.

As at December 31, 2018 and 2017, the provision for plug and abandonment is as follows:

	2018	2017
Beginning of year	**₱24,171,093**	₱21,934,354
Accretion of interest	**1,345,063**	1,407,057
Effect of translation adjustment	**4,366,374**	(829,682)
Effect of change in estimate	**(8,732,748)**	1,659,364
End of year	**₱21,149,782**	₱24,171,093

The provision at the end of each reporting period represents management best estimate of the present value of the future decommissioning cost required. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual plug and abandonment costs will ultimately depend upon future market prices for the necessary decommissioning works required which will reflect market conditions at the relevant time. Furthermore, the timing of decommissioning is likely to depend on when the oil field ceases to produce at economically viable rates. This, in turn, will depend upon future oil prices, which are inherently uncertain.

In relation to the decommissioning liability, the Group established a decommissioning fund equivalent to its current contribution to settle its share in the plug and abandonment costs of Galoc oil field. As at December 31, 2018 and 2017, the fund has a balance of ₱9.2 million and ₱5.6 million, respectively, which is recognized under "Other noncurrent assets". Foreign exchange gain on revaluation of the decommissioning fund was ₱0.3 million and ₱0.2 million, respectively, in 2018 and 2017.

SC 14A, B&B-1 Nido, Matinloc & North Matinloc Fields

The Consortium plans to plug and abandon the remaining nine (9) wells at the Nido, Matinloc and North Matinloc Fields within the second quarter of 2019. These fields have already reached their end of life, having been in production since the late 1970's to early 1980's. The plug and abandonment operation will start in April 2019 and is expected to last for 54 days. In 2018, the Group incurred plug and abandonment costs amounting to ₱116.0 million related to the plug and abandonment planning of Nido - Matinloc wells of which, ₱104.9 million remains unpaid and presented as "Current portion of provision for plug and abandonment costs" in the consolidated statement of financial position as at December 31, 2018. On January 15 and March 15, 2019, the Parent Company paid its share in the first two (2) cash calls for the plug and abandonment activities amounting to ₱38.9 million and ₱19.5 million, respectively (see Note 26).

13. **Equity**

Capital Stock

As at December 31, 2018 and 2017, capital stock consists of:

	Number of Shares	Amount
Capital stock - ₱0.01 par value		
Authorized 200 billion shares		
Issued and subscribed	191,868,805,358	₱1,918,688,053
Subscription receivable	(17,533,428,605)	(175,334,286)
	174,335,376,753	₱1,743,353,767

On December 19, 2018, the BOD approved that the 50% balance on subscriptions to the Parent Company's 2009 stock rights offering shall be called for payment by the BOD no later than December 31, 2019, instead of December 31, 2018.

Retained Earnings
On September 21, 2016, the BOD approved the declaration of a 2.5% cash dividend equivalent to ₱0.00025 per share or an aggregate of ₱48.0 million payable on November 2, 2016.

As at December 31, 2018 and 2017, the Group has unpaid dividends amounting to ₱33.3 million. In accordance with SRC Rule 68, as Amended (2011), Annex 68-C, the Group's retained earnings available for dividend declaration amounted to ₱1,604.8 million as at December 31, 2018.

14. Earnings Per Share

	2018	2017	2016
Net income (loss)	**(₱261,957,274)**	(₱6,366,746)	₱29,119,304
Weighted average number of common shares issued and subscribed during the year (see Note 13)	**191,868,805,358**	191,868,805,358	191,868,805,358
Basic/Diluted Earnings (Loss) Per Share	**(₱0.0014)**	(₱0.0000)	₱0.0002

There were no dilutive shares as at December 31, 2018 and 2017.

There have been no other transactions involving common shares between the end of the financial reporting period and the date of authorization of the consolidated financial statements.

15. Related Party Transactions

Related party relationship exists when the party has the ability to control, directly or indirectly, through one or more intermediaries, or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting entity and its key management personnel, directors or stockholders. In considering each possible related party relationship, attention is directed to the substance of the relationships, and not merely to the legal form.

The Group, in the normal course of business, has transactions with related parties which principally consist of loans and cash advances.

a. As at December 31, 2018 and 2017, the Group's advances to related parties and the corresponding interest income from these advances are as follows:

Related Party		Volumes	Advances to related parties (see Note 5)	Accrued interest receivable (see Note 5)	Terms	Condition
Stockholder						
Alakor	**2018**	**₱7,128,632**	**₱188,145,000**	**₱17,926,755**	Collectible on demand; 3.58% interest	Unsecured, no impairment
	2017	₱33,924,856	₱187,482,500	₱11,460,623		
Under common stockholders						
Fil-Energy Corporation	**2018**	**–**	**₱4,753,762**	**₱16,166,436**	Collectible on demand; non-interest bearing	Unsecured, fully impaired
	2017	–	4,753,762	16,166,436		Unsecured, no impairment
(Forward)						
United Paragon Mining Corporation	**2018**	**₱–**	**₱1,055,839**	**₱–**	Collectible on demand; non-interest bearing	Unsecured, no impairment
	2017	–	1,055,839	–		
Total	**2018**		**₱193,954,601**	**₱34,093,191**		
Total	2017		₱193,292,101	₱27,627,059		

In August 2017, Alakor borrowed ₱15.0 million from the Group also with an interest rate of 3.58% per annum, fixed until the full payment of loan. Also, on November 3, 2017, the Group made an additional advance amounted to $0.3 million.

In 2018, 2017 and 2016, foreign exchange gains (loss) attributable to foreign-currency denominated related party transactions amounted to ₱0.7 million, (₱0.4 million), and nil, respectively.

As at December 31, 2018 and 2017, intercompany receivables and payables eliminated during consolidation amounted to ₱8.8 million. This pertains to non-interest bearing advances made by the Parent Company to PPC, its wholly owned subsidiary (see Notes 5 and 11).

