CR05707-2023

# SECURITIES AND EXCHANGE COMMISSION

## SEC FORM 17-Q

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

1. For the quarterly period ended

   Jun 30, 2023

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)86318151

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. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the

Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports)

☑ Yes ☐ No

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

☑ Yes ☐ No

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

# The Philodrill Corporation

# OV

**PSE Disclosure Form 17-2 - Quarterly Report**

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

| | |
|---|---|
| **For the period ended** | Jun 30, 2023 |
| **Currency (indicate units, if applicable)** | PHILIPPINE PESO |

**Balance Sheet**

| | Period Ended | Fiscal Year Ended (Audited) |
|---|---|---|
| | Jun 30, 2023 | Dec 31, 2022 |
| **Current Assets** | 670,415,925 | 685,618,138 |
| **Total Assets** | 2,762,103,771 | 2,768,913,623 |
| **Current Liabilities** | 33,644,643 | 45,858,882 |
| **Total Liabilities** | 68,011,604 | 82,047,982 |
| **Retained Earnings/(Deficit)** | 977,625,409 | 969,793,983 |
| **Stockholders' Equity** | 2,694,092,167 | 2,686,865,641 |
| **Stockholders' Equity - Parent** | 2,410,800,781 | 2,410,483,747 |
| **Book Value per Share** | 0.01 | 0.01 |

**Income Statement**

| | Current Year (3 Months) | Previous Year (3 Months) | Current Year-To-Date | Previous Year-To-Date |
|---|---|---|---|---|
| **Gross Revenue** | 62,008,893 | 92,755,360 | 120,999,638 | 165,780,446 |
| **Gross Expense** | 49,504,254 | 44,075,245 | 124,353,907 | 100,319,858 |
| **Non-Operating Income** | 10,354,708 | 13,619,926 | 17,461,125 | 20,319,923 |
| **Non-Operating Expense** | 8,488,344 | -2,256,844 | 31,418,254 | 7,351,376 |
| **Income/(Loss) Before Tax** | 12,504,639 | 48,680,115 | -3,354,269 | 65,460,588 |
| **Income Tax Expense** | 3,732,186 | 35,073,571 | -11,185,695 | 48,814,935 |
| **Net Income/(Loss) After Tax** | 8,772,453 | 13,606,544 | 7,831,426 | 16,645,653 |
| **Net Income Attributable to Parent Equity Holder** | 8,772,453 | 13,606,544 | 7,831,426 | 16,645,653 |
| **Earnings/(Loss) Per Share (Basic)** | 0 | 0 | 0 | 0 |
| **Earnings/(Loss) Per Share (Diluted)** | 0 | 0 | 0 | 0 |

| | Current Year (Trailing 12 months) | Previous Year (Trailing 12 months) |
|---|---|---|
| **Earnings/(Loss) Per Share (Basic)** | 0 | 0 |
| **Earnings/(Loss) Per Share (Diluted)** | 0 | 0 |

| 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

| 0 6 | 3 0 |
|---|---|
| *Month* | *Day* |

SEC Form 17-Q (June 2023)

**FORM TYPE**

| 0 6 | 2 1 |
|---|---|
| *Month* | *Day* |

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

8 5 4 7

Total No. of Stockholders

P0.00

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-Q**

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

1. For the quarterly period ended June 30, 2023

2. SEC Identification Number: 38683

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

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

5. Philippines 6. ______________ (SEC Use Only)
Province, Country or other Industry Classification Code
jurisdiction of incorporation or organization

7. 8th Floor, Quad Alpha Centrum, 125 Pioneer Street, Mandaluyong City 1550
Address of principal office Postal Code

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

9. Not Applicable

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

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

Amount of Debt Outstanding

Total Loans Payable ₱ 0.00

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 [ ]

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## PART 1 – FINANCIAL INFORMATION

***Item 1. Financial Statements***

1. The unaudited Consolidated Financial Statements of the Company for the 2nd quarter ended 30 June 2023 are included in this report. The schedules listed in the accompanying Index to Supplementary Schedules are filed as part of the SEC Form 17Q.

2. Interim Statements of Operations for the current interim period (01 January to 30 June 2023), with comparative Statement of Operations for the comparable period (01 January to 30 June 2022) are attached to this report.

3. A statement showing changes in equity cumulatively for the current financial year to date (01 January to 30 June 2023), with a comparative statement for the comparable year-to-date period of the immediately preceding financial year (01 January to 30 June 2022) are attached to this report.

4. The basic and diluted earnings/loss per share are presented on the face of the attached Statement of Operations (01 January to 30 June 2023), as well as the basis of computation thereof.

5. The Company's interim financial report for the 2nd quarter 2023 is in compliance with Generally Accepted Accounting Principles ("GAAP"). Included in this report is a summary of the Company's significant accounting policies.

6. The Company follows the same accounting policies and methods of computation in its interim financial statements (01 January to 30 June, 2023) as compared with the most recent annual financial statements (2022), and no policies or methods have been changed. There were NO reclassifications of financial assets made into and from each category as of the current reporting period.

7. There were NO seasonal or cyclical aspects that had a material effect on the financial condition or results of interim operations of the Company.

8. There were NO unusual items during the interim period (01 January to 30 June 2023), the nature, amount, size or incidents of which have affected the assets, liabilities, equity, net income or cash flows of the Company.

9. There were NO changes in the estimates of amounts reported in prior financial year (2022), which had a material effect in the current interim period (01 January to 30 June, 2023).

10. There were NO issuances, repurchases and repayments of debt and equity securities during the current interim period (January 1 to June 30, 2023).

11. For the period January 1 to June 30, 2023, NO cash dividends were declared by the Board of Directors.

12. The Company does not generate revenues from a particular segment and its business is not delineated into segments, whether by business or geography. The Company is not required to disclose segment information in its financial statements.

13. Up to the time of filing of this quarterly report, there were NO material events subsequent to the end of the interim period (January 1 to June 30, 2023) that have not been reflected in the financial statements for said interim period.

14. There were NO changes in the composition of the Company during the interim period (January 1 to June 30, 2023) and there were NO business combinations, acquisition or disposal of subsidiaries and long-term investments, restructurings and discontinuance of operations during said interim period.

15. The Company has NO contingent liabilities or contingent assets as of its last annual balance sheet date (December 31, 2022) and as of end of current interim period (June 30, 2022), EXCEPT those disclosed in Note 25 to the Company's 2022 Audited Financial Statements.

16. There are NO material contingencies and any other events or transactions that are material to an understanding of the current interim period (January 1 to June 30, 2023).

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

Financial Performance

Total revenues for the first two quarters ended June 30, 2023 decreased by ₱44.8 million or 27% to ₱121.0 million from ₱165.8 million for the same period last year. Petroleum revenues decreased by ₱41.9 million or 29% to ₱103.5 million from ₱145.5 million for the same period last year. The decrease was brought mainly by the lower crude prices and production volume for the first two quarters of 2023 as compared to the same period last year. The combined gross production decreased to 254,508 barrels for the first two quarters ended June 30, 2023, from 284,085 barrels produced for the same period last year. The average price per barrel decreased to $77.14 for the period ended June 30, 2023 as compared to $102.30 for the same period last year. Equity in net earnings of associates decreased by ₱7.2 million. Interest income increased by ₱4.6 million.

Total costs and expenses including foreign exchange gains/losses increased by ₱24.0 million from ₱100.3 million for the first two quarters of 2022 to ₱124.4 million for the first two quarters of 2023. Foreign exchange loss amounted to ₱4.6 million for the first two quarters of 2023 as compared foreign exchange gain of ₱25.7 million for the same period last year.

The company's net income after tax amounted to ₱7.8 million for the first two quarters of 2023 as compared to ₱16.6 million for the same period last year.

