SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended
   Jun 30, 2018
2. SEC Identification Number
   36359
3. BIR Tax Identification No.
   000-438-702-000
4. Exact name of issuer as specified in its charter
   BASIC ENERGY CORPORATION
5. Province, country or other jurisdiction of incorporation or organization
   Makati City
6. Industry Classification Code(SEC Use Only)

7. Address of principal office
   7/F Basic Petroleum Bldg., 104 Carlos Palanca St., Legaspi Village, Makati City
   Postal Code
   1229
8. Issuer's telephone number, including area code
   (+632) 8178596
9. Former name or former address, and former fiscal year, if changed since last report
   Not applicable
10. Securities registered pursuant to Sections 8 and 12 of the SRC or Sections 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common	2,708,500,714

11. Are any or all of registrant's securities listed on a Stock Exchange?
    (•) Yes ( ) No
    If yes, state the name of such stock exchange and the classes of securities listed therein:
    Philippine Stock Exchange
12. Indicate by check mark whether the registrant:

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

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

(•) Yes ( ) No

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

( ) Yes (•) No

BASIC ENERGY CORPORATION

Basic Energy Corporation
BSC

PSE Disclosure Form 17-2 - Quarterly Report
References: SRC Rule 17 and
Sections 17.2 and 17.8 of the Revised Disclosure Rules

For the period ended	Jun 30, 2018
Currency (indicate units, if applicable)	PESO

Balance Sheet

	Period Ended	Fiscal Year Ended (Audited)
	Jun 30, 2018	Dec 31, 2017
Current Assets	225,410,139	261,009,535
Total Assets	722,924,465	752,252,643
Current Liabilities	65,481,375	64,551,256
Total Liabilities	84,239,801	79,709,682
Retained Earnings/(Deficit)	-34,405,494	7,761,901
Stockholders' Equity	647,981,224	681,253,747
Stockholders' Equity - Parent	651,221,224	684,493,747
Book Value per Share	0.22	0.25

Income Statement

	Current Year (3 Months)	Previous Year (3 Months)	Current Year-To-Date	Previous Year-To-Date
Gross Revenue	0	0	0	0
Gross Expense	0	0	0	0
Non-Operating Income	380,487	1,978,161	946,924	5,874,730
Non-Operating Expense	27,491,473	14,122,220	43,700,093	28,309,661
Income/(Loss) Before Tax	-27,110,986	-12,144,059	-42,753,169	-22,434,931
Income Tax Expense	0	0	0	0

Net Income/(Loss) After Tax	-27,110,986	-12,144,059	-42,753,169	-22,434,931
Net Income Attributable to Parent Equity Holder	-26,373,661	-12,013,657	-42,167,395	-22,696,000
Earnings/(Loss) Per Share (Basic)	-0	-0	-0.01	-0
Earnings/(Loss) Per Share (Diluted)	-0	-0	-0.01	-0

	Current Year (Trailing 12 months)	Previous Year (Trailing 12 months)
Earnings/(Loss) Per Share (Basic)	-0.02	-0.05
Earnings/(Loss) Per Share (Diluted)	-0.02	-0.05

Other Relevant Information
See attached SEC Form 17-Q as of June 30, 2018

Filed on behalf by:

Name	Angel Gahol
Designation	AVP - Asst. Corp. Sec./ Compliance Officer

108012018000996

SECURITIES AND EXCHANGE COMMISSION

SECBuilding,EDSA,Greenhills,MandaluyongCity,MetroManila,Philippines
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Company Information

SEC Registration No.	0000036359
Company Name	BASIC ENERGY CORPORATION
Industry Classification	
Company Type	Stock Corporation

Document Information

Document ID	108012018000996
Document Type	17-Q (FORM 11-Q:QUARTERLY REPORT/FS)
Document Code	17-Q
Period Covered	June 30, 2018
No. of Days Late	0
Department	CFD
Remarks	

COVER SHEET

3	6	3	5	9

SEC Registration Number

BASIC ENERGY CORPORATION

(Company's Full Name)

7th Floor, Basic Petroleum Building, C. Palanca, Jr. Street, Legaspi Village, Makati City

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

ALAIN S. PANGAN
(Contact Person)

(632) 817-8596 to 98
(Company Telephone Number)

1	2		3	1

Month *Day*
(Calendar Year)

17Q
(Form Type)

Month *Day*
(Annual Meeting)

Not Applicable
(Secondary License Type, If Applicable)

MSRD
Dept. Requiring this Doc.

Not Applicable
Amended Articles Number/Section

Total Amount of Borrowings

6,610
Total No. of Stockholders

Domestic Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

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SECURITIES AND EXCHANGE COMMISSION
SEC FORM 17-Q

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

1. For the quarterly period ended: **June 30, 2018**

2. Commission Identification No.: **168063**

3. BIR Tax Identification No.: **000-438-702-000**

4. Exact name of issuer as specified in its charter: **BASIC ENERGY CORPORATION**

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

6. Industry Classification Code: (SEC Use Only)

7. Address of issuer's principal office: **7th Floor, Basic Petroleum Building, C. Palanca Street, Legaspi Village, Makati City, Philippines**

   Postal Code: **1229**

8. Issuer's telephone number, including area code: **+63 2 817 8596 to 98**

9. Former name, former address and former fiscal year, if changed since last report: **N/A**

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

Title of each Class	Number of shares of common stock outstanding and amount of debt outstanding
Common Shares	2,708,500,714
Listed with PSE	2,560,118,512

11. Are any or all of the securities listed on a Stock Exchange?

    Yes [X] No [ ]

12. Indicate by check mark whether the registrant:

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

    Yes [X] No [ ]

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

    Yes [X] No [ ]

PART I--FINANCIAL INFORMATION

Item 1. Financial Statements.

"Attachment A"

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

"Attachment A"

PART II--OTHER INFORMATION

"Attachment A"

The registrant may, at its option, report under this item any information not previously reported in a report on SEC Form 17-C. If disclosure of such information is made under this Part II, it need not be repeated in a report on Form 17-C which would otherwise be required to be filed with respect to such information or in a subsequent report on Form 17-Q.

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.

Registrant:	**Corazon M. Bejasa**
Title:	VP & Corporate Secretary
Date:	

Principal Financial Officer:	**Alain S. Pangan**
Title:	VP - Finance
Date:	

ATTACHMENT "A"

FINANCIAL INFORMATION
For the period ended June 30, 2018

1. The following unaudited Financial Statements are contained in this report:

1.1 Statements of Income and Retained Earnings for the Period Ended June 30, 2018 and June 30, 2017;
1.2 Balance Sheets as of June 30, 2018 and December 31, 2017;
1.3 Statements of Cash Flows for the Period Ended June 30, 2018 and June 30, 2017;
1.4 Statements of Changes in Stockholders' Equity for the Period ended June 30, 2018 and June 30, 2017.