In 2018, the Group recognized provision for ECL amounting to ₱20.9 million.

b. The interest income earned by the Group from its advances to related parties follow:

	Interest Income		
	2018	2017	2016
Alakor	**₱6,660,441**	₱6,022,356	₱5,823,467

c. The compensation of key management personnel are as follows:

	2018	2017	2016
Short-term employee benefits	**₱15,568,548**	₱17,437,262	₱15,696,549
Post-employment benefits	**11,141,353**	5,841,332	2,752,994
	₱26,709,901	₱23,278,594	₱18,449,543

Key management personnel are those individuals having authority and responsibility for planning, directing, and controlling the activities of the Group, directly or indirectly, including any directors (whether executive or otherwise) of the Group.

16. **Share in Costs and Operating Expenses**

	2018	2017	2016
Petroleum operations	**₱484,560,544**	₱284,643,234	₱240,244,079
Personnel costs	**5,825,151**	6,550,121	9,848,607
	₱490,385,695	₱291,193,355	₱250,092,686

Share in petroleum operations consist of the Group's share in the production costs, lifting and marketing fees, and other operating expenses of the SC-14 Nido, Matinloc, and North Matinloc and SC14-C1 Galoc oil fields.

In 2018, share in costs and operating expenses include plug and abandonment cost amounting to ₱242.0 million which pertains to the estimated and actual costs to plug and abandon Libro-1, Tara South-1 wells, and 9 wells from Nido, Matinloc and North Matinloc fields.

Personnel costs are the time charges of the exploration group for work done for the fields mentioned above.

17. **General and Administrative Expenses**

	2018	2017	2016
Personnel costs	**₱33,406,232**	₱30,544,186	₱31,042,018
Taxes and licenses	**17,223,266**	244,749	93,999
Entertainment, amusement and recreation	**6,306,825**	6,535,469	3,654,156
Dues and subscriptions	**5,814,966**	1,976,389	1,998,426
Transportation and travel	**4,866,901**	5,386,637	3,475,047
Outside services	**3,480,970**	4,517,033	2,239,610
Depreciation (see Note 7)	**3,029,377**	2,915,815	2,586,096
Supplies	**2,972,468**	3,039,693	1,612,909
Insurance	**1,834,271**	1,841,680	924,407
Utilities	**1,356,387**	1,489,601	1,052,225
Repairs and maintenance	**558,530**	512,089	802,277
Rent	**447,204**	374,091	359,352
Software licenses and maintenance fees	**203,438**	105,198	195,355
Advertising	**175,773**	170,401	152,085
Others	**310,781**	72,002	62,253
	₱81,987,389	₱59,725,033	₱50,250,215

Personnel costs include salaries, allowances and employee benefits and facilities.

18. **Retirement Benefit Liability**

The Group has a funded, non-contributory defined benefit retirement plan covering its regular permanent employees. Retirement benefit expenses are based on each employee's number of years of service and final covered compensation.

Republic Act (RA) No. 7641 ("Retirement Pay Law") an Act amending article 287 of Presidential Decree No. 442 ("Labor Code of the Philippines"), requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided, however, that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

The following table summarizes the details in the latest Actuarial Valuation Report as at December 31, 2018.

Changes in defined benefit liability and fair value of plan assets in 2018 are as follows:

	Defined Benefit Liability	**Fair Value of Plan Asset**	**Net Defined Benefit Liability**
At January 1	**₱86,981,078**	**(₱82,149,921)**	**₱4,831,157**
Current service cost	**3,631,934**	**–**	**3,631,934**
Net interest	**3,714,675**	**(3,587,860)**	**126,815**
Retirement benefit expense (income) charged to profit or loss	**7,346,609**	**(3,587,860)**	**3,758,749**
Benefits paid	**(1,411,547)**	**1,411,547**	**–**
Actuarial changes arising from:			
Experience adjustments	**3,098,683**	**–**	**3,098,683**
Financial assumptions	**(4,798,144)**	**–**	**(4,798,144)**
Demographic assumptions	**(522,916)**	**–**	**(522,916)**
Loss on plan assets (excluding amount included in net interest)	**–**	**3,572,054**	**3,572,054**
Pension cost charged to OCI	**(2,222,377)**	**3,572,054**	**1,349,677**
At December 31	**₱90,693,763**	**(₱80,754,180)**	**₱9,939,583**

Changes in defined benefit liability and fair value of plan assets in 2017 are as follows:

	Defined Benefit Liability	Fair Value of Plan Asset	Net Defined Benefit Liability
At January 1	₱82,081,851	(₱79,432,265)	₱2,649,586
Current service cost	3,641,938	–	3,641,938
Net interest	3,334,733	(3,341,659)	(6,926)
Retirement benefit expense (income) charged to profit or loss	6,976,671	(3,341,659)	3,635,012
Benefits paid	–	–	–
Actuarial changes arising from:			
Experience adjustments	6,864,205	–	6,864,205
Financial assumptions	(8,956,124)	–	(8,956,124)
Demographic assumptions	14,475	–	14,475
Loss on plan assets (excluding amount included in net interest)	–	624,003	624,003
Pension cost charged to OCI	(2,077,444)	624,003	(1,453,441)
At December 31	₱86,981,078	(₱82,149,921)	₱4,831,157

Retirement benefit expense is composed of current service cost which is shown as "Personnel costs" under general and administrative expenses while net interest is shown under "Interest income" in the consolidated statements of income:

	2018	2017	2016
Current service cost	**₱3,631,934**	₱3,641,938	₱4,997,405
Net interest	**126,815**	(6,926)	325,963
	₱3,758,749	₱3,635,012	₱5,323,368

The latest actuarial valuation of the plan is as at December 31, 2018. The principal actuarial assumptions used to determine retirement benefits costs are as follows:

	2018	2017	2016
Discount rate	**7.18%**	5.44%	5.07%
Investment yield	**4.00%**	2.50%	5.00%
Salary increase	**3.00%**	3.00%	5.00%

Assumptions regarding future mortality rate are based on the 2001 CSO Table - Generational developed by the Society of Actuaries, which provides separate rates for males and females.

