

COVER SHEET

for
SEC FORM 17-Q

SEC Registration Number

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Company Name

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Principal Office (No./Street/Barangay/City/Town/Province)

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Form Type

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Department requiring the report

N	A
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Secondary License Type, If Applicable

N	A
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COMPANY INFORMATION

Company's Email Address

www.phinmappg.com

Company's Telephone Number/s

8700-100

Mobile Number

No. of Stockholders

2,926

Annual Meeting
Month/Day

04/23

Fiscal Year
Month/Day

12/31

CONTACT PERSON INFORMATION

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

Name of Contact Person

Mariejo P. Bautista

Email Address

bautista.mp@acenergy.com.ph

Telephone Number/s

8700-100

Mobile Number

Contact Person's Address

Level 11 PHINMA Plaza, 39 Plaza Drive, Rockwell Center, Makati City

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

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

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 **June 30, 2019**
2. Commission identification number **AS094-8811**
3. BIR Tax Identification No. **004-500-964-000**
4. Exact name of issuer as specified in its charter **PHINMA PETROLEUM AND GEOTHERMAL, INC.**
5. Province, country or other jurisdiction of incorporation or organization **Metro Manila**
6. Industry Classification Code: (SEC Use Only)
7. Address of issuer's principal office Postal Code
Level 11 Phinma Plaza, 39 Plaza Drive, Rockwell Center, Makati City, 1210
8. Issuer's telephone number, including area code **(632) 870-0100**
9. Former name, former address and former fiscal year, if changed since last report
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

Number of shares of common stock outstanding	250,000,000 shares
Amount of debt outstanding	NIL
11. Are any or all of the securities listed on a Stock Exchange?

Yes ☒ No ☐

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

Philippine Stock Exchange Common

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 ☒ No ☐

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

Yes ☒ No ☐

PART I--FINANCIAL INFORMATION

Item 1. Financial Statements.

Please refer to attached ANNEX "A"

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

Please refer to attached ANNEX "B"

PART II--OTHER INFORMATION

Please refer to attached ANNEX "C"

SIGNATURES

Pursuant to the requirements of Section 17 of the Securities Regulation Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Makati on July 30, 2019.

PHINMA PETROLEUM AND GEOTHERMAL, INC.


RAYMUNDO A. REYES, JR.
Chief Operating Officer


MARIA CORAZON G. DIZON
Treasurer and Chief Financial Officer 

ANNEX A

PHINMA Petroleum and Geothermal, Inc. and A Subsidiary
(A Subsidiary of PHINMA Energy Corporation)

Unaudited Interim Consolidated Financial Statements
June 30, 2019 (With comparative audited figures as at December 31, 2018)
and Six Months Ended June 30, 2019 and 2018

PHINMA PETROLEUM AND GEOTHERMAL, INC. AND A SUBSIDIARY
INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	June 30	December 31
	2019	2018
	Unaudited	Audited
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	P9,853,669	P9,863,588
Investments held for trading (Notes 5 and 15)	47,288,779	57,584,369
Receivables (Notes 6 and 15)	115,156	95,390
Prepaid expenses	37,078	37,079
Total Current Assets	P57,294,682	67,580,426
Noncurrent Assets		
Property and equipment (Note 7)	19,800	23,512
Deferred exploration costs (Note 8)	33,531,544	29,384,114
Total Noncurrent Assets	33,551,344	29,407,626
TOTAL ASSETS	P90,846,026	P96,988,052
LIABILITIES AND EQUITY		
Current Liability		
Accounts payable and other current liabilities (Note 9)	P13,559,128	P9,888,737
Noncurrent Liability		
Deferred income tax liability (Note 12)	72,491	287,133
Total Liabilities	13,631,619	10,175,870
Equity		
Attributable to Equity Holders of the Parent Company:		
Capital stock (Note 11)	250,000,000	250,000,000
Deficit	(173,324,586)	(163,904,395)
	76,675,414	86,095,605
Non-controlling interest (Note 14)	538,993	716,577
Total Equity	77,214,407	86,812,182
TOTAL LIABILITIES AND EQUITY	P90,846,026	P96,988,052

See accompanying Notes to Consolidated Financial Statements.