2. Discussion on Financial Condition for the Period December 31, 2017 and June 30, 2018.

A. Key Performance Indicators

Management considers the following as key performance indicators of the company: Return on Investment (ROI), Profit Margin, Performance of Committed Work Programs, Current Ratio and Asset Turnover.

The following table shows the Top 5 performance indicators for the past three interim periods:

KEY PERFORMANCE INDICATORS	2nd Qtr 2018	2nd Qtr 2017	2nd Qtr 2016
Return on Investments (ROI) (Net Income / Ave. Stockholders' Equity)	-6.43%	-3.00%	-1.69%
Profit Margin (Net Income / Net Revenue)	-4514.95%	-381.89%	-74.92%
Investment in Projects (Non-Petroleum) as a % of Total Assets	38.09%	39.52%	24.63%
Investment in Wells & Other Facilities as a % of Total Assets	17.11%	17.42%	31.07%
Current Ratio (Current Asset / Current Liabilities)	3.44:1	14.09:1	23.41:1
Asset Turnover (Net revenue / Ave. Total Assets)	0.13%	0.83%	2.23%
Solvency Ratios			
Debt to Equity Ratio	13.00%	3.38%	3.10%
Asset to Equity Ratio	111.57%	94.84%	101.64%
Interest Rate Coverage Ratio	-2738.71%	N/A	N/A

ROI (Net Income / Average Stockholders' Equity) measures the profitability of stockholders' investment. Profit Margin (Net Income / Net Revenue) measures the net income produced by each peso of revenue. Investment in Projects as a % of Assets, measures how much the company invested in its committed work programs. Current Ratio (Current Assets / Current Liabilities) measures the short-term debt-paying ability of the company. Asset Turnover (Net Revenue / Average Total Assets) measures how efficiently assets are used to produce profit.

ROI was -6.43% for the 2nd quarter of 2018, -3.00% for the 2nd quarter of 2017, and -1.69% for the 2nd quarter of 2016. The negative rates in 2016, 2017 and 2018 were due to the losses booked during those quarters.

Profit Margin was -4,514.95% for the 2nd quarter of 2018, -381.89% for the 2nd quarter of 2017, and -74.92% for the 2nd quarter of 2016. The negative rates in 2016, 2017 and 2018 were due to the losses booked during those quarters.

Investment in Projects (Non-Petroleum) as a % of Total Assets increased from 24.63% for the 2nd quarter of 2016 to 39.52% for the 2nd quarter of 2017 and decreased to 38.09% for the 2nd quarter of 2018. The increase in rate from 2016 to 2017 was due to the increase in investments while total assets decreased. The decrease in rate from 2017 to 2018 was due to the increase in total assets.

Investment in Wells & Other Facilities as a % of Total Assets decreased from 31.07% to 17.42% for the 2nd quarter of 2017 and decreased to 17.11% for the 2nd quarter of 2018. The decrease in rate from 2017 to 2018 was due to the increase in total assets. The decrease in rate from 2016 to 2017 was due to decreases in both investments and total assets.

Current Ratio was 3.44:1 for the 2nd quarter of 2018, 14.09:1 for the 2nd quarter of 2017, and 23.41:1 for the 2nd quarter of 2016. The decrease in ratio from 2017 to 2018 was due to the increase in current liabilities. The decrease in ratio from 2016 to 2017 was due to the decrease in current assets while current liabilities increased.

Asset Turnover was 0.13% for the 2nd quarter of 2018, 0.83% for the 2nd quarter of 2017, and 2.23% for the 2nd quarter of 2016. The decrease in asset turnover from 2017 to 2018 is due to the decrease in revenue and increase in total assets. The decrease in asset turnover from 2016 to 2017 was due to decreases in both revenue and total assets.

Debt to Equity Ratio was 13.00% for the 2nd quarter of 2018, 3.38% for the 2nd quarter of 2017, and 3.10% for the 2nd quarter of 2016. The increase in ratio from 2016 to 2017 and from 2017 to 2018 was due to the increases in total liabilities and decreased in equity.

Asset to Equity Ratio was 111.57% for the 2nd quarter of 2018, 94.84% for the 2nd quarter of 2017, and 101.64% for the 2nd quarter of 2016. The increase in ratio from 2017 to 2018 was due to the increase in total assets while equity decreased. The decrease in ratio from 2016 to 2017 was due to decreases in both total assets and equity.

Interest Rate Coverage Ratio was -2,738.11 for the 2nd quarter of 2018 while there were none for the 2nd quarter of 2017 and 2016. The increase in ratio was due to the Php50 million loan facility obtained with China Banking Corporation in November 2017.

B. Discussion and Analysis of Financial Condition as of June 30, 2018

Total Assets as of June 30, 2018 stood at Php722.924 million a decrease of Php29.328 million from Php752.252 million as of December 31, 2017. Current assets, composed mostly of cash and cash equivalents amounting to Php38.002 million and refundable deposits amounting to Php171.429 million, decreased by Php35.599million, as these were used for operations and for the cash requirements of the existing projects of the company. Non-current assets, however, increased by Php6.271 million. The increase was primarily due to the increase in deferred charges amounting to Php9.049 million for the costs and expenses of the existing projects of the company. The increase in deferred charges was partially offset by the decreases in property and equipment of Php2.501 million and in available-for-sale (AFS) financial assets of Php0.716 million.

Total Liabilities increased by Php4.53 million from PhP79.71 million as of December 31, 2017 to

Php84.24 million as of June 30, 2018 due to accruals for certain payables and expenses and accruals for retirement benefits.

Total Stockholders' Equity as of June 30, 2018 stood at Php647.981 million a decrease of Php33,273 million from Php681.254 million as of December 31, 2017. This was due to the net loss booked for the 2nd quarter of 2018 of Php27.111 million, fair value adjustments on AFS financial assets of Php0.716 million, and cumulative translation adjustment of Php9.611 million.

For the period ending June 30, 2018, the company recorded total revenue of Php0.947 million and total cost and expenses of Php43.700 million resulting to a net loss of Php42.753 million with minority interest recorded at Php0.586 million for a net loss net of minority interests of Php42.167 million.