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined retirement benefits liability as at the end of the reporting period, assuming all other assumptions were held constant:

	Increase (decrease)	**2018**	2017	2016
Discount rates	+1%	**₱88,261,613**	₱84,182,922	₱78,761,159
	-1%	**93,357,289**	90,068,196	85,792,310
Salary increase rate	+1%	**93,933,144**	90,628,524	86,245,367
	-1%	**87,674,910**	83,605,853	78,274,285

The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

	2018	2017	2016
Fixed income securities	**99.00%**	99.29%	99.25%
Deposits in banks	**0.00%**	0.00%	0.00%
Interest receivable	**1.11%**	0.81%	0.85%
Receivables	**0.04%**	0.00%	0.00%
Others	**(0.15%)**	(0.10%)	(0.10%)
	100.00%	100.00%	100.00%

The Group expects to contribute ₱5.0 million to the defined benefit pension plan in 2019.

Shown below is the maturity analysis of the undiscounted benefit payments as of December 31, 2018:

Within the next twelve (12) months	**₱53,543,741**
Between two (2) and five (5) years	**28,617,630**
Between five (5) and ten (10) years	**29,386,990**
Between ten (10) and fifteen (15) years	**14,526,118**
Between fifteen (15) and twenty (20) years	**8,990,665**
More than twenty (20) years	**21,287,534**
Total expected payments	**₱156,352,678**

The average duration of the defined retirement benefits liability as at December 31, 2018 and 2017 is 7.92 and 8.17 years, respectively.

19. **Income Taxes**

a. The details of provision for current income tax are as follows:

	2018	2017	2016
MCIT	**₱220,137**	₱931,256	₱249,837
Final taxes	**1,879,553**	1,384,149	1,321,035
	₱2,099,690	₱2,315,405	₱1,570,872

b. The reconciliation of provision for (benefit from) income tax computed using the statutory income tax rate with provision for (benefit from) income tax in the consolidated statements of income is as follows:

	2018	2017	2016
Provision for (benefit from) income tax computed at the statutory income tax rate	**(₱105,735,016)**	(₱5,499,628)	₱6,573,605
Add (deduct) tax effect of:			
Nontaxable income	**(99,861,083)**	(92,947,406)	(86,893,860)
Nondeductible expenses	**78,742,845**	88,736,344	75,586,022
Write-off of:			
Property and equipment	**23,703,649**	–	–
Receivables	**11,421,201**	–	–
Investments in associate	**3,323,614**	–	–
Income subjected to final tax	**(3,986,741)**	(3,672,671)	(3,796,265)
Final tax on interest income	**1,879,553**	1,384,149	1,321,035
Movement in unrecognized deferred tax assets	**19,200**	33,865	2,175
Provision for (benefit from) income tax	**(₱90,492,778)**	(₱11,965,347)	(₱7,207,288)

c. Net deferred income tax assets represent the following:

	2018	2017
Deferred income tax assets on:		
Net operating loss carry-over (NOLCO)	**₱74,951,999**	₱17,498,503
Provision for plug and abandonment costs	**37,804,143**	6,842,352
Retirement benefits and unamortized past service cost	**8,142,501**	9,395,540
Provision for impairment of receivables	**6,276,059**	–
SAR expense	**1,451,977**	1,290,464
Excess of MCIT over RCIT	**1,401,230**	1,181,093
Provision for impairment losses on deferred oil exploration costs	**–**	197,624
	130,027,909	36,405,576
Deferred income tax liabilities on:		
Unrealized foreign exchange gains	**(7,566,862)**	(431,495)
Decommissioning asset	**(1,262,899)**	(4,554,240)
Unearned crude oil lifting	**–**	(3,219,064)
	(8,829,761)	(8,204,799)
	₱121,198,148	₱28,200,777

The Group has NOLCO and recognized excess MCIT that can be claimed as deduction from future taxable income and future income tax due as follows:

Year incurred	Year of expiration	NOLCO
2017	2020	₱58,328,343
2018	2021	191,511,653
		₱249,839,996

NOLCO	**2018**	2017
Beginning balance	**₱58,328,343**	₱–
Addition	**191,511,653**	58,328,343
Ending balance	**₱249,839,996**	₱58,328,343

MCIT	**2018**	2017
Beginning balance	**₱1,181,093**	₱249,837
Addition	**220,137**	931,256
Ending balance	**₱1,401,230**	₱1,181,093

d. As at December 31, 2018 and 2017, the Group has unrecognized deferred income tax asset amounting to ₱85,320 and ₱66,120, respectively which pertains to NOLCO of its subsidiary.

20. Financial Value Measurement

The carrying amounts of financial assets (except financial assets at FVOCI, AFS financial assets and advances to a related party) and financial liabilities approximate their fair values because of their short-term nature. Financial assets at FVOCI and AFS financial assets are carried at fair value based on the quoted values of the securities. Advances to a related party are long-term and interest-bearing, thus, fair value is equal to the carrying value.

Fair Value Hierarchy

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy as follows:

2018	**Level 1**	**Level 2**	**Level 3**	**Total**
Asset measured at fair value:				
Financial assets at FVOCI	**₱70,510,675**	**₱3,740,000**	**₱–**	**₱74,250,675**

2017	Level 1	Level 2	Level 3	Total
Asset measured at fair value:				
AFS financial assets	₱47,574,223	₱3,400,000	–	₱50,974,223

21. Financial Risk Management Objectives and Policies

The Group's principal financial instruments are comprised mainly of cash and cash equivalents, receivables (except accounts with contract operators and advances to officers and employees), financial assets at FVOCI, AFS financial assets, other noncurrent assets, accounts payable 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 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 risk, 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 Risk

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, financial assets at FVOCI, AFS financial assets and advances to related parties, 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.