PHINMA PETROLEUM AND GEOTHERMAL, INC. AND A SUBSIDIARY
INTERIM CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2019	2018	2019	2018
INTEREST INCOME (Note 4)	P5,746	P9,156	P12,830	P13,236
EXPENSES				
Training fund expense	7,172,633	—	7,172,633	—
Professional fees (Note 10)	676,725	584,488	1,314,919	1,350,607
Employee costs	114,236	923,994	910,912	1,745,211
Project development cost	—	1,518,939	500,000	4,655,018
Filing and registration fees	27,350	6,068	278,050	306,232
Supplies	27,427	276,328	30,569	891,964
Taxes and licenses	28,749	814	29,863	14,750
Transportation	4,251	32,196	6,701	68,389
Depreciation (Note 7)	1,855	1,856	3,712	2,475
Meetings	—	18,191	1,105	171,009
Insurance (Note 10)	—	650	900	19,471
Utilities	500	32,552	750	33,141
Provision for probable losses (Note 8)	—	48,262,794	—	48,262,794
Others	117,321	225,181	244,874	765,827
	8,171,047	51,884,051	10,494,988	58,286,888
OTHER INCOME (CHARGES)				
Gains on changes in fair value of investments held for trading - net (Note 5)	222,864	356,719	771,417	695,785
Foreign exchange gains (losses) - net	(101,014)	23,381	(101,677)	23,232
	121,850	380,100	669,740	719,017
LOSS BEFORE INCOME TAX	8,043,451	51,494,795	9,812,418	57,554,635
PROVISION FOR (BENEFIT FROM) DEFERRED INCOME TAX (Note 12)				
Deferred	38,483	42,511	(214,643)	59,374
	38,483	42,511	(214,463)	59,374
NET LOSS	P8,081,934	P51,537,306	P9,597,775	P57,614,009
Net Loss Attributable to:				
Equity holders of the Parent Company	P7,873,279	P51,536,081	P9,420,191	P57,606,232
Non-controlling interest (Note 14)	208,655	1,225	177,584	7,777
	P8,081,934	P51,537,306	P9,597,775	P57,614,009
Basic/Diluted Loss Per Share (Note 13)	P0.031	P0.206	P0.038	P0.230

See accompanying Notes to Consolidated Financial Statements.

PHINMA PETROLEUM AND GEOTHERMAL, INC. AND A SUBSIDIARY
INTERIM CONSOLIDATED STATEMENTS OF
COMPREHENSIVE INCOME (UNAUDITED)

	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
NET LOSS	₱8,081,934	₱51,537,306	₱9,597,775	₱57,614,009
OTHER COMPREHENSIVE INCOME	—	—	—	—
TOTAL COMPREHENSIVE LOSS	₱8,081,934	₱51,537,306	₱9,597,775	₱57,614,009
Attributable to:				
Equity holders of the Parent Company	₱7,873,279	₱51,536,081	₱9,420,191	₱57,606,232
Non-controlling interest (Note 14)	208,655	1,225	177,584	7,777
	₱8,081,934	₱51,537,306	₱9,597,775	₱57,614,009

See accompanying Notes to Consolidated Financial Statements.

PHINMA PETROLEUM AND GEOTHERMAL, INC. AND A SUBSIDIARY**INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)****FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018**

	<u>Attributable to Equity Holders of the Parent Company</u>			Non-controlling	
	Capital Stock (Note 11)	Deficit	Total	Interest (Note 14)	Total Equity
BALANCES AT JANUARY 1, 2019	P250,000,000	(P163,904,395)	P86,095,605	P716,577	P86,812,182
Net loss for the period	–	(9,420,191)	(9,420,191)	(177,584)	(9,597,775)
BALANCES AT JUNE 30, 2019	P250,000,000	(P173,324,586)	P76,675,414	P538,993	P77,214,407
BALANCES AT JANUARY 1, 2018	P250,000,000	(P97,066,170)	P152,933,830	P2,398,372	P155,332,202
Net loss for the period	–	(57,606,232)	(57,606,232)	(7,777)	(57,614,009)
BALANCES AT JUNE 30, 2018	P250,000,000	(P154,672,402)	P95,327,598	P2,390,595	P97,718,193

See accompanying Notes to Consolidated Financial Statements.

PHINMA PETROLEUM AND GEOTHERMAL, INC. AND A SUBSIDIARY
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	For the six months ended June 30	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before income tax	(P9,710,741)	(P57,554,635)
Adjustment for:		
Provision for probable losses	—	48,262,794
Gains on changes in fair value of investments held for trading - net (Note 5)	(771,414)	(695,785)
Interest income (Note 4)	(12,830)	(13,236)
Depreciation (Note 7)	3,711	1,856
Unrealized foreign exchange loss - net	—	(23,586)
Operating loss before working capital changes	(10,491,275)	(10,022,592)
Decrease (increase) in:		
Receivables	(23,591)	(31,226)
Increase (decrease) in accounts payable and other current liabilities	3,670,392	(1,349,892)
Interest income received	16,655	9,789
Net cash flows used in operating activities	(6,827,819)	(11,393,921)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from redemption of investments held for trading	31,067,007	12,399,098
Additions to:		
Investment held for trading	(20,000,000)	—
Deferred exploration costs (Note 8)	(4,147,430)	(136,187)
Property and equipment (Note 7)	—	(29,081)
Net cash flows from (used in) investing activities	6,919,577	12,233,830
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	91,758	839,909
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(101,677)	23,586
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Note 4)	9,863,588	3,271,882
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	P9,853,669	P4,135,377

See accompanying Notes to Consolidated Financial Statements.