Total revenue for the 2nd quarter of 2018 of Php0.380 million was from interests and dividends from placements and investments amounting to Php0.347 million and realized foreign exchange gains of Php0.034 million.

Cost and expenses for the 2nd quarter of 2018 amounting to Php27.491 million were from general and administrative expenses amounting to Php19.233 million, interest expense amounting to Php0.779 million, and Unrealized forex loss amounting to Php7.478 million.
The interim financial report is in compliance with generally accepted accounting principles. The same accounting policies and methods of computation were followed in the interim financial statements, as compared with the most recent audited financial statements, which are as of December 31, 2017.

The interim operations are not characterized by any seasonality or cyclicality. The nature and number of items affecting assets, liabilities, equity, net income and cash flows are explained in Attachment "A" on Financial Information for the period ending June 30, 2018.

There are no changes in estimates of amounts reported in prior interim periods of the current financial year or those reported in prior financial years.

On September 8, 2011, the SEC approved the Stock Option Plan (SOP) of the Parent Company granting directors, members of the advisory board, officers and employees of the Parent Company options to purchase, at the par value of P0.25 per share, a total of 500,000,000 shares. Out of these shares, 26.7 million have been paid and listed in the Philippine Stock Exchange on January 21, 2013 which was classified as deposit for future stock subscription as of December 31, 2012. On July 24, 2013, the Philippine Stock Exchange approved for listing the remaining 473,300,000 shares. As of December 31, 2017, 117.625 million SOP shares were listed in the Philippine Stock Exchange.

There were no dividends paid (aggregate or per share) separately for ordinary shares and other shares.

Currently, the company has a single business and geographical segment and therefore, segment disclosures have not been included.

There are no material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period.

There are no changes in the composition of the company during the interim period, including business conditions, acquisition or disposal of subsidiaries and long-term investments, restructurings, and discontinuing of operations.

Since December 31, 2017, there are no other changes in contingent liabilities or assets and no new material contingencies, events or transactions that have occurred during the current interim period.

There are no trends, demands, commitments, events or uncertainties, known to management that will have a material impact on the company's liquidity.

There are no material commitments for capital expenditures and no seasonal aspects that have a material effect on the financial conditions or results of operations.

There are no known trends, events 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 events that will trigger direct or contingent financial obligations that are 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.

The causes for any material changes (5% of the relevant accounts or such lower amount, which the company deems material on the basis of other factors) from period to period which include vertical and horizontal analysis of any material item, have been presented in this report.

There were no sales of unregistered or exempt securities, nor were there any issuances of securities constituting an exempt transaction.

Finally, there are no other material information for disclosure during the current interim period, whether under this report or under SEC Form 17-C.

C. Disclosures per SEC Memorandum Circular No. 3, Series of 2011

In compliance with SEC Memorandum Circular No. 3, Series of 2011: Guidelines on the Implementation of PFRS 9, we disclose that:

(i) After consideration of the result of its impact evaluation using the outstanding balances of financial statements as of December 31, 2017, the Company has decided not to early adopt either PFRS 9 (2009) or PFRS 9 (2010) for its 2018 reporting;

(ii) We will however, continue to evaluate the impact of the standard in our financial statements for the year 2018.

BASIC ENERGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
As of June 30, 2018 and December 31, 2017

		UNAUDITED June 30, 2018		AUDITED December 31, 2017
ASSETS				
Current Assets				
Cash and cash equivalents	₱	38,001,701	₱	75,029,384
Receivables, net of allowance for doubtful accounts		2,646,308		2,687,022
Refundable deposits		171,429,108		171,429,108
Other current assets		13,333,022		11,864,021
Total Current Assets	₱	**225,410,139**	₱	**261,009,535**
Noncurrent Assets				
Available-for-sale ("AFS") securities	₱	45,335,383	₱	46,051,128
Investment properties		275,380,505		275,380,505
Property and equipment		43,571,662		46,072,972
Deferred charges		123,707,466		114,658,256
Other noncurrent assets		9,519,309		9,080,247
Total Noncurrent Assets	₱	**497,514,326**	₱	**491,243,108**
TOTAL ASSETS	₱	**722,924,465**	₱	**752,252,643**
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current Liabilities				
Accounts payable and accrued expenses	₱	7,921,879	₱	6,979,960
Loan payable		50,000,000		50,000,000
Advances from shareholders		6,670,782		6,670,782
Dividends payable		-		11,800
Income tax payable		888,714		888,714
Total Current Liabilities	₱	**65,481,375**	₱	**64,551,256**
Noncurrent Liabilities				
Accrued retirement benefits payable	₱	6,659,130	₱	3,059,130
Deferred income tax asset		12,099,296		12,099,296
Total Noncurrent Liabilities	₱	**18,758,426**	₱	**15,158,426**
TOTAL LIABILITIES	₱	**84,239,801**	₱	**79,709,682**
Minority Interest	₱	**(9,296,560)**	₱	**(8,710,786)**
Stockholders' Equity				
Equity attributable to equity holders of the Parent Company				
Capital stock	₱	677,125,178	₱	677,125,178
Additional Paid-in Capital		35,617,951		35,617,951
Equity reserve on acquisition on non-controlling interest		(53,945,929)		(53,945,929)
Revaluation increment in office condominium		17,296,833		17,296,833
Fair value adjustments on financial assets		2,182,245		2,897,990
Remeasurement loss on acquired retirement benefits		2,163,118		2,163,118
Cumulative translation adjustment		5,187,322		(4,423,295)
Retained earnings		(34,405,494)		7,761,901
Total Stockholders' Equity	₱	**651,221,224**	₱	**684,493,747**
Treasury stock (at cost)		(3,240,000)		(3,240,000)
TOTAL STOCKHOLDERS' EQUITY	₱	**647,981,224**	₱	**681,253,747**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	₱	**722,924,465**	₱	**752,252,643**

BASIC ENERGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS
For the period ended June 30, 2018 and June 30, 2017

