

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 [] No []

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

Yes [] No []

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 2nd Quarter of 2013 as compared with the most recent annual audited financial statements ending December 31, 2012.

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 – June 2013) 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 ending December 31, 2012.
- 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 June 30
(unaudited)*

	2013	2012	Change
Income Statement data			
Revenues from petroleum operations	7,257.79	5,509.69	32%
Depletion, depreciation & amortization	1,849.81	1,525.67	21%
Petroleum production costs	3,549.53	2,860.34	24%
Interest Income	354.87	351.00	1%
Balance Sheet data			
Cash and cash equivalents	37,974.17	33,200.14	14%
Available-for-sale equity securities	9,676.78	10,057.69	(4%)
Accounts receivable	6,780.87	3,803.56	78%
Other Data			
Average peso dollar exchange rate	41.53	42.91	(3%)
Number of employees	12	11	9%

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 definite future 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, transporting, marketing, utilization, conservation, stockpiling of any forms of energy products and resources. OPMC acquired LOGPOCOR through transfer of 12.6 working interest in Blocks A, B, and C of SC14 in exchange for all of LOGPOCOR's capital stocks. Since July 1993, OPMC recognizes revenue from petroleum operation proportionate to the 12.6 working interest, however, LOCPOCOR 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

June 30, 2013 vs. June 30, 2012

Petroleum revenues totaled US\$7.26 million at the end of June 30, 2013, up by 31.73% from previous year. The increase was mainly due to the Company's revenue share in Galoc operations. In 2012, due to the upgrading of FPSO, Galoc operation was temporarily stopped thus a lower volume of crude oil production and deliveries. For the first six month of 2012, Galoc operation made only one sale of crude oil as against this year's three.

Petroleum production costs totaled US\$3.55 million, 24% higher than last year's US\$2.86 million. The increase can be attributed to the normal operations in Galoc as compared to last year when it was shut-in for the first three months.

Depletion, depreciation and amortization increased by 21% mainly due to higher crude oil production for the first half of 2013 due to the regular operation in Galoc oilfield.

Other income (expenses) – consist mainly of dividend and interest incomes. Increase in this account of about 17% was mainly due to dividends from investments and increase in interest income as a result of higher fund placements.

Financial Position

June 30, 2013

The Company has consolidated assets of US\$77.29 million as of June 30, 2013, 14.85% higher than same period last year of US\$67.29 million. The increase was mainly attributable to the increase in Cash and cash equivalents and Accounts receivable.

As of June 30, 2013, Cash and cash equivalents totaled US\$37.97 million up by around US\$4.77 million from US\$33.20 million a year ago.

Accounts Receivable as of June 30, 2013 amounted to US\$6.78 million, 78.28% higher than last year's US\$3.80 million mainly due to improved crude oil deliveries for the first half of 2013.

Available-for-sale investments totaled US\$9.68 million at the end of June 30, 2013, lower by 3.79% from same period last year. This was mainly due to the investment in preferred shares that was redeemed by the issuer.

As of June 30, 2013, Property and Equipment amounted to US\$21.06 million, an increase of about 17% due to the Company's share in capital expenditure for Galoc – Phase II project.

Deferred exploration costs at the end of six months amounted to US\$0.56 million.

Consolidated Accounts Payable and Accrued Expenses at the end of the 1st half of 2013 amounted to US\$0.65 million.

June 30, 2012

As of June 30, 2012, the Company has consolidated assets of US\$67.29 million, US\$5.88 million or 9.57% higher than the same period of last year. The increase was mainly attributable to the increase in the Available-for-sale investments account.

Cash and cash equivalents totaled US\$33.20 million at the end of June 2012, 25.54% higher than last year due to additional cash distribution from Galoc operations.

Accounts Receivable as of June 30, 2012 amounted to US\$3.80 million, 22.65% lower than last year's US\$ 4.92 million mainly due to lower crude oil production for the first half of 2012.

Available-for-sale investments totaled US\$10.06 million at the end of June 30, 2012, which equates to an 85.55% increase from last year's US\$5.42 million. The increase was mainly due to the additional investments made by the company as well as the increase in market price per share of the equities held by the company.

As of June 30, 2012, Property and Equipment amounted to US\$18.04 million, a decrease of around US\$6.02 million against the same period of 2011, which represents depletion and depreciation.

Deferred exploration costs at the end of six months amounted to US\$0.56 million.

Consolidated Accounts Payable and Accrued Expenses at the end of the 1st half of 2012 amounted to US\$0.62 million.

June 30, 2011

As of June 30, 2011, the Company has consolidated assets of US\$61.42 million, US\$5.93 million higher than the same period of last year. The increase of 10.69% was mainly due to the increase in the Accounts Receivable.

Cash and cash equivalents totaled US\$26.45 million for the first half of 2011, 376.62% higher than last year due to additional cash distribution from Galoc operations. Also, the Company received the full payment of its advances to an affiliate.

Accounts Receivable as of June 30, 2011 amounted to US\$4.92 million which represents the company's share from the funds held in trust by the operators with regard to the sale of crude oil. The consortiums have a 30-day term with its customers.