PHINMA PETROLEUM AND GEOTHERMAL, INC. AND A SUBSIDIARY

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

PHINMA Petroleum and Geothermal, Inc. (PHINMA Petroleum or the Parent Company), formerly Trans-Asia Petroleum Corporation, and Palawan55 Exploration & Production Corporation (Palawan55 or the Subsidiary), collectively referred to as “the Company”, were incorporated in the Philippines on September 28, 1994 and November 16, 2012, respectively, to engage in oil and gas exploration, exploitation and production. Palawan55 is 69.35% owned by the Parent Company. The Parent Company and its subsidiary are 75.92% and 30.65% directly owned, respectively, by PHINMA Energy Corporation (PHINMA Energy or the Intermediate Parent Company). The ultimate parent company is Mermac, Inc. PHINMA Energy and Mermac, Inc. are both incorporated and domiciled in the Philippines. Both PHINMA Petroleum and Palawan55 have not yet started commercial operations as at July 23, 2019 and are domiciled in the Philippines.

On August 14, 2014, the Philippine Securities and Exchange Commission (SEC) approved the listing of shares of the Parent Company. On August 28, 2014, the Parent Company listed its shares at the Philippine Stock Exchange by way of introduction.

On May 31, 2017, the Parent Company changed its name to PHINMA Petroleum and Geothermal, Inc.

On February 7, 2019, Philippine Investment Management (PHINMA), Inc., PHINMA Corporation and AC Energy, Inc. (AC Energy) signed an investment agreement for AC Energy’s acquisition of the PHINMA Group’s 51.476% stake in PHINMA Energy via a secondary share sale through the Philippine Stock Exchange (PSE). On June 24, 2019, the PSE confirmed the special block sale of PHINMA Energy shares to AC Energy.

PHINMA Energy conducted a Voluntary Tender Offer of PHINMA Petroleum shares on May 20, 2019 to June 19, 2019, with 3,332 PHINMA Petroleum public shares tendered during the tender offer period at P2.44 per share. On June 24, 2019, PHINMA Energy acquired the shares of PHINMA Inc and PHINMA Corporation in PPG representing 25.18% of PPG’s total outstanding stock.

The registered office address of the Parent Company is Level 11, PHINMA Plaza, 39 Plaza Drive, Rockwell Center, Makati City.

2. Summary of Significant Accounting and Financial Reporting Policies

Basis of Preparation

The interim consolidated financial statements of the Company for the quarter ended June 30, 2019 have been prepared in accordance with Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting*.

The interim consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company’s annual consolidated financial statements as at December 31, 2018.

The interim consolidated financial statements have been prepared on a historical cost basis, except for investments held for trading that are measured at fair value. The interim consolidated financial statements are presented in Philippine peso (Peso), which is the Parent Company's functional and presentation currency. All values are rounded off to the nearest Peso, except when otherwise indicated.

Basis of Consolidation

The interim consolidated financial statements comprise the interim financial statements of the Parent Company and its subsidiary, Palawan55, as at June 30, 2019 and December 31, 2018. The interim financial statements of Palawan55 are prepared for the same reporting period as the Parent Company, using consistent accounting policies. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income, and expenses of a subsidiary are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests (NCI), even if this results in the NCI having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between the Parent Company and the Subsidiary are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Parent Company loses control over the Subsidiary, it derecognizes the related assets (including goodwill), liabilities, NCI and other components of equity while any resultant gain or loss is recognized in the consolidated statement of income. Any investment retained is recognized at fair value.

NCI represents the interest in the Subsidiary not held by the Parent Company, and are presented separately in the consolidated statement of income and consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from equity attributable to holders of the Parent Company.

Changes in Accounting Policies and Disclosures

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

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

- PFRS 9, *Financial Instruments*

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

The Group has applied PFRS 9 using the modified retrospective approach, with the initial application date of January 1, 2018. The Group chose not to restate comparative figures as permitted by the transitional provisions of PFRS 9, thereby resulting in the following impact:

- Comparative information for prior period will not be restated. The classification and measurement requirements previously applied in accordance with PAS 39 and disclosures required in PFRS 7, *Financial Instruments: Disclosures* will be retained for the comparative period. Accordingly, the information presented for 2017 does not reflect the requirements of PFRS 9.
- The Group will disclose the accounting policies for both the current period and the comparative period, one applying PFRS 9 beginning January 1, 2018 and one applying PAS 39 as at December 31, 2017.
- As comparative information is not restated, the Group is not required to provide a third statement of financial information at the beginning of the earliest comparative period in accordance with PAS 1, *Presentation of Financial Statements*.

Classification and measurement

Under PFRS 9, financial assets are subsequently measured at fair value through profit or loss (FVTPL), amortized cost, or fair value through other comprehensive income (FVOCI). The classification is based on two criteria:

- the Group's business model for managing the assets; and
- whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the 'SPPI criterion').

The assessment of the Group's business models was made as at the date of initial application, January 1, 2018, and then applied retrospectively to those financial assets that were not derecognized before January 1, 2018. The assessment of whether contractual cash flows on financial assets are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The new classifications and measurements of the Group's financial assets are as follows:

- *Financial assets at amortized cost* are financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category includes the Group's cash and cash equivalents and receivables (see Notes 4, 6 and 15).
- *Financial assets at FVTPL* pertains to quoted unit investment trust funds (UITFs) instruments which the Group, at initial recognition or transition, classify at FVTPL (see Notes 5 and 15).