	For the period ended June 30, 2018	For the quarter April-June 2018	For the period ended June 30, 2017	For the quarter April-June 2017
REVENUES				
Interest, Dividends and Others	₱ 859,005	₱ 346,790	3,904,900	1,753,721
Unrealized Foreign Exchange Gain	-	-	1,960,889	222,345
Realized Foreign Exchange Gain	87,919	33,697	8,941	2,095
	₱ 946,924	**₱ 380,487**	**₱ 5,874,730**	**₱ 1,978,161**
COSTS AND EXPENSES				
General and administrative expenses	₱ 33,655,289	₱ 19,233,210	28,309,661	14,122,220
Unrealized Foreign Exchange Loss	8,538,728	7,478,402	-	-
Interest Expense	1,506,076	779,861	-	-
	₱ 43,700,093	**₱ 27,491,473**	**₱ 28,309,661**	**₱ 14,122,220**
LOSS BEFORE INCOME TAX	**₱ (42,753,169)**	**₱ (27,110,986)**	**₱ (22,434,931)**	**₱ (12,144,059)**
PROVISION FOR INCOME TAX				
Current	₱ -	₱ -	₱ -	₱ -
Deferred	-	-	-	-
	₱ -	**₱ -**	**₱ -**	**₱ -**
NET INCOME	**₱ (42,753,169)**	**₱ (27,110,986)**	**₱ (22,434,931)**	**₱ (12,144,059)**
Minority Interest	585,774	737,325	(261,069)	130,402
	₱ (42,167,395)	**₱ (26,373,661)**	**₱ (22,696,000)**	**₱ (12,013,657)**
RETAINED EARNINGS AT BEGINNING OF THE YEAR/QUARTER	7,761,901	(8,031,832)	64,317,205	53,634,863
RETAINED EARNINGS AT END OF THE YEAR/QUARTER	**₱ (34,405,494)**	**₱ (34,405,494)**	**₱ 41,621,205**	**₱ 41,621,205**
Earnings (Loss) per Share	**₱ (0.0156)**	**₱ (0.0097)**	**₱ (0.0087)**	**₱ (0.0046)**

BASIC ENERGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
For the period ended June 30, 2018 and June 30, 2017

	For the period ended June 30, 2018	For the quarter April-June 2018	For the period ended June 30, 2017	For the quarter April-June 2017
CASH FLOWS FROM OPERATING ACTIVITIES				
Net Income (loss)	₱ (42,753,169)	₱ (27,110,986)	₱ (22,434,931)	₱ (12,144,059)
Adjustment to reconcile net income to net cash provided by operating activities:				
Interest income	₱ (859,005)	₱ (1,371,220)	₱ (3,904,900)	₱ (6,056,079)
Depreciation,depletion and amortization	2,622,709	1,309,794	2,777,195	1,331,169
Loss (gain) on sale of property and equipments and Fair Value Adjustment on financial assets at FVPL and Impairment losses on AFS				
Foreign Exchange Gain/Loss	8,450,809	7,444,705	1,969,830	3,715,220
Dividend Income				
Operating income (loss) before working capital changes	₱ (32,538,656)	₱ (19,727,707)	₱ (21,592,806)	₱ (13,153,749)
Changes in assets and liabilities				
Decrease (Increase) in asset/s:				
Financial assets at fair value through profit or loss	₱ -	₱ -	₱ -	₱ -
Receivables	40,714	60,398	(938,645)	(136,311)
Other assets				
Prepayments and other current assets	(1,908,063)	(153,344)	(3,848,984)	(1,645,783)
Increase (Decrease) in liabilities				
Accounts payable & accrued expenses	941,919	321,838	39,106	(283,623)
Accrued retirement benefits payable	3,600,000	1,800,000	3,000,000	1,500,000
Other Liabilities	-	-	-	-
Cash generated from (used in) operations	₱ (29,864,087)	₱ (17,698,816)	₱ (23,341,329)	₱ (13,719,466)
Interest received	859,005	1,371,220	3,904,900	6,056,079
Taxes paid	(11,800)	-	-	-
Net cash flows from (used) in operating activities	₱ (29,016,882)	₱ (16,327,596)	₱ (19,436,429)	₱ (7,663,387)
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions (Deductions) to:				
AFS Investment	₱ 715,745	₱ 185,422	₱ 3,031,143	₱ 1,918,902
Deferred income tax asset	-	-	-	-
Deferred charges	(9,049,210)	(2,701,554)	(33,571,661)	(20,069,877)
Property & equipment	(121,399)	(5,400)	(3,252,576)	(97,333)
Unrealized gain on fair value adjustments	(715,745)	(185,422)	(3,039,729)	(1,918,902)
Dividends received	-	-	-	-
Net cash flows from (used) in investing activities	₱ (9,170,609)	₱ (2,706,954)	₱ (36,832,823)	₱ (20,167,210)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issuance of capital stock	₱ -	₱ -	₱ -	₱ -
Proceeds from deposit for future subscription	-	-	-	-
Net cash flows from (used) in financing activities	₱ -	₱ -	₱ -	₱ -
Effect of foreign exchange rate chnages in cash & cash equivalent	₱ (8,450,809)	₱ (7,444,705)	₱ (1,969,830)	₱ (3,715,220)
Cumulative translation adjusment	9,610,617	7,900,451	(1,753,119)	(194,541)
NET INCREASE(DECREASE) IN CASH AND CASH EQUIVALENT	₱ (37,027,682)	₱ (18,578,804)	₱ (59,992,201)	₱ (31,740,358)
Cash and cash equivalent at beginning of the year/quarter	75,029,384	131,374,040	159,625,881	131,374,040
CASH AND CASH EQUIVALENT AT END	₱ 38,001,701	₱ 112,795,235	₱ 99,633,681	₱ 99,633,681

BASIC ENERGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the period ended June 30, 2018 and June 30, 2017

	Jan to June		Quarters ended June 30	
	2018	2017	2018	2017
CAPITAL STOCK				
Par value: Php0.25 per share; Authorized: 10,000,000,000 shares				
Issued and subscribed	2,708,500,714	2,603,684,382	2,708,500,714	2,603,684,382
Paid-up capital at beginning of the year	₱ 677,125,178	₱ 650,921,096	677,125,178	650,921,096
Additional subscription	-	-	-	-
Paid-up capital at end of the period/quarter	**₱ 677,125,178**	**₱ 650,921,096**	**₱ 677,125,178**	**₱ 650,921,096**
ADDITIONAL PAID-IN CAPITAL				
Balance at beginning of the year	₱ 35,617,951	₱ 35,748,971	₱ 35,617,951	₱ 35,748,971
Additional subscription	-	-	-	-
Balance at end of the period/quarter	**₱ 35,617,951**	**₱ 35,748,971**	**₱ 35,617,951**	**₱ 35,748,971**
Equity reserve in acquisition of non-controlling interest	₱ (53,945,929)	₱ -	(53,945,929)	-
Revaluation increment in office condominium	17,296,833	18,845,803	17,296,833	18,845,803
Fair value adjustments on financial assets	2,182,245	2,599,019	2,182,245	2,599,019
Remeasurement loss on acquired retirement benefits	2,163,118	(4,700,836)	2,163,118	(4,700,836)
Cumulative translation adjustment	5,187,322	(7,051,610)	5,187,322	(7,051,610)
Retained Earnings (Deficit)				
Balance at beginning of the year	7,761,901	64,317,205	(8,031,832)	53,634,862
Net income (loss) for the period	(42,167,395)	(22,696,000)	(26,373,661)	(12,013,657)
Balance at the end of the period/quarter	₱ (34,405,494)	₱ 41,621,205	₱ (34,405,493)	₱ 41,621,205
Total	**₱ 651,221,224**	**₱ 737,983,648**	**₱ 651,221,225**	**₱ 737,983,648**
Treasury stock (at cost)	(3,240,000)	(3,240,000)	(3,240,000)	(3,240,000)
TOTAL STOCKHOLDERS' EQUITY	**₱ 647,981,224**	**₱ 734,743,649**	**₱ 647,981,224**	**₱ 734,743,649**