Available-for-sale equity securities totaled US\$5.42 million as of June 30, 2011, which equates to a 10.29% increase from last year's US\$4.91 million. The increase is mainly due to the increase in market price per share of the equities held by the company.

As of June 30, 2011, Property and Equipment amounted to US\$24.06 million, a decrease of 31.44% against the same period of 2010, which represents depletion and depreciation for the period.

Deferred exploration costs at the end of six months amounted to US\$0.56 million. The company wrote-off its share in the costs of SC-41 (Sulu Sea) due to the expiration of service contract.

Consolidated Accounts Payable and Accrued Expenses at the end of the 1st half of 2011 amounted to US\$0.58 million.

June 30, 2013 versus December 31, 2012

Cash and Cash Equivalents consist of cash in bank and money market placements. As of December 31, 2012 the Company's Cash and Cash Equivalents totaled US\$37.09 million as against US\$37.97 million in June 30, 2013.

Accounts Receivable – Trade represents the company's share in the funds held in trust by the operators (The Philodrill Corporation and Galoc Production Company) for the sale of crude oil.

Crude oil inventory represents our share in oil produced and in tank as of the reporting period. At the end of June 30, 2013, this account decreased by around 70% compared to year-end balance mainly due to deliveries made during the first six months of 2013.

Available-for-sale investments at the end of June 2013 reached US\$9.68 million, slightly higher than year-end's US\$9.60 million.

Accounts Payable and Accrued Expenses at the end of June 2013 totaled US\$0.65 million.

The causes for material changes (5% or more) of June 30, 2013 figures as compared to June 30, 2012 figures of the following accounts are:

Accounts	June 30, 2013	June 30, 2012	Change	%	Remarks
Balance Sheet					
Cash and cash equivalents	37,974,166	33,200,140	4,774,026	14%	Increase refers to cash dividends received from AFS investments.
Accounts Receivable – net	6,780,872	3,803,557	2,977,315	78%	Increase pertains to improved deliveries/sales compared to last year due to normal operations in Galoc this year.
Available-for-sale investments	9,676,784	10,057,688	(380,904)	(4%)	Decrease in this account refers to investment in preferred shares redeemed by the issuer.
Property, Plant and equipment	21,059,455	18,042,973	3,016,482	17%	Increase pertains mainly to the Company's share in Galoc – Phase II Project.
Income Statement					
Revenues from Petroleum Operations	7,257,794	5,509,685	1,748,109	32%	Please refer to the discussion under Results of Operations (page 4).
Petroleum Production Costs	3,549,526	2,860,342	689,184	24%	Please refer to the discussion above under Results of Operations, page 4.
Depletion, depreciation and amortization	1,849,813	1,525,672	324,141	21%	Please refer to the discussion above under Results of Operations, page 4.
Other Income (expenses) – net	737,550	631,214	179,563	17%	Increase pertains to increase in dividends and interest income.

I. Key Performance Indicators

	June 30, 2013	June 30, 2012
Current Ratio	70.53	62.70
Net Working Capital Ratio	0.59	0.56
Return on Assets	0.03	0.02
Return on Equity	0.03	0.03
% of Debt-to-Equity	0.04	0.05

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.

Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise cash and cash equivalents, receivables, due from a related party, AFS investments, due to Operator, accounts payable and accrued expenses, dividends payable and subscriptions payable. 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 loans and receivables and other financial liabilities approximate the 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.

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 main risks arising from the Group financial instruments are liquidity, credit, market, 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.

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 classifies credit risk as follows:

Low risk - credit can proceed with favorable credit terms; can offer term of up to thirty (30) days.

Average risk - credit can proceed normally; can offer term of up to forty five (45) days.

High risk - transaction should be under an advance payment or subject to review for possible upgrade to either low or average risk.

c) *Market risk*

Market risk is the risk of loss to future earnings, to fair values or to future cash flows that may result from changes in the price of a financial instrument.

The Group's market risk (the risk of loss to future earnings, to fair values or to future cash flows that may result from changes in the price of a financial instrument) originates from its holdings of securities and equities. The Board of Directors (BOD) approves significant investments which should provide a relatively stable rate of return. AFS investments exposed to market risk amounted to \$9.68 million and \$10.06 million as of June 30, 2013 and 2012.

d) *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 USD.

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 \$74.41 million and \$63.88 million as of June 30, 2013 and 2012, respectively. No changes were made in the objectives, policies or processes during the periods ended June 30, 2013 and 2012.