There are no changes in the classification and measurement category and the carrying amount of financial assets under PFRS 9 and PAS 39 at the date of initial application. The Group has not designated any financial liabilities as at FVTPL and there are no changes in classification and measurement of the Group's financial liabilities. The accounting policies adopted by the Group in its evaluation of the classification and measurement categories under PFRS 9 are discussed subsequently.

The measurement category and the carrying amount of financial assets and liabilities in accordance with PAS 39 and PFRS 9 as at June 30, 2019 are compared as follows:

	Original Measurement Category Under PAS 39	Original Carrying Amount under PAS 39	New Measurement Category Under PFRS 9	New Carrying Amount under PFRS 9
Financial Assets				
Cash and cash equivalents	Loans and receivables at amortized cost	₱9,853,669	Financial assets at amortized cost	₱9,853,669
Receivables	Loans and receivables at amortized cost	31,802	Financial assets at amortized cost	31,802
Investments held for trading	Financial assets at FVTPL	47,288,779	Financial assets at FVTPL	47,288,779
Financial Liabilities				
Accounts payable and other current liabilities	Amortized cost	₱13,559,128	Amortized cost	₱13,559,128

Financial assets under 'Receivables' includes trade receivables, due from third party and accrued interest receivable. Financial liabilities under 'accounts payable and other current liabilities' excludes statutory payables.

Impairment

The adoption of PFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing PAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

PFRS 9 requires the Group to record an allowance for ECLs for all financial assets at amortized cost. Under PFRS9, the level of provision for credit and impairment losses has generally increased due to the incorporation of a more forward-looking approach in determining provisions. Upon adoption of PFRS 9, there are no changes in the impairment of the Group's financial assets.

- Amendments to PFRS 4, *Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts*
- Amendments to PAS 28, *Investments in Associates and Joint Ventures, Measuring an Associate or Joint Venture at Fair Value* (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)
- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*
- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*
- PFRS 15, *Revenue from Contracts with Customers*

PFRS 15 supersedes PAS 11 *Construction Contracts*, PAS 18 *Revenue*, and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts

with customers. PFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

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

The Group adopted PFRS 15 using the modified retrospective method of adoption with the date of initial application of January 1, 2018. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The adoption of PFRS 15 did not have a significant impact on the consolidated financial statements since the Group remains to be non-operating with no outstanding revenue contracts with customers. The Group's main source of income are its interest income from cash and cash equivalents and realized gain from redemption of investments held for trading.

Future Changes in Accounting Policies

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Group does not expect that the future adoption of the said pronouncements will 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, 2019

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

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

- PFRS 16, *Leases*

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

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

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

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

A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

These amendments are currently not applicable to the Group but may apply to future transactions.

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

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

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

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

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after January 1, 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Group.

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

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

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

The amendments should be applied retrospectively and are effective from January 1, 2019, with early application permitted.

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

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

The interpretation specifically addresses the following:

- 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.

- *Annual Improvements to PFRSs 2015-2017 Cycle*

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

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

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

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019 and to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted.

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

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

An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application is permitted.

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

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

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

Effective beginning on or after January 1, 2020

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

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

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

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

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

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

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

Effective beginning on or after January 1, 2021

- PFRS 17, *Insurance Contracts*

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

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

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

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

Deferred effectivity

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

The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, *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 (IASB) completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

Presentation of Consolidated Financial Statements

The Group has elected to present all items of recognized income and expense in one statement: displaying components of profit or loss and OCI (consolidated statements of comprehensive income).

Current versus Noncurrent Classification

The Group presents assets and liabilities in the consolidated statements 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 twelve months after the reporting period; or,
- cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the 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 reporting period; or,
- there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as noncurrent.

Deferred tax assets and liabilities are classified as noncurrent assets and liabilities.

Cash and Cash Equivalents

Cash and cash equivalents in the consolidated statements of financial position comprise cash in banks and on hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

Fair Value Measurement

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

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

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

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

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

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

All assets and liabilities for which fair value is measured or disclosed in the consolidated 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 at fair value 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.

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

Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed, are summarized in Note 15 to the consolidated financial statements.

Financial Instruments - Initial Recognition and Subsequent Measurement (prior to adoption of PFRS 9)

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial Assets

Initial Classification Recognition and Measurement

The Group determines the classification of financial instruments at initial recognition and, where appropriate, re-evaluates this designation at every end of the reporting period. Financial assets are classified, at initial recognition, as financial assets at FVTPL, loans and receivables, held-to-maturity (HTM) investments, available-for-sale (AFS) financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognized initially at fair value plus, in the case of financial assets not classified as FVTPL, transaction costs that are attributable to the acquisition of the financial asset.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

The Group's financial assets consist of financial assets at FVTPL and loans and receivables under PAS 39.

Subsequent Measurement

a. Financial assets at FVTPL

Financial assets at FVTPL include financial assets held for trading and financial assets designated upon initial recognition at FVTPL. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by PAS 39.