BASIC ENERGY CORPORATION AND SUBSIDIARIES
SCHEDULE OF ACCOUNTS RECEIVABLES
As of June 30, 2018

Receivable from Stockholders	₱	1,718,887
Receivable from PanphilAqua		1,570,725
Accrued Interest Receivable		311,854
Advances to Officers & Employees		208,242
Others		1,569,547
	₱	**5,379,255**
Less: Allowance for uncollectible accounts		(2,732,947)
	₱	**2,646,308**

BASIC ENERGY CORPORATION AND SUBSIDIARIES
AGING OF ACCOUNTS RECEIVABLE
As of June 30, 2018

		Total	1 month	2-3 months	4-6 months	7 Months to 1 Year	1-2 Years	3-5 Years	5 Years and above	Past due accounts & items in
TRADE RECEIVABLES										
1)	₱	-	-	-	-	-	-	-	-	-
2)		-	-	-	-	-	-	-	-	-
3)		-	-	-	-	-	-	-	-	-
Total trade receivables	₱	-	-	-	-	-	-	-	-	-
Less: Allowance for doubtful accounts		-	-	-	-	-	-	-	-	-
Net trade receivables	₱	-	-	-	-	-	-	-	-	-
NON-TRADE RECEIVABLES										
1) Receivables from stockholders	₱	1,718,887	-	-	-	-	-	-	1,718,887	-
2) Receivables from CSR		-	-	-	-	-	-	-	-	-
3) Accrued interest receivable		311,854	-	311,854	-	-	-	-	-	-
4) Advances to officers/employees		208,242	-	208,242	-	-	-	-	-	-
5) Others		3,140,272	110,517	139,797	15,814	299,700	597,096	769,164	1,208,183	-
Total non-trade receivables	₱	**5,379,255**	**110,517**	**659,893**	**15,814**	**299,700**	**597,096**	**769,164**	**2,927,070**	-
Less: Allowance for doubtful accounts		(2,732,947)	-	-	-	-	-	-	-	-
Net non-trade receivables	₱	**2,646,308**	**110,517**	**659,893**	**15,814**	**299,700**	**597,096**	**769,164**	**2,927,070**	-
NET RECEIVABLES	₱	**2,646,308**	**110,517**	**659,893**	**15,814**	**299,700**	**597,096**	**769,164**	**2,927,070**	-

BASIC ENERGY CORPORATION AND SUBSIDIARIES
SCHEDULE OF ACCOUNTS PAYABLE AND ACCRUED EXPENSES
As of June 30, 2018

Accrued Expense Payables	₱	4,168,632
SSS/Philhealth/HDMF/BIR Payables		362,188
Others		3,391,060
	₱	**7,921,879**

ADDITIONAL DISCLOSURES

Part I – Financial Information

Philippine Financial Reporting Standards. Notes to Interim Financial Statements: (SEC Memorandum Circular No. 6, Series of 2013)

Changes in Accounting Policies and Disclosures

The Group applied for the first-time certain pronouncements, which are effective for annual periods beginning on or after January 1, 2017.

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

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

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

- Amendments to Philippine Accounting Standards (PAS 7), *Statement of Cash Flows*, Disclosure Initiative

  The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and noncash changes (such as foreign exchange gains or losses).

  The Group has provided the required information in the consolidated financial statements. As allowed under the transition provisions of the standard.

- Amendments to PAS 12, *Income Taxes*, Recognition of Deferred Tax Assets for Unrealized Losses

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

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

<u>Standards Issued but not yet Effective</u>

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

Effective Beginning on or after January 1, 2018

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

  The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.
  On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and if other criteria are met. Early application of the amendments is permitted.

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

- PFRS 9, *Financial Instruments*

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

  The Group plans to adopt the new standard on the mandatory effective date and will not restate comparative information.

  The Group is still assessing the potential impact of adopting PFRS 9 in 2018.

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

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

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

- PFRS 15, *Revenue from Contracts with Customers*

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

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

The Group is still assessing the potential impact of adopting PFRS 15 in 2018.

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

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

  The amendments should be applied retrospectively, with earlier application permitted.

  The amendments have no impact on the consolidated financial statements as the Group has no investment in associate or joint venture.

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

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

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

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

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

Since the Group's current practice is in line with the clarifications issued, the Group does not expect any effect on its consolidated financial statements upon adoption of this interpretation.

Effective Beginning on or after January 1, 2019

- Amendments to PFRS 9, Prepayment Features with Negative Compensation

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

  The amendments have no impact on the consolidated financial statements as the Group has no debt instrument with negative compensation prepayment feature.

- PFRS 16, *Leases*

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

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

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

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

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

  The Group is currently assessing the impact of adopting PFRS 16.

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

  The amendments to PAS 28 clarify that entities should account for long-term interests in an associate or joint venture to which the equity method is not applied using PFRS 9. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.
  The amendments have no impact on the consolidated financial statements as the Group has no investment in associate or joint venture.

- Philippine Interpretation IFRIC 23, *Uncertainty over Income Tax Treatments*

  The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12 and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

  The interpretation specifically addresses the following:

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

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

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

Deferred Effectivity

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

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

  On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

Summary of Significant Accounting Policies

Presentation of Consolidated Financial Statements

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

Current versus Noncurrent Classification

The Group presents assets and liabilities in the consolidated statement of financial position based on current/noncurrent classification. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in normal operating cycle;

- Held primarily for the purpose of trading;
- Expected to be realized within 12 months after the end of the financial reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the end of the financial reporting period.