As of June 30, 2013, 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 July 31, 2013 were as follows:

Class	Stockholders	Amount of ownership	% to Total
Common	PCD Nominee Corporation	83,666,878,289	41.83%
Common	Consolidated Robina Capital Corp.	37,051,952,896	18.53%
Common	R. Coyiuto Securities, Inc.	21,651,106,503	10.83%
Common	Prudential Guarantee & Assurance, Inc.	13,456,898,349	6.73%

As of July 31, 2013, OPMC has approximately 12,055 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 June 30, 2013 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	Amparo V. Barcelon
Director	Gabriel Singson
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
Chief Financial Officer/Treasurer	Jeanette U. Yu

**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

 <p>ROBERT COYIUTO, JR. President & COO Date: _____ <i>RC</i></p>	 <p>JEANETTE U. YU Treasurer & CFO Date: <u>AUG 1 / 2013</u> <i>JU</i></p>
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**ORIENTAL PETROLEUM AND MINERALS CORPORATION
AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Six Months Ended June 30 (UNAUDITED)		Year ended December 31
	2013	2012	2012 (Audited)
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 37,974,166	\$ 33,200,140	37,087,816
Accounts receivable	6,780,872	3,803,557	4,910,828
Crude oil inventory	1,224,023	1,618,591	4,015,810
Other current assets	10,500	9,933	10,331
Total current assets	45,989,561	38,632,221	46,024,785
Noncurrent Assets			
Available-for-sale investments	9,676,784	10,057,688	9,596,977
Property and equipment - net	21,059,455	18,042,973	18,422,696
Deferred exploration costs	562,201	560,464	562,201
Other assets	1,217	1,141	1,217
Total Noncurrent assets	31,299,656	28,662,266	28,583,091
	\$ 77,289,217	\$ 67,294,487	\$ 74,607,876
LIABILITIES AND STOCKHOLDERS' EQUITY			
Liabilities			
Accounts payable and accrued expenses	\$ 652,055	\$ 616,182	611,030
Income taxes payable	-	-	26,861
Pension liability	216,353	257,569	302,083
Deferred tax liability	2,009,352	2,538,583	2,009,352
Total Liabilities	2,877,758	3,412,334	2,949,326
Stockholders' Equity			
Paid-up capital	85,545,203	85,545,203	85,545,203
Other comprehensive income (loss)	1,317,602	1,235,756	918,078
Deficit	(12,451,346)	(22,898,806)	(14,804,731)
Total Equity	74,411,459	63,882,153	71,658,550
	\$ 77,289,217	\$ 67,294,487	\$ 74,607,876

See attached notes to Unaudited Financial Statements

**ORIENTAL PETROLEUM AND MINERALS CORPORATION
AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF INCOME
UNAUDITED**

	Six Months Ended		Three Months Ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
INCOME				
Revenues from petroleum operations	\$ 7,257,794	5,509,685	\$ 3,424,601	\$ 5,069,680
COSTS AND EXPENSES				
Depletion, depreciation and amortization	1,849,813	1,525,672	1,125,508	1,441,637
Petroleum production costs	3,549,526	2,860,342	1,831,185	1,544,905
General and administrative	242,619	191,325	164,291	115,578
Foreign Exchange (Gain) / Loss	-	-	-	-
	5,641,959	4,577,339	3,120,984	3,102,120
OPERATING INCOME (LOSS)	1,615,835	932,346	303,617	1,967,560
OTHER INCOME (EXPENSES) - Net	737,550	631,214	284,607	285,926
INCOME (LOSS) BEFORE INCOME TAX	2,353,385	1,563,560	588,225	2,253,486
PROVISION FOR INCOME TAX	-	-	-	-
NET INCOME (LOSS)	\$ 2,353,385	1,563,560	\$ 588,225	\$ 2,253,486
Weighted Average Number of Common Stock				
Outstanding	200,000,000,000	200,000,000,000	200,000,000,000	200,000,000,000
Income (Loss) per share	\$ 0.000012	\$ 0.000008	\$ 0.000003	\$ 0.000011

See attached notes to Unaudited Financial Statements

**ORIENTAL PETROLEUM AND MINERALS CORPORATION
AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
UNAUDITED**

	Six Months Ended		Three Months Ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
NET INCOME (LOSS)	\$ 2,353,385	\$ 1,563,561	\$ 588,225	\$ 2,253,486
OTHER COMPREHENSIVE INCOME (LOSS)				
Reserve for fluctuation in value of available-for-sale investment	399,524	635,846	(272,765)	270,919
Cumulative translation adjustment		-		-
	399,524	635,846	(272,765)	270,919
TOTAL COMPREHENSIVE INCOME (LOSS)	\$ 2,752,909	\$ 2,199,407	\$ 315,459	\$ 2,524,405

See attached notes to Unaudited Financial Statements

**ORIENTAL PETROLEUM AND MINERALS CORPORATION
AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CHANGES IN
STOCKHOLDERS' EQUITY
UNAUDITED**