Financial assets held for trading are carried in the consolidated statements of financial position at fair value with net changes in fair value recognized as “Gains on changes in fair value of investments held for trading” account under “Other income (charges)” in the consolidated statements of comprehensive income.

The Group has no financial asset designated upon initial recognition at FVTPL.

The Group’s investments in UITFs are classified as financial assets held for trading (see Notes 5 and 15).

b. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are measured at amortized cost using the effective interest rate (EIR) method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization and loss arising from impairment are included in the consolidated statements of comprehensive income.

The Group’s cash and cash equivalents and receivables are classified as loans and receivables (see Notes 4 and 6).

The Group has no financial assets classified as HTM investments and AFS financial assets as at June 30, 2019.

Financial Liabilities

Initial Recognition, Classification and Measurement

All financial liabilities are recognized initially at fair value and, in the case of other financial liabilities, net of directly attributable transaction costs. Financial liabilities are classified, at initial recognition, as financial liabilities at FVTPL or as other financial liabilities. Other financial liabilities pertain to financial liabilities that are not held for trading or not designated as at FVTPL upon the inception of the liability. These include liabilities arising from operations or borrowings.

The Group’s financial liabilities consist only of other financial liabilities (see Note 9).

Subsequent Measurement

After initial recognition, other financial liabilities that are interest-bearing are measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium. Gains and losses are recognized in the parent company statement of

comprehensive income when the liabilities are derecognized, as well as through the EIR amortization process.

The Group's accounts payable and other current liabilities (excluding statutory payables) are classified as other financial liabilities (see Note 9).

Financial Instruments – Classification and Measurement (upon adoption of PFRS 9)

Classification of Financial Assets

Financial assets are classified in their entirety based on the contractual cash flows characteristics of the financial assets and the Group's business model for managing the financial assets. The Group classifies its financial assets into the following measurement categories:

- financial assets measured at amortized cost
- financial assets measured at FVTPL
- financial assets measured at FVOCI, where cumulative gains or losses previously recognized are reclassified to profit or loss
- financial assets measured at FVOCI, where cumulative gains or losses previously recognized are not reclassified to profit or loss

The Group's financial assets are classified at FVTPL and amortized cost as at June 30, 2019 (see Notes 4, 5, 6 and 15).

Contractual Cash Flows Characteristics

If the financial asset is held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, the Group assesses whether the cash flows from the financial asset represent SPPI on the principal amount outstanding.

In making this assessment, the Group determines whether the contractual cash flows are consistent with a basic lending arrangement, i.e., interest includes consideration only for the time value of money, credit risk and other basic lending risks and costs associated with holding the financial asset for a particular period of time. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated.

Business Model

The Group's business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective.

The Group's business model refers to how it manages its financial assets in order to generate cash flows. The Group's business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. Relevant factors considered by the Group in determining the business model for a group of financial assets include how the performance of the business model and the financial assets held within that business model are evaluated and reported to the Group's key management personnel, the risks that affect the performance of the business model (and the financial assets held within that business model) and how these risks are managed and how managers of the business are compensated.

Financial Assets at Amortized Cost

A financial asset is measured at amortized cost if (i) it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. These financial assets are initially recognized at fair value plus directly attributable transaction costs and subsequently measured at amortized cost using the EIR method, less any impairment in value. Amortized cost

is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in 'Interest income' in the consolidated statement of comprehensive income and is calculated by applying the EIR to the gross carrying amount of the financial asset, except for (i) purchased or originated credit-impaired financial assets and (ii) financial assets that have subsequently become credit-impaired, where, in both cases, the EIR is applied to the amortized cost of the financial asset. Losses arising from impairment are recognized in the consolidated statement of comprehensive income.

The Group's cash and cash equivalents and receivables are classified as financial assets at amortized cost (see Notes 4 and 6).

Financial Assets at FVTPL

Financial assets at FVTPL are measured at fair value unless these are measured at amortized cost or at FVOCI. Included in this classification are equity investments held for trading and debt instruments with contractual terms that do not represent solely payments of principal and interest. Financial assets held at FVTPL are initially recognized at fair value, with transaction costs recognized in the consolidated statements of comprehensive income as incurred. Subsequently, they are measured at fair value and any gains or losses are recognized in the consolidated statement of comprehensive income.

Additionally, even if the asset meets the amortized cost or the FVOCI criteria, the Group may choose at initial recognition to designate the financial asset at FVTPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency (an accounting mismatch) that would otherwise arise from measuring financial assets on a different basis.

Trading gains or losses are calculated based on the results arising from trading activities of the Group, including all gains and losses from changes in fair value for financial assets and financial liabilities at FVTPL, and the gains or losses from disposal of financial investments.

The Group's investments in UITFs are classified as financial assets at FVTPL (see Notes 5 and 15).

Classification of Financial Liabilities

Financial liabilities are measured at amortized cost, except for the following:

- financial liabilities measured at fair value through profit or loss;
- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the Group retains continuing involvement;
- financial guarantee contracts;
- commitments to provide a loan at a below-market interest rate; and
- contingent consideration recognized by an acquirer in accordance with PFRS 3, *Business Combinations*.