All other assets are classified as noncurrent.

A liability is current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the end of the financial reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least 12 months after the end of the financial reporting period.

The Group classifies all other liabilities as noncurrent.

Fair Value Measurement

The Group measures AFS financial assets and investment properties, at fair value at each end of reporting period.

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

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

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

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

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

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

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

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

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

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

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

An analysis of the fair values of AFS financial assets and investment properties and further details as to how they are measured are provided in Note 25.

Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash in banks earn interest at floating rates based on daily bank deposit rate.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and are subject to an insignificant risk of change in value.

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 a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the trade date (i.e., the date that the Parent Company commits to purchase or sell the asset).

Initial Recognition and Measurement. The Group determines the classification of financial instruments at initial recognition and where allowed and appropriate, re-evaluates this designation at every end of the financial reporting period.

Financial instruments are recognized initially at fair value. Directly attributable transaction costs are included in the initial measurement of all financial assets and financial liabilities, except for financial instruments at fair value through profit or loss (FVPL).

- *Financial Assets.* Financial assets within the scope of PAS 39 are classified into the following categories: financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments, and available-for-sale (AFS) financial assets or as derivatives designated as hedging instruments in an effective hedge, 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's financial assets are in the nature of loans and receivables and AFS financial assets. As at December 31, 2017 and 2016, the Group has no financial assets at FVPL and HTM investments or derivatives.

- *Financial Liabilities*. Also, under PAS 39, financial liabilities are classified as financial liabilities at FVPL, derivatives designated as hedging instruments in an effective hedge, or as other financial liabilities. The Group determines the classification at initial recognition and, where allowed and appropriate, re-evaluates such designation at every financial reporting date.

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

  The Group's financial liabilities are in the nature of other financial liabilities. As at December 31, 2017 and 2016, the Group has no financial liabilities classified at FVPL and derivatives.

"Day 1" Difference. Where the transaction price in a non-active market is different from the fair value based on other observable current market transactions in the same instrument or based on a valuation technique whose variable include only data from observable market, 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 "Day 1" difference amount.

Subsequent Measurement. The subsequent measurement of financial assets and liabilities depends on their classification as follows:

- *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 arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. After initial measurement, such financial assets are subsequently measured in the consolidated statement of financial position at amortized cost using the effective interest rate (EIR) method, less any provision for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of EIR. The losses arising from impairment are recognized in the consolidated statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

  Loans and receivables are included in current assets if maturity is within 12 months from the financial reporting date or within the Parent Company's operating cycle. Otherwise, these are classified as noncurrent assets.

- *AFS Financial Assets*. AFS financial assets include investments in equity and debt securities. Equity investments classified as AFS financial assets are those which are neither classified as held for trading nor designated at FVPL. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

  After initial measurement, AFS financial assets are subsequently measured at fair value with unrealized gains or losses recognized in the consolidated statement of comprehensive income in the "Net unrealized gain on changes in fair value of AFS financial assets" account until the investment is derecognized, at which time the cumulative gain or loss is recognized in the consolidated statement of income, or determined to be impaired, at which time the cumulative loss is reclassified to consolidated statement of income and removed from OCI.

The Group evaluated its AFS financial assets whether the ability and intention to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intention to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or until maturity. Reclassification to the HTM category is permitted only when the entity has the ability and intention to hold the financial asset accordingly.
For a financial asset reclassified out of the AFS financial assets category, any previous gain or loss on that asset that has been recognized in equity is amortized to consolidated statement of income over the remaining life of the investment using the EIR method. Any difference between the new amortized cost and the expected cash flows is also amortized over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to consolidated statement of income.

- *Other Financial Liabilities*. Issued financial instruments or their components which are not designated as at 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.

  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.

  After initial measurement, other financial liabilities are subsequently measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR. Other financial liabilities are classified as current liabilities when it is expected to be settled within 12 months from the end of the reporting period or the Group does not have an unconditional right to defer settlement of the liabilities for at least 12 months from the end of the reporting period.

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

  Other financial liabilities are included in current liabilities if settlement is to be made within 12 months from the financial reporting date. Otherwise, these are classified as noncurrent liabilities.

  Included in other financial liabilities are the Group's accounts payable and accrued expenses, loan payable, advances from stockholder and dividends payable.

Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount 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 there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

Impairment of Financial Assets

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Loans and Receivables. For financial assets carried at amortized cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for individually assessed financial assets, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment.

If there is objective evidence that an impairment loss on assets 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 asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The present value of the estimated future cash flows is discounted at the financial assets' original EIR.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statement of income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of "Interest income" in the consolidated statement of income.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment loss was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. 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 its amortized cost at the reversal date.

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

AFS Financial Assets. For AFS financial assets, the Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired.

In case of equity investments classified as AFS financial assets, this would include a significant or prolonged decline in the fair value of the investments below its cost. The determination of what is "significant" or "prolonged" requires judgment. The Group treats "significant" as 20% or more and "prolonged" as greater than 12 months for quoted equity securities. 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 consolidated statement of comprehensive income is removed from OCI and recognized in consolidated statement of income.

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

In the case of debt instruments classified as AFS financial assets, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded as a component of "Interest income" account in the consolidated statement of income. If, subsequently, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in consolidated statement of income, the impairment loss is reversed through consolidated statement of income.

Derecognition of Financial Assets and Financial Liabilities

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

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks 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 original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

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

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as 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.

Prepayments and Other Current Assets

Prepayments. Prepayments are expenses paid in advance and recorded as asset before they are utilized. This account comprises prepaid rentals and insurance premiums and other prepaid items. The prepaid rentals and insurance premiums and other prepaid items are apportioned over the period covered by the payment and charged to the appropriate accounts in consolidated statement of income when incurred.

Prepayments that are expected to be realized for no more than 12 months after the reporting period are classified as current assets otherwise, these are classified as other noncurrent assets.

Value-added Tax (VAT). Revenues, expenses and assets are recognized net of the amount of VAT, if applicable.

When VAT from sales of services (output VAT) exceeds VAT passed on from purchases of goods or services (input VAT), the excess is recognized as payable in the consolidated statement of financial position. When VAT passed on from purchases of goods or services (input VAT) exceeds VAT from sales of services (output VAT), the excess is recognized as an asset in the consolidated statement of financial position to the extent of the recoverable amount.

Investment Properties

Investment properties, consisting of parcels of land owned by the Group, are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the consolidated statement of income in the year in which they arise.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses from derecognition of an investment property are recognized in consolidated statement of income in the year of retirement or disposal.