	Paid up capital				Other comprehensive income (loss)				
	Capital Stock	Subscription receivables	Capital in excess of par value	Total paid up capital	Reserve for fluctuation in value of AFS	Cumulative translation adjustment	Total other comprehensive income (loss)	Total	
At January 1, 2013	\$ 82,268,978	\$ (374,252)	\$ 3,650,477	\$ 85,545,203	\$ (14,804,731)	\$ 931,803	\$ (13,725)	\$ 918,078	\$ 71,658,550
Net income for the period	-	-	-	-	2,353,385	-	-	-	2,353,385
Other comprehensive income (loss)	-	-	-	-	-	399,524	-	399,524	399,524
Total comprehensive income	-	-	-	-	2,353,385	399,524	-	399,524	2,752,909
At June 30, 2013	\$ 82,268,978	\$ (374,252)	\$ 3,650,477	\$ 85,545,203	\$ (12,451,346)	\$ 1,331,327	\$ (13,725)	\$ 1,317,602	\$ 74,411,459
At January 1, 2012	\$ 82,268,978	\$ (374,252)	\$ 3,650,477	\$ 85,545,203	\$ (24,462,367)	\$ 612,149	\$ (12,239)	\$ 599,910	\$ 61,682,746
Net income for the period	-	-	-	-	1,563,561	-	-	-	1,563,561
Other comprehensive income (loss)	-	-	-	-	-	635,846	-	635,846	635,846
Total comprehensive income	-	-	-	-	1,563,561	635,846	-	635,846	2,199,407
At June 30, 2012	\$ 82,268,978	\$ (374,252)	\$ 3,650,477	\$ 85,545,203	\$ (22,898,806)	\$ 1,247,995	\$ (12,239)	\$ 1,235,756	\$ 63,882,153
At April 1, 2013	\$ 82,268,978	\$ (374,252)	\$ 3,650,477	\$ 85,545,203	\$ (13,039,571)	\$ 1,604,093	\$ (13,725)	\$ 1,590,368	\$ 74,096,000
Net income for the quarter	-	-	-	-	588,225	-	-	-	588,225
Other comprehensive income (loss)	-	-	-	-	-	(272,765)	-	(272,765)	(272,765)
Total comprehensive income	-	-	-	-	588,225	(272,765)	-	(272,765)	315,459
At June 30, 2013	\$ 82,268,978	\$ (374,252)	\$ 3,650,477	\$ 85,545,203	\$ (12,451,346)	\$ 1,331,327	\$ (13,725)	\$ 1,317,602	\$ 74,411,459
At April 1, 2012	\$ 82,268,978	\$ (374,252)	\$ 3,650,477	\$ 85,545,203	\$ (25,152,292)	\$ 977,076	\$ (12,239)	\$ 964,837	\$ 61,357,748
Net income for the quarter	-	-	-	-	2,253,486	-	-	-	2,253,486
Other comprehensive income (loss)	-	-	-	-	-	270,919	-	270,919	270,919
Total comprehensive income	-	-	-	-	2,253,486	270,919	-	270,919	2,524,405
At June 30, 2012	\$ 82,268,978	\$ (374,252)	\$ 3,650,477	\$ 85,545,203	\$ (22,898,806)	\$ 1,247,995	\$ (12,239)	\$ 1,235,756	\$ 63,882,153

See attached notes to Unaudited Financial Statements

**ORIENTAL PETROLEUM AND MINERALS CORPORATION
AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS
UNAUDITED**

	Six Months Ended		Three Months Ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
CASH FLOWS FROM OPERATING ACTIVITIES				
Income (Loss) before income tax	\$ 2,353,385	\$ 1,563,561	\$ 588,225	\$ 2,253,486
Adjustments for:				
Depletion, depreciation and amortization	1,849,813	1,525,672	1,125,508	1,441,637
Interest income	(354,875)	(351,003)	(182,957)	(172,600)
Dividend income	(393,915)	(280,211)	(112,889)	(113,326)
Operating income (loss) before working capital changes	3,454,409	2,458,019	1,417,886	3,409,197
Decrease (increase) in:				
Accounts receivable	(1,867,186)	1,245,841	1,878,854	(1,780,318)
Crude oil inventory	2,791,787	(1,618,591)	(141,088)	(1,618,591)
Other current assets	(169)	109	(384)	53
Increase (decrease) in accounts payable and accrued expenses	41,025	28,353	31,703	36,863
Increase (decrease) in pension liability	(85,731)	-	(85,731)	-
Cash generated from (used in) operations	4,334,135	2,113,731	3,101,241	47,204
Income taxes paid	(26,861)	(1,840)	(26,861)	(1,840)
Net cash provided (used) by operating activities	4,307,274	2,111,891	3,074,380	45,364
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received	352,016	358,725	195,635	178,573
Dividends received	393,915	280,212	112,889	113,326
Acquisitions of:				
Available for sale investment	319,717	(2,585,660)	319,717	(2,585,660)
Property, plant and equipment	(4,486,573)	-	(3,453,855)	-
Deferred exploration cost	-	(1,132)	-	(1,132)
Net cash provided by (used in) investing activities	(3,420,924)	(1,947,855)	(2,825,614)	(2,294,893)
CASH FLOWS FROM FINANCING ACTIVITIES				
	-	-	-	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	886,350	164,036	248,767	(2,249,529)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	37,087,816	33,036,104	37,725,399	35,449,669
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 37,974,166	\$ 33,200,140	\$ 37,974,166	\$ 33,200,140

See attached notes to Unaudited Financial Statements

ORIENTAL PETROLEUM AND MINERALS CORPORATION

Aging of Accounts Receivable

As of June 30, 2013 (In US Dollar)

Type of Accounts Receivable	Total Amount	30 days	31 - 60 days	61 - 90 days	91 - 120 days	121 - 360 days	360 days and above
Accounts receivable - trade	\$ 6,665,892	6,665,892					
Dividends receivable	33,725	33,725					
Interest receivable	81,151	81,151					
Others	105	105					
Grand Total	\$ 6,780,872	6,780,872					

ORIENTAL PETROLEUM AND MINERALS CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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).

