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SEC Registration Number

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(Company's Full Name)

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(Business Address: No. StreetCity/Town/Province)

Ma. Riana C. Infante
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(Contact Person)

633-7631
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(Company Telephone Number)

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Month Day  
(Fiscal Year)

3	1
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(Form Type)

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Month Day  
(Annual Meeting)

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Nine Months Ended September 30, 2017

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(Secondary License Type, If Applicable)

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Dept. Requiring this Doc.

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Amended Articles Number/Section

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Total No. of Stockholders

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Domestic

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Foreign

To be accomplished by SEC Personnel concerned

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended September 30, 2017
2. Commission identification number 40058
3. BIR Tax Identification No. 000-483-747
4. **ORIENTAL PETROLEUM AND MINERALS CORPORATION**  
Exact name of issuer as specified in its charter
5. **Metro Manila, Philippines**  
Province, country or other jurisdiction of incorporation or organization
6. Industry Classification Code: [                      ] (SEC Use Only)
7. **34th Floor, Robinsons Equitable Tower, ADB Avenue, Ortigas Center Pasig City**  
**1600**  
Address of issuer's principal office                      Postal Code
8. **(632) 633-7631 locals 278 and 281**  
Issuer's telephone number, including area code
9. Not applicable  
-----  
Former name, former address and formal fiscal year, if changed since last report
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA  

<u>Title of each Class</u>	<u>Number of shares of common stock outstanding</u>
<b>Common Stock, P0.01 par value</b>	<b>200 Billion</b>
11. Are any or all of the securities listed on a Stock Exchange?  
  
Yes [ ☒ ]                      No [    ]

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

**Philippine Stock Exchange                      Class A and B**

12. Indicate by check mark whether the registrant:

- (a) Has filed reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports)

**Yes** [ **x** ]      **No** [   ]

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

**Yes** [ **x** ]      **No** [   ]

## **TABLE OF CONTENTS**

### **PART I - - FINANCIAL INFORMATION**

#### **Item 1 Financial Statements**

Consolidated Statements of Financial Position  
Consolidated Statements of Income  
Consolidated Statements of Comprehensive Income  
Consolidated Statements of Changes in Stockholders' Equity  
Consolidated Statements of Cash Flows

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

### **PART II - - OTHER INFORMATION**

SIGNATURE

## **PART I – FINANCIAL INFORMATION**

### ***Item 1. Financial Statements – all tentative and unaudited filed as part of Form 17-Q***

- a) Consolidated Statements of Financial Position
- b) Consolidated Statements of Income
- c) Consolidated Statements of Comprehensive Income
- d) Consolidated Statements of Changes in Stockholders' Equity
- e) Consolidated Statements of Cash Flows

The above financial statements are prepared in conformity with accounting principles generally accepted in the Philippines and in compliance with the new SFAS and PFRS, which became effective in 2002 and 2005.

The Company followed the same accounting policies and methods of computation in the interim financial statements for the 3rd Quarter of 2017 as compared with the most recent annual audited financial statements ending December 31, 2016.

Attached are the interim financial statements for and as of September 30, 2017.

The Company' management discloses the following:

- Interim operations are not cyclical and or seasonal;
- There are no items affecting assets, liabilities, equity, net income, or cash flows that are unusual in nature, amount, size, or incidents;
- There are no changes in the amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years.
- There has been no issuances, repurchases, and repayments of debt and equity securities;
- There has been no issuances nor payment of dividends for all shares;
- The company maintains no business or geographical segment;
- There are no material events subsequent to the end of the interim period (January - September 2017) that have not been reflected in the interim reports;
- There has been no changes in the composition of the Company such as business combinations, acquisition or disposal of subsidiaries and long-term investments, restructurings and discontinuing operations;
- There are no contingent liabilities or contingent assets since the last annual balance sheet date ended December 31, 2016.
- There exists no material contingencies and any other events or transactions that are material to an understanding of the current interim period.

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

**FINANCIAL AND OPERATIONAL HIGHLIGHTS - (in thousand dollars)  
(except exchange rates and number of employees)**

As of and for the period ended  
September 30 (Unaudited)

	2017	2016	Change
<b>Income Statement data</b>			
Revenues from petroleum operations	<b>5,394.50</b>	5,344.62	0.93%
Petroleum production costs	<b>3,862.24</b>	3,395.79	13.74%
Depletion, depreciation & amortization	<b>1,172.82</b>	738.75	58.76%
Other income	<b>1,532.43</b>	1,445.30	6.03%
<b>Balance Sheet data</b>			
Cash and cash equivalents	<b>13,292.86</b>	16,206.46	(17.98%)
Short-term investments	<b>1,193.97</b>	—	100.00%
Receivables	<b>971.04</b>	1,177.27	(17.52%)
Crude oil inventory	<b>1,365.88</b>	717.70	90.31%
Long-term investments	<b>40,000.00</b>	39,000.00	2.56%
Investment in bonds	<b>5,088.60</b>	3,404.15	49.48%
Property and equipment	<b>15,092.08</b>	14,930.02	1.09%
<b>Other data</b>			
Average peso dollar exchange rate	<b>50.35</b>	47.09	6.92%
Number of employees	<b>14</b>	14	0.00%

The Company's subsidiaries consolidated herewith are Oriental Mahogany Woodworks, Inc., Oriental Land Corporation and Linapacan Oil Gas and Power Corporation. Brief descriptions of the subsidiaries are as follows:

a) **ORIENTAL MAHOGANY WOODWORKS, INC. (OMWI)**

OMWI (a wholly-owned subsidiary of Oriental Petroleum and Mineral Corporation - OPMC) was incorporated and started commercial operations on May 2, 1988 with principal objective of supplying overseas manufacturers, importers and designers with high quality furniture.

On March 31, 1994, the Board of Directors approved the cessation of OMWI's manufacturing operations effective May 1, 1994 due to continued operating losses. The management has no definitive plans for OMWI's operations.

b) **LINAPACAN OIL GAS AND POWER CORPORATION (LOGPOCOR)**

LOGPOCOR (a wholly-owned subsidiary of OPMC) was incorporated on January 19, 1993 to engage in energy project and carry on and conduct the business relative to the exploration, extraction, production, transportation, marketing, utilization, conservation, stockpiling or storage of all forms of energy products and resources. OPMC acquired LOGPOCOR through the transfer of working interests in Blocks A, B,

and C of Service Contract (SC)-14 in exchange for all of LOGPOCOR's capital stocks. Since July 1993, OPMC recognizes revenue from petroleum operation proportionate to the transferred working interests, however, LOGPOCOR continues to share in the related capitalizable expenses. On the other hand, the depletion of such costs is charged to OPMC and accordingly deducted from the unamortized cost.

c) **ORIENTAL LAND CORPORATION (OLC)**

OLC was incorporated on February 24, 1989 as realty arm of OPMC. It has remained dormant since incorporation.

## **Results of Operations**

### **September 30, 2017 vs. September 30, 2016**

Revenues from petroleum operations at the end of September 30, 2017, which amounted to US\$5.39 million, increased by US\$0.05 million or 1% from US\$5.34 million for the same period last year. 89% of total revenue came from Galoc operation and the remaining from Nido / Matinloc operations.

The minimal movement in petroleum revenue was brought by the changes in production volume and average crude oil prices. For Galoc operation, total crude oil production volume decreased by 14% or to 1.37 million barrels for the period ended September 30, 2017 from 1.59 million barrels for the same period last year. The average crude oil price per barrel increased to \$54.50 for the period ended September 30, 2017 as compared to \$41.52 for the same period last year.

Petroleum production costs at the end of the nine-month period, which totaled to US\$3.86 million, increased by US\$0.47 million or 14% for the same period last year. These costs mainly include floating, production, storage and offloading (FPSO) charges, field/platform operation costs, management and technical fees.

Depletion, depreciation and amortization increased by 59% mainly due to higher depletion rate as compared to the previous nine-month period. This was caused by lower remaining crude oil reserves of the Galoc Field as assessed by an independent audit firm as of December 31, 2016.

Other income, which consists mainly of dividend and interest incomes, amounted to US\$1.53 million arising from investment in preferred shares, money market placements and deposits in banks.

## **Financial Position**

### **September 30, 2017**

The Company's consolidated assets at the end of the period September 30, 2017, which amounted to US\$90.62 million, is 2% higher than same period last year of US\$89.14 million due to the following movements:

Cash and cash equivalents consist of cash on hand, cash in banks and money market placements with original maturities of not more than three months. For the period ended September 30, 2017, cash and cash equivalents account amounted to US\$13.29 million, as compared to US\$16.21 million for same

period last year. The decrease of 18% was mainly attributable to the additional US\$1.00 million placements in a three-year U.S. Dollar time deposit with a local bank which was classified as non-current assets under long-term investments.

As of the third quarter of 2017, the Company's short-term investments amounting to US\$1.19 million represent placements in time deposits and other money market instruments with original maturities of more than three months but less than one year while long-term investments amounting to US\$40.00 million represent placements in three-year U.S. dollar time deposits with a local bank.

Receivable as of the third quarter of 2017 totaled US\$0.97 million, a decrease of 18% or US\$0.21 million from same period last year. This account mainly represents the Company's share in the funds from crude oil produced and delivered during the last month of the period held in trust by the operators, The Philodrill Corporation and Galoc Production Company for the SC 14A & B and SC 14C Consortia, respectively. Also, this account consists of accrued interest and dividend receivable.

Crude oil inventory amounted to US\$1.37 million, an increase of 90% or 0.65 million from same period last year. This represents the Company's share in the crude oil already produced and in storage but has yet to be delivered to the customers. The increase is mainly due to higher crude oil volume in tank and storage in 2017 as compared to 2016.

Investment in bonds totaled US\$5.09 million at the end of the third quarter of 2017, higher than last year's US\$3.40 million due to additional investments.

Consolidated property and equipment at the end of the third quarter of 2017 amounted to US\$15.09 million. The increase of about 1% was mainly due to the Company's share in Galoc-7 drilling costs partially offset by depletion and depreciation expenses.

As of the third quarter of 2017, accounts and other payables account amounted to US\$0.59 million.