Property and Equipment

Property and equipment, other than office condominium, are carried at cost less accumulated depreciation and amortization and any impairment in value.

Office condominium is carried at revalued amount less depreciation and any impairment in value charged subsequent to the date of the revaluation. Valuations are performed frequently enough to ensure that the fair value of revalued asset does not differ materially from its carrying amount.

Any revaluation increment is credited to the "Revaluation increment in office condominium" account in the equity section of the consolidated statements of financial position, net of the related deferred income tax liability. An annual transfer from the "Revaluation increment in office condominium" account to retained earnings is made for the difference between the depreciation based on the revalued carrying amount of the asset and the depreciation based on the asset's original cost. Additionally, accumulated depreciation at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation increment relating to the particular asset sold is transferred to retained earnings.

The initial costs of property and equipment consist of their purchase price and any directly attributable costs of bringing the assets to their working condition and location for their intended use. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance costs, are recognized in the consolidated statement of income in the year in which costs are incurred.

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

Depreciation and amortization is computed using the straight-line method to allocate the related assets' cost to their estimated useful lives. The annual rates of depreciation for each category are based on the following useful lives of related assets:

	Number of Years
Office equipment, furniture and fixtures	3
Building and building improvements	15
Transportation equipment	5
Machinery and equipment	10
Office condominium	15

The assets' estimated useful lives and depreciation method are reviewed periodically to ensure that these are consistent with the expected pattern of economic benefits from the items of property and equipment.

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

Depreciation ceases when assets are fully depreciated or at earlier of the date that line item is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, and the date the item is derecognized.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated statement of income in the year the item is derecognized.

Fully depreciated assets are retained in the accounts until they are no longer in use.

Deferred Exploration Costs

All exploration and evaluation costs incurred in connection with the participation of the Group in the determination of technical feasibility and assessment of commercial viability of an identified resource are capitalized and accounted for under the "successful efforts method" [determined on the basis of each Service Contract (SC) or Geophysical Survey and Exploration Contract]. These costs include materials and fuel used, surveying costs, drilling costs and payments made to contractors.

Once the legal right to explore has been acquired, costs directly associated with an exploration and evaluation are capitalized and amortized at the start of commercial operations. All such capitalized costs are subject to technical, commercial and management review, as well as review for indicators of impairment at least once a year. This is to confirm the continued intent to develop or otherwise extract value from the discovery. When an SC is permanently abandoned, all related capitalized exploration costs are written-off. SCs are considered permanently abandoned if the SCs have expired and/or if there are no definite plans for further exploration and/or development.

Impairment of Nonfinancial Assets

Investment Properties, Property and Equipment and Other Noncurrent Assets. The Group assesses at each reporting period whether there is an indication that an asset may be impaired. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets or cash generating unit (CGU) are written down to their estimated recoverable amounts. The estimated recoverable amount of an asset is the greater of the fair value less cost to sell and value in use. The fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's-length transaction less the costs of disposal while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. 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. For an asset that does not generate largely independent cash inflows, the estimated recoverable amount is determined for the CGU to which the asset belongs. Impairment losses of continuing operations are recognized in the consolidated statement of income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each financial reporting date whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed by a credit to current operations (unless the asset is carried at a revalued amount in which case the reversal of the impairment loss is credited to the revaluation increment of the same asset) to the extent that it does not restate the asset to a carrying amount in excess of what would have been determined (net of any accumulated depreciation) had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in consolidated statement of income unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such reversal, the amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on systematic basis over its remaining useful life.

Prepayments and Other Current Assets. The Group provides provision for impairment losses on nonfinancial prepayments and other current assets when they can no longer be realized. The amounts and timing of recorded expenses for any period would differ if the Group made different judgments or utilized different estimates. An increase in provision for impairment losses would increase recorded expenses and decrease prepayments and other current assets.

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

Deferred Exploration Costs. The Group assesses at each reporting period whether there is an indication that its deferred exploration costs and project development costs may be impaired. If any indication exists, or when an annual impairment testing for such items is required, the Group makes an estimate of their recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use, and is determined for an individual item, unless such item does not generate cash inflows that are largely independent of those from other assets or group of assets or CGUs. When the carrying amount exceeds its recoverable amount, such item is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows to be generated by such items are discounted to their present value using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks specific to the asset or CGU.

Impairment losses are recognized in the consolidated statement of income.

Equity

Capital Stock. Capital stock is measured at par value for all shares issued and outstanding. When the Group issues more than one class of stock, a separate account is maintained for each class of stock and number of shares issued and outstanding.

Additional Paid-in Capital. When the shares are sold at a premium, the difference between the proceeds and the par value is credited to the "Additional paid-in capital" account. When shares are issued for a consideration other than cash, the proceeds are measured by the fair value of the consideration received. In case the shares are issued to extinguish or settle the liability of the Group, the shares shall be measured either at the fair value of the shares issued or fair value of the liability settled, whichever is more reliably determinable. Incremental costs that are directly attributable to the issuance of new shares are charged to this account.

Deposit for Future Stock Subscription. This pertains to the amount of cash and advances from stockholders as payment for future issuance of stocks. The Group classifies a deposit for future stock subscription as an equity instrument if it satisfies all of the following elements:

- the unissued authorized capital stock of the entity is insufficient to cover the number of shares indicated in the contract;
- there is BOD approval on the proposed increase in authorized capital stock (for which a deposit was received by the corporation);
- there is stockholders' approval of said proposed increase; and
- the application for the approval of the proposed increase has been filed with the SEC.

If any or all of the foregoing elements are not present, the deposit for future stock subscription shall be recognized as a liability.

Other Comprehensive Income. Other comprehensive income comprises items of income and expense (including items previously presented under the consolidated statement of changes in equity) that are not recognized in the consolidated statement of income for the year in accordance with PFRS.

Retained Earnings. The amount included in retained earnings includes cumulative profit or loss attributable to the Parent Company's stockholders and reduced by dividends. Dividends are recognized as a liability and deducted from equity when they are approved by the Parent Company's BOD. Dividends for the period that are approved after the end of the financial reporting date are dealt with as an event after the financial reporting period. Retained earnings may also include the effect of changes in accounting policy as may be required by the accounting standard's transitional provisions.