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:

	2018	2017
Amortized costs/ Loans and receivables:		
Cash in banks and cash equivalents	**₱536,627,072**	₱634,385,523
Receivables:		
Advances to related parties	**193,954,601**	193,292,101
Accrued interest	**36,326,851**	28,910,346
Accounts with contract operators	**5,141,708**	45,279,627
Others	**1,752,591**	2,104,972
Financial assets at FVOCI	**74,250,675**	–
AFS financial assets	**–**	50,974,223
Other noncurrent assets	**9,528,791**	5,630,540
	₱857,582,289	₱960,577,332

The tables below show the credit quality of the Group's financial assets by class based on the Group's credit evaluation process and the aging of past due but not impaired financial assets:

	Neither past due nor impaired		**Past due but not impaired**				
December 31, 2018	**High Grade**	**Standard Grade**	**1 to 30 Days**	**31 to 90 Days**	**Over 90 Days**	**Impaired**	**Total**
Amortized cost:							
Cash in banks and cash equivalents	**₱536,627,072**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱536,627,072**
Advances to related parties	**–**	**188,145,000**	**–**	**–**	**1,055,839**	**4,753,762**	**193,954,601**
Accrued interest	**2,233,662**	**–**	**543,992**	**1,631,975**	**15,750,787**	**16,166,435**	**36,326,851**
Accounts with contract operators	**5,141,708**	**–**	**–**	**–**	**–**	**–**	**5,141,708**
Others	**–**	**1,445,917**	**–**	**–**	**306,674**	**–**	**1,752,591**
Financial assets at FVOCI	**–**	**74,250,675**	**–**	**–**	**–**	**–**	**74,250,675**
Other noncurrent assets	**–**	**9,528,791**	**–**	**–**	**–**	**–**	**9,528,791**
	₱544,002,442	**₱273,370,383**	**₱543,992**	**₱1,631,975**	**₱17,113,300**	**₱20,920,197**	**₱857,582,289**

December 31, 2017	Neither past due nor impaired: High Grade	Standard Grade	Past due but not impaired: 1 to 30 Days	31 to 90 Days	Over 90 Days	Impaired	Total
Loans and receivables:							
Cash in banks and cash equivalents	₱634,385,523	₱–	₱–	₱–	₱–	₱–	₱634,385,523
Advances to related parties	–	187,482,500	–	–	5,809,601	–	193,292,101
Accrued interest	–	1,283,289	522,083	1,566,250	25,538,724	–	28,910,346
Accounts with contract operators	45,279,627	–	–	–	–	–	45,279,627
Others	–	1,739,897	–	–	365,075	–	2,104,972
AFS financial assets	–	50,974,223	–	–	–	–	50,974,223
Other noncurrent assets	–	5,630,540	–	–	–	–	5,630,540
	₱679,665,150	₱247,110,449	₱522,083	₱1,566,250	₱31,713,400	₱–	₱960,577,332

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 that 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 maturity profile of the Group's financial liabilities based on contractual undiscounted payments and financial assets that are used to manage the liquidity risk of the Group.

2018	**Less than three months**	**Three to twelve months**	**More than twelve months**	**Total**
Financial liabilities				
Accounts payable and accrued liabilities*	**₱8,471,930**	**₱–**	**₱–**	**₱8,471,930**
Dividends payable	**33,258,021**	**–**	**–**	**33,258,021**
	₱41,729,951	**₱–**	**₱–**	**₱41,729,951**

**Excluding government payables*

2018	**Less than three months**	**Three to twelve months**	**More than twelve months**	**Total**
Financial assets				
Cash in banks and cash equivalents	**₱536,627,072**	**₱–**	**₱–**	**₱536,627,072**
Receivables:				
Advances to related parties	**188,145,000**	**1,055,839**	**4,753,762**	**193,954,601**
Accrued interest	**4,409,629**	**15,750,787**	**16,166,435**	**36,326,851**
Accounts with contract operators	**5,141,708**	**–**	**–**	**5,141,708**
Others	**1,445,917**	**306,674**	**–**	**1,752,591**
Financial assets at FVOCI	**74,250,675**	**–**	**–**	**74,250,675**
Other noncurrent assets	**9,528,791**	**–**	**–**	**9,528,791**
	₱819,548,792	**₱17,113,300**	**₱20,920,197**	**₱857,582,289**

2017	Less than three months	Three to twelve months	More than twelve months	Total
Financial liabilities				
Accounts payable and accrued liabilities*	₱11,793,020	₱–	₱–	₱11,793,020
Dividends payable	33,316,756	–	–	33,316,756
	₱45,109,776	₱–	₱–	₱45,109,776

**Excluding government payables*

2017	Less than three months	Three to twelve months	More than twelve months	Total
Financial assets				
Cash in banks and cash equivalents	₱634,385,523	₱–	₱–	₱634,385,523
Receivables:				
Advances to related parties	187,482,500	5,809,601	–	193,292,101
Accrued interest	3,371,622	25,538,724	–	28,910,346
Accounts with contract operators	45,279,627	–	–	45,279,627
Others	1,739,897	365,075	–	2,104,972
AFS financial assets	50,974,223	–	–	50,974,223
Other noncurrent assets	5,630,540	–	–	5,630,540
	₱928,863,932	₱31,713,400	₱–	₱960,577,332

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 exchanges 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 and receivables. The Group's foreign currency-denominated monetary assets as at December 31, 2017 and 2016 follow:

	2018		2017	
	US$	**Peso Equivalent**	US$	Peso Equivalent
Cash and cash equivalents (see Note 4)	**$8,625,788**	**₱453,543,954**	$10,104,735	₱504,529,419
Receivables (see Note 5)	**1,645,737**	**86,532,829**	2,884,989	144,047,501
Monetary assets	**$10,271,525**	**₱540,076,783**	$12,989,724	₱648,576,920

The table below demonstrates the sensitivity of the Group's income before income tax (solely from foreign currency revaluation) to a reasonably possible change in the foreign exchange rate, with all other variables held constant, of the Group's income before income tax due to changes in the carrying value of financial assets and liabilities. The sensitivity range is based on the historical volatility of the foreign exchange rate for the past year. The analysis is based on the assumption that last year's foreign currency rate volatility will be the same in the following year.