### **September 30, 2016**

The Company's consolidated assets at the end of the period September 30, 2016, which amounted to US\$89.14 million, is 5% higher than same period last year of US\$84.69 million due to the following movements:

Cash and cash equivalents consist of cash on hand, cash in banks and money market placements with original maturities of not more than three months. As at September 30, 2016, cash and cash equivalents account amounted to US\$16.21 million, as compared to US\$49.90 million as of September 30, 2015. The decrease of 68% from the same nine-month period last year is mainly due to a US\$39.00 million placement in a three-year U.S. Dollar time deposit with a local bank which was classified as non-current assets under long-term investment.

Receivable - net as of September 30, 2016 totaled US\$1.18 million which represents an increase of US\$1.07 million from the same nine-month period last year. This account represents crude oil produced and delivered during the last month of the period. The consortium has a 30-day term with its



customers. Increase in this account mainly represents the Company's share in Galoc Production revenues and accrual of interest receivable.

Crude oil inventory amounted to US\$0.72 million which resulted to a decrease of 41% from last year's US\$1.22 million. This represents the Company's share in the crude oil already produced and in storage but has yet to be delivered to the customers. The decrease is mainly due to lower crude oil volume in tank and storage in 2016 as compared to 2015.

As of September 30, 2016, the Company's long term investment refers to a US\$39.00 million placement in a three-year U.S. dollar time deposit with a local bank.

Consolidated property and equipment at the end of 3rd quarter of 2016 amounted to US\$14.93 million. The decrease of about 6% from the same period last year is mainly due to incurrence of depletion and depreciation expenses.

As of September 30, 2016, deferred exploration cost amounted to US\$0.66 million. A 5% increase from the same period last year represents the Company's share in SC-6 Bonita expenses.

### **September 30, 2015**

At the end of September 30, 2015, the Company has total assets of US\$84.69 million, US\$0.44 million higher than same period last year.

Accounts Receivable as of September 30, 2015 amounted to US\$0.10 million, which mainly represents accrual of interest receivables.

Crude oil inventory at the end of the reporting period represents the company's share in the crude oil already produced and in storage but has yet to be delivered to the customer.

At the end of the 3rd quarter, Available-for-sale investments went up by 23% to US\$13.59 million as against last year's US\$11.09 million. The increase was mainly due to the additional investments the company made for the one-year period October 2014 up to September 2015.

As of September 30, 2015, Property and Equipment amounted to US\$15.95 million, a decrease of around US\$2.85 million mainly due to depletion.

Deferred exploration costs at the end of the nine month period amounted to US\$0.63 million.

Total Accounts Payable and Accrued Expenses at the end of the September 30, 2015 amounted to US\$0.68 million.

### **September 30, 2017 versus December 31, 2016**

The causes for material changes of September 30, 2017 figures as compared to December 31, 2016 figures of the following accounts are:

<b>Accounts</b>	<b>September 30, 2017</b>	<b>December 31, 2016</b>	<b>Change</b>	<b>%</b>	<b>Remarks</b>
<b>Assets</b>					
Cash and cash equivalents	13,292,857	11,195,437	2,097,420	19%	Increase was mainly due to dividend income received from investments and reclassification from short-term investments to cash and cash equivalents and partially offset by payments made for the Company's share in Galoc-7 drilling costs.
Short-term investments	1,193,971	4,872,757	(3,678,786)	(76%)	Decrease was due to placements in time deposits and other money market instruments with original maturities of less than three months thus, reclassified to cash and cash equivalents.
Receivables	971,044	1,329,305	(358,261)	(27%)	Decrease is due to the timing of delivery of crude oil to customers.
Crude oil inventory	1,365,879	1,206,922	158,957	13%	Increase is mainly due to higher crude oil volume in tank and storage in 2017 as compared to 2016.
Property and equipment	15,092,079	14,581,103	510,976	4%	Increase was due to the Company's share in Galoc-7 drilling costs partially offset by depletion and depreciation expense.
Available-for-sale investments	12,933,361	13,674,115	(740,754)	(5%)	Decrease was due to decrease in share price of stocks held by the Company.
Investments in bonds	5,088,599	3,215,809	1,872,790	58%	Increase was due to additional acquisition of bonds.

The causes for material changes of September 30, 2017 figures as compared to September 30, 2016 figures of the following accounts are:

Accounts	September 30, 2017	September 30, 2016	Change	%	Remarks
<b>Balance Sheet</b>					
Cash and cash equivalents	13,292,857	16,206,458	(2,913,601)	(18%)	Decrease was mainly attributable to the additional US\$1.00 million placements in a three-year U.S. Dollar time deposit with a local bank which was classified as non-current assets under long-term investments. Also, the Company has short-term investments amounting to US\$1.19 million.
Receivables	971,044	1,177,273	(206,229)	(18%)	Decrease in this account mainly represents the Company's share in Galoc Production revenues and accrual of interest and dividend receivables.
Crude oil inventory	1,365,879	717,704	648,175	90%	Increase in this account was mainly due to higher crude oil volume in tank and storage in 2017 as compared to 2016.
Property and equipment	15,092,079	14,930,020	162,059	2%	Increase was due to the Company's share in Galoc-7 drilling costs partially offset by depletion and depreciation expense.
Investments in bonds	5,088,599	3,404,149	1,684,450	49%	Increase was due to additional acquisition of bonds.
<b>Income Statement</b>					
Revenues from petroleum operations	5,394,500	5,344,622	49,878	1%	The minimal movement in petroleum revenue was brought by the changes in production volume and average crude oil price.
Petroleum production costs	3,862,244	3,395,793	466,451	14%	Increase in petroleum production costs was due to higher FPSO charges and operation costs.
Depletion, depreciation and amortization	1,172,824	738,746	434,078	59%	Increase was due to higher depletion rate as compared to the previous nine-month period caused by lower remaining crude oil reserves of the Galoc Field.
Other income	1,532,425	1,445,300	87,125	6%	Minimal increase represents dividend and interest incomes arising from investment in preferred shares, money market placements and deposits in banks.

## I. Key Performance Indicators

	September 30, 2017	September 30, 2016
Current Ratio	28.35	27.79
Net Working Capital Ratio	0.18	0.20
Return on Assets	0.01	0.03
Return on Equity	0.01	0.03
Ratio of Debt-to-Equity	0.03	0.03
Ratio of Asset-to-Equity	1.03	1.03

*Figures are based on Unaudited Financial Statements*

*Current ratios are computed by dividing current assets over current liabilities. Net working capital ratios are derived at by getting the difference of current assets and current liabilities divided by total assets. Return on assets percentage pertains to operating income (loss) over average total assets while return on equity percentage is computed by dividing net income (loss) over average stockholder's equity. Percentage of debt to equity resulted from dividing total borrowings (short-term & long-term borrowings) over stockholder's equity. Percentage of asset to equity resulted from dividing total assets over stockholders' equity.*

## Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise of cash and cash equivalents, receivables, short-term investments, available-for-sale investments, held-to-maturity investments and long-term investments. Exposure to liquidity, credit, market, foreign currency and interest rate risks arise in the normal course of the Group's business activities. The main objectives of the Group's financial risk management are as follow:

- to identify and monitor such risks on an ongoing basis;
- to minimize and mitigate such risks; and
- to provide a degree of certainty about costs.

### Fair Values

Due to the short-term nature of the transactions, the carrying values of cash and cash equivalents, receivables, short-term investments and accounts and other payables approximate the fair value.

The fair value of long-term investments is based on the discounted value of expected future cash flows using the applicable interest rate for similar types of instruments. The carrying value of the Group's long-term investments approximates its fair value.

The fair value of the AFS investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business as of the reporting date. Original costs have been used to determine the fair value of unlisted AFS investments for lack of suitable methods of arriving at reliable fair values.

The fair value of the HTM investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business as of the reporting date.

### Fair Value Hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
- Level 3: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The fair value of unquoted AFS financial assets is not reasonably determined due to the unpredictable nature of future cash flows and lack of suitable methods for arriving at the reliable fair value. Accordingly, these unquoted AFS financial assets are presented at cost.

The main risks arising from the Group financial instruments are liquidity, credit, foreign currency and interest rate risk.

The Group's risk management policies are summarized below:

*a) Liquidity risk*

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group seeks to manage its liquidity profile to be able to finance its operations, capital expenditures and service maturing debts.

The Group monitors its cash flow position and overall liquidity position in assessing its exposure to liquidity risk. The Group maintains a level of cash and cash equivalents deemed sufficient to finance operations and to mitigate the effects of fluctuation in cash flows.

As of December 31, 2016, all financial liabilities are expected to mature within one year. All commitments up to a year are either due within the time frame or are payable on demand. Correspondingly, the financial assets that can be used by the Group to manage its liquidity risk as of December 31, 2016 consist of loans and receivables and AFS investments, which are usually on demand or collectible within a term of 30 days. The long term investment will mature in 2019.

*b) Credit risk*

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group trades only with its dealers. Receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

The investment of the Group's cash resources is managed to minimize risk while seeking to enhance yield. The holding of cash and AFS investments expose the Group to credit risk of the counterparty, with a maximum exposure equal to the carrying amount of the financial assets, if the counterparty is unwilling or unable to fulfill its obligation. Credit risk management involves entering into transactions with counterparties that have acceptable credit standing.

The Group's cash in banks and cash equivalents, short-term investments and long-term investments are considered high-grade while the remaining financial assets are considered standard grade.

The Company uses the following criteria to rate credit quality:

Class	Description
High Grade	Financial assets that are deposited in/or transacted with reputable banks which have low probability of insolvency
Standard Grade	Financial assets of companies that have the apparent ability to satisfy its obligations in full

c) *Foreign currency risk*

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's principal transactions are carried out in Philippine Peso and its exposure to foreign currency exchange risk arises from purchases in currencies other than the Group's functional currency. The Group believes that its profile of foreign currency exposure on its assets and liabilities is within conservative limits in the type of business in which the Group is engaged.

The Group's foreign exchange risk results primarily from movements of U.S. Dollar against other currencies. As a result of the Group's investments and other transactions in Philippine Peso, the consolidated statement of income can be affected significantly by movements in the US Dollar.

d) *Interest rate risk*

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group's interest rate exposure management policy centers on reducing its exposure to changes in interest rates. The Group's exposure to the risk of changes in interest rates relates primarily to the cash in bank with fixed interest rates.