Basic/Diluted Earnings per Share (EPS)

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

Diluted EPS. Diluted EPS amounts are calculated by dividing the net income attributable to ordinary equity holders of the Parent Company by the weighted average number of ordinary shares outstanding, adjusted for any stock dividends declared during the year plus weighted average number of ordinary shares that would be issued on the conversion of all the dilutive ordinary shares into ordinary shares, excluding treasury shares.

Revenue Recognition

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of revenue can be measured reliably, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received, net of discounts. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as a principal or agent. The following specific recognition criteria must also be met before revenue is recognized:

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

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

Other Income. Revenue is recognized in the consolidated statement of income as they are earned.

Expenses

Expenses are decreases in economic benefits during the accounting period in the form of outflows or occurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Expenses are generally recognized when the services are used or the expense arises while interest expenses are accrued in the appropriate financial reporting date.

Retirement Benefits

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

The cost of providing benefits under the retirement benefit plans is actuarially determined using the projected unit credit method.

Retirement benefit costs comprise the following:

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

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in the consolidated statement of income. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

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

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on retirement benefit liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods. Remeasurements recognized in OCI after the initial adoption of Revised PAS 19, *Employee Benefits*, are not closed to retained earnings account. These are retained in OCI until full settlement of the liability.

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

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

Income Taxes

Current Income Tax. Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted at the financial reporting date.

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

Deferred Income Tax. Deferred income tax is provided, using the balance sheet liability method, on all temporary differences at the financial reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable income or loss;
- 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 income tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits from excess minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT) and unused net operating loss carry-over (NOLCO), to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences and the carryforward benefits of unused tax credits and unused tax losses can be utilized, except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss;
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the

extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable income will be available against which the temporary differences can be utilized.

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

Deferred income tax assets and liabilities are measured at the tax rate that is expected to apply to the period when the asset is realized or the liability is settled, based on the tax rate and tax laws that have been enacted or substantively enacted at the financial 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 income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Related Party Transactions

Transactions with related parties are accounted for based on the nature and substance of the agreement, and financial effects are included in the appropriate asset, liability, income and expense accounts.

Segment Information

The Group considers investment holding and geothermal energy projects as its primary activities. The Group has no geographical segmentation as the Group's operating business segments are neither organized nor managed by geographical segment.

Foreign Currency Transactions

Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange ruling at the end of the financial reporting period. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates prevailing as at the date of the initial transactions. Nonmonetary items measured at the fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. All differences are taken to "Other income" in the consolidated statement of income under "Unrealized foreign exchange gains (losses)" account.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Contingencies

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

Events after the Reporting Date

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

Significant Accounting Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements in compliance with PFRSs requires management to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements. The judgments and estimates used in the consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the consolidated financial statements. Future events may occur which can cause the assumptions used in arriving at those judgments and estimates to change. The effects of the changes will be reflected in the consolidated financial statements as they become reasonably determinable.

Accounting judgments, estimates and assumptions are continually evaluated 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 have the most significant effect on amounts recognized in the consolidated financial statements:

Determination of the Group's Functional Currency. Based on the economic substance of the underlying circumstances relevant to the Group, the functional currency has been determined to be the Philippine Peso. It is the currency that mainly influences the operations of the Group.

Classification of Investment Property. The Group classifies its land as investment property or owner-occupied property based on its current intentions where it will be used. When the land is held for capital appreciation or when management is still undecided as to its future use, it is classified as investment property. The land which is held for rent are classified as investment property.

Capitalization of Exploration and Evaluation Costs. Careful judgment of management is applied when deciding whether the recognition requirements for exploration and evaluation assets relating to the Group's exploration projects have been met. Capitalization of these costs is based, to a certain extent, on management's judgment of the degree to which the expenditure may be associated with finding specific geothermal reserve. This is necessary as the economic success of the exploration is uncertain and may be subject to future technical problems at the time of recognition. Judgments are based on the information available at end of each reporting period.

Estimates and Assumptions

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revisions affect only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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 asset and liabilities within the next financial year are discussed below:

Estimation of Allowance for Impairment of Receivables. The Group reviews its receivables at each reporting date to assess the adequacy of the allowance for impairment. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on factors such as, but not limited to, the length of the Group's relationship with the customer, customer's payment behavior and other known market factors.

Impairment of AFS Financial Assets. The Group treats AFS financial assets as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgment. The Group treats "significant" as 20% or more of the cost and "prolonged" as greater than 12 months for quoted equity securities.

Revaluation of Office Condominium and Investment Properties. The Group carries its investment properties at fair value with changes in fair value recognized in the consolidated statement of income and carries its office condominium at revalued amount with changes in fair value recognized in the consolidated statement of changes in equity. The Group engaged external appraiser to assess the fair value as at December 31, 2017 and 2016 for its office condominium and investment properties.

For investment properties, a valuation methodology based on market approach was used, which is a comparative approach that considers the sales of similar or substitute assets and related market data and establishes a value estimate by processes involving comparison. In addition, it measures the office condominium at revalued amount, with changes in fair value being recognized in OCI. The market approach was used for the office condominium, which provides an indication of value by comparing the subject asset with identical or similar assets for which price information is available. The key assumptions used to determine the fair value of the properties are provided in Note 25.

Impairment of Property and Equipment. The Group assesses impairment on property and equipment recorded at cost whenever events or changes in circumstances indicate that the carrying amount of these assets 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.

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 charges 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.

For deferred exploration costs, impairment is recognized when an SC where the Group has participating interest is permanently abandoned. Future events could cause the Group to conclude that these assets are impaired.

Estimation of Retirement Benefits. The cost of defined benefit pension plan as well as the present value of the defined benefit obligation is determined using actuarial valuation. The actuarial valuation involves making various assumptions which include the determination of the discount rates, future salary increases and mortality rates. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions.

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

The mortality rate is based on publicly available mortality tables for the specific country and is modified accordingly with estimates of mortality improvements.

Realizability of Deferred Income Tax Assets. Deferred income tax assets are recognized for all temporary deductible differences to the extent that it is probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. Management has determined based on business forecast of succeeding years that there are no sufficient future taxable profits against which the deferred income tax assets will be utilized except for the deferred income tax assets related to the provision for impairment loss and some portion of NOLCO and MCIT.

Determination of Fair Value of Investment Properties. The best evidence of fair value is current prices in an active market for similar lease and other contracts. In the absence of such information, the Group determines the amount within a range of reasonable fair value estimates. In making its judgment, the Group considers information from variety of sources including:

- current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences;
- recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and
- discounted cash flow (DCF) projections based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts and (where possible) from external evidence such as current market rents for similar properties in the same location and condition and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.