A financial liability may be designated at fair value through profit or loss if it eliminates or significantly reduces a measurement or recognition inconsistency (an accounting mismatch) or:

- if a host contract contains one or more embedded derivatives; or
- if a group of financial liabilities or financial assets and liabilities is managed and its performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Where a financial liability is designated at fair value through profit or loss, the movement in fair value attributable to changes in the Group's own credit quality is calculated by determining the changes in credit spreads above observable market interest rates and is presented separately in other comprehensive income.

The Group's accounts payable and other current liabilities (excluding statutory payables) are classified as financial liabilities measured at amortized cost (see Note 9).

Reclassifications of Financial Instruments

The Group reclassifies its financial assets when, and only when, there is a change in the business model for managing the financial assets. Reclassifications shall be applied prospectively by the Group and any previously recognized gains, losses or interest shall not be restated. There was no reclassification of financial instruments upon adoption of PFRS 9.

The Group does not reclassify its financial assets when:

- A financial asset that was previously a designated and effective hedging instrument in a cash flow hedge or net investment hedge no longer qualifies as such;
- A financial asset becomes a designated and effective hedging instrument in a cash flow hedge or net investment hedge; and
- There is a change in measurement on credit exposures measured at fair value through profit or loss.

Derecognition of Financial Assets and Liabilities (prior to and upon adoption of PFRS 9)

Financial Assets

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

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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

Modification of Contractual Cash Flows

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, the Group recalculates the gross carrying amount of the financial asset as the present value of the renegotiated or modified contractual cash flows discounted at the original EIR (or credit-adjusted EIR for purchased or originated credit-impaired financial assets) and recognizes a modification gain or loss in the statement of comprehensive income.

When the modification of a financial asset results in the derecognition of the existing financial asset and the subsequent recognition of the modified financial asset, the modified asset is considered a 'new' financial asset. Accordingly, the date of the modification shall be treated as the date of initial recognition of that financial asset when applying the impairment requirements to the modified financial asset.

Financial Liabilities

A financial liability (or a part of financial liability) is derecognized when the obligation under the liability is discharged, cancelled or 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 the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the consolidated statement of comprehensive income.

Impairment of Financial Assets (prior to adoption to PFRS 9)

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 Carried at Amortized Cost

For financial assets carried at amortized cost, the Group first assesses whether 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 an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

The amount of any impairment loss identified 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 yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognized in the consolidated statement of comprehensive income. Interest income is recognized in the consolidated statement of comprehensive 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. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the

impairment 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 comprehensive income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date. Loans, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If a write-off is later recovered, the recovery is recognized in the consolidated statement of comprehensive income.

Impairment of Financial Assets (upon adoption of PFRS 9)

PFRS 9 introduces the single, forward-looking “expected loss” impairment model, replacing the “incurred loss” impairment model under PAS 39.

The Group recognizes ECL for debt instruments that are measured at amortized cost.

ECLs are measured in a way that reflects the following:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Financial assets migrate through the following three stages based on the change in credit quality since initial recognition:

Stage 1: 12-month ECL

For credit exposures where there have not been significant increases in credit risk since initial recognition and that are not credit-impaired upon origination, the portion of lifetime ECLs that represent the ECLs that result from default events that are possible within the 12-months after the reporting date are recognized.

Stage 2: Lifetime ECL - not credit-impaired

For credit exposures where there have been significant increases in credit risk since initial recognition on an individual or collective basis but are not credit-impaired, lifetime ECLs representing the ECLs that result from all possible default events over the expected life of the financial asset are recognized.

Stage 3: Lifetime ECL - credit-impaired

Financial assets are credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of those financial assets have occurred. For these credit exposures, lifetime ECLs are recognized and interest revenue is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset.

Loss allowance

For trade receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For all debt financial assets other than trade receivables, ECLs are recognized using the general approach wherein the Group tracks changes in credit risk and recognizes a loss allowance based on either a 12-month or lifetime ECLs at each reporting date.

Loss allowances are recognized based on 12-month ECL for debt investment securities that are assessed to have low credit risk at the reporting date. A financial asset is considered to have low credit risk if:

- the financial instrument has a low risk of default
- the borrower has a strong capacity to meet its contractual cash flow obligations in the near term
- adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Group considers a financial asset to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. This primarily pertains to the Group's cash and cash equivalents.

Determining the Stage for Impairment

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

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

Offsetting of Financial Instruments (prior to and upon adoption of PFRS 9)

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

The Group did not offset any financial instruments in June 30, 2019 and 2018.

Prepaid Expenses

Prepaid expenses, which mainly pertain to prepayments on computer software subscription, are expected to be amortized over a period not exceeding twelve months from the reporting date.

Property and Equipment

Property and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of equipment are required to be replaced at intervals, the Group depreciates them separately based on their specific useful lives. All other repair and maintenance costs are recognized in the consolidated statement of comprehensive income as incurred.