### Capital Management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. The Group considers as capital the equity attributable to the equity holders, which amounted to \$87.92 million and \$86.70 million as of September 30, 2017 and 2016, respectively. No changes were made in the objectives, policies or processes during the periods ended September 30, 2017 and 2016.

As of September 30, 2017, OPMC's Capital stock consists of the following:

1. Common Stock – Class “A” with par value of ₱0.01 per share, 120 billion shares issued and outstanding out of the 120 billion authorized shares

2. Common Stock – Class “B” with par value of ₱0.01 per share, 80 billion shares issued and outstanding out of the 80 billion authorized shares

All OPMC shares of stock enjoy the same rights and privileges, except that Class "A" shares shall be issued solely to Filipino citizens, whereas Class "B" shares can be issued either to Filipino citizens or foreign nationals.

The Company's management discloses the following information:

- There are no known trends, demands, commitments, events or uncertainties that will have a material impact on the Company's liquidity.
- There are no material commitments for capital expenditures.
- There are no known trends or uncertainties, that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales/revenues/income from continuing operations.
- There are no significant elements of income or loss that did not arise from continuing operations.
- There are no seasonal aspects that had a material effect on the financial condition or results of operations.
- 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.
- 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.

**Other matters:**

The owners of more than 5% of the Company's securities as of September 30, 2017 were as follows:

Class	Stockholders	Amount of ownership	% to Total
Common	PCD Nominee Corporation	79,278,599,599	39.64%
Common	Consolidated Robina Capital Corp.	37,051,952,896	18.53%
Common	R. Coyiuto Securities, Inc.	24,140,388,020	12.07%
Common	Prudential Guarantee & Assurance, Inc.	13,341,635,799	6.67%

As of September 30, 2017, OPMC has approximately 11,714 stockholders both for Class “A” and “B” shares.

## Board of Directors and Executive Officers

The Company's Board of Directors and executive officers as of September 30, 2017 are as follows:

### *Board of Directors*

Chairman	James L. Go
Director	Robert Coyiuto, Jr.
Director	John Gokongwei, Jr.
Director	Lance Y. Gokongwei
Director	Antonio Go
Director	Benedicto Coyiuto
Director	Josephine Barcelon
Director	Perry L. Pe
Director	James Coyiuto
Director	Ricardo Balbido

### *Executive Officers*

Chief Executive Officer	James L. Go*
President and Chief Operating Officer	Robert Coyiuto, Jr.*
Assistant Corporate Secretary	Perry L. Pe*
SVP - Operations and Administration	Apollo P. Madrid
SVP - Legal and Corporate Secretary	Ethelwoldo E. Fernandez
Financial Adviser	Aldrich T. Javellana
Chief Financial Officer	Ma. Riana C. Infante
Treasurer	Teresita H. Vasay

*\*Member of the Board of Directors*

## PART II – OTHER INFORMATION

All current disclosures were already reported under SEC Form 17-C.



## SIGNATURES

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

### **ORIENTAL PETROLEUM AND MINERALS CORPORATION**

A large, stylized handwritten signature in blue ink, consisting of several overlapping loops and a long horizontal stroke extending to the right.

**ROBERT COYIUTO, JR.**

President and Chief Operating Officer

A small, handwritten mark in blue ink, resembling a stylized 'm' or a series of connected loops.

**ORIENTAL PETROLEUM AND MINERALS CORPORATION  
AND SUBSIDIARIES**

**UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

(In U.S. Dollars)

	Nine Months Ended September 30 (UNAUDITED)		Year ended December 31
	2017	2016	2016 (Audited)
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	\$13,292,857	\$16,206,458	\$11,195,437
Short-term investments	1,193,971	–	4,872,757
Receivables	971,044	1,177,273	1,329,305
Crude oil inventory	1,365,879	717,704	1,206,922
Other current assets	14,924	58,057	9,846
Total Current Assets	16,838,675	18,159,492	18,614,267
<b>Noncurrent Assets</b>			
Long-term investment	40,000,000	39,000,000	40,000,000
Available-for-sale investments	12,933,361	12,979,475	13,674,115
Investment in bonds	5,088,599	3,404,149	3,215,809
Property and equipment - net	15,092,079	14,930,020	14,581,103
Deferred exploration costs	662,844	662,235	662,844
Total Noncurrent Assets	73,776,883	70,975,879	72,133,871
	\$90,615,558	\$89,135,371	\$90,748,138
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Accounts payable and accrued expenses	\$593,980	\$653,376	\$624,890
Income taxes payable	–	–	663,151
Pension liability	473,538	97,222	422,919
Deferred tax liability	1,623,550	1,684,367	1,623,550
Total Liabilities	2,691,068	2,434,965	3,334,510
<b>Equity</b>			
Paid-up capital	85,546,038	85,546,038	85,546,038
Retained earnings	2,625,188	904,291	1,373,572
Reserve for fluctuation in value of available-for-sale investments	(791,942)	144,736	(51,188)
Remeasurement gains on pension liability	119,657	141,734	119,657
Cumulative translation adjustment	425,549	(36,393)	425,549
Total Equity	87,924,490	86,700,406	87,413,628
	\$90,615,558	\$89,135,371	\$90,748,138

See attached Notes to Unaudited Consolidated Financial Statements.

**ORIENTAL PETROLEUM AND MINERALS CORPORATION  
AND SUBSIDIARIES**

**UNAUDITED CONSOLIDATED STATEMENTS OF INCOME**  
(In U.S. Dollars)

	Nine Months Ended		Three Months Ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
<b>REVENUE FROM PETROLEUM OPERATIONS</b>	<b>\$5,394,500</b>	<b>\$5,344,622</b>	<b>\$1,706,265</b>	<b>\$567,810</b>
<b>COSTS AND EXPENSES</b>				
Depletion, depreciation and amortization	1,172,824	738,746	369,298	159,686
Petroleum production costs	3,862,244	3,395,793	1,138,532	799,617
General and administrative	461,718	359,359	150,548	142,837
Foreign currency adjustment	178,523	—	52,915	—
	5,675,309	4,493,898	1,711,293	1,102,140
<b>OPERATING INCOME (LOSS)</b>	<b>(280,809)</b>	<b>850,724</b>	<b>(5,028)</b>	<b>(534,330)</b>
<b>OTHER INCOME (EXPENSES) - net</b>	<b>1,532,425</b>	<b>1,445,300</b>	<b>416,870</b>	<b>555,034</b>
<b>INCOME BEFORE INCOME TAX</b>	<b>1,251,616</b>	<b>2,296,024</b>	<b>411,842</b>	<b>20,704</b>
<b>PROVISION FOR INCOME TAX</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(61,584)</b>
<b>NET INCOME</b>	<b>\$1,251,616</b>	<b>\$2,296,024</b>	<b>\$411,842</b>	<b>82,288</b>
<b>Weighted Average Number of Common Stock Outstanding</b>	<b>200,000,000,000</b>	<b>200,000,000,000</b>	<b>200,000,000,000</b>	<b>200,000,000,000</b>
<b>Income per share</b>	<b>\$0.000006</b>	<b>\$0.000011</b>	<b>\$0.000002</b>	<b>\$0.000000</b>

*See attached Notes to Unaudited Consolidated Financial Statements.*

**ORIENTAL PETROLEUM AND MINERALS CORPORATION  
AND SUBSIDIARIES**

**UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(In U.S. Dollars)

	Nine Months Ended		Three Months Ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
<b>NET INCOME</b>	<b>\$1,251,616</b>	\$2,296,024	<b>\$411,842</b>	82,288
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>				
Reserve for fluctuation in value of available-for-sale investments	(740,754)	(176,918)	(29,083)	(264,158)
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>\$510,862</b>	\$2,119,106	<b>\$382,759</b>	(\$181,870)

*See accompanying Notes to Unaudited Consolidated Financial Statements.*

**ORIENTAL PETROLEUM AND MINERALS CORPORATION AND SUBSIDIARIES**  
**UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
(In U.S. Dollars)

	Paid up capital			Other comprehensive income (loss)					
	Capital Stock	Subscription Receivable	Capital in Excess of Par Value	Retained Earnings (Deficit)	Reserve for Fluctuation in value of Available-for-Sale Investments	Remeasurement Gains on Pension Liability	Cumulative Translation Adjustment	Total	
Balances as at January 1, 2017	\$ 82,268,978	\$ (373,417)	\$ 3,650,477	\$ 1,373,572	\$ (51,188)	\$ 119,657	\$ 425,549	\$ 87,413,628	
Comprehensive income									
Net income for the period	—	—	—	1,251,616	—	—	—	1,251,616	
Other comprehensive income	—	—	—	—	(740,754)	—	—	(740,754)	
Total comprehensive income	—	—	—	1,251,616	(740,754)	—	—	510,862	
Balances as at September 30, 2017	\$ 82,268,978	\$ (373,417)	\$ 3,650,477	\$ 2,625,188	\$ (791,942)	\$ 119,657	\$ 425,549	\$ 87,924,490	
Balances as at January 1, 2016	\$ 82,268,978	\$ (373,417)	\$ 3,650,477	\$ (1,391,733)	\$ 321,654	\$ 141,734	\$ (36,393)	\$ 84,581,300	
Comprehensive income									
Net income for the period	—	—	—	2,296,024	—	—	—	2,296,024	
Other comprehensive income	—	—	—	—	(176,918)	—	—	(176,918)	
Total comprehensive income	—	—	—	2,296,024	(176,918)	—	—	2,119,106	
Balances as at September 30, 2016	\$ 82,268,978	\$ (373,417)	\$ 3,650,477	\$ 904,291	\$ 144,736	\$ 141,734	\$ (36,393)	\$ 86,700,406	
Balances as at July 1, 2017	\$ 82,268,978	\$ (373,417)	\$ 3,650,477	\$ 2,213,346	\$ (762,859)	\$ 119,657	\$ 425,549	\$ 87,541,731	
Comprehensive income									
Net income for the period	—	—	—	411,842	—	—	—	411,842	
Other comprehensive income	—	—	—	—	(29,083)	—	—	(29,083)	
Total comprehensive income	—	—	—	411,842	(29,083)	—	—	382,759	
Balances as at September 30, 2017	\$ 82,268,978	\$ (373,417)	\$ 3,650,477	\$ 2,625,188	\$ (791,942)	\$ 119,657	\$ 425,549	\$ 87,924,490	
Balances as at July 1, 2016	\$ 82,268,978	\$ (373,417)	\$ 3,650,477	\$ 822,003	\$ 408,894	\$ 141,734	\$ (36,393)	\$ 86,882,276	
Comprehensive income									
Net income for the period	—	—	—	82,288	—	—	—	82,288	
Other comprehensive income (loss)	—	—	—	—	(264,158)	—	—	(264,158)	
Total comprehensive income	—	—	—	82,288	(264,158)	—	—	(181,870)	
Balances as at September 30, 2016	\$ 82,268,978	\$ (373,417)	\$ 3,650,477	\$ 904,291	\$ 144,736	\$ 141,734	\$ (36,393)	\$ 86,700,406	