As of December 31, 2011 and 2010, the Consortium consists of the Parent Company (5.105%), GPC (59.845%), Nido Petroleum (22.880%), Philodrill Corporation (Philodrill) (7.215%), Forum Energy Philippines Corporation (2.276%), and Linapacan Oil Gas and Power Corporation (LOGPOCOR) (2.680%).

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 June 30, 2013 and June 30, 2012, the Parent Company and LOGPOCOR have the following participating interests in the various SCs:

	<u>2013</u>	<u>2012</u>
SC 14 (Northwest Palawan)		
Block A (Nido)	42.940%	42.940%
Block B (Matinloc)	17.703	17.703
Block B-1 (North Matinloc)	27.772	27.772
Block C (West Linapacan)	7.572	7.572
Block C (Galoc)	7.785	7.785
Block D	20.829	20.829
SC 6 (Bonita)	14.063	14.063

The profitability of petroleum operations and full recovery of unamortized costs of wells, platforms and other facilities and deferred exploration costs incurred in connection with the Parent Company and LOGPOCOR’s participation in the acquisition, exploration and development of petroleum concessions are dependent upon the discoveries of additional oil and gas in commercial quantities and the success of future development 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).

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, 2012.

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 December 31 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.

3. **Changes in Accounting Policies**

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended PFRS and Philippine Interpretations which were adopted as of January 1, 2012. Except as otherwise indicated, the adoption of the new and amended standards, as well as the Philippine Interpretations, did not have any effect on the financial statements of the Group.

- PFRS 7, *Financial Instruments: Disclosures - Transfers of Financial Assets* (Amendments) The amendments require additional disclosures about financial assets that have been transferred but not derecognized to enhance the understanding of the relationship between those assets that have not been derecognized and their associated liabilities. In addition, the amendments require disclosures about continuing involvement in derecognized assets to enable users of financial statements to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendments affect disclosures only and have no impact on the Company's financial position or performance.
- PAS 12, *Income Taxes - Deferred Tax: Recovery of Underlying Assets* (Amendments)

This amendment to PAS 12 clarifies the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that the carrying amount of investment property measured using the fair value model in PAS 40, *Investment Property*, will be recovered through sale and, accordingly, requires that any related deferred tax should be measured on a 'sale' basis. The presumption is rebutted if the investment property is depreciable and it is held within a business model whose objective is to consume substantially all of the economic benefits in the investment property over time ('use' basis), rather than through sale. Furthermore, the amendment introduces the requirement that deferred tax on non-depreciable assets measured using the revaluation model in PAS 16, *Property, Plant and Equipment*, always be measured on a sale basis of the asset. The amendments are effective for periods beginning on or after January 1, 2012. As the Group does not have investment properties and property and equipment measured using the fair value model and revaluation model, respectively, the amendment has no impact on the financial statements of the Group.

Standards Issued but not yet Effective

Standards, interpretations, amendments and improvements to standards issued but not effective up to the date of issuance of the Company's financial statements are listed below. The Company will adopt these standards, interpretations, amendments to standards and improvements when these become effective. Except as otherwise indicated, the Company does not expect the adoption of these new and amended standards and interpretations to have significant impact on its financial statements.

Effective in 2013

- PFRS 7, *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* (Amendments)

These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32, *Financial Instruments: Presentation*. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

- a) The gross amounts of those recognized financial assets and recognized financial liabilities;
 - b) The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;
 - c) The net amounts presented in the statement of financial position;
 - d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
 - i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
 - ii. Amounts related to financial collateral (including cash collateral); and
 - e) The net amount after deducting the amounts in (d) from the amounts in (c) above.
- PFRS 10, *Consolidated Financial Statements*

PFRS 10 replaces the portion of PAS 27, *Consolidated and Separate Financial Statements*, that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC 12, *Consolidation - Special Purpose Entities*. PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27. The standard becomes effective for annual periods beginning on or after January 1, 2013.

- PFRS 11, *Joint Arrangements*

PFRS 11 replaces PAS 31, *Interests in Joint Ventures*, and SIC 13, *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. PFRS 11 removes the option to account for jointly controlled entities using proportionate consolidation. Instead, jointly controlled entities that meet the definition of a joint venture must be accounted for using the equity method. The standard becomes effective for annual periods beginning on or after January 1, 2013.

- PFRS 12, *Disclosure of Interests in Other Entities*

PFRS 12 includes all of the disclosures related to consolidated financial statements that were previously in PAS 27, as well as all the disclosures that were previously included in PAS 31 and PAS 28, *Investments in Associates*.

These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. The standard becomes effective for annual periods beginning on or after January 1, 2013.

The adoption of PFRS 12 will affect disclosures only and have no impact on the Company's financial position or performance.

- PFRS 13, *Fair Value Measurement*

PFRS 13 establishes a single source of guidance under PFRSs for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. This standard should be applied prospectively as of the beginning of the annual period in which it is initially applied. Its disclosure requirements need not be applied in comparative information provided for periods before initial application of PFRS 13. The standard becomes effective for annual periods beginning on or after January 1, 2013. The Company does not anticipate that the adoption of this standard will have a significant impact on its financial position and performance.