	Percentage Change in Foreign Exchange Rate	Effect on Income Before Income Tax
2018	**Depreciates by ₱0.44**	**(₱4,519,471)**
	Appreciates by 0.66	**6,830,564**
2017	Depreciates by ₱0.62	(₱8,021,155)
	Appreciates by 0.63	8,248,474

As at December 31, 2018 and 2017, the exchange rate of the Philippine peso to the US$ is ₱52.58 and ₱49.93 to US$1.00, respectively.

Foreign currency risk has no other impact on the Group's equity other than through profit or loss.

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 Group, which are classified in the consolidated statements of financial position as AFS financial assets.

The following table shows the sensitivity of the Group's equity (through OCI) from changes in the carrying value of the Group's AFS financial assets due to reasonably possible changes in the Philippine Stock Exchange index (PSEi), with all other variables held constant, of the Group's equity (through OCI) due to changes in the carrying value of the Group's AFS financial assets. The analysis links PSEi changes, which proxies for general market movements, to individual stock prices through the adjusted betas of each individual stock. Betas are coefficients depicting the sensitivity of individual prices to market movements.

The sensitivity range is based on the historical volatility of the PSEi for the past year. The analysis is based on the assumption that last year's PSEi volatility will be the same in the following year.

	Percentage Change in PSEi	Effect on Equity
2018	**Increase by 21%**	**₱9,687,752**
	Decrease by 21%	**(9,687,752)**
2017	Increase by 12%	₱5,080,400
	Decrease by 12%	(5,080,400)

The impact of equity price risk on the Group's equity excludes the impact on transactions affecting profit or loss.

22. Capital Management

The Group maintains a capital base to cover risks inherent in the business. The primary objective of the Group's capital management is to optimize the use and the earnings potential of the Group's resources, ensuring that the Group complies with externally imposed, legal or contractual, capital requirements, if any, and considering changes in economic conditions and the risk characteristics of the Group's activities.

No significant changes have been made in the objectives, policies and processes of the Group from the previous years.

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

	2018	2017
Capital stock	**₱1,568,018,150**	₱1,568,018,150
Subscribed capital	**350,669,903**	350,669,903
Subscriptions receivable	**(175,334,286)**	(175,334,286)
Paid-in capital from sale of treasury shares	**1,624,012**	1,624,012
Retained earnings	**1,587,902,186**	1,849,859,460
	₱3,332,879,965	₱3,594,837,239

23. Changes in Liabilities Arising from Financing Activity

	January 1, 2018	**Cash flows**	**Foreign exchange movement**	**Other**	**December 31, 2018**
Current					
Unclaimed cash dividends payable (see Note 13)	**₱33,316,756**	**(₱58,735)**	**₱–**	**₱–**	**₱33,258,021**
Total liabilities from financing activity	**₱33,316,756**	**(₱58,735)**	**₱–**	**₱–**	**₱33,258,021**

	January 1, 2017	Cash flows	Foreign exchange movement	Other	December 31, 2017
Current					
Unclaimed cash dividends payable (see Note 13)	₱33,730,832	(₱414,076)	₱–	₱–	₱33,316,756
Total liabilities from financing activity	₱33,730,832	(₱414,076)	₱–	₱–	₱33,316,756

24. Segment Information

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 solely 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.

	2018			
	Oil and Gas	**Power**	**Elimination**	**Total**
Consolidated revenue				
External customers	**₱382,676,049**	**₱–**	**₱–**	**₱382,676,049**
Share in costs and operating expenses	**490,385,695**	**–**	**–**	**490,385,695**
General and administrative expenses	**81,923,388**	**64,001**	**–**	**81,987,389**
	(189,633,034)	**(64,001)**	**–**	**(189,697,035)**
Loss on write-off of:				
Property and equipment	**(79,012,162)**	**–**	**–**	**(79,012,162)**
Receivables	**(38,070,669)**	**–**	**–**	**(38,070,669)**
Investment in associates	**(11,078,715)**	**–**	**–**	**(11,078,715)**
Share in net income of associates	**32,379,852**	**–**	**–**	**32,379,852**
Foreign exchange gains - net	**22,484,713**	**–**	**–**	**22,484,713**
Provision for expected credit loss	**(20,920,198)**	**–**	**–**	**(20,920,198)**
Accretion expense	**(1,345,063)**	**–**	**–**	**(1,345,063)**
Other income (charges) - net	**221,808**	**–**	**–**	**221,808**
Earnings before interest, taxes, depreciation, depletion and amortization	**(₱284,973,468)**	**(₱64,001)**	**₱–**	**(₱285,037,469)**
Segment results				
Income (loss) before income tax	**(₱352,386,051)**	**(₱64,001)**	**₱–**	**(₱352,450,052)**
Benefit from income tax	**90,492,778**	**–**	**–**	**90,492,778**
Net loss	**(₱261,893,273)**	**(₱64,001)**	**₱–**	**(₱261,957,274)**
Segment assets	**₱3,489,326,680**	**₱8,710,208**	**(₱17,703,683)**	**₱3,480,333,205**
Segment liabilities	**₱189,685,230**	**₱44,800**	**(₱8,768,609)**	**₱180,961,421**
Depreciation, depletion and amortization	**₱88,407,983**	**₱–**	**₱–**	**₱88,407,983**

	2017			
	Oil and Gas	Power	Elimination	Total
Consolidated revenue				
External customers	₱388,201,800	₱–	₱–	₱388,201,800
Share in costs and operating expenses	291,193,355	–	–	291,193,355
General and administrative expenses	59,612,147	112,886	–	59,725,033
	37,396,298	(112,886)	–	37,283,412

(Forward)