*See accompanying Notes to Unaudited Consolidated Financial Statements.*

**ORIENTAL PETROLEUM AND MINERALS CORPORATION  
AND SUBSIDIARIES**

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**UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In U.S. Dollars)

	Nine Months Ended		Three Months Ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Income before income tax	\$1,251,616	\$2,296,024	\$411,842	\$20,704
Adjustments for:				
Depletion, depreciation and amortization	1,172,824	738,746	369,299	159,686
Unrealized foreign exchange loss	178,523	—	52,925	—
Interest income	(1,013,300)	(853,273)	(265,410)	(401,389)
Dividend income	(519,125)	(592,027)	(151,460)	(153,645)
Operating income before working capital changes	1,070,538	1,589,470	417,196	(374,644)
Decrease (increase) in:				
Short-term investments	3,678,786	—	—	—
Receivables	268,929	686,981	712,248	185,715
Crude oil inventory	(158,957)	877,091	(201,284)	917,083
Other current assets	(5,078)	250	(5,567)	10
Increase (decrease) in accounts payable and accrued expenses	(18,041)	(18,803)	(15,039)	(26,638)
Cash generated from (used in) operations	4,836,177	3,134,989	907,553	701,526
Income taxes paid	(657,249)	—	4,135	—
Net cash provided by (used in) operating activities	4,178,928	3,134,989	911,689	701,526
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest received	1,033,328	670,097	328,488	250,090
Dividends received	588,412	592,027	216,531	153,645
Acquisition of investment in bonds	(2,010,374)	(213,746)	—	—
Acquisition of long-term investment	—	(39,000,000)	—	(19,000,000)
Reversal / (acquisition) of property and equipment	(1,683,800)	17,552	(46,176)	(10,406)
Net cash used in investing activities	(2,072,434)	(37,934,070)	498,843	(18,606,671)
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	(9,074)	—	(2,995)	—
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	2,097,420	(34,799,081)	1,407,537	(17,905,145)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	11,195,437	51,005,539	11,885,320	34,111,603
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	\$13,292,857	\$16,206,458	\$13,292,857	\$16,206,458

*See attached Notes to Unaudited Consolidated Financial Statements.*

**ORIENTAL PETROLEUM AND MINERALS CORPORATION AND SUBSIDIRIES****Aging of Accounts Receivable****As of September 30, 2017 (In U.S. Dollar)**

	<b>Total Amount</b>	<b>30 days</b>	<b>31 - 60 days</b>	<b>61 - 90 days</b>	<b>91 - 120 days</b>	<b>121 - 360 days</b>	<b>360 days and above</b>
Trade receivables	\$ 609,576	609,576					
Interest receivables	290,983	290,983					
Dividend receivables	70,485	70,485					
<b>Grand Total</b>	<b>\$ 971,044</b>	<b>971,044</b>					

# **ORIENTAL PETROLEUM AND MINERALS CORPORATION AND SUBSIDIARIES**

## **NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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### **1. Corporate Information and Status of Operations**

Oriental Petroleum and Minerals Corporation (the Parent Company) and its subsidiaries (collectively referred to as “the Group”) were organized under the laws of the Republic of the Philippines to engage in oil exploration and development activities.

The Parent Company’s principal office is located at 34th Floor, Robinsons Equitable Tower, ADB Avenue, Ortigas Center, Pasig City. The Parent Company was listed in the Philippine Stock Exchange (PSE) on October 14, 1970.

#### Service Contract (SC) 14

On December 15, 1975, pursuant to Section 7 of the Oil Exploration and Development Act of 1972, the Parent Company, together with other participants (collectively referred to as the Consortium), entered into a service contract with the Philippine Government through the Department of Energy (DOE) for the exploration, exploitation and development of the contract area in northwest offshore Palawan, Philippines, which was amended from time to time. This contract area includes the Galoc Field where significant hydrocarbon deposits were discovered.

The contract areas (i.e., Blocks A, B, C and D) covered by SC 14 are situated offshore Northwest of Palawan Island and West of Busuanga Island, Philippines. Crude oil production in the West Linapacan Oilfield in Block C of SC 14 was suspended in 1999 due to a significant decline in crude oil production caused by increasing water intrusion. However, the Parent Company participates in the production of other fields, including Nido and Matinloc. Total production from these fields is low but is enough to cover operating expenses and the overhead expenses of SC 14.

Production activities continues in Blocks A, B and C of SC 14. Block C has declared commercial operations on June 22, 2009 with effectivity on June 19, 2009 while Block D remains suspended.

In December 2010, the DOE extended the term of SC 14 for another fifteen (15) years.

#### SC 14 - Galoc

#### Farm-in Agreement (FA)

On September 23, 2004, Team Oil (TEAM) and Cape Energy (CAPE) entered into a FA with the SC 14C - Galoc joint venture partners for the development of the Galoc Field. The FA was concluded in a Deed of Assignment (DA) dated August 22, 2005 where TEAM and CAPE designated Galoc Production Company (GPC) as the special purpose company to accept the assigned participating interest and to act as the Operator of the Galoc production area.

Under the FA and DA, GPC will pay 77.721% of the cost to develop the Galoc Field in exchange for a 58.291% participating interest in the area. Other significant terms and conditions of the Agreements follow:

- 1) That GPC, together with the other paying party, Nido Petroleum Philippines, Pty. Ltd. (Nido Petroleum), be allowed to first recover their share of the development cost from crude oil sales proceeds from the Galoc Field after production expenses.
- 2) That GPC will be assigned its pro-rata share of the \$68 million historical cost recovery of the Galoc block equivalent to \$33 million to be recovered pursuant to the terms of the Block C agreement below.



- 3) That GPC will reimburse the joint venture partners (except GPC and Nido Petroleum) for expenditures previously incurred in relation to the Galoc Field as follows:
  - a) \$1.5 million payable out of 50% of GPC's share of the Filipino Participation Incentive Allowance (FPIA); and
  - b) \$1.5 million payable upon reaching a cumulative production of 35 million barrels of oil from the Galoc Field.

On July 1, 2009, GPC purchased additional interest in the field from Petroenergy Resources Corporation (Petroenergy) and Alcorn Gold Resources Corporation (AGRC).

#### Extended Production Test (EPT) Agreement

On August 10, 2006, an EPT agreement was made and entered into by the DOE and GPC and its partners (referred to as "contractors" under the EPT agreement). The purpose of the EPT is to obtain dynamic performance data for the Galoc reservoir and to confirm the presence and continuity of at least two significant channel sandbodies by undertaking an EPT of a well designed to prove each channel.

In consideration of the risk and undertaking assumed by the contractor under the EPT agreement, the contractor shall market crude produced and saved from the EPT and is allowed to retain the gross proceeds for the recovery of 100% of all operating expenses incurred in the EPT. Any amount of gross proceeds in excess of the cost of the EPT shall be subject to 60-40 sharing in favor of the Philippine Government.

The duration of the EPT is a minimum of ninety (90) days of actual crude flow from at least one well excluding delays which arise from breakdowns, repairs or replacements, well conditions or other conditions. The EPT will be terminated upon the earliest of one hundred eighty two (182) days of actual crude production or when sufficient data has been obtained or viability of the Galoc Field has been established by the contractors in conjunction with the DOE.

On termination, the contractors shall either declare commerciality of the field and commit to undertake development, or declare the field to be noncommercial for further development or production and commence abandonment and demobilization of the EPT facilities.

The EPT period ended on June 18, 2009.

#### Joint Operating Agreement (JOA)

On September 12, 2006, the Consortium entered into a JOA, amending the existing JOA, for the purpose of regulating the joint operations in the Galoc Block. The JOA shall continue for as long as:

- 1) the provisions in SC 14 in respect of the Galoc Block remain in force;
- 2) until all properties acquired or held for use in connection with the joint operations has been disposed of and final settlement has been made between the parties in accordance with their respective rights and obligations in the Galoc Block; and
- 3) without prejudice to the continuing obligations of any provisions of the JOA which are expressed to or by their natures would be required to apply after such final settlement.

#### Block C Agreement

In 2006, Block C Agreement was entered into by the consortium members (the Galoc Block Owners) of SC 14C - Galoc to specify gross proceeds allocation as well as the rights and obligations relating to their respective ownership interest in the Galoc Block (the "Galoc Contract Area Rights") and their respective ownership interest in the Remaining Block (except for GPC).

The agreement also clarifies how GPC and Philodrill, which are the designated Operator of the Galoc Block and the Remaining Block, respectively, shall work together to perform their obligations and exercise their rights as Operator.