Depreciation is calculated on a straight-line basis over the estimated useful lives of 3 to 5 years for its office equipment and miscellaneous assets. The Group's miscellaneous assets pertain to computer software licenses.

Fully depreciated property and equipment are retained in the accounts until they are no longer in use and no further depreciation is charged to current operations.

An item of property and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. 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 asset) is included in the consolidated statement of comprehensive income when the asset is derecognized.

Foreign Currency Denominated Transactions and Balances

Transactions in foreign currencies are initially recorded by the entities within the Group at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognized in the consolidated statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognized in OCI or in the consolidated statement of comprehensive income are also recognized in OCI or in the consolidated statement of comprehensive income, respectively).

Interest in Joint Arrangements

PFRS defines a joint arrangement as an arrangement over which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities (being those that significantly affect the returns of the arrangement) require unanimous consent of the parties sharing control.

Joint Operations. A joint operation is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities and share in the revenues and expenses relating to the arrangement. The Group's service contracts (SC) are considered joint operations.

Deferred Exploration Costs

The Group follows the full cost method of accounting for exploration costs determined on the basis of each Service Contract (SC) area. The costs recorded pertain to the Group's share in exploration costs, pro-rated based on participating interest held in each joint agreement for each SC. Under this method, all exploration costs relating to each SC are deferred pending the determination of whether the contract area contains oil and gas reserves in commercial quantities, net of any allowance for probable losses. These costs are written off against the allowance when the projects are abandoned or determined to be definitely unproductive.

The Group classifies exploration costs as intangible or tangible according to the nature of the assets acquired and apply the classification consistently. Some costs are treated as intangible, whereas others are tangible to the extent that tangible asset is consumed in developing an intangible asset, the amount reflecting that consumption is part of the cost of the intangible asset. However, using a tangible asset to develop an intangible asset does not change a tangible asset into an intangible asset. The Group recognizes its exploration costs as intangible assets.

The deferred exploration costs cease to be classified as intangible asset when the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. These costs shall be assessed for impairment, and any impairment loss recognized, before reclassification.

Impairment of Non-Financial Assets

Property and Equipment

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

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

Impairment losses of continuing operations are recognized in the consolidated statement of comprehensive income.

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

The Group assesses impairment of its property and equipment on the basis of impairment indicators such as evidence of internal obsolescence or physical damage.

Deferred Exploration Costs

Deferred exploration costs are reassessed for impairment on a regular basis. An impairment review is performed, either individually or at the CGU level, when there are indicators that the carrying amount of the assets may exceed their recoverable amounts. To the extent that this occurs, the excess is fully provided against, in the reporting period in which this is determined.

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 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;
- When a service contract where the Group has participating interest in is permanently abandoned; 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.

When facts and circumstances suggest that the carrying amount exceeds the recoverable amount, impairment loss is measured, presented and disclosed in accordance with PAS 36, *Impairment of Assets*.

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. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the consolidated statement of comprehensive income net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized in the consolidated statement of comprehensive income.

Capital Stock

Capital stock represents the portion of the paid-in capital representing the total par value of the shares issued.

Deficit

Deficit represents the cumulative balance of net loss.

Interest Income

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

Miscellaneous Income

Other income is recognized when there is an incidental economic benefit, other than the usual business operations, that will flow to the Group through an increase in asset or a reduction in the liability that can be measured reliably.

Expenses

Expenses are decreases in economic benefits during the accounting period in the form of outflows or decreases of assets or incurrence of liabilities that result in decrease in equity, other than those relating to distributions to equity participants. Expenses are recognized when incurred.

Taxes

Current Tax. Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operate and generate taxable income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretations and establishes provisions where appropriate.

Current tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statement of comprehensive income.

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

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

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

Deferred tax assets are recognized for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilized, except:

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

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

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

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

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in OCI or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend to either settle current taxes on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Loss Per Share (LPS)

Basic LPS is computed based on weighted average number of issued and outstanding common shares during each year after giving retroactive effect to stock dividends declared during the year. Diluted LPS is computed as if the stock options were exercised as at the beginning of the year and as if the funds obtained from exercise were used to purchase common shares at the average market price during the year. Outstanding stock options will have a dilutive effect under the treasury stock method only when the fair value of the underlying common shares during the period exceeds the exercise price of the option. Where the outstanding stock options have no dilutive effect and the Group does not have any potential common share nor other instruments that may entitle the holder to common shares, diluted LPS is the same as basic LPS.

Segment Reporting

The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products. Financial information on business segments is presented in Note 16 to the consolidated financial statements.

Contingencies

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

Events After the Reporting Period

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

3. Significant Accounting Judgments and Estimates

The Group's consolidated financial statements prepared in accordance with PFRS require management to make a judgment and estimates that affect the amounts reported in the consolidated financial statements and related notes. In preparing the Company's consolidated financial statements, management has made its best estimate and judgment of certain amounts, giving due consideration to materiality.

The estimates and judgments used in the accompanying consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as at the date of the consolidated financial statements. Actual results could differ from such estimates.