- PAS 1, *Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income or OCI* (Amendments)

The amendments to PAS 1 change the grouping of items presented in OCI. Items that can be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) will be presented separately from items that will never be recycled. The amendments affect presentation only and have no impact on the Company's financial position or performance. The amendment becomes effective for annual periods beginning on or after July 1, 2012. The amendments will be applied retrospectively and will result to the modification of the presentation of items of OCI.

- PAS 19, *Employee Benefits* (Revised)

Amendments to PAS 19 range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and rewording. The revised standard also requires new disclosures such as, among others, a sensitivity analysis for each significant actuarial assumption, information on asset-liability matching strategies, duration of the defined benefit obligation, and disaggregation of plan assets by nature and risk. The amendments become effective for annual periods beginning on or after January 1, 2013.

The adoption of PAS 19 Revised has no financial impact on the Company's financial statements since administrative and management functions are performed by the Parent Company

- PAS 27, *Separate Financial Statements* (Revised)

As a consequence of the issuance of the new PFRS 10 and PFRS 12, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in the separate financial statements. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

- PAS 28, *Investments in Associates and Joint Ventures* (Revised)

As a consequence of the issuance of the new PFRS 11 and PFRS 12, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

Effective in 2014

- PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities*

(Amendments)

The amendments clarify the meaning of “currently has a legally enforceable right to set-off” and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments affect presentation only and have no impact on the Company’s financial position or performance. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014.

Effective in 2015

- *PFRS 9, Financial Instruments*

PFRS 9, as issued, reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39, Financial Instruments: Recognition and Measurement. Work on impairment of financial instruments and hedge accounting is still ongoing, with a view to replacing PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability’s credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Company’s financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

- *Philippine Interpretation IFRIC 15, Agreements for the Construction of Real Estate*

This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11 or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The SEC and the Financial Reporting Standards Council (FRSC) have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.

Annual Improvements of PFRSs (2009-2011 cycle)

The Annual Improvements to PFRSs (2009-2011 cycle) contain non-urgent but necessary amendments to PFRSs. The amendments are effective for annual periods beginning on or after January 1, 2013 and are applied retrospectively. Earlier application is permitted.

- *PFRS 1, First-time Adoption of PFRS - Borrowing Costs*

The amendment clarifies that, upon adoption of PFRS, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles, may carry forward, without any adjustment, the amount previously capitalized in its opening statement of financial position at the date of transition. Subsequent

to the adoption of PFRS, borrowing costs are recognized in accordance with PAS 23, *Borrowing Costs*. The amendment does not apply to the Company as it is not a first-time adopter of PFRS.

- PAS 1, *Presentation of Financial Statements - Clarification of the Requirements for Comparative Information*

The amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements.

An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required. The amendments affect disclosures only and have no impact on the Company's financial position or performance.

- PAS 16, *Property, Plant and Equipment - Classification of Servicing Equipment*

The amendment clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory if otherwise. The amendment will not have any significant impact on the Company's financial position or performance.

- PAS 32, *Financial Instruments: Presentation - Tax Effect of Distribution to Holders of Equity Instruments*

The amendment clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12, *Income Taxes*. The Company expects that this amendment will not have any impact on its financial position or performance.

- PAS 34, *Interim Financial Reporting - Interim Financial Reporting and Segment Information for Total Assets and Liabilities*

The amendment clarifies that the total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the entity's previous annual financial statements for that reportable segment. The amendment affects disclosures only and has no impact on the Company's financial position or performance.

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:

Oil revenue

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.

Petroleum Production Cost

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

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.

Determination of fair value

The fair value of financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and ask prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, option pricing models, and other relevant valuation models. Any difference noted between the fair value and the transaction price is treated as expense or income, unless it qualifies for recognition as some type of asset or liability.

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 June 30, 2013 and 2012, the Group has no financial assets and liabilities at FVPL and HTM investments.

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.

This accounting policy relates to the consolidated statement of financial position captions “Cash and cash equivalents”, “Receivables” and “Due from a related party”.

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.

As of June 30, 2013 and 2012, the Group has available-for-sale investments amounting to \$9.68 million and \$10.06 million, respectively.

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 effective interest rate (EIR). Any effects on restatement of foreign currency-denominated liabilities are recognized in the consolidated statement of income.

This accounting policy applies primarily to consolidated statement of financial position caption “Accounts and other payables” that meet the above definition (other than liabilities covered by other accounting standards, such as pension liability, income tax payable and deferred tax liabilities).

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.

Loans and receivables

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.

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.

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 depletion base includes the estimated future development costs of the undeveloped areas.

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

This accounting policy applies primarily to the Group’s property and equipment and deferred exploration costs.

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.

Paid up Capital

Capital stock is measured at par value for all shares issued. When the Group issues shares in excess of par, the excess is recognized as additional paid-in capital (APIC). Incremental costs incurred directly attributable to the issuance of new shares are treated as deduction from APIC.

Subscription receivable represents shares subscribed but not fully paid.

Capital in excess of par value represents the excess of cost over the par value.