The Allocation of Contract Area Rights under Section 3 of the Block C Agreement provides that:

- 1) GPC shall be entitled to the FPIA, Production Allowance, Recovery of Operating Expenses and the Net Proceeds of the SC 14 insofar as it relates to the Galoc Block.
- 2) The portion of the Galoc Contract Area Rights allocable as FPIA, Production Allowance and Net Proceeds shall be distributed as follows:
  - a) GPC shall be allocated an amount equal to its participating interest in the Galoc Block which is currently 58.291%.
  - b) Nido Petroleum and Philodrill shall be allocated an amount equal to 17.500% and 4.375%, respectively.
  - c) The balance of 19.834% shall be allocated to the Remaining Block (except GPC) in accordance with number 5 below.
- 3) The portion of the Galoc Contract Area Rights allocable to recovery of operating expenses (the reimbursement amount) shall be distributed as follows:
  - a) First, an amount equal to the operating expenses incurred by the Galoc Block Owners in respect of production costs on and from the date of the 2nd Galoc well being brought on stream shall be allocated to each Galoc Block Owner in accordance with each Galoc Block Owner's participating interest.
  - b) Second, an amount equal to the operating expenses incurred by GPC and Nido Petroleum in respect of the Galoc Block (excluding the \$68 million historical cost assigned to the Galoc Block pursuant to the FA) shall be allocated 77.721% to GPC and the balance of 22.279% to Nido Petroleum.
  - c) Third, any reimbursement amount remaining after applying the provisions of 3a and 3b above shall be allocated 58.291% to GPC, 17.500% to Nido Petroleum, 4.375% to Philodrill and 19.834% to the Galoc Block Owners (except GPC but including Nido Petroleum and Philodrill only in relation to its remaining 4.779% interest and its 2.022% interest in the Galoc Block, respectively) until all the Galoc Block Owners have received in aggregate a total of \$34 million in accordance with this provision. The 19.834% allocated to the Galoc Block Owners (except GPC) shall be distributed by GPC in accordance with number 5 below.
  - d) Fourth, any reimbursement amount remaining after applying the provisions of 3a, 3b and 3c above shall be allocated 38.861% to GPC, 17.500% to Nido Petroleum and the balance of 43.639% to the Galoc Block Owners (except GPC but including Nido Petroleum only in relation to its remaining 4.779% interest in the Galoc Block) until all the Galoc Block Owners have received in aggregate a total of \$34 million in accordance with this provision. The 43.639% allocated to the Galoc Block Owners (except GPC) shall be distributed by GPC in accordance with number 5 below.
- 4) After the provisions in Clause 3.3 of the Block C Agreement (as detailed in number 3 above) have been satisfied, all the Galoc Block Owners shall share the reimbursement amount in accordance with each Galoc Block Owner's participating interest as follows:
  - a) GPC, Nido Petroleum and Philodrill shall receive 58.291%, 17.500% and 4.375%, respectively; and
  - b) The balance of 19.834% shall be distributed by GPC to the Galoc Block Owners (except Galoc but including Nido Petroleum and Philodrill only in relation to its remaining 4.779% interest and its 2.022% interest in the Galoc Block, respectively) in accordance with Clause 5 of the Block C Agreement (see number 5 below).

- 5) All amounts due to the Galoc Block Owners (except GPC) pursuant to Clauses 3.2, 3.3c, 3.3d and 3.4 (see numbers 2, 3c, 3d and 4 above) (the “Outstanding Balance”), shall be distributed by GPC in accordance with written instructions to distribute the Outstanding Balance authorized by all the other Galoc Block Owners.

Effective July 1, 2009, the amount allocated to Petroenergy and AGRC in accordance with the Block C agreement shall be allocated to the remaining partners in accordance with the amount of additional interest they have purchased from Petroenergy and AGRC. The additional interest purchased are as follows: Nido Petroleum (0.60052%), Philodrill (0.19745%), Parent Company (0.13970%) and LOGPOCOR (0.07335%).

The Block C agreement shall terminate when SC 14 terminates.

#### Lifting Agreement

In 2008, GPC and its partners entered into a lifting agreement which provides for the lifting procedures to be applied by GPC to ensure that:

- 1) each lifter is able to lift its Lifting Entitlement on a timely basis;
- 2) each lifter receives its Actual Lifting Proceeds;
- 3) overlift and underlift position of each party are monitored and settled;
- 4) each lifter pays its Actual Lifting Deduction Payment to the GPC; and
- 5) GPC has sufficient funds in the Joint Account to pay the Philippine Government and the Filipino Group Entitlement.

The terms of the Block C Agreement shall prevail in the event of a conflict with the terms of this agreement.

The agreement shall terminate when SC 14 terminates unless terminated earlier by the unanimous written agreement by the parties.

#### Decommissioning Agreement (DA)

On December 12, 2008, GPC and its partners entered into a DA which provides for the terms upon which the wells, offshore installations, offshore pipelines and the Floating Production Storage and Offloading (FPSO) facility used in connection with the joint operations in respect of the Galoc Development shall be decommissioned and abandoned in accordance with the laws of the Philippines, including all regulations issued pursuant to the Oil Exploration and Development Act of 1972.

In accordance with the DA, each party has a liability to fund a percentage of the decommissioning costs (to be determined at a later date), which shall be equal to the party's percentage interest. The funding of the decommissioning costs shall commence on the date (“Funding Date”) GPC issues a written notice to the DOE after completion of the EPT, specifying the date of commencement of commercial operations of the Galoc Block. The decommissioning cost, as funded, shall be kept in escrow with a bank of international standing and repute to be appointed by GPC.

The DA shall terminate when SC 14 terminates.

#### SC 14 –West Linapacan

A farm-in agreement was signed in July 2008 with Pitkin Petroleum Plc. The agreement requires the farm-in party / farminee to carry out, at its own cost, technical studies, drill a well or wells, and redevelop the West Linapacan-A oilfield. In return, Pitkin Petroleum Plc. will earn 70% interest out of the share in the farming-out parties/farmors. The farming-out parties / Farmors are free up to commercial “first oil” production.

In a later development, Pitkin Petroleum Plc. transferred and assigned a portion of their interest to RMA (HK) Ltd. Technical studies will continue after which a decision will be made to proceed or not to a front end engineering and design (FEED).

### Participating Interests

As of September 30, 2017 and 2016, the Parent Company and LOGPOCOR have the following participating interests in the various SCs:

	(in Percentage)
SC 14 (Northwest Palawan)	
Block A (Nido)	42.940
Block B (Matinloc)	17.703
Block B-1 (North Matinloc)	27.772
Block C (West Linapacan)	7.572
Block C (Galoc)	7.785
Block D	20.829
SC 6 (Bonita)	14.063

Among the other operations of the Group, the suspension of the production activities in the West Linapacan Oilfield raises uncertainties as to the profitability of the petroleum operations for the said oilfield. The profitability of petroleum operations related to the said oilfield is dependent upon discoveries of oil in commercial quantities as a result of the success of redevelopment activities thereof.

On June 30, 2009, the Group acquired additional interest in SC 14-Galoc from Petroenergy and AGRC. Participating interest increased by 0.213%, resulting to increase in wells, platforms and other facilities amounting \$0.16 million (Note 10).

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## **2. Basis of Preparation**

The accompanying unaudited interim consolidated financial statements of the Parent Company and its wholly-owned subsidiaries, LOGPOCOR, Oriental Mahogany Woodworks, Inc. (OMWI) and Oriental Land Corporation (OLC), collectively referred to as the “Group”, which include the share in the assets, liabilities, income and expenses of the joint operations covered by the SCs as discussed in Note 1 to the unaudited interim consolidated financial statements, have been prepared on a historical cost basis, except for available-for-sale (AFS) investments that have been measured at fair value.

The unaudited interim consolidated financial statements are presented in U.S. Dollars, the Parent Company’s functional currency. Amounts are adjusted to the nearest dollar unless otherwise indicated.

The unaudited interim consolidated financial statements of the Group have been prepared in accordance with Philippine Accounting Standards (PAS) 34, *Interim Financial Reporting*.

The unaudited interim consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements as of December 31, 2016.

### Statement of Compliance

The accompanying unaudited interim consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

### Basis of Consolidation

The unaudited interim consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at September 30 of each year. The subsidiaries are all incorporated in the Philippines.

The financial statements of LOGPOCOR, OMWI and OLC are prepared for the same reporting year as the Parent Company, using consistent accounting policies.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full. A subsidiary is fully consolidated from the date of acquisition, being the date on which the Parent Company obtains control, and continues to be consolidated until the date such control ceases. 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. Specifically, the Group controls a subsidiary if and only if the Group has:

1. Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
2. Exposure, or rights, to variable returns from its involvement with the investee, and
3. The ability to use its power over the investee to affect its returns

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:

- a.) The contractual arrangement with the other vote holders of the investee
- b.) Rights arising from other contractual arrangements
- c.) The Group'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.

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### 3. Changes in Accounting Policies and Disclosures

#### Changes in Accounting Policies and Disclosures

The Group applied for the first time the following amendments and improvements to PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC), which are effective for annual periods beginning on or after January 1, 2016. The adoption of these amendments and improvements to standards did not have significant impact on the consolidated financial statements.

- Amendments to PFRS 10, PFRS 12 and PAS 28, *Investment Entities: Applying the Consolidation Exception*
- Amendments to PFRS 11, *Accounting for Acquisitions of Interests in Joint Operations*
- PFRS 14, *Regulatory Deferral Accounts*
- Amendments to PAS 1, *Disclosure Initiative*
- Amendments to PAS 16 and PAS 38, *Clarification of Acceptable Methods of Depreciation and Amortization*
- Amendments to PAS 16 and PAS 41, *Agriculture: Bearer Plants*
- Amendments to PAS 27, *Equity Method in Separate Financial Statements*
- Annual Improvements to PFRSs 2012 - 2014 Cycle
  - Amendment to PFRS 5, *Changes in Methods of Disposal*
  - Amendment to PFRS 7, *Servicing Contracts*
  - Amendment to PFRS 7, *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
  - Amendment to PAS 19, *Discount Rate: Regional Market Issue*
  - Amendment to PAS 34, *Disclosure of Information 'Elsewhere in the Interim Financial Report'*

#### Future Changes in Accounting Policies

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

##### *Effective beginning on or after January 1, 2017*

- Amendments to PFRS 12, *Clarification of the Scope of the Standard* (Part of *Annual Improvements to PFRSs 2014 - 2016 Cycle*)  
The amendments clarify that the disclosure requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.
- Amendments to PAS 7, *Cash Flow Statements - Disclosure Initiative*  
The amendments to PAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendment, entities are not required to provide comparative information for preceding periods. Early application of the amendments is permitted.
- Amendments to PAS 12, *Income Taxes - Recognition of Deferred Tax Assets for Unrealized Losses*  
The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. Early application of the amendments is permitted.