	2017			
	Oil and Gas	Power	Elimination	Total
Loss on write-off of:				
Property and equipment	₱–	₱–	₱–	₱–
Receivables	–	–	–	–
Investment in associates	–	–	–	–
Share in net income of associates	15,781,372	–	–	15,781,372
Foreign exchange gains - net	2,616,446	–	–	2,616,446
Provision for expected credit loss	–	–	–	–
Accretion expense	(1,407,057)	–	–	(1,407,057)
Gain on sale of investment	85,102	–	–	85,102
Other income (charges) - net	(2,239,878)	–	–	(2,239,878)
Earnings before interest, taxes, depreciation, depletion and amortization	₱52,232,283	(₱112,886)	₱–	₱52,119,397
Segment results				
Income (loss) before income tax	(₱18,219,207)	(₱112,886)	₱–	(₱18,332,093)
Benefit from income tax	11,965,347	–	–	11,965,347
Net loss	(₱6,253,860)	(₱112,886)	₱–	(₱6,366,746)
Segment assets	₱3,650,055,529	₱8,768,608	(₱17,703,683)	₱3,641,120,454
Segment liabilities	₱84,509,947	₱39,200	(₱8,768,608)	₱75,780,539
Depreciation, depletion and amortization	₱89,770,412	₱–	₱–	₱89,770,412

	2016			
	Oil and Gas	Power	Elimination	Total
Consolidated revenue				
External customers	₱358,687,873	₱–	₱–	₱358,687,873
Share in costs and operating expenses	250,092,686	–	–	250,092,686
General and administrative expenses	50,242,962	7,253	–	50,250,215
	58,352,225	(7,253)	–	58,344,972
Loss on write-off of:				
Property and equipment	–	–	–	–
Receivables	–	–	–	–
Investment in associates	–	–	–	–
Share in net income of associates	14,182,107	–	–	14,182,107
Foreign exchange gains - net	35,472,183	–	–	35,472,183
Provision for expected credit loss	–	–	–	–
Accretion expense	(363,025)	–	–	(363,025)
Gain on sale of investment	–	–	–	–
Other income (charges) - net	75,663	–	–	75,663
Earnings before interest, taxes, depreciation, depletion and amortization	₱107,719,153	(₱7,253)	₱–	₱107,711,900
Segment results				
Income (loss) before income tax	₱21,919,269	(₱7,253)	₱–	₱21,912,016
Benefit from income tax	7,207,288	–	–	7,207,288
Net loss	₱29,126,557	(₱7,253)	₱–	₱29,119,304

	2016			
	Oil and Gas	Power	Elimination	Total
Segment assets	₱3,639,028,411	₱8,842,295	(₱17,777,369)	₱3,630,093,337
Segment liabilities	₱73,680,457	₱–	(₱8,842,294)	₱64,838,163
Depreciation, depletion and amortization	₱105,082,440	₱–	₱–	₱105,082,440

25. **Contingent Liability**

In relation to the Group's acquisition of VIMC's interest in Octon block, the Group is contingently liable for $500,000 which is payable within sixty (60) days from the date of commercial discovery in the contract areas.

26. **Events after the Reporting Period**

On January 15 and March 15, 2019, the Parent Company paid its share in the first two (2) cash calls for the plug and abandonment activities amounting to ₱38.9 million and ₱19.5 million, respectively (see Note 12).

SGV
Building a better working world

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BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY SCHEDULES

The Board of Directors and Stockholders
The Philodrill Corporation and Subsidiary
8th Floor, Quad Alpha Centrum
125 Pioneer St., Mandaluyong City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of The Philodrill Corporation and Subsidiary (the Group) as at December 31, 2018 and 2017, and for each of the three years in the period ended December 31, 2018 included in this form 17-A, and have issued our report thereon dated March 20, 2019. Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Parent Company's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011) and are not part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Jaime F. del Rosario
Partner
CPA Certificate No. 56915
SEC Accreditation No. 0076-AR-4 (Group A),
May 1, 2016, valid until May 1, 2019
Tax Identification No. 102-096-009
BIR Accreditation No. 08-001998-72-2018,
February 14, 2018, valid until February 13, 2021
PTR No. 7332543, January 3, 2019, Makati City

March 20, 2019

THE PHILODRILL CORPORATION AND SUBSIDIARY
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES

SUPPLEMENTARY SCHEDULES

SCHEDULE I

RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION

As of December 31, 2018

THE PHILODRILL CORPORATION AND SUBSIDIARY

8th Floor, Quad Alpha Centrum, 125 Pioneer St., Mandaluyong City

Unappropriated Retained Earnings, *as adjusted to available for dividend distribution, beginning*		₱1,849,859,460
Unrealized foreign exchange gain - net except those attributable to cash and cash equivalents		(949,986)
Unappropriated Retained Earnings, as adjusted to available for dividend distribution, beginning		1,848,909,474
Add: Net income actually earned/realized during the period		
Net loss during the period closed to Retained Earnings	(261,957,274)	
Less: Non-actual/unrealized income net of tax		
Share in net income of associate/joint venture	22,665,896	
Unrealized foreign exchange gain (loss) - net (except those attributable to cash and cash equivalents)	(2,176,136)	
Unrealized actuarial gain	(944,774)	
Fair value adjustment (mark-to-market gains)	(1,668,360)	
Fair value adjustment of investment property resulting to gain	–	
Adjustment due to deviation from PFRS/GAAP – gain	–	
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under PFRS	–	
Subtotal	(244,080,648)	
Add: Non-actual losses		
Depreciation on revaluation increment (after tax)	–	
Adjustment due to deviation from PFRS/GAAP – loss	–	
Loss on fair value adjustment of investment property (after tax)	–	
Subtotal	–	
Net income actually earned during the period		
Add (Less):		
Dividend declarations during the period	–	
Appropriations of retained earnings	–	
Reversals of appropriations	–	
Effects of prior period adjustments	–	
Treasury shares	–	
Subtotal	–	(244,080,648)
TOTAL RETAINED EARNINGS, END AVAILABLE FOR DIVIDEND		₱1,604,828,826