Deficit

Deficit represents the cumulative balance of net income (loss), dividend distributions, prior period adjustments, effects of changes in accounting policy and other capital adjustments.

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.

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 tax

Current 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.

Deferred tax

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

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

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

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

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; 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 reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

Deferred tax 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

Pension expense is actuarially determined using the projected unit credit (PUC) method. This method reflects services rendered by employees up to the date of valuation and incorporates assumptions concerning employees' projected salaries. Actuarial valuations are conducted with sufficient regularity, with option to accelerate when significant changes to underlying assumptions occur.

Pension expense includes current service cost, interest cost, past service cost, actuarial gains and losses and the effect of any curtailment or settlement.

The net pension liability recognized in the consolidated statement of financial position in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the reporting date less any actuarial gains or losses not recognized. The defined benefit obligation is calculated annually by independent actuaries using the PUC method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using risk-free interest rates of government bonds that have terms to maturity approximating to the terms of the related pension liability or applying a single weighted average discount rate that reflects the estimated timing and amount of benefit payments.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are credited to or charged against income when the net cumulative actuarial gains and losses at the end of the previous period exceed the 10% of the higher of the defined benefit obligation and the fair value of the plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

Past service costs, if any, are recognized immediately in the consolidated statement of income, unless the changes to the pension plan are conditional on the employees remaining in the service for a specified period of time (the vesting period). In this case, the past service costs are amortized on a straight-line basis over the vesting period.

Foreign Currency-Denominated Transactions and Translations

The unaudited interim consolidated financial statements are presented in U.S. Dollar, which is the Group's functional and presentation 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.

Earnings (Losses) Per Share

Earnings (losses) 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.

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.

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.

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.

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.

Determination of functional currency

Based on the economic substance of the underlying circumstances relevant to the Group, the functional currency of the Group has been determined to be U.S. Dollar. The U.S. Dollar is the currency of the primary economic environment in which the Group operates. It is the currency that mainly influences the revenue and costs of the Group's operations.

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 (Note 19). 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.

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.

Fair values of financial assets and financial liabilities amounted to \$54.43 million and \$0.53 million, respectively, as of June 30, 2013, and \$47.06 million and \$0.49 million, respectively, as of June 30, 2012.

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 June 30, 2013 and 2012, the total carrying value of the Group's receivables amounted to \$6.78 million and \$3.80 million, respectively. No allowance for impairment was provided in 2013 and 2012.

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

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.

Estimated proven oil reserves totaled 10.90 million barrels for Galoc oil field and 1.37 million for Nido oil field.

Estimation of useful lives of property and equipment

The Group reviews annually the EUL of transportation equipment and office furniture and equipment based on expected asset utilization. It is possible that future results of operations could be affected by changes in these estimates brought about by changes in the factors mentioned. A reduction in the EUL of these assets would increase the recorded depreciation expense and decrease noncurrent assets.

As of June 30, 2013 and 2012, the Group's property and equipment amounted to \$21.62 million and \$18.60 million, respectively. Depletion, depreciation and amortization expense amounted to \$1.85 million and \$1.53 million in 2013 and 2012, respectively.

Impairment of nonfinancial assets

The Group assesses impairment on property and equipment and deferred exploration costs whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The factors that the Group considers important which could trigger an impairment review include the following:

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

An impairment loss is recognized whenever the carrying amount of an asset or investment exceeds its recoverable amount. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of

its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the CGU to which the asset belongs.

In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Group is required to make estimates and assumptions that can materially affect the unaudited interim consolidated financial statements.

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 \$0.56 million as of June 30, 2013 and 2012. No provision for impairment loss was recognized in 2013 and 2012.

In August 2010, deferred exploration costs amounting \$2.15 million were written off, subsequently after the surrender of the contract of SC 41 to the DOE.

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 (Note 16). 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.

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.

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 obligation for plug and abandonment costs. As of June 30, 2013 and 2012, the Group has not recognized any asset retirement obligation.

6. Cash and Cash Equivalents

This account consists of:

	2013	2012
Petty cash fund	\$216	\$216
Cash in banks	44,252	56,918
Short-term deposits	37,929,698	33,143,006
	\$37,974,166	\$33,200,140

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 1.35% to 3.75% in 2013 and 1.56% to 4.75% in 2012.

7. Receivables

This account consists of:

	2013	2012
Due from Operators	\$4,932,459	\$2,507,482
Trade receivables	1,733,432	1,219,913
Interest receivable	81,151	42,437
Dividend receivable	33,725	33,725
Others	105	-
	\$6,780,872	\$3,803,558

Due from Operators represents the excess of proceeds from crude oil liftings over the amounts advanced by the contract operator for the Group's share in exploration, development and production expenditures.

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

Trade receivables and amounts due from Operators are noninterest-bearing and are generally on one (1) to thirty (30) days' terms.

There are no past due nor impaired receivables as of June 30, 2013 and 2012.