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

- Amendments to PFRS 2, *Share-based Payments - Classification and Measurement of Share-based Payments Transactions*  
The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.  
  
On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. Early application of the amendments is permitted.
- PFRS 4, *Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4*  
The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the forthcoming insurance contracts standard. They allow entities to choose between the overlay approach and the deferral approach to deal with the transitional challenges. The overlay approach gives all entities that issue insurance contracts the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when PFRS 9 is applied before the new insurance contracts standard is issued. On the other hand, the deferral approach gives entities whose activities are predominantly connected with insurance an optional temporary exemption from applying PFRS 9 until the earlier of application of the forthcoming insurance contracts standard or January 1, 2021.

The overlay approach and the deferral approach will only be available to an entity if it has not previously applied PFRS 9.

- *PFRS 9, Financial Instruments*

PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, Financial Instruments: Recognition and Measurement, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The adoption of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Group's financial liabilities. The Group is currently assessing the impact of adopting this standard.

- *PFRS 15, Revenue from Contracts with Customers*

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

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018. The Group is currently assessing the impact of adopting this standard.

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

The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. The amendments should be applied retrospectively, with earlier application permitted.

- *PAS 40, Investment Property, Transfers of Investment Property (Amendments)*

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.

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

The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The interpretation may be applied on a fully retrospective basis. Entities may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized

on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

*Effective beginning on or after January 1, 2019*

- **PFRS 16, *Leases***

Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, *Leases*. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases in their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under IAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

Entities may early adopt PFRS 16 but only if they have also adopted PFRS 15. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs. The Group is currently assessing the impact of adopting PFRS 16.

*Deferred effectivity*

- **Amendments to PFRS 10 and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture***

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

On January 13, 2016, the Financial Reporting Standards Council postponed the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board has completed 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.

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#### **4. Summary of Significant Accounting Policies**

**Revenue Recognition**

Revenue is recognized to the extent that it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of revenue can be measured reliably. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and other sales taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as principal in all its revenue agreements. The following specific recognition criteria must also be met before revenue is recognized:

*Revenue from petroleum operation*

Revenue from producing oil wells is recognized as income at the time of production.

*Interest income*

Interest income is recognized as it accrues using the effective interest method, the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of that financial asset.



#### *Dividend income*

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

#### Costs and Expenses

Cost of services and general and administrative expenses are recognized in profit or loss when decrease in future economic benefits related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably. These are recognized:

- (a) on the basis of a direct association between the costs incurred and the earning of specific items of income;
- (b) on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association can only be broadly or indirectly determined; or
- (c) immediately when expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify or cease to qualify, for recognition in the consolidated statement of financial position as an asset.

#### Petroleum Production Cost

Petroleum production cost represents costs that are directly attributable in recognizing oil revenue.

#### Fair Value Measurement

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

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

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

A fair value measurement of a non-financial 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
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

## Financial Instruments

### *Date of recognition*

The Group recognizes a financial asset or a financial liability in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place are recognized on the settlement date.

### *Initial recognition of financial instruments*

Financial instruments are recognized initially at fair value of the consideration given (in case of an asset) or received (in case of a liability). Except for financial instruments at fair value through profit or loss (FVPL), the initial measurement of financial assets and liabilities includes transaction costs.

Financial instruments within the scope of PAS 39 are classified as either financial assets or liabilities at FVPL, loans and receivables, held-to-maturity (HTM) investments, AFS financial assets and other financial liabilities, as appropriate. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. The Group determines the classification of its financial instruments at initial recognition and, where allowed and appropriate, re-evaluates this designation at every reporting date.

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

As of September 30, 2017 and 2016, the Group has no financial assets and liabilities at FVPL.

### *Day 1 difference*

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

### *Loans and receivables*

Loans and receivables are nonderivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial assets or financial assets at FVPL.

After initial measurement, the loans and receivables are subsequently measured at amortized cost using the effective interest method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization is included in the interest income in the consolidated statement of income. The losses arising from impairment of such loans and receivables are recognized in the consolidated statement of income.

The Group's loans and receivables include cash and cash equivalents, short-term and long-term investments and receivables.

### *Held-to-maturity*

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as HTM when the Group has the positive intention and ability to hold them to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the EIR, less impairment. 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 effective interest

rate (EIR). The EIR amortization is included as finance income in the statement of income. The losses arising from impairment are recognized in the statement of income as finance costs.

The Group's HTM investment refers to a quoted debt instrument.

#### *AFS investments*

AFS investments are those non derivative financial assets that are designated as such or do not qualify as financial assets at FVPL, HTM investments or loans and receivables. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. They include government securities, equity investments and other debt instruments.

After initial measurement, AFS investments are measured at fair value with unrealized gains or losses being recognized directly in the consolidated statement of comprehensive income as "Reserve for fluctuation in value of AFS investments". When the investment is disposed of, the cumulative gain or loss previously recorded in equity is recognized in the consolidated statement of income. Interest earned or paid on the investments is reported as interest income or expense using the EIR. Dividends earned on investments are recognized in the consolidated statement of income when the right to receive has been established.

#### *Other financial liabilities*

Issued financial instruments or their components, which are not designated as FVPL are classified as other financial liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount of premium on the issue and fees that are an integral part of the EIR. Any effects on restatement of foreign currency-denominated liabilities are recognized in the consolidated statement of income.

The Group's other financial liabilities include accounts and other payables.

#### Classification of Financial Instruments Between Debt and Equity

A financial instrument is classified as debt, if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Group does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount, after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

#### Impairment of Financial Assets

The Group assesses at each reporting date whether a financial asset or group of financial assets is impaired.

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or

principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

#### *Financial assets carried at amortized cost*

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial assets' original EIR (i.e., the EIR computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss shall be recognized in consolidated statement of income during the period in which it arises.

If, in a subsequent period, the amount of the impairment loss decreases, and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of income, to the extent that the carrying value of the asset does not exceed the amortized cost at the reversal date.

#### *AFS investments carried at cost*

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

#### *AFS investments carried at fair value*

In the case of equity investments classified as AFS, impairment indicators would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statement of income, is removed from other comprehensive income and recognized in consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income. Increases in fair value after impairment are recognized directly in other comprehensive income.

In the case of debt instruments classified as AFS, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount future cash flows for the purpose of measuring impairment loss and is recorded as part of "Other income" in the consolidated statement of income. If, in subsequent year, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

### Derecognition of Financial Assets and Liabilities

#### *Financial asset*

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

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

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

Where the Group has transferred its right to receive cash flows from an asset and has neither transferred nor retained substantially all the risk and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

#### *Financial liability*

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

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

#### Offsetting of Financial Instruments

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

#### Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash in banks earns interest at the prevailing bank deposit rates. Cash equivalents include short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three (3) months or less from date of placements and that are subject to insignificant risk of change in value.

#### Short-term investments

Short-term investments are placements in time deposits and other money market instruments with original maturities of more than three months but less than one year.

#### Crude Oil Inventory

Crude oil inventory is valued at the prevailing market price at the time of production.

#### Property and Equipment

Transportation equipment and office furniture and equipment are carried at cost less accumulated depreciation and any impairment in value.

Wells, platforms and other facilities are carried at cost less accumulated depletion, depreciation and amortization and any impairment in value.

The initial cost of property and equipment, other than wells, platforms and other facilities, comprises its construction cost or purchase price and any directly attributable costs of bringing the property and equipment to its working condition and location for its intended use. Subsequent costs are capitalized as part of these assets only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the items can be measured reliably. All other repairs and maintenance are charged against current operations as incurred.

In situations where it can be clearly demonstrated that 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 cost of property and equipment.

When assets are retired or otherwise disposed of, the cost of the related accumulated depletion and depreciation and amortization and provision for impairment losses, if any, are removed from the accounts and any resulting gain or loss is credited or charged against current operations.

Depreciation of property and equipment, other than wells, platforms and other facilities, commences once the assets are put into operational use and is computed on a straight-line basis over the estimated useful lives (EUL) of the assets as follows:

	Years
Transportation equipment	6
Office furniture and equipment	5-10

Depletion, depreciation and amortization of capitalized costs related to the contract areas under “Wells, platforms and other facilities” in commercial operations is calculated using the unit-of-production method based on estimates of proved reserves.

The EUL and depletion and depreciation, residual values and amortization methods are reviewed periodically to ensure that the period and methods of depletion and depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

#### Interest in Jointly Controlled Assets

Interests in jointly controlled assets are accounted for by recognizing in the consolidated financial statements the Group’s share in the jointly controlled assets and are included principally in the “Property and equipment” and “Deferred exploration costs” accounts in the consolidated statement of financial position and any liabilities incurred jointly with the other venturers as well as the related revenues and expenses of the joint venture. The Group also recognized the expenses which it has incurred in respect of its interest in the joint venture and the related liabilities.

#### Deferred Exploration Costs

The Group follows the full cost method of accounting for exploration costs determined on the basis of each SC/Geophysical Survey and Exploration Contract (GSEC) area. Under this method, all exploration costs relating to each SC/GSEC are deferred pending determination of whether the contract area contains oil and gas reserves in commercial quantities. The exploration costs relating to the SC/GSEC area where oil and gas in commercial quantities are discovered are subsequently capitalized as “Wells, platforms and other facilities” shown under the “Property and equipment” account in the consolidated statement of financial position upon commercial production. When the SC/GSEC is permanently abandoned or the Group has withdrawn from the consortium, the related deferred oil exploration costs are written-off. SCs and GSECs are considered permanently abandoned if the SCs and GSECs have expired and/or there are no definite plans for further exploration and/or development.

#### Impairment of Nonfinancial Assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when an annual impairment testing for an asset is required, the Group makes an estimate of the asset’s recoverable amount. Recoverable amount is the higher of an asset’s or cash-generating unit’s (CGU) fair value less cost to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset 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.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate

of recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depletion, depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of comprehensive income unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the CGU level, as appropriate.