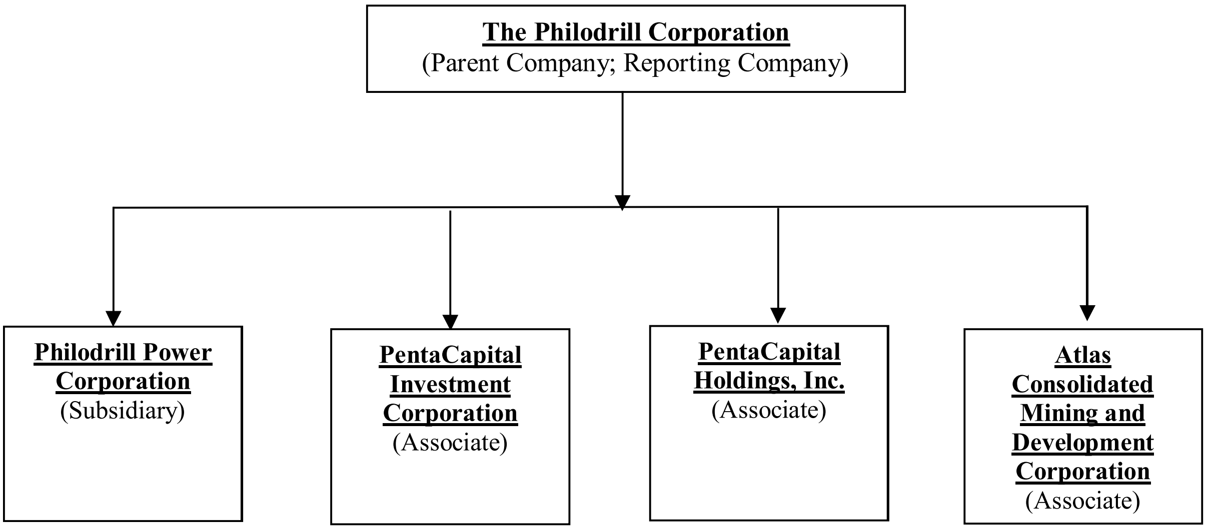
SCHEDULE II

THE PHILODRILL CORPORATION AND SUBSIDIARY
FINANCIAL RATIOS
PURSUANT TO SRC RULE 68, AS AMENDED
DECEMBER 31, 2018

	2018	2017
Profitability Ratios:		
Return on assets	(7.53%)	(0.17%)
Return on equity	(7.94%)	(0.18%)
Gross profit margin	(51.25%)	1.86%
Net profit margin	(92.10%)	(4.72%)
Liquidity Ratios:		
Current ratio	6.13:1.00	22.78:1.00
Quick ratio	5.56:1.00	21.21:1.00
Financial Leverage Ratios:		
Asset to equity ratio	1.06:1.00	1.02:1.00
Debt to equity ratio	0.05:1.00	0.02:1.00

SCHEDULE III

THE PHILODRILL CORPORATION AND SUBSIDIARY
MAP OF THE RELATIONSHIPS OF THE COMPANIES WITHIN THE GROUP
PURSUANT TO SRC RULE 68, AS AMENDED
DECEMBER 31, 2018



SCHEDULE IV

THE PHILODRILL CORPORATION AND SUBSIDIARY
TABULAR SCHEDULE OF EFFECTIVE STANDARDS AND INTERPRETATIONS UNDER THE PFRS PURSUANT TO SRC RULE 68, AS AMENDED
DECEMBER 31, 2018

List of Philippine Financial Reporting Standards (PFRSs) which consist of PFRSs, Philippine Accounting Standards (PASs) and Philippine Interpretations effective as at December 31, 2018:

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
Philippine Financial Reporting Standards				
PFRS 1	First-time Adoption of Philippine Financial Reporting Standards			✓
PFRS 2	Share-based Payment	✓		
	Amendments to PFRS 2, Classification and Measurement of Share-based Payment Transactions			✓
PFRS 3	Business Combinations			✓
PFRS 4	Insurance Contracts			✓
	Amendments to PFRS 4, Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources	✓		
PFRS 7	Financial Instruments: Disclosures	✓		
PFRS 8	Operating Segments	✓		
PFRS 9	Financial Instruments	✓		
PFRS 10	Consolidated Financial Statements	✓		
PFRS 11	Joint Arrangements	✓		
PFRS 12	Disclosure of Interests in Other Entities	✓		
PFRS 13	Fair Value Measurement	✓		
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
Philippine Accounting Standards				
PAS 1	Presentation of Financial Statements	✓		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 12	Income Taxes	✓		
PAS 16	Property, Plant and Equipment	✓		
PAS 17	Leases	✓		
PAS 19	Employee Benefits	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
PAS 23	Borrowing Costs			✓
PAS 24	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27	Separate Financial Statements	✓		
PAS 28	Investments in Associates and Joint Ventures	✓		
	Amendments to PAS 28, Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)	✓		
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Presentation	✓		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting			✓
PAS 36	Impairment of Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
PAS 39	Financial Instruments: Recognition and Measurement	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
PAS 40	Investment Property			✓
	Amendments to PAS 40, Transfers of Investment Property			✓
PAS 41	Agriculture			✓
Philippine Interpretations				
Philippine Interpretation IFRIC-1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
Philippine Interpretation IFRIC-2	Members' Shares in Co-operative Entities and Similar Instruments			✓
Philippine Interpretation IFRIC-4	Determining whether an Arrangement contains a Lease	✓		
Philippine Interpretation IFRIC-5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	✓		
Philippine Interpretation IFRIC-6	Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment			✓
Philippine Interpretation IFRIC-7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
Philippine Interpretation IFRIC-10	Interim Financial Reporting and Impairment			✓
Philippine Interpretation IFRIC-12	Service Concession Arrangements			✓
Philippine Interpretation IFRIC-14	PAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
Philippine Interpretation IFRIC-16	Hedges of a Net Investment in a Foreign Operation			✓
Philippine Interpretation IFRIC-17	Distributions of Non-cash Assets to Owners			✓
Philippine Interpretation IFRIC-19	Extinguishing Financial Liabilities with Equity Instruments			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
Philippine Interpretation IFRIC-20	Stripping Costs in the Production Phase of a Surface Mine			✓
Philippine Interpretation IFRIC-21	Levies	✓		
Philippine Interpretation IFRIC-22	Foreign Currency Transactions and Advance Consideration			✓
Philippine Interpretation SIC-7	Introduction of the Euro			✓
Philippine Interpretation SIC-10	Government Assistance—No Specific Relation to Operating Activities			✓
Philippine Interpretation SIC-15	Operating Leases—Incentives			✓
Philippine Interpretation SIC-25	Income Taxes—Changes in the Tax Status of an Entity or its Shareholders			✓
Philippine Interpretation SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			✓
Philippine Interpretation SIC-29	Service Concession Arrangements: Disclosures			✓
Philippine Interpretation SIC-32	Intangible Assets—Web Site Costs			✓

The Group has not early adopted any PFRS, PAS, and Philippine Interpretations effective January 1, 2019 onwards.