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

| | June 30 , 2023 | December 31, 2022 |
|---|---|---|
| Current Ratio | *19.93 : 1* | *14.95 : 1* |
| Current Assets | 670,415,925 | 685,618,138 |
| Current Liabilities | 33,644,643 | 45,858,882 |
| Debt to Equity Ratio | *0.03 : 1* | *0.03 : 1* |
| Total Liabilities | 68,011,604 | 82,047,982 |
| Stockholders Equity | 2,694,092,167 | 2,686,865,641 |
| Equity to Debt Ratio | *39.61 : 1* | *32.75 : 1* |
| Stockholders Equity | 2,694,092,167 | 2,686,865,641 |
| Total Liabilities | 68,011,604 | 82,047,982 |
| Book Value per Share | *0.0140* | *0.0140* |
| Stockholders Equity | 2,694,092,167 | 2,686,865,641 |
| Shares outstanding | 191,868,805,358 | 191,868,805,358 |
| Earnings (Loss) per Share | *0.000041* | *0.000087* |
| Net Income (Loss)* | 7,831,426 | 16,645,653 |
| Weighted ave. no. of shares | 191,868,805,358 | 191,868,805,358 |

**for the period January 1 to June 30*

The current ratios as of December 31, 2022 and June 30, 2023 are 14.95:1 and 19.93:1, respectively. The Company's current assets exceeded its current liabilities by ₱636.77 million and ₱639.76 million as of June 30, 2023 and December 31, 2022, respectively. The "Financial assets at fair value through other comprehensive income (FVOCI)" account in the balance sheet consists of shares of stock which are listed with the Philippine Stock Exchange and which could be sold to meet the Company's obligations as might be called for by future circumstances. These shares of stock had an aggregate market value of ₱69.0 million as of June 30, 2023 and ₱69.6 million as of December 31, 2022. If these shares would be considered part of Current Assets, the recomputed current ratio would be 21.98:1 as of June 30, 2023 and 16.47:1 as of December 31, 2022.

Total assets decreased from ₱2.769 billion as of December 31, 2022 to ₱2.762 billion as of June 30, 2023. Cash and cash equivalents reflected a net increase of ₱11.3 million or 3% due to the collection of trade receivables. Receivables' net decrease amounted to ₱2.6 million. Crude oil inventory decreased by ₱23.3 million or 41% due to lower volume of crude oil on storage as of June 30, 2023. Other current assets decreased by ₱0.5 million due to the amortization of prepaid expenses. Property and equipment reflected a net decrease of ₱19.6 million to ₱286.0 million as of June 30, 2023 mainly due to the booking of depletion and depreciation costs. Financial assets at FVOCI decreased by ₱0.6 million due to the adjustment in the valuation reserve of the company's listed stock investments. Deferred oil exploration costs increased by ₱9.1 million due to additional project costs. Deferred tax assets increased by ₱12.4 million due to adjustments in the recognition of deferred tax assets as of end of the interim period.

Total liabilities decreased by ₱14.0 million from ₱82.0 million as of December 31, 2022 to ₱68.0 million as of June 30, 2023.

Stockholders' equity increased by ₱7.2 million from P2.687 billion as of December 31, 2022 to ₱2.694 billion as of June 30, 2023. For the first two quarters, an adjustment for the decline in value of financial assets at FVOCI of ₱0.6 million in the valuation reserve of the company's listed stock investments was booked. As of June 30, 2023, net unrealized loss on the decline in value of financial assets at FVOCI amounted to ₱41.6 million as compared to ₱41.0 million as of December 31, 2022. The company's retained earnings amounted to ₱0.977 billion as of June 30, 2023 as compared to ₱0.970 billion as of December 31, 2022.

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

| | June 30, 2023 | December 31, 2022 |
|---|---|---|
| Current Ratio | *269 :1* | *269 :1* |
| Current Assets | 8,424,689 | 8,424,689 |
| Current Liabilities | 31,360 | 31,360 |
| | | |
| Debt to Equity Ratio | *0.004 :1* | *0.004 :1* |
| Total Liabilities | 31,360 | 31,360 |
| Stockholders' Equity | 8,393,329 | 8,393,329 |
| | | |
| Equity to Debt Ratio | *268:1* | *268:1* |
| Stockholders' Equity | 8,393,329 | 8,393,329 |
| Total Liabilities | 31,360 | 31,360 |
| | | |
| Book Value per Share | *0.0006712* | *0.0006712* |
| Stockholders Equity | 8,393,329 | 8,393,329 |
| Average shares outstanding | 12,505,000,000 | 12,505,000,000 |
| | | |
| Income (loss) per Share | - | - |
| Net Income (Loss) | No operation | No operation |
| Average shares outstanding | 12,505,000,000 | 12,505,000,000 |

<u>Discussion and Analysis of Material Events and Uncertainties</u>

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

1. There are NO known trends, demands, commitments, events or uncertainties that have or are reasonably likely to have material impact on the Company's liquidity. Should the Company's cash position be not sufficient to meet current requirements, the Company may consider:

    a) collecting a portion of Accounts Receivables;
    b) selling a portion of its existing investments and assets;
    c) generating cash from loans and advances; and

d) issuing subscriptions call on the balance of the subscriptions receivable.

2. There are NO events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation.

3. There are NO material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period, EXCEPT those disclosed in Note 25 to the Company's 2022 Audited Financial Statements.

4. The Company has NO material commitments for capital expenditures, except for the Company's share in the exploration and development expenditures in the SCs and GSECs. The Company expects to be able to fund such expenditures from: operations, collection of subscriptions and other receivables, and from loans/financing, or to avoid incurring these expenditures altogether by way of farm-outs.

5. There are NO known trends, events or uncertainties that have had or are reasonably expected to have a material impact on the revenues or income of the Company from continuing operations.

6. There are NO significant elements of income or loss that did not arise from the Company's continuing operations.

7. There have been NO material changes from period to period in one or more line items of the Company's financial statements, except those discussed below:

   Cash and cash equivalents reflected a net increase of ₱11.3 million or 3% mainly due to the collection of trade receivables.

   Crude oil inventory decreased by ₱23.3 million or 41% due to the lower volume and price of crude oil on storage as of end of the interim period.

   Other current assets decreased by ₱0.6 million due to the amortization of prepaid expenses booked during the interim period.

   Property and equipment reflected a decrease of ₱19.6 million to ₱286.0 million as of June 30, 2023 due to the booking of depletion and depreciation costs.

   Deferred tax assets increased by ₱12.4 million due to adjustments in the recognition of deferred tax assets as of end of the interim period.

   Other noncurrent assets increased by ₱5.5 million or 55% due to the pension asset booked as of end of the interim period.

   Accounts payable and accrued liabilities reflected a ₱12.2 million or 96% decrease due to the payments of accrued expenses during the interim period.

Retirement benefit liability decreased by ₱1.8 million or 100% due to the additional contribution made to the retirement fund during the interim period.

Net unrealized loss on the decline in value of financial assets at FVOCI as of December 31, 2022 amounted to ₱41.0 million. For the interim period, ₱0.6 million adjustment in the valuation reserve pertaining to the listed stock investments of the Company was booked. As of June 30, 2023, net unrealized loss on the decline in market value of financial assets at FVOCI amounted to ₱41.6 million.

The company's retained earnings amounted to ₱0.978 billion as of June 30, 2023 as compared to ₱0.970 billion as of December 31, 2022. The increase of ₱7.8 million was due to the net income booked for the first two quarters of 2023.

Petroleum revenues decreased by ₱41.9 million or 29% to ₱103.5 million from ₱145.5 million for the same period last year due to lower production volume and crude prices. The gross production decreased to 254,508 barrels for the first two quarters ended June 30, 2023 from 284,085 barrels produced for the same period last year. The average price per barrel decreased to $77.14 for the period ended June 30, 2023 as compared to $102.30 per barrel for the same period last year.

Equity in net earnings of associates decreased by ₱7.2 million due to the lower level of income booked by affiliates.

Interest income increased by ₱4.6 million from ₱5.9 million to ₱10.5 million for the first two quarters ended June 30, 2023.

Foreign exchange loss amounted to ₱4.6 million for the first two quarters of 2023 as compared to foreign exchange gain of ₱25.7 million for the same period last year.

General and administrative expenses decreased by P6.3 million due to lower level of expenses incurred for the period.

Net income amounted to ₱7.8 million for the first two quarters of 2023, as compared to ₱16.6 million for the same period last year.