#### Equity

Capital stock is measured at par value for all shares issued. When the Group issues shares in excess of par, the excess is recognized in the "Capital in excess of par value" account; any incremental costs incurred directly attributable to the issuance of new shares are treated as deduction from it.

#### Subscription Receivable

Subscription receivable represents shares subscribed but not fully paid.

#### Retained Earnings (Deficit)

Retained Earnings (deficit) represents accumulated profit and losses of the Group and with consideration of any changes in accounting policies and errors applied retrospectively.

#### Other Comprehensive Income (OCI)

OCI are items of income and expense that are not recognized in profit or loss for the year in accordance with PFRS. The Group's OCI in 2017 and 2016 pertains to reserve for fluctuation in value of available-for-sale investments which can be reclassified to profit or loss in subsequent period and remeasurement gains (losses) on pension liability and changes in cumulative translation adjustment which cannot be recycled to profit or loss in the subsequent period.

#### Leases

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

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

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

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

#### Operating Lease

##### *Group as a lessee*

Lease of assets under which the lessor effectively retains all the risks and rewards of ownership is classified as operating lease. Operating lease payments are recognized as an expense in the consolidated statement of income on a straight-line basis over the lease term.

## Income Tax

### *Current Income Tax*

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the 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 recognized on all temporary differences at reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

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

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

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

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

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

Deferred tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction in a transaction that is not a business combination and at the time of transaction, affects neither the accounting income nor taxable income.

Deferred tax assets and liabilities are measured at the tax rate 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 reporting date.

Deferred tax relating to items recognized directly in equity is recognized as other comprehensive income.



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

#### Pension Expense

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.

Defined benefit costs comprise the following:

- Service costs
- 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 expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuary.

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 expense or income in profit or loss.

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 profit or loss in subsequent periods. All remeasurements recognized in OCI account “Remeasurement gains (losses) on pension liabilities” are not reclassified to another equity account in subsequent periods.

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.

### Research and Development Costs

Research costs are expensed as incurred. Development expenditures on an individual project are recognized as an intangible asset when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale
- Its intention to complete and its ability to use or sell the asset
- How the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development
- The ability to use the intangible asset generated

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. Amortization is recorded in cost of sales. During the period of development, the asset is tested for impairment annually.

### Foreign Currency-Denominated Transactions and Translations

The consolidated financial statements are presented in U.S. Dollar, which is the Parent Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the consolidated financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. However, monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency exchange rate prevailing at the reporting date. Exchange gains or losses arising from foreign currency translations are charged or credited to the consolidated statement of income.

All differences are taken to the consolidated statements of income with the exception of differences on foreign currency borrowings that provide, if any, a hedge against a net investment in a foreign entity. These are taken directly to equity until disposal of the net investment, at which time they are recognized in the consolidated statements of income. Non-monetary items that are measured in terms of historical cost in foreign currency are translated using the exchange rates as at the dates of initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currency of the Parent Company's subsidiary, OMWI, and OLC is Philippine Peso. As at reporting date, the assets and liabilities of these subsidiaries are translated into the presentation currency of the Group (the US Dollars) at the exchange rate at the reporting date and the consolidated statements of income accounts are translated at weighted average exchange rates for the year. The exchange differences arising on the translation are taken directly to "Cumulative translation adjustment" account in the equity section of the consolidated statements of financial position. Upon disposal of a subsidiary, the deferred cumulative translation adjustment amount recognized in equity relating to that particular subsidiary is recognized in the consolidated statement of income.

### Earnings Per Share

Earnings per share is determined by dividing net income (loss) by the weighted average number of shares outstanding for each year after retroactive adjustment for any stock dividends declared. Diluted earnings per share is computed by dividing net income applicable to common stockholders by the weighted average number of common shares issued and outstanding during the year after giving effect to assumed conversion of dilutive potential common shares.

### Operating Segments

The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. The Group's business segments consist of: (1) oil exploration and development; (2) furniture manufacturing and distribution; and (3) real estate. Business segments involved in furniture manufacturing and distribution and real estate have ceased operations.

### Provisions

Provisions are recognized only when the Group has: (a) a present obligation (legal or constructive) as a result of a

past event; (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments 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 the passage of time is recognized as an interest expense. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of the resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

#### 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 are disclosed when an inflow of economic benefits is probable.

#### Events After the Reporting Date

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

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### **5. Significant Accounting Judgments and Estimates**

The preparation of the unaudited interim consolidated financial statements in compliance with PFRS requires the Group to make estimates and assumptions that affect the amount reported in the unaudited interim consolidated financial statements and accompanying notes. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the unaudited interim consolidated financial statements, as they become reasonably determinable.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

#### Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which has the most significant effect on the amounts recognized in the unaudited interim consolidated financial statements.

#### *Going Concern Assessment*

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the Group's financial statements continue to be prepared on a going concern basis.

#### *Determination of functional currency*

The entities within the Group determine the functional currency based on economic substance of underlying circumstances relevant to each entity within the Group. The determination of functional currency was based on the primary economic environment in which each of the entities generates and expends cash. The Parent Company and LOGPOCOR's functional currency is the US Dollar. The functional currency of OMWI and OLC is Philippine Peso.

#### *Classification of financial instruments*

The Group classifies a financial instrument, or its components, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the consolidated statements of financial position.

#### *Operating leases - Group as lessee*

The Group has entered into property leases for its operations. The Group has determined that the lessor retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

#### *Asset Retirement Obligation*

Plug and abandonment costs are based on estimates made by the service contract operator. These costs are not clearly provided for in the SCs. Management believes that there are no legal and constructive obligations for plug and abandonment costs. As at September 30, 2017 and 2016, the Group has not recognized any asset retirement obligation.

#### Estimates and Assumptions

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

#### *Fair values of financial assets and liabilities*

The Group carries certain financial assets and liabilities at fair value which requires extensive use of accounting estimates and judgments. While components of fair value measurements were determined using verifiable objective evidence (i.e., foreign exchange rates and interest rates), the amount of changes in fair value would differ if the Group utilized different valuation methodology. Any changes in fair value of these financial assets would directly affect the consolidated statement of comprehensive income and consolidated statement of changes in equity, as appropriate.

#### *Impairment of loans and receivables*

The Group assesses on a regular basis if there is objective evidence of impairment of loans and receivables. The amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original EIR. The Group uses individual impairment assessment on its loans and receivables. The Group did not assess its loans and receivables for collective impairment due to the few counterparties which can be specifically identified. The amount of loss is recognized in the consolidated statement of comprehensive income with a corresponding reduction in the carrying value of the loans and receivables through an allowance account.

As of September 30, 2017 and 2016, the total carrying value of the Group's receivables amounted to \$0.97 million and \$1.18 million, respectively (see Note 7) while the HTM investment amounted to \$5.09 million and \$3.40 million as of September 30, 2017 and 2016, respectively. No allowance for impairment was provided in 2017 and 2016.

#### *Impairment of AFS investments*

##### *Quoted shares - at fair value*

An impairment loss arises with respect of AFS investments when there is objective evidence of impairment, which involves significant judgment. In applying this judgment, the Group evaluates the financial health of the issuer, among others. In the case of AFS equity instruments, the Group's expands its analysis to consider changes in the issuer's industry and sector performance, legal and regulatory framework, changes in technology and other factors that affect recoverability of the Group's investments.

##### *Unquoted shares - at cost*

Management believes that while the range of fair value estimates is significant, the probabilities of the various estimates cannot be reasonably assessed given the unquoted nature of equity investments. As a result, the Group carries unquoted AFS investments at cost, less any impairment in value.

#### *Estimation of proven oil reserves*

Estimation of oil reserves requires significant judgment and assumptions by management and engineers. These estimates have a material impact on the financial statements, particularly on depletion of Wells, Platforms and Other Facilities; impairment testing; and use of going concern assumptions.

Proven reserves are estimated by reference to available reservoir and well information, including production and pressure trends for producing reservoirs and, in some cases, subject to definitional limits, to similar data from other producing reservoirs. Proven reserve estimates are attributed to future development projects only where there is a

significant commitment to project funding and execution and for which applicable governmental and regulatory approvals have been secured or are reasonably certain to be secured. All proven reserve estimates are subject to revision, either upward or downward, based on new information, such as from development drilling and production activities or from changes in economic factors, including product prices, contract terms or development plans.

Estimates of reserves for undeveloped or partially developed fields are subject to greater uncertainty over their future life than estimates of reserves for fields that are substantially developed and depleted. As a field goes into production, the amount of proved reserves will be subject to future revision once additional information becomes available. As those fields are further developed, new information may lead to revisions.

#### *Impairment of Wells, Platforms and Other Facilities*

Due to the continued decline in oil prices in the market, the Group performed an impairment test for wells, platforms, and other facilities. In assessing the impairment on wells, platforms, and other facilities, the Group determines the recoverable amount using the higher of fair value less costs of disposal and its value in use with the entire Group as the cash generating unit (CGU).

The value in use calculations in 2016 used cash flows projections based on financial budgets approved by the consortium, which was provided by the operator, covering a four-year period. The discount rate used was 10%. The above value in use calculation is sensitive to the discount rate and cash flows inputs.

There is no impairment loss on wells, platforms, and other facilities in 2016 as a result of the above assessments. The carrying value of property and equipment amounted to \$15.09 million and \$14.93 million as at September 30, 2017 and 2016, respectively (see Note 9).

#### *Impairment and write-off of deferred exploration costs*

The Group assesses impairment on deferred exploration costs when facts and circumstances suggest that the carrying amount of the asset may exceed its recoverable amount. Until the Group has sufficient data to determine technical feasibility and commercial viability, deferred exploration costs need not be assessed for impairment.

Facts and circumstances that would require an impairment assessment as set forth in PFRS 6, *Exploration for and Evaluation of Mineral Resources*, are as follows:

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

The carrying value of deferred exploration costs amounted to \$0.66 million as of September 30, 2017 and 2016, respectively. No provision for impairment loss was recognized in 2017 and 2016.

#### *Pension expense*

The determination of the obligation and cost of pension and other employee benefits is dependent on the selection of certain assumptions used in calculating such amounts. Those assumptions include, among others, discount rates and salary increase rates.