Determining and Classifying a Joint Arrangement.

Judgment is required to determine when the Group has joint control over an arrangement, which requires an assessment of the relevant activities and when the decisions in relation to those activities require unanimous consent. The Group has determined that the relevant activities for its joint arrangements are those relating to the operating and capital decisions of the arrangement. Judgment is also required to classify a joint arrangement. Classifying the arrangement requires the Group to assess their rights and obligations arising from the arrangement. Specifically, the Group considers:

- The structure of the joint arrangement - whether it is structured through a separate vehicle
- When the arrangement is structured through a separate vehicle, the Group also considers the rights and obligations arising from:
 - a) The legal form of the separate vehicle
 - b) The terms of the contractual arrangement
 - c) Other facts and circumstances (when relevant)

This assessment often requires significant judgment, and a different conclusion on joint control and also whether the arrangement is a joint operation or a joint venture, may materially impact the accounting. As at March 31, 2019 and December 31, 2018, the Group's SCs are assessed as joint arrangements in the form of joint operations.

Identifying Business Models upon Adoption of PFRS 9

The Group manages its financial assets based on a business model that maintains adequate level of financial assets to match expected cash outflows while maintaining a strategic portfolio of financial assets for trading activities.

The Group's business model can be to hold financial assets to collect contractual cash flows even when sales of certain financial assets occur. The following are the Group's business models:

- *Portfolio 1, Strategic Fund*
Portfolio 1 is classified as fair value through profit or loss with the objective of generating interest income from low-risk investments in liquid assets to maximize returns from the excess funds of the Group. This includes the Group's investments held for trading.
- *Portfolio 2, Operating and Liquidity Fund*
Portfolio 2 is classified as amortized cost with the objective to hold to collect the financial assets to ensure sufficient funding to support operations and project implementation. This includes cash and cash equivalents and trade receivable and due from third party under 'Receivables'.

Definition of Default and Credit-impaired Financial Assets upon adoption of PFRS 9

The Group defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when one or more events that have occurred and have significant impact on the expected future cash flows of the financial assets. This includes the following observable criteria:

- *Quantitative Criteria*
The borrower is more than 90 days past due on its contractual payments, i.e., principal and/or interest, which is consistent with the Group's definition of default.

- *Qualitative Criteria*

The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where:

- a. The borrower is experiencing financial difficulty or is insolvent
- b. The borrower is in breach of financial covenant(s)
- c. Concessions have been granted by the Group, for economic or contractual reasons relating to the borrower's financial difficulty
- d. It is becoming probable that the borrower will enter bankruptcy or other financial reorganization
- e. Financial assets are purchased or originated at a deep discount that reflects the incurred credit losses.

The criteria above have been applied to all financial instruments held by the Group and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD) throughout the Group's expected loss calculation.

Estimates

Impairment of Deferred Exploration Costs. The carrying value of deferred exploration costs is reviewed for impairment by management when there are indications that the carrying amount exceeds the recoverable amount under PFRS 6. Among the factors considered by management in the impairment review of deferred exploration costs are the expiration of the contracts and the technical evaluation that the remaining prospects in these areas are small and are likely to be uneconomic. In the event of impairment, the Group measures, presents and discloses the resulting impairment loss in accordance with PAS 36.

The Group recognized impairment loss on its deferred exploration costs amounting to ₱48,262,794 in 2018, and presented as "Provision for probable losses" under "Expenses" in the consolidated statements of comprehensive income. The carrying value of deferred exploration costs amounted to ₱33,531,544 and ₱29,384,114 as at June 30, 2019 and December 31, 2018, respectively (see Note 8).

Realizability of Deferred Income Tax Asset. The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax assets to be utilized. However, there is no assurance that sufficient taxable income will be generated to allow all or part of the deferred income tax assets to be utilized.

Unrecognized deferred income tax assets as at June 30, 2019 and December 31, 2018 amounted to ₱40,001,000 and ₱37,248,455, respectively (see Note 12).

Estimating Provision for Credit Losses of Receivables (prior to adoption of PFRS 9)

The Group maintains allowance for credit losses based on the results of the individual assessment under PAS 39. Under the individual assessment, the Group considers the significant financial difficulties of the customer or significant delays in payments. Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on age and status of financial asset, as well as historical loss experience. The methodology and assumptions used for the impairment assessment are based on management's judgments and estimates. Therefore, the amount and timing of recorded expense for any period would differ depending on the judgments and estimates made for the year.

As at June 30, 2019 and December 31, 2018, the allowance for credit losses amounted to ₱ 20,000,000 (see Note 6). *Estimating Provision of Expected Credit Losses on Receivables (upon adoption of PFRS 9)*

ECLs are derived from unbiased and probability-weighted estimates of expected loss, and are measured as follows:

- *Financial assets that are not credit-impaired at the reporting date:* as the present value of all cash shortfalls over the expected life of the financial asset discounted by the effective interest rate. The cash shortfall is the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive.
- *Financial assets that are credit-impaired at the reporting date:* as