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

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

A. Financial Instruments

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

a. The financial assets reclassified into and from each category; - Not Applicable

b. For each reporting period until derecognition, the carrying amounts and fair values of all financial assets reclassified in the current reporting period and previous reporting periods;- Not Applicable

c. For financial assets reclassified in rare circumstances, the facts that would establish such kind of circumstances; -Not Applicable

d. In the reporting period to which financial assets are reclassified, the fair value of the gains or losses of those assets as recognized either in profit or loss, or in equity (other comprehensive income) in that reporting period and previous reporting periods;- Not Applicable

e. For the remainder of the instruments' lives, the gains or losses that would have been recognized in profit or loss, or equity had they not been reclassified, together with the gains, losses, income and expenses now recognized;-Not Applicable

f. As at date of reclassification, the effective interest rates and estimated cash flows that the company expects to recover. – Not Applicable

Fair Values of Financial Instruments

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

| | Consolidated Unaudited June 2023 | Consolidated Unaudited June 2023 | Consolidated Unaudited June 2022 | Consolidated Unaudited June 2022 |
|---|---|---|---|---|
| | Fair Values | Carrying Values | Fair Values | Carrying Values |
| FINANCIAL ASSETS | | | | |
| Cash and cash equivalents | 393,070,654 | 393,070,654 | 319,113,927 | 319,113,927 |
| Advances to related companies | 230,330,564 | 230,330,564 | 230,105,564 | 230,105,564 |
| Accrued interest receivables | 28,024,332 | 28,024,332 | 30,941,747 | 30,941,747 |
| Other noncurrent assets | 10,104,179 | 10,104,179 | 9,242,274 | 9,242,274 |
| Accounts with partners, others | 1,571,085 | 1,571,085 | 71,762,388 | 71,762,388 |
| Financial assets at FVOCI | 69,027,149 | 69,027,149 | 76,625,144 | 76,625,144 |
| | **732,127,963** | **732,127,963** | **737,791,044** | **737,791,044** |
| FINANCIAL LIABILITIES | | | | |
| Accounts payable and accrued liabilities | 22,929 | 22,929 | 533,030 | 533,030 |
| Dividends payable | 33,126,610 | 33,126,610 | 33,127,926 | 33,127,926 |
| | **33,149,539** | **33,149,539** | **33,660,956** | **33,660,956** |

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

B. Financial Risk Management Objectives and Policies

<u>Financial Risk Management Objectives and Policies</u>

The Group's principal financial instruments comprise mainly of cash and cash equivalents, receivables (except accounts with contract operators and advances to officers and employees), financial assets at FVOCI, other noncurrent assets, accounts payables and accrued liabilities (except withholding taxes) and dividends payable. The main purpose of these financial instruments is to provide financing for the Group's operations and capital intensive projects.

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

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

*<u>Credit risks</u>*

Credit risk is the risk that the Group will incur a loss because its customers or counterparties failed to discharge their contractual obligations. With respect to credit risk arising from the other financial assets of the Group, which comprise of cash in banks, short term investments, receivables and financial assets at FVOCI, 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.

As of June 30, 2023, all of the outstanding trade receivable is from the SC14 C-1 consortium. For SC14 C-1 consortium, the operator has a crude agency agreement with Vitol Asia Pte. Ltd. for the marketing of the Galoc production. The operator also negotiated for the sale of future Galoc cargoes to exclusive buyer Trafigura Pte Ltd. through Vitol Asia which started in May 2019.

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

| | Unaudited balances as of June 30, 2023 |
|---|---|
| Loans and receivables | |
| Cash and cash equivalents | 393,070,654 |
| Advances to related companies | 230,330,564 |
| Accounts with contract operators and partners | 1,571,085 |
| Accrued interest | 28,024,332 |
| Other noncurrent assets | 10,104,179 |
| Financial assets at FVOCI | 69,027,149 |
| Gross maximum credit risk exposure | 732,127,963 |

The table below shows the credit quality of the Group's financial assets by class as of June 30, 2023 based on the Group's credit evaluation process:

| | | | Past due but not impaired | | | | |
|---|---|---|---|---|---|---|---|
| | Neither past due nor impaired High Grade | Neither past due nor impaired Standard Grade | 1-30 days | 31-90 days | Over 90 days | Impaired Financial Assets | Total |
| Loans and receivables | | | | | | | |
| Cash and cash equivalents | 393,070,654 | | | | | | 393,070,654 |
| Advances to related companies | 224,200,000 | | | | 1,376,801 | 4,753,762 | 230,330,564 |
| Accounts with partners | 1,571,085 | | | | | | 1,571,085 |
| Accrued interest | 11,857,896 | | | | | 16,166,436 | 28,024,332 |
| Other noncurrent assets | 10,104,179 | | | | | | 10,104,179 |
| Financial assets at FVOCI | 69,027,149 | | | | | | 69,027,149 |
| Total | 709,830,964 | | | | 1,376,801 | 20,920,198 | 732,127,963 |

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

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

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

*Liquidity risk*

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

The table below summarizes the aging analyses of the Group's financial assets as of June 30, 2023 that is used to manage the liquidity risk of the Company:

| | Less than three months | Three to twelve months | Total |
|---|---|---|---|
| Cash and cash equivalents | 393,070,654 | 0 | 393,070,654 |
| Receivables | | | |
| Advances to related parties | | 230,330,564 | 230,330,564 |
| Accounts with partners | 1,571,085 | 0 | 1,571,085 |
| Accrued interest | 3,319,833 | 24,704,499 | 28,024,332 |
| Other noncurrent assets | 10,104,179 | 0 | 10,104,179 |
| AFS financial assets | 69,027,149 | 0 | 69,027,149 |
| | 477,092,900 | 255,035,063 | 732,127,963 |

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

| | Less than three months | Three to twelve months | Total |
|---|---|---|---|
| June 30, 2023 | 33,149,539 | | 33,149,539 |

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

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

As of June 30, 2023, the exchange rate of the Philippine peso to the US$ is ₱55.20 to US$1.00.

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

## PETROLEUM PROJECTS

### SERVICE CONTRACT NO. 14 C-1 (Galoc)

As of June 30, 2023, the 5-day average production was 1,367 barrels of oil per day with the total gross Galoc Field production reaching 24,238,678 barrels. The last cargo lifting, for Cargo #75, was completed on May 1, 2023, using MT Yue Chi. The total quantity of crude offloaded was 165,252 bbls (net). The next cargo, Cargo #76 is scheduled for offtake in the last week of September 2023. It will have an estimated volume of 210,000 barrels of oil. The calculated oil in storage at the end of the quarter is 85,970 bbls.

At the end of May, the operator commenced a 23-day production optimization test of the Galoc 5 and 6 wells. Choke size adjustments and combinations were made to observe how the production wells will respond. The results of the tests are currently being evaluated by Matahio Kuala Lumpur, Malaysia.

Meanwhile, the operator continues to maintain normal process plant operations.

The operator informed the JV of its consolidation of ownership over FPSO Intrepid Balangay. Relatedly, a new Bareboat Charter (BBC) Agreement was put in place. Under the new BBC, the charter hire of the FPSO was reduced significantly. The charter hire was also set at 5 years instead of annual renewals.

**NOMINATED AREA 10 (FORMER SERVICE CONTRACT NO. 6A, Octon)**

On March 17, 2023, the complete bid documents were submitted to the DOE in the presence of Undersecretary Alessandro O. Sales.

The 2022 Audited Financial Statements of the JV Partners, both hard and soft copies, were submitted to the DOE on May 15, 2023. On the same day, the DOE opened the bid for Nominated Area 10 (formerly SC 6A) with Philodrill and its Joint Partners as the sole bidder. The DOE confirmed that the JV Partners are legally, financially, and technically compliant with the submission of various documents including the payment of the application fee, and therefore, qualified. Moreover, DOE accepted the application for substantive evaluation by the DOE working groups.

On June 27, 2023, the Notice of Qualification together with the execution copies of the new Service Contract were received from the DOE. Philodrill was given ten (10) working days or until July 12, 2023, to return the signed Service Contract to the DOE. On July 11, 2023, Philodrill transmitted the JV-signed copies of the Service Contract to DOE for the signature of the Secretary and the President of the Philippines.

**SERVICE CONTRACT NO. 6B (Cadlao/Bonita)**

Because of the limited availability of jack-ups, Nido Petroleum Phils. Pty. Ltd. (Nido) decided on using a drillship, the Deep Venture, for the drilling of Cadlao-4. Nido is presently helping to facilitate putting the drillship back to operational status and class by the Det Norske Veritas (DNV) class standard. Nido together with Sabah Drilling Company, the owner of Deep Venture, met with the principal of Keppel Shipyard in Batangas to inspect the suitability of the shipyard and for the repair of the lifting gear and drilling package and drydocking of the drillship. Sabah was comfortable with the available facilities in Batangas for the repair requirement of the drillship. Keppel even advised that naval architect and other technical personnel could be procured from their shipyard in Singapore should the need arises.

The Deep Venture is still in the Dong Quyen Port in Vung Tau, Vietnam, and will be sailing to the Philippines under the Flag of the Bahamas with Nassau as the Port of Registry as soon as the arrangement with Keppel has been finalized. The rig procurement slippage has now pushed back the Cadlao-4 drilling campaign to Q4 2023.

The final report by HGIS on the Analogue and Digital 2DHR Site Survey for Cadlao that was completed in December of last year was shared by Nido to the JV. The results of the site survey which included accurate water depth and a map of the seabed topography condition showed no potential hazards in the planned location of the Cadlao-4. The data gathered from the survey were used in the planning of the Cadlao-4 well.

The RPS studies, the Geohazard Assessment for the Cadlao Well Locations, and the Recommendation for the Exemption of Geotechnical Data Acquisition at the Proposed Cadlao Well Locations were completed at the end of May. These studies provide the necessary inputs for the Cadlao-4 well design and can potentially replace the initially contemplated geotechnical site survey with Fugro.

In a disclosure to the ASX, Sacgasco advised that PNOC-EC signed a Letter of Intent (LOI) with its wholly-owned subsidiary, Nido Petroleum, to farm in to SC6B and participate in the drilling of the Cadlao-4.

Nido is also awaiting the DOE's issuance of the Memorandum Circular (MC) that will be the basis for the issuance of new petroleum service contracts to expiring contracts with ongoing production, drilling, and EWT for redevelopment. Service Contract 6B is set to expire in February 2024. The plan is to drill and immediately go into EWT before the February 2024 expiration of the SC to be eligible for the award of a new SC under the MC that will be issued by the DOE.

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

Philodrill informed Pitkin, through PXP, about the unpaid historical training fund in the amount of USD 45,336.33. Pitkin/RMA should cover the amount based on the 2008 and 2011 Farm-In Agreements (FIA). Pending the resolution of the issue with RMA/Pitkin, the JV Partners, in a meeting held on April 24, 2023, approved Philodrill's motion to cash call the JV and to remit the total amount of USD 65,336.33 (including the 2022 training fund of $20,000.00) on or before May 10, 2023.

Nido has not submitted the FIA to the JV for execution. The FIA will be the basis for the JV to come up with a firm 2023 WPB for DOE's approval and to replace the provisionary WPB earlier submitted.

Nido informed the JV that they are coordinating with the DOE on the issuance of the Memorandum Circular which will become the basis for the issuance of a new petroleum service contract over the area.

In a Consortium meeting held on May 11, 2023, the JV Partners excluding PetroEnergy, which was not in attendance, reached a consensus to unitize the SC 14C2 area with the SC 6B area for the application of a new Petroleum Service Contract (PSC) under the forthcoming DOE MC. This will make the area bigger which can provide the future relinquishment requirement of the new service contract to be issued by the DOE.

The decision to unitize the 2 SCs will depend on the Memorandum Circular to be issued by the DOE, tentatively set to be released in July 2023. However, Philodrill will request Partners to submit the required documents ahead of time for easy compilation.

**SERVICE CONTRACT NO. 53 (Onshore Mindoro)**

At the Occidental side of the Cambayan CP Application, the NCIP San Jose Service Center (SJSC), with the assistance of Philodrill, submitted the response letter to NCIP Legal Affairs Office which was requesting clarifications and additional data prior to the confirmation of the draft of the Memorandum of Agreement.

On the Oriental side, the Pre-FPIC Conference was held on May 23, 2023, via Zoom, attended by NCIP officials and the DOE representative/s, and discussed the results of the FBI conducted in July 2022. The Work and Financial Plan for the FPIC activities in Bulalacao, Oriental Mindoro was not approved during the conference due to some issues on the extent of coverage. The NCIP and Philodrill agreed that guidelines must be secured from the NCIP Regional Office before the discussion and approval of the WFP.

Philodrill wrote a letter to the NCIP Regional Office requesting some guidelines on the conduct of FPIC. Philodrill wanted to determine if the FPIC is going to be conducted in the whole area of the Certificate of Ancestral Domain Title of the Hanunuo Group or on a per barangay basis. The response from the NCIP office will determine the Work and Financial Plan for the FPIC activities.

The NCIP Regional Office 4B did not come up with a set of guidelines for the procedures on how Philodrill should conduct its FPIC activity in Bulalacao, Oriental Mindoro. Instead, the regional office requested Philodrill to submit a letter of justification on why the FPIC is going to be held on a per barangay basis.

The application for a Certificate of Non-Coverage for the Progreso project was submitted to the Environmental Management Bureau (EMB) of the Department of Environment and Natural Resources (DENR). The Certificate of Non-Coverage was approved and issued on April 28, 2023, by the EMB.

In a meeting held on April 20, 2023, Matahio informed Philodrill that they are not going to farm-in into SC 53. They added that SC 53, based on their review, remains an exploration project which requires further work and capital. Matahio has a corporate policy of eyeing mature projects for faster commercialization.

After providing Nido with comments/counter proposal to their farm-in proposal, they have not yet consolidated these into a Farm-in Agreement due to being preoccupied with their offshore drilling programs and their concern about the limited availability of onshore drilling rigs as well.

**SERVICE CONTRACT NO. 74 (Linapacan)**

The DOE approved both the request for Moratorium (which will expire in September 2024) and the 2023 Work Program and Budget (WPB) submitted by PXP. After receiving the approval for the 2023 WPB, PXP finalized the details of the planned Linapacan study with Qaestor. PXP sent an external drive containing all the required data to Qaestor in London.

## PART II – OTHER INFORMATION

There were NO items for disclosure that were not made under SEC Form 17C during the current interim period (01 January to 30 June 2023).

## SIGNATURES

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

By:

| | |
|---|---|
| Date: 8/7/2023 | Date: 8/7/23 |
| ADRIAN PAULINO S. RAMOS | REYNALDO E. NAZAREA |
| President | Treasurer & VP-Administration |

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



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

THE PHILODRILL CORPORATION

Consolidated Statement of Financial Position

| | (Unaudited) June 30 2023 | (Audited) December 31 2022 |
|---|---|---|
| ASSETS | | |
| Current Assets | | |
| Cash & cash equivalents | 393,070,654 | 381,739,397 |
| Receivables | 239,005,782 | 241,643,133 |
| Crude oil inventory | 33,884,133 | 57,229,468 |
| Other current assets | 4,455,356 | 5,006,140 |
| Total Current Assets | 670,415,925 | 685,618,138 |
| Noncurrent Assets | | |
| Property and equipment - net | 286,009,434 | 305,664,288 |
| Investments - Associates | 900,923,449 | 899,335,155 |
| Financial assets at fair value through other comprehensive income | 69,027,149 | 69,632,048 |
| Investments in subsidiary | 0 | |
| Deferred oil exploration and development costs - net | 613,440,189 | 604,283,335 |
| Deferred tax assets | 206,662,897 | 194,276,481 |
| Other noncurrent assets | 15,624,728 | 10,104,178 |
| Total Noncurrent Assets | 2,091,687,846 | 2,083,295,485 |
| TOTAL ASSETS | 2,762,103,771 | 2,768,913,623 |

| | | |
|---|---|---|
| LIABILITIES AND EQUITY | | |
| Liabilities | | |
| Accounts payable and accrued liabilities | 495,104 | 12,732,272 |
| Current portion of provision for plug and abandonment costs | 0 | 0 |
| Income tax payable | 22,929 | 0 |
| Dividends payable | 33,126,610 | 33,126,610 |
| Total Current Liabilities | 33,644,643 | 45,858,882 |
| Noncurrent Liability | | |
| Non current portion of provision for plug and abandonment costs | 34,366,961 | 34,366,961 |
| Retirement benefit liability | 0 | 1,822,139 |
| Total Noncurrent Liabilities | 34,366,961 | 36,189,100 |
| TOTAL LIABILITIES | 68,011,604 | 82,047,982 |
| Equity | | |
| Capital stock - P0.01 par value | | |
| Authorized - 200 billion shares | | |
| Issued | 1,568,257,282 | 1,568,271,834 |
| Subscribed | 350,430,771 | 350,416,220 |
| Subscriptions receivable | (175,208,110) | (175,208,110) |
| Paid in capital from sale of treasury | 1,624,012 | 1,624,012 |
| Share in other comprehensive income of an associate | 55,497,116 | 55,497,116 |
| Unrealized loss on decline in value of financial assets at FVOCI | (41,619,502) | (41,014,602) |
| Remeasurement loss on retirement benefit liability | (42,514,811) | (42,514,812) |
| Retained Earnings | 977,625,409 | 969,793,983 |
| Total Equity | 2,694,092,167 | 2,686,865,641 |
| TOTAL LIABILITIES AND EQUITY | 2,762,103,771 | 2,768,913,623 |

THE PHILODRILL CORPORATION

Consolidated Statement of Comprehensive Income

| | January 1 to June 30 2023 | January 1 to June 30 2022 | Apr 1 to Jun 30 2023 | Apr 1 to Jun 30 2022 |
|---|---|---|---|---|
| PETROLEUM REVENUE | 103,538,513 | 145,460,523 | 51,654,185 | 79,135,434 |
| COSTS AND EXPENSES | | | | |
| Share in costs and operating | (92,935,653) | (92,968,482) | (41,015,910) | (46,332,089) |
| General and administrative | (26,812,973) | (33,093,063) | (13,488,813) | (18,342,714) |
| | (119,748,626) | (126,061,545) | (54,504,723) | (64,674,803) |
| OTHER INCOME (CHARGES) | | | | |
| Equity in net earnings of associates - net | 6,909,492 | 14,117,269 | 3,793,832 | 10,358,048 |
| Interest income | 10,509,211 | 5,947,879 | 6,529,250 | 3,239,571 |
| Foreign exchange gains (losses) | (4,605,281) | 25,741,687 | 5,000,469 | 20,599,558 |
| Others | 42,422 | 254,775 | 31,626 | 22,307 |
| | 12,855,844 | 46,061,610 | 15,355,177 | 34,219,484 |
| INCOME (LOSS) BEFORE INCOME TAX | (3,354,269) | 65,460,588 | 12,504,639 | 48,680,115 |
| PROVISION FOR INCOME TAX | (11,185,695) | 48,814,935 | 3,732,186 | 35,073,571 |
| NET INCOME (LOSS) | 7,831,426 | 16,645,653 | 8,772,453 | 13,606,544 |
| OTHER COMPREHENSIVE INCOME (LOSS) | | | | |
| Changes in unrealized losses on financial assets at financial value through other comprehensive income | (604,900) | (5,386,448) | (1,637,187) | (3,958,787) |
| TOTAL COMPREHENSIVE INCOME (LOSS) | 7,226,526 | 11,259,205 | 7,135,266 | 9,647,757 |

Earnings (loss) per share was computed as follows:

| | | | | |
|---|---|---|---|---|
| Net income (loss) | 7,831,426 | 16,645,653 | 8,772,453 | 13,606,544 |
| Weighted average no. of shs | 191,868,805,358 | 191,868,805,358 | 191,868,805,358 | 191,868,805,358 |
| Income (Loss) per share | 0.00004 | 0.00009 | 0.00005 | 0.00007 |

THE PHILODRILL CORPORATION

Consolidated Statements of Cash Flows
(Unaudited)

| | January 1 to June 30 2023 | January 1 to June 30 2022 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Income (Loss) before income tax | 7,831,426 | 16,645,653 |
| Adjustments for: | | |
| Depletion, depreciation and amortization | 22,041,187 | 11,893,641 |
| Equity in net losses (earnings) of associates - net | (6,909,492) | (14,117,269) |
| Operating loss before working capital changes | 22,963,121 | 14,422,025 |
| Decrease (increase) in: | | |
| Receivables | (4,909,806) | (11,663,467) |
| Crude oil inventory | 23,345,335 | (5,765,144) |
| Other current assets | 956,734 | 612,811 |
| Retirement benefits assets | (7,342,688) | (3,524,824) |
| Increase in accounts payable and accrued expenses | (5,695,898) | 1,190,385 |
| Net cash from (used in) operating activities | 29,316,798 | (4,728,213) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Cash dividends received | 5,321,198 | 5,321,198 |
| Reductions in (additions to): | | |
| Property and equipment | (2,386,333) | 8,593,517 |
| Deferred oil exploration costs and other inv | (9,156,854) | (19,414,622) |
| Advances to affiliated companies - net | 622,866 | (4,057,172) |
| Other noncurrent assets | (12,386,417) | 48,729,354 |
| Net cash from (used in) investing activities | (17,985,540) | 39,172,275 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds/Adjustments (Payments) of: | | |
| Dividends payable | 0 | (1,289) |
| Net cash from (used in) financing activities | 0 | (1,289) |
| NET INCREASE (DECREASE) IN CASH | 11,331,258 | 34,442,773 |
| CASH, BEGINNING | 381,739,397 | 284,671,154 |
| CASH, ENDING | 393,070,654 | 319,113,927 |

THE PHILODRILL CORPORATION

Consolidated Statements of Changes in Equity

| | Unaudited June 2023 | June 2022 |
|---|---|---|
| CAPITAL STOCK - P0.01 par value | | |
| Authorized - 200 billion shares | | |
| | | |
| Issued | | |
| Balance at the beginning of year | 1,568,271,834 | 1,568,270,502 |
| Issuances for the period | 0 | (13,220) |
| Balance at end of second quarter | 1,568,271,834 | 1,568,257,282 |
| | | |
| Subscribed | | |
| Balance at the beginning of year | 350,416,220 | 350,417,551 |
| Issuances for the period | 0 | 13,220 |
| Balance at end of second quarter | 350,416,220 | 350,430,771 |
| | | |
| Subscriptions receivable | | |
| Balance at the beginning of year | (175,208,110) | (175,208,110) |
| Collection of subscriptions receivable | 0 | 0 |
| Adjustment | | |
| Balance at end of second quarter | (175,208,110) | (175,208,110) |
| | | |
| Paid in capital from sale of treasury | | |
| Balance at the beginning of year | 1,624,012 | 1,624,012 |
| Movements during the period | 0 | 0 |
| Balance at end of second quarter | 1,624,012 | 1,624,012 |
| | | |
| Unrealized Losses on Decline in Market Value of Long-term Investments | | |
| Balance at the beginning of year | (41,014,602) | (28,635,059) |
| Adjustment during the period | (604,900) | (5,386,448) |
| Balance at end of second quarter | (41,619,502) | (34,021,507) |
| | | |
| Share in other comprehensive income of associates | | |
| Balance at the beginning of year | 55,497,116 | 26,480,535 |
| Movements during the period | 0 | 0 |
| Balance at end of second quarter | 55,497,116 | 26,480,535 |
| | | |
| Remeasurement loss on retirement benefit liability | | |
| Balance at the beginning of year | (42,514,811) | (38,373,698) |
| Movements during the period | | |
| Balance at end of second quarter | (42,514,811) | (38,373,698) |
| | | |
| Retained Earnings | | |
| Balance at the beginning of year | 969,793,983 | 1,309,127,536 |
| Cash dividend declared | 0 | 0 |
| Net income (loss) for the period | 7,831,426 | 16,645,653 |
| Balance at end of second quarter | 977,625,409 | 1,325,773,189 |
| | | |
| Total Stockholders' Equity | 2,694,092,167 | 3,024,962,476 |

THE PHILODRILL CORPORATION
SCHEDULE B - AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS
EMPLOYEES, RELATED PARTIES AND PRINCIPAL STOCKHOLDERS (OTHER THAN AFFILIATES)
FOR THE QUARTER ENDED JUNE 30, 2023

| Name and Designation of Debtor | Beginning Balance | Additions | Amounts Collected | Amounts Written off | Current | Not Current | Ending Balance |
|---|---|---|---|---|---|---|---|
| Various officers and employees | 432,521 | 672,076 | 239,294 | | 865,304 | | 865,304 |
| | 432,521 | 672,076 | 239,294 | 0 | 865,304 | 0 | 865,304 |

THE PHILODRILL CORPORATION
SCHEDULE C - LONG TERM INVESTMENTS IN SECURITITES
(NONCURRENT MARKETABLE EQUITY SECURITIES,
OTHER LONG TERM INVESTMENTS IN STOCK
INVESTMENTS IN BONDS AND OTHER DEBT SECURITIES)
FOR THE QUARTER ENDED JUNE 30, 2023

| | BEGINNING BALANCE | | ADDITIONS | | DEDUCTIONS | | ENDING BALANCE | | Dividends Received/ Accrued from Investments Not Accounted for by the Equity Method |
|---|---|---|---|---|---|---|---|---|---|
| Name of Issuing Entity and Description of Investment | Number of Shares or Principal Amount of Bonds and Notes | Amount in Pesos | Equity in Earnings (Losses) of Investees for the Period | Others | Distribution of Earnings by Investees | Others | Number of Shares or Principal Amount of Bonds and Notes | Amount in Pesos | |
| Investments in associates: | | | | | | | | | |
| Penta Capital Investment Corp. | 1,600,000 | 357,087,350 | 1,752,640 | | 4,000,000 | | 1,600,000 | 354,839,990 | |
| Penta Capital Holdings, Inc. | 300,000 | 80,984,173 | 641,001 | | 1,321,198 | | 300,000 | 80,303,976 | |
| Atlas Consolidated Mining and Development Corporation | 19,000,000 | 464,379,292 | 1,400,191 | | | | 19,000,000 | 465,779,483 | |
| | | 902,460,815 | 3,793,832 | 0 | 5,321,198 | 0 | | 900,923,450 | 0 |
| Amount shown under the caption "Available For Sale Investments" | | | | | | | | | |
| United Paragon Mining Corp. | 6,839,068,254 | 72,983,955 | | | | | 6,839,068,254 | 72,983,956 | |
| Vulcan Industrial & Mining Corp. | 3,100,000 | 4,080,876 | | | | 0 | 3,100,000 | 4,080,875 | |
| Oriental Petroleum & Mining Corp | 2,460,800,000 | 31,230,745 | | | | | 2,460,800,000 | 31,230,745 | |
| CJH Golf Club, Inc. | 17 | 1,700,000 | | | | | 17 | 1,700,000 | |
| Shang Properties | 202,000 | 651,076 | | | | | 202,000 | 651,076 | |
| | | 110,646,652 | 0 | 0 | 0 | 0 | | 110,646,651 | 0 |
| less-allowance for decline in market value | | (39,982,316) | | | | (1,637,186) | | (41,619,502) | |
| | | 70,664,336 | 0 | 0 | 0 | (1,637,186) | 0 | 69,027,149 | 0 |
| | | 973,115,151 | 3,793,832 | 0 | 5,321,198 | (1,637,186) | 0 | 969,950,599 | 0 |

**THE PHILODRILL CORPORATION**
**SCHEDULE D - INDEBTEDNESS OF UNCONSOLIDATED SUBSIDIARIES AND AFFILIATES**
**FOR THE QUARTER ENDED JUNE 30, 2023**

| Name of Affiliate | Beginning Balance | Ending Balance |
|---|---|---|
| Alakor Corporation | 169,000,000 | 169,000,000 |
| National Book Store, Inc. | 54,360,000 | 55,200,000 |
| Fil-Energy Corporation | 4,753,762 | 4,753,762 |
| United Paragon Mining Corporation | 1,376,801 | 1,376,801 |
| | 229,490,563 | 230,330,563 |
| less allowance for doubtful accounts | (4,753,762) | (4,753,762) |
| | 224,736,801 | 225,576,801 |

THE PHILODRILL CORPORATION
SCHEDULE E - PROPERTY AND EQUIPMENT
FOR THE SECOND QUARTER ENDED JUNE 30, 2023

| Classification | Beginning Balance | Additions at Cost | Retirements | Other Changes- Additions (Deductions) | Ending Balance |
|---|---|---|---|---|---|
| Wells, platforms and other facilities | 1,184,823,982 | 2,189,971 | | | 1,187,013,953 |
| Office condominium units and improvements | 18,961,929 | 0 | | | 18,961,929 |
| Office furniture, fixtures and equipment | 8,309,990 | (0) | | | 8,309,990 |
| Transportation equipment | 8,919,200 | | | 0 | 8,919,200 |
| | 1,221,015,101 | 2,189,971 | 0 | 0 | 1,223,205,072 |

THE PHILODRILL CORPORATION
SCHEDULE F - ACCUMULATED DEPLETION, DEPRECIATION AND AMORTIZATION
FOR THE SECOND QUARTER ENDED JUNE 30, 2023

| Classification | Beginning Balance | Additions Charged to Costs and Expenses | Retirements | Other Changes- Additions (Deductions) | Ending Balance |
|---|---|---|---|---|---|
| Wells, platforms and other facilities | 895,048,673 | 10,718,230 | | | 905,766,902 |
| Office condominium units and improvements | 14,436,742 | 136,777 | | | 14,573,519 |
| Office furniture, fixtures and equipment | 7,959,184 | 47,411 | | | 8,006,595 |
| Transportation equipment | 8,844,627 | 3,995 | | | 8,848,622 |
| | 926,289,226 | 10,906,413 | 0 | 0 | 937,195,638 |

THE PHILODRILL CORPORATION
SCHEDULE G - INTANGIBLE ASSETS AND OTHER ASSETS
FOR THE SECOND QUARTER ENDED JUNE 30, 2023

| Classification | Beginning Balance | Additions at Cost | Charged to Costs and Expenses | Charged to Other Accounts | Other Changes Additions (Deductions) | Ending Balance |
|---|---|---|---|---|---|---|
| Deferred oil exploration and development costs-net | 606,128,569 | 7,311,620 | | | | 613,440,189 |
| | 606,128,569 | 7,311,620 | 0 | 0 | 0 | 613,440,189 |

THE PHILODRILL CORPORATION
SCHEDULE M - CAPITAL STOCK
FOR THE QUARTER ENDED JUNE 30, 2023

| Title of Issue | Authorized | Issued and Outstanding | Subscribed | Number of shares Reserved for Options, etc. | Number of shares held by Directors, Officers and Employees | Others |
|---|---|---|---|---|---|---|
| Common shares at P0.01 par value | 200,000,000,000 | 156,827,050,247 | 35,041,755,111 | 0 | 472,002,111 | 191,396,803,247 |

THE PHILODRILL CORPORATION
SCHEDULE N - AGING OF ACCOUNTS RECEIVABLES
FOR THE SECOND QUARTER ENDED JUNE 30, 2023

1) AGING OF ACCOUNTS RECEIVABLE

| Type of Accounts Receivable | Total | 1 month | 2-3 months | 4-6 months | 7 months to 1 year | 1-2 years | 3-5 years | 5 years above | past due accts & items in litigation |
|---|---|---|---|---|---|---|---|---|---|
| a) Trade receivables | | | | | | | | | |
| 1) Account with contract operator | 450,356 | 450,356 | 0 | | | | | | |
| less allowance for doubtful accounts | 0 | | | | | | | | |
| 2) Account with partners | 754,396 | | 754,396 | | | | | | |
| Net Trade Receivables | 1,204,752 | 450,356 | 754,396 | 0 | 0 | 0 | 0 | 0 | 0 |
| b) Non-trade receivables | | | | | | | | | |
| 1) Accrued interest receivable | 28,024,332 | 829,958 | 2,489,875 | 2,328,875 | 6,209,188 | | | 16,166,436 | |
| less allowance for doubtful accounts | (16,166,436) | | | | | | | (16,166,436) | |
| 2) Advances to related companies | 230,330,564 | | | 55,200,000 | | 169,000,000 | | 6,130,564 | |
| less allowance for doubtful accounts | (4,753,762) | | | | | | | (4,753,762) | |
| 3) Others | 366,333 | 1,258 | | | | 365,075 | | | |
| less allowance for doubtful accounts | 0 | | | | | | | | |
| Net Non-Trade Receivables | 237,801,031 | 831,216 | 2,489,875 | 57,528,875 | 6,209,188 | 169,365,075 | 0 | 1,376,802 | 0 |
| Net Receivables | 239,005,783 | 1,281,572 | 3,244,271 | 57,528,875 | 6,209,188 | 169,365,075 | 0 | 1,376,802 | 0 |

2) ACCOUNTS RECEIVABLE DESCRIPTION

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

**THE PHILODRILL CORPORATION**
**SCHEDULE O - FINANCIAL RATIOS**
**JUNE 30, 2023**

| | June 2023 | December 2022 |
|---|---|---|
| **Profitablity Ratios:** | | |
| Return on assets | 0.28% | -12.26% |
| Return on equity | 0.29% | -12.63% |
| Gross profit margin | 10.24% | 35.30% |
| Net profit margin | -3.24% | -134.79% |
| **Liquidity Ratios:** | | |
| Current ratio | 19.93 :1 | 14.95 :1 |
| Quick ratio | 18.79 :1 | 13.59 :1 |
| **Financial Leverage Ratios:** | | |
| Asset to equity ratio | 1.03 :1 | 1.03 :1 |
| Debt to equity ratio | 0.03 :1 | 0.03 :1 |

Basis of Preparation and Summary of Significant Accounting Policies

Basis of Preparation
The consolidated financial statements of the Group have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs).

The consolidated financial statements have been prepared on a historical cost basis, except for crude oil inventory which is valued at net realizable value (NRV) and and financial assets at FVOCI 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.

Basis of Consolidation
The consolidated financial statements comprise the financial statements of the Group as at December 31 of each year. 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 Group 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 Group controls an investee if and only if the Group 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 Group has less than a majority of the voting or similar rights of an investee, the Group 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 Group 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 Group obtains control over the subsidiary and ceases when the Group 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 Group gains control until the date the Group 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 Group'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, derecognizes the related assets (including goodwill), liabilities is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.

Business Combination and Goodwill
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value and the amount of any NCI in the acquiree. For each business combination, the Group elects whether to measure NCI in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition related costs are expensed as incurred and included in administrative expenses.

The Group determines that it has acquired a business when the acquired set of activities and assets include an input and a substantive process that together significantly contribute to the ability to create outputs. The acquired process is considered substantive if it is critical to the ability to continue producing outputs, and the inputs acquired include an organized workforce with the necessary skills, knowledge, or experience to perform that process or it significantly contributes to the ability to continue producing outputs and is considered unique or scarce or cannot be replaced without significant cost, effort, or delay in the ability to continue producing outputs.

When the Group acquires a business, it assesses the assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. Those acquired petroleum reserves and resources that can be reliably measured are recognized separately in the assessment of fair values on acquisition. Other potential reserves, resources and rights, for which fair values cannot be reliably measured, are not recognized separately, but instead are subsumed in goodwill.

If the business combination is achieved in stages, any previously held equity interest is measured at its acquisition date fair value, and any resulting gain or loss is recognized in the statement of profit or loss and other comprehensive income. Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of PFRS 9 is measured at fair value, with changes in fair value recognized in the statement of profit or loss and other comprehensive income in accordance with PFRS 9. If the contingent consideration is not within the scope of PFRS 9, it is measured at fair value at each reporting date with changes in fair value recognized in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognized for any NCI and the acquisition-date fair value of any previously held interest, (aggregate consideration transferred) over the fair value of the identifiable net assets acquired and liabilities assumed. If the fair value of the identifiable net assets acquired is in excess of the aggregate consideration transferred (bargain purchase), before recognizing a gain, the Group reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in the statement of profit or loss and other comprehensive income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's CGUs that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a CGU and part of the operation in that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed of in these circumstances is measured based on the relative values of the disposed operation and the portion of the CGU retained.

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of new standards effective in 2022. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective. Unless otherwise indicated, adoption of these new standards did not have any significant impact on the Group's consolidated financial statements.

- Amendments to PFRS 3, *Reference to the Conceptual Framework*

  The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements without significantly changing its requirements. The amendments added an exception to the recognition principle of PFRS 3, *Business Combinations* to avoid the issue of potential 'day 2'gains or losses arising from liabilities and contingent liabilities that would be within the scope of PAS 37, *Provisions, Contingent Liabilities and Contingent Assets* or Philippine-IFRIC 21, *Levies*, if incurred separately. At the same time, the amendments add a new paragraph to PFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

- Amendments to PAS 16, *Property, Plant and Equipment: Proceeds before Intended Use*

  The amendments prohibit entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

- Amendments to PAS 37, *Onerous Contracts – Costs of Fulfilling a Contract*

  The amendments specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

- Amendments to PFRS 9, Financial Instruments, Fees in the '10 per cent' test for derecognition of financial liabilities

  The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

<u>Standards Issued but not yet Effective</u>
Pronouncements issued but not yet effective are listed below. The Group intends to adopt the following pronouncements when they become effective. Unless otherwise indicated, adoption of these pronouncements is not expected to have a significant impact on the Group's consolidated financial statements unless otherwise indicated.

*Effective beginning on or after January 1, 2023*

- Amendments to PAS 1 and PFRS Practice Statement 2, *Disclosure of Accounting Policies*

  The amendments provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by:

  - Replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their "material" accounting policies, and
  - Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures

  The amendments to the Practice Statement provide non-mandatory guidance.

- Amendments to PAS 8, *Definition of Accounting Estimates*

  The amendments introduce a new definition of accounting estimates and clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, the amendments clarify that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors.

- Amendments to PAS 12, *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

  The amendments narrow the scope of the initial recognition exception under PAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences. The amendments also clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgment (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognized in the financial statements (and interest expense) or to the related asset component (and interest expense).

  *Effective beginning on or after January 1, 2024*

- Amendments to PAS 1, *Classification of Liabilities as Current or Non-current*

  The amendments clarify:

  - That only covenants with which an entity must comply on or before reporting date will affect a liability's classification as current or non-current.
  - That classification is unaffected by the likelihood that an entity will exercise its deferral right.
  - That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

- Amendments to PFRS 16, *Lease Liability in a Sale and Leaseback*

  The amendments specify how a seller-lessee measures the lease liability arising in a sale and leaseback transaction in a way that it does not recognize any amount of the gain or loss that relates to the right of use retained.

  The amendments are effective for annual reporting periods beginning on or after January 1, 2024 and must be applied retrospectively. Earlier adoption is permitted and that fact must be disclosed.

  *Effective beginning on or after January 1, 2025*

- 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*.

  *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 and Sustainability Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the 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.

These amendments will be applied in the future transactions when applicable.

Current versus Non-current Classification
The Group presents assets and liabilities in the statements of financial position based on current/non-current classification.

An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle,
- Held primarily for the purpose of trading,
- Expected to be realized within 12 months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle,
- It is held primarily for the purpose of trading,
- It is due to be settled within 12 months after the reporting period, or
- There is unconditional right to defer the settlement of the liability for at least 12 months after the reporting period.

The terms of the liability that could, at the option of the counterparty, result in settlement by the issue of equity instruments do not affect its classification.

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Cash and Cash Equivalents
Cash includes cash on hand and with banks. Cash equivalents are short-term investments made for varying periods of up to 3 months or less depending on the immediate cash requirements of the Group that are readily convertible to a known amount of cash and subject to an insignificant risk of changes in value.

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.

a. Financial Assets

*Initial Recognition and Measurement*
Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

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. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company 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. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price as determined under PFRS 15, *Revenue from Contracts with Customers*.

In order for a financial asset to be classified and measured at amortized cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments 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.

Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortized cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows while financial assets classified and measured at fair value through OCI are held within a business model with the objective of both holding to collect contractual cash flows and selling.

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 Company 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 fair value through OCI with recycling of cumulative gains and losses (debt instruments);
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments);
- Financial assets at fair value through profit or loss.

The Group's financial assets include financial assets at amortized cost and FVOCI.

- Financial assets at amortized cost. 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 include cash and cash equivalents, receivables and other financial assets under "Other current assets" and "Other noncurrent assets".

- Financial assets designated at fair value through OCI (equity instruments). Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under PAS 32 *Financial Instruments: Presentation a*nd 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 has 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 elected to classify irrevocably its non-listed equity investments under this 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 Company's 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 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 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 expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. 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 effective interest rate. 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. Equity instruments designated at FVOCI are not subject to impairment assessment.

The Group considers a financial asset as past due when contractual payments are over 90 days. 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. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

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 (SICR) 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 uses the ratings from reputable credit rating agencies to determine whether the debt instrument has SICR and to estimate ECLs.

*Determining the stage for impairment*
At each reporting date, the Group assesses whether there has been a SICR 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. 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 SICR since origination, then the loss allowance measurement reverts from lifetime ECL to 12-months ECL.

*Staging assessment*
PFRS 9 establishes a three-stage approach for impairment of financial assets, based on whether there has been SICR of a financial asset. Three stages then determine the amount of impairment to be recognized.

- Stage 1 is comprised of all non-impaired financial instruments which have not experienced SICR since initial recognition. Entities are required to recognize 12-month ECL for stage 1 financial instruments. In assessing whether credit risk has increased significantly, entities are required to compare the risk of default occurring on the financial instrument as at the reporting date, with the risk of default occurring on the financial instrument at the date of initial recognition.

- Stage 2 is comprised of all non-financial instruments which have experienced SICR since initial recognition. Entities are required to recognize lifetime ECL for stage 2 financial instruments. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer SICR since initial recognition, then entities shall revert to recognizing 12-month ECL.

- Financial instruments are classified as stage 3 when there is objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition with negative impact on the estimated future cash flows of a financial instrument or portfolio of financial instruments. The ECL model requires that lifetime ECL be recognized for impaired financial instruments, which is similar to the requirements under PFRS 9 for impaired financial instruments.

b. Financial Liabilities

*Initial Recognition and Measurement*
Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives 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 directly attributable transaction costs.

*Subsequent Measurement*
For purposes of subsequent measurement, financial liabilities are classified in two categories:

- Financial liabilities at fair value through profit or loss
- Financial liabilities at amortized cost (loans and borrowings)

The Group's financial liabilities at amortized cost include trade and other payables, advances from a related party and lease liabilities. The Group did not have financial liabilities at fair value through profit or loss as at December 31, 2022 and 2021.

After initial recognition, financial liabilities at amortized cost which include 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 statement of profit or loss.

*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 statement of profit or loss.

c. Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements of financial position if there is a currently enforceable legal right in the normal course of business, event of default and insolvency or bankruptcy of the Group and all of the counterparties to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.
Fair Value Measurement
The Group measures financial assets at FVOCI at fair value at each balance sheet date. 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 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 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.

<u>Interest in Joint Arrangements</u>
The Group undertakes a number of business activities through joint arrangements. A joint arrangement is an arrangement over which two or more parties have joint control. Joint control is the contractually agreed sharing of control over an arrangement which exists only when the decisions about the relevant activities (being those that significantly affect the returns of the arrangement) require the unanimous consent of the parties sharing control.

*Joint Operation*
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
- Share of the revenue from the sale of the output by the joint operation
- Expenses, including its share of any expenses incurred jointly

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 plus the arithmetic average of Upper Zakkum and Arab Extra Light 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.). The share in the ending crude oil inventory is not recognized as revenue but is 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 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 the 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.

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. Generally, investment holding at least 20% to 49% of the voting power of an investee is presumed to have significant influence. The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries.

The investment in associates are accounted using equity method. Under the equity method, the investment in associate is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the joint venture is included in the carrying amount of the investment and is not individually tested for impairment.

The statement of profit or loss and other comprehensive income reflects the Group's share of the results of operations of the associate. Unrealized gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The aggregate of the Group's share of profit or loss of the associate is shown on the face of the statement of profit or loss and other comprehensive income as part of operating profit and represents profit or loss after tax and a non-controlling interest (NCI) in the subsidiaries of joint venture.

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of 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.

All such capitalized costs are subject to technical, commercial and management review, and 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.

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.

When proved reserves of oil and gas are identified and development is sanctioned by management, the relevant capitalized expenditure 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. Other than license costs, no amortization is charged during the exploration and evaluation phase. For exchanges/swaps or parts of exchanges/swaps that involve only exploration and evaluation assets, the exchange is accounted for at the carrying value of the asset given up and no gain or loss is recognized.

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

*In the exploration and evaluation (E&E) phase*

The Group does not record any expenditure made by the farmee 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 farmee is credited against costs previously capitalized in relation to the whole interest with any excess accounted for by the Group as a gain on disposal.

*Outside the E&E phase*

The Group derecognizes the proportion of the asset that it has sold to the farmee. It also recognizes the consideration received or receivable from the farmee, which represents the farmee's obligation to fund the capital expenditure in relation to the interest retained by the farmor. It also recognizes a gain or loss on the transaction for the difference between the net disposal proceeds and the carrying amount of the asset disposed of. Recognition of a gain would be appropriate only when the value of the consideration can be determined reliably. If not, then the carried party should account for the consideration received as a reduction in the carrying amount of the underlying assets. The Group tests the retained interests for impairment if the terms of the arrangement indicate that the retained interest may be impaired. The consideration receivable on disposal of an item of property, plant and equipment or an intangible asset is measured in accordance with the requirements for determining the transaction price in PFRS 15.

Impairment of Nonfinancial Assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on most recent budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognized in profit or loss in expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss.

*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 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.

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.

Subscription Receivable
Subscription receivable pertains to the uncollected portion of the subscribed capital stock which reduces the outstanding balance of capital stock.

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 (Loss) per Share

Basic earnings (loss) per share is computed by dividing net income (loss) 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 earnings (loss) per share is computed by dividing net income (loss) attributable to 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 from Contracts with Customers*

Revenue from sale of petroleum is recognized at a point in time when the control of the goods has transferred from the Consortium Operator of the joint arrangement to the customer, which is typically upon delivery of the petroleum products to the customers. Revenue is measured at amount that reflects the consideration to which the Group is entitled in exchange of those goods, which is the fair value of the consideration received, excluding discounts and other sales taxes or duty. The Group has generally concluded that it is the principal in its revenue arrangements.

Under the terms of the relevant joint operating agreements, the Group is entitled to its participating share in the sale of petroleum products based on the Group's participating interest. The revenue recognized from the sale of petroleum products pertains to the Group's share in revenue from the joint operations. The revenue sharing is accounted for in accordance with PFRS 11, *Joint Arrangements*.

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.

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.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation. 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 P&A costs*
The Group's P&A liability where it has a present legal or constructive obligation as a result of past events, and it is possible that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made. 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 "Interest expense". Additional disturbances or changes in P&A costs will be recognized as additions or charges to the corresponding assets and P&A liability 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 financial position.

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.

<u>Retirement Benefit Liability</u>
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 expense" 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 subsidiaries, associates 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 subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and 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.

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

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

Contingencies

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

Foreign Currency Transactions

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

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

Segment Reporting

The Group's operating business is organized and managed separately according to the nature the products provided, with each segment representing a business unit that offers different products to different market. Currently, the Group has 2 business segments. PPC has not yet started commercial operation since its incorporation.

Segment assets include operating assets used by a segment and consist principally of operating cash and cash equivalents, trade and other receivables, crude oil inventory and property and equipment, net of allowances and provisions.

Segment liabilities include all operating liabilities and consist principally of trade and other payables.

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.