Actual results that differ from the Group's assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

While the Group believes that the assumptions are reasonable and appropriate, significant differences between actual experiences and assumptions may materially affect the cost of employee benefits and related obligations. Pension liability amounted to \$0.47 million and \$0.10 million as of September 30, 2017 and 2016, respectively.

#### *Recognition of deferred tax assets*

Deferred tax assets are recognized for all temporary deductible differences to the extent that it is probable that taxable income will be available against which the deductible temporary differences can be utilized.

Management has determined based on business forecasts of succeeding years that there is not enough taxable income against which the deferred tax assets will be recognized.

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## 6. Cash and Cash Equivalents

This account consists of:

	2017	2016
Petty cash fund	\$196	\$212
Cash in banks	84,556	102,552
Short-term deposits	13,208,105	16,103,694
	<b>\$13,292,857</b>	<b>\$16,206,458</b>

Cash in banks earns interest at the respective bank deposit rates. Short-term deposits are made for varying periods of up to three (3) months depending on the immediate cash requirements of the Group and earn interest at the prevailing short-term deposit rates which ranges from 1.70% p.a. to 2.00% p.a. in 2017 and 1.50% p.a. to 2.00% p.a. in 2016.

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## 7. Receivables

This account consists of:

	2017	2016
Trade receivables	\$609,576	\$902,822
Interest receivable	290,983	274,451
Dividend receivable	70,485	—
	<b>\$971,044</b>	<b>\$1,177,273</b>

Trade receivables pertain to share of the Group on the receivables from customers for the sale of crude oil.

Trade receivables are noninterest-bearing and are generally on one 1-30 day terms. There are no past due nor impaired receivables as of September 30, 2017 and 2016.

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## 8. Investments

#### Short-term investments

In 2016, the Group availed of various short-term investments with various local banks amounting to \$1.19 million. These investments have original maturities of more than three (3) months but less than one (1) year. These investments earn interests of 2.00% and 2.25% and will mature on various dates from October 16, 2017 to January 17, 2018.

#### Long-term investments

In 2016, the Group availed of long-term investment with a local bank amounting to \$40.00 million. This investment earns interest of 2.75% and will mature starting May 10, 2019 to October 7, 2019.

#### Available-for-sale investments

This account consists of:

	2017	2016
Quoted shares - at fair value	\$12,933,361	\$12,906,169
Unquoted shares - at cost	–	73,306
	<b>\$12,933,361</b>	<b>\$12,979,475</b>

Movement in the reserve for fluctuation in value of AFS financial assets at fair value are as follow:

	2017	2016
Balance at January 1	(\$51,188)	\$321,654
Unrealized loss during the year	(740,754)	(176,918)
Balance at September 30	<b>(\$791,942)</b>	<b>\$144,736</b>

The carrying values of listed shares have been determined as follows:

	2017	2016
Balance at January 1	\$13,674,115	\$13,082,333
Reserve for fluctuation in value of AFS investments	(740,754)	(176,918)
Unrealized foreign exchange gains (loss)	–	(754)
Balance at September 30	<b>\$12,933,361</b>	<b>\$12,906,169</b>

The carrying values of non-listed shares have been determined as follows:

	2017	2016
Balance at January 1	\$–	\$74,060
Unrealized foreign exchange gains (loss)	–	(754)
Balance at September 30	<b>\$–</b>	<b>\$73,306</b>

#### Held-to-maturity investment

In 2017, the Group acquired fixed rate corporate bonds from a corporate bond issuer amounting to ₱100.00 million (\$2.01 million). The bonds pay interests at a rate of 5.1683% per annum. The bonds will mature on May 18, 2024.

In 2016, the Group acquired fixed rate corporate bonds from a corporate bond issuer amounting to ₱9.89 million (\$0.21 million). The bonds pay interests at rate of 4.8500% per annum. The bonds will mature on March 23, 2026.

In 2015, the Group acquired fixed rate corporate bonds from a corporate bond issuer amounting to ₱150.00 million (\$3.28 million). The bonds pay interests on a quarterly basis at a rate of 6.0169% per annum. The bonds will mature on August 6, 2027.

The carrying value of HTM investment as at September 30, 2017 and 2016 amounted to \$5.09 million and \$3.40 million, respectively.

The carrying values of HTM investments are as follows:

	2017	2016
Balances at beginning of year	\$3,215,809	\$3,190,403
Additions	2,010,374	213,746
Unrealized foreign exchange loss	(137,584)	—
Balances at end of year	\$5,088,599	\$3,404,149

## 9. Property and Equipment

The roll-forward analysis of this account follows:

	2017			
	Wells, Platforms and Other Facilities	Transportation Equipment	Office Furniture and Equipment	Total
<b>Cost</b>				
At January 1	\$86,509,598	\$213,834	\$44,550	\$86,767,982
Additions	1,683,800	—	—	1,683,800
At September 30	88,193,398	213,834	44,550	88,451,782
<b>Accumulated Depletion, Depreciation and Amortization</b>				
At January 1	71,964,138	189,839	32,902	72,186,879
Depletion, depreciation and amortization	1,168,704	3,862	258	1,172,824
At September 30	73,132,842	193,701	33,160	73,359,703
<b>Net book value at September 30</b>	<b>\$15,060,556</b>	<b>\$20,133</b>	<b>\$11,390</b>	<b>\$15,092,079</b>

  

	2016			
	Wells, Platforms and Other Facilities	Transportation Equipment	Office Furniture and Equipment	Total
<b>Cost</b>				
At January 1	\$86,368,548	\$213,834	\$44,550	\$86,626,932
Additions	22,091	—	—	22,091
Disposal / reversal of cost	(39,643)	—	—	(39,643)
At September 30	86,350,996	213,834	44,550	86,609,380
<b>Accumulated Depletion, Depreciation and Amortization</b>				
At January 1	70,724,928	183,062	32,624	70,940,614
Depletion, depreciation and amortization	733,455	5,082	209	738,746
At September 30	71,458,383	188,144	32,833	71,679,360
<b>Net book value at September 30</b>	<b>\$14,892,613</b>	<b>\$25,690</b>	<b>\$11,717</b>	<b>\$14,930,020</b>



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## 10. Deferred Exploration Costs

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

This account consists of various SCs as follows:

	2017	2016
SC 6	<b>\$652,630</b>	\$652,021
Others	<b>10,214</b>	10,214
	<b>\$662,844</b>	\$662,235

### SC 6

SC 6 Bonita Block is part of the retained area of the original SC 6 granted in 1973. The 10-year exploration period and the subsequent 25-year production period expired last February 2009.

In 2009, a 15-year extension period for the Bonita Block was requested from and subsequently granted by the DOE. The conditions for the grant of the 15-year extension period required the submission and implementation of a yearly work program and budget. It includes as well financial assistance to the DOE for training and scholarships in geological and engineering studies. The term of SC 6 will expire on February 28, 2024.

In 2010, a third party expressed interest to farm-in to and acquire interest share in SC 6B by carrying out additional geoscientific studies with option to drill. The farm-in agreement was approved by the DOE in February 2011. The agreement requires the farm-in party to carry out a geological and geophysical program to evaluate the petroleum potential of SC 6. After the study, the farm-in party have the option to acquire interest share in the block. The subsequent work program entails the drilling of a well and the production of hydrocarbons from such well.

In 2013, the farm-in agreement with a third party was not finalized and the participating interests of the joint venture partners reverted to the original interest participation distribution.

In 2014, the Bonita block is under a 2nd Extension Period of five (5) years (March 2014 to March 2019). A work program and budget for the initial two-year extension period (March 2014 to March 2016) has been submitted to and approved by the DOE. These include the processing and interpretation of satellite gravity data and three-dimensional seismic data.

The joint venture continued to carry out reprocessing of three-dimensional seismic data through a geophysical company based in Kuala Lumpur, Malaysia. The reprocessed data will then be interpreted in-house to identify leads or prospects that could be possible targets for drilling.

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## 11. Accounts and Other Payables

This account consists of:

	2017	2016
Accounts payable and accrued expenses	<b>\$486,119</b>	\$536,580
Dividends payable	<b>80,327</b>	86,981
Subscriptions payable	<b>27,534</b>	29,815
	<b>\$593,980</b>	\$653,376

Accounts payable and accrued expenses mainly consist of unpaid legal service fees. These are noninterest-bearing and are normally settled in thirty (30) to sixty (60)-day terms.

Dividends payable include amounts payable to the Group's shareholders.

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## 12. Paid up Capital

As of September 30, 2017 and 2016, this account consists of:

Class A - \$0.0004 (₱0.01) par value	
Authorized - 120 billion shares	
Issued and outstanding - 120 billion shares	\$49,361,387
Class B - \$0.0004 (₱0.01) par value	
Authorized - 80 billion shares	
Issued and outstanding - 80 billion shares	32,907,591
Subscriptions receivable	(373,417)
Capital in excess of par value	3,650,477
	<u>\$85,546,038</u>

All shares of stock of the Group enjoy the same rights and privileges, except that Class A shares shall be issued solely to Filipino citizens, whereas Class B shares can be issued either to Filipino citizens or foreign nationals. There were no issuances of additional common shares in 2017 and 2016.

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## 13. Other Income

This account consists of:

	2017	2016
Interest income	\$1,013,300	\$853,273
Dividend income	519,125	592,027
	<u>\$1,532,425</u>	<u>\$1,445,300</u>

The dividend income is derived primarily by the Group from its investment in preferred shares. Interest income came from money market placements and deposits in banks.

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## 14. Related Party Transactions

Parties are related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions; and the parties are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Affiliates are related entities of the companies by virtue of common ownership and representation to management where significant influence is apparent.

As of September 30, 2017 and 2016, the Group has cash and cash equivalents maintained at various banks including an affiliated bank, a subsidiary of a stockholder. Likewise, the Group entered into a lease agreement with an affiliate covering the office space it occupies, which is renewable annually.

### *Terms and conditions of transactions with related parties*

Outstanding balances at year-end are unsecured and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. The Group has not recognized any impairment losses on amounts due from related parties in 2017 and 2016. This assessment is undertaken each financial year through a review of the financial position of the related party and the market in which the related party operates.