SCHEDULE V - A

THE PHILODRILL CORPORATION AND SUBSIDIARY
SUPPLEMENTARY SCHEDUELES UNDER ANNEX 68-E
PURSUANT TO SRC RULE 68, AS AMENDED
DECEMBER 31, 2018

SCHEDULE A. FINANCIAL ASSETS

Name of issuing entity and association of each issue	Number of shares or principal amounts of bonds and notes	Amount shown in the statements of financial position	Income received and accrued
Cash			
Cash in banks and cash equivalents	N/A	₱536,627,072	₱12,228,112
Receivables			
Advances to related parties	N/A	₱193,954,601	₱34,093,191
Accrued interest	N/A	₱36,326,851	₱36,326,851
Others	N/A	₱1,752,591	₱–
Financial assets at FVOCI			
Vulcan Industrial and Mining Company	3,200,000	₱5,120,000	₱–
United Paragon Mining Corporation	6,839,068,254	₱37,614,875	₱–
Camp John Hay Golf Club	17	₱3,740,000	₱–
Oriental Petroleum and Minerals Corporation	223,000,000	₱27,775,800	₱–

THE PHILODRILL CORPORATION AND SUBSIDIARY
SUPPLEMENTARY SCHEDULES UNDER ANNEX 68-E
PURSUANT TO SRC RULE 68, AS AMENDED
DECEMBER 31, 2018

SCHEDULE B. AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES AND PRINCIPAL STOCKHOLDERS

Name and Designation of Debtor	Balance at Beginning period	Additions	Amounts Collected	Amounts Written off	Current	Not Current	Balance at end period
Advances to related parties							
Alakor Corporation	₱187,482,500	₱662,500	–	–	₱188,145,000	–	₱188,145,000
Fil-Energy Corporation (San Jose Oil)	4,753,762	–	–	–	4,753,762	–	4,753,762
United Paragon Minerals Corporation	1,055,839	–	–	–	1,055,839	–	1,055,839

THE PHILODRILL CORPORATION AND SUBSIDIARY
SUPPLEMENTARY SCHEDULES UNDER ANNEX 68-E
PURSUANT TO SRC RULE 68, AS AMENDED
DECEMBER 31, 2018

SCHEDULE C. AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS

Name and Designation of Debtor	Balance at Beginning period	Additions	Amounts Collected/ Settlements	Amounts Written off	Current	Not Current	Balance at end period
Philodrill Power Corp. (Wholly-owned subsidiary)	₱8,768,609	₱–	₱58,401	₱–	₱8,710,208	₱–	₱8,710,208

THE PHILODRILL CORPORATION AND SUBSIDIARY
SUPPLEMENTARY SCHEDULES UNDER ANNEX 68-E
PURSUANT TO SRC RULE 68, AS AMENDED
DECEMBER 31, 2018

SCHEDULE D. INTANGIBLE ASSETS - OTHER ASSETS

Description	Beginning balance	Additions at cost	Charged to cost and expenses	Charged to other accounts	Other changes additions (deductions)	Ending balance
-None-						

SCHEDULE V - E

THE PHILODRILL CORPORATION AND SUBSIDIARY
SUPPLEMENTARY SCHEDULES UNDER ANNEX 68-E
PURSUANT TO SRC RULE 68, AS AMENDED
DECEMBER 31, 2018

SCHEDULE E. LONG-TERM DEBT

Title of Issue and type of obligation	Amount authorized by: Indenture	Amount shown under the caption "Current Portion of long-term borrowings" in related balance sheet	Amount shown under the caption "Long-term borrowings- net of current portion" in related balance sheet
-None-			

THE PHILODRILL CORPORATION AND SUBSIDIARY
SUPPLEMENTARY SCHEDULES UNDER ANNEX 68-E
PURSUANT TO SRC RULE 68, AS AMENDED
DECEMBER 31, 2018

SCHEDULE F. INDEBTEDNESS TO RELATED PARTIES (LONG-TERM LOANS FROM RELATED COMPANIES)

Name of Related Party	Balance at beginning of period	Balance at end of period
	- None -	

THE PHILODRILL CORPORATION AND SUBSIDIARY
SUPPLEMENTARY SCHEDULES UNDER ANNEX 68-E
PURSUANT TO SRC RULE 68, AS AMENDED
DECEMBER 31, 2018

SCHEDULE G. GUARANTEES OF SECURITIES OF OTHER ISSUERS

Name of issuing entity of securities guaranteed by the company for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding	Amount owed by person for which statement is filed	Nature of guarantee
- None -				

THE PHILODRILL CORPORATION AND SUBSIDIARY
SUPPLEMENTARY SCHEDULES UNDER ANNEX 68-E
PURSUANT TO SRC RULE 68, AS AMENDED
DECEMBER 31, 2018

SCHEDULE H. CAPITAL STOCK

Title of Issue	Number of shares authorized	Number of shares issued and outstanding as shown under related financial condition caption	Number of shares reserved for option, warrants, conversions and other rights	No of shares held by		
				Affiliates	Directors and Officers	Others
Common shares	200,000,000,000	191,868,805,358		99,312,219,331	948,437,237	1,024,136