8. Property and Equipment

The roll-forward analysis of this account follows:

2013

	Wells, Platforms and Other Facilities	Transportation Equipment	Office Furniture and Equipment	Total
Cost	-	-	-	-
At January 1	71,347,034	193,841	43,158	71,584,033
Additions	4,486,573	-	-	4,486,573
Disposals	-	-	-	-
At June 30	75,833,607	193,841	43,158	76,070,606
Accumulated depletion, depreciation and amortization				
At January 1	52,961,194	168,762	31,381	53,161,337
Additions	1,847,966	1,389	458	1,849,813
Disposals	-	-	-	-
At June 30	54,809,160	170,151	31,839	55,011,150
Net book value at June 30	21,024,447	23,690	11,319	21,059,455

2012

	Wells, Platforms and Other Facilities	Transportation Equipment	Office Furniture and Equipment	Total
Cost	-	-	-	-
At January 1	69,305,379	167,373	43,158	69,515,910
Additions	-	-	-	-
Disposals	-	-	-	-
At June 30	69,305,379	167,373	43,158	69,515,910
Accumulated depletion, depreciation and amortization				
At January 1	49,749,526	167,373	30,365	49,947,264
Additions	1,525,579	-	93	1,525,671
Disposals	-	-	-	-
At June 30	51,275,105	167,373	30,458	51,472,935
Net book value at June 30	18,030,274	-	12,700	18,042,975

9. 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:

	2013	2012
SC 6	\$552,444	\$550,707
Others	9,757	9,757
	\$562,201	\$560,464

SC 6

The Bonita Block is part of the retained area of the original SC 6.

A 15-year extension period for the block was requested from and subsequently granted by the DOE in March 2009.

The conditions for the grant of the 15-year extension period require 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.

In 2011, additional cost amounting \$1,600 was incurred by the Group.

SC 41

The SC 41 consortium has fully complied with the work program for the first seven-year exploration stage of the contract. However, during the consortium meeting held on January 10, 2005, Union Oil of California (UNOCAL), the block operator, informed the partners of its intent to drop out of the service contract. UNOCAL's appreciation of the last two wells drilled in the block, which yielded generally negative results, prompted this decision. Sandakan Oil (OXY), BHP Billiton and TransAsia have also withdrawn, leaving a small all-Filipino consortium. The remaining members of the consortium have until April 10, 2005 to either opt for the three year extension of the contract period or to relinquish the area. The remaining consortium members had negotiated with the DOE for a reduction in the service contract in commitment well in year 8 to one well to the geological and geophysical program. The remaining consortium members voted Philex Mining Corporation as the interim operator of the block.

The consortium was given a 1-year extension by the DOE after the withdrawal of foreign parties. This extension gave the consortium time to evaluate further the possibilities of oil in the South Sulu Sea area. Basic Petroleum has been elected as the new operator of this block until mid-2006.

In 2006, SC 41 Consortium entered into a farm-in agreement with Tap Oil Ltd. of Australia (Tap Oil) and subsequently signed the Deed of Assignment. Tap Oil will earn majority of the interest and will become the operator of SC 41.

As stated in the farm-in agreement, Tap Oil will shoulder the cost of acquisition and interpretation of 300 square kilometers of Three-Dimensional seismic survey under the Contract Year-Eight. Results of the seismic survey will be used to identify possible drillable structures. Tap Oil has the option to drill a deepwater well on the 9th Contract Year (May 2007- May 2008). However, during 3D seismic survey in May 2007, the survey area was increased from 300 sq. km. to not less than 600 sq. km., with Tap Oil funding the whole cost of the project consistent with the Farm-in Agreement. With this development, the operator applied with the DOE for an extension of 1 year from May 10, 2008 to May 10, 2009. Another extension of 1 year (May 2009 - May 2010) was secured by the SC 41 Consortium from the DOE for the reprocessing of the 3-Dimensional Seismic data for pre-stack depth migration (PSDM), regional basin modeling and re-evaluation of the prospectivity of the area. As a result, several prospect leads and structures have been identified which could be candidates for future drilling operations. The Group has a carried or non-paying interest of 5.463% in SC 41 under the farm-in agreement with Tap Oil.

Efforts of Tap Oil to invite new partners to the Sulu Sea Block and to secure extension of the term of SC 41 from the DOE were not favorably rewarded. In August 2010, the contract for SC 41 was surrendered to the DOE. The related deferred acquisition cost amounting \$2.15 million was subsequently written-off by the Parent Company.

10. Accounts and Other Payables

This account consists of:

	2013	2012
Accounts payable and accrued expenses	\$526,183	\$490,310
Dividends payable	99,384	99,384
Subscriptions payable	26,488	26,488
	\$652,055	\$616,182

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.

11. Paid up Capital

As of June 30, 2013 and 2012, 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	(374,252)
Capital in excess of par value	3,650,477
	<u>\$85,545,203</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.

12. Other Income (Expenses)

This account consists of:

	2013	2012
Dividend and other	\$382,675	\$280,211
Interest	354,875	351,003
Loss on sale of investment	(11,240)	-
	<u>\$737,550</u>	<u>\$631,214</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.

Loss on sale of investment pertains to preferred shares redeemed by the issuer. Cost of buying these preferred shares was higher than its face amount.

13. 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 June 30, 2013 and 2012, the Company had Cash and Cash equivalents maintained at various banks including an affiliated bank, Robinson's Bank. The company likewise leases an office space from an affiliate that 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 2013 and 2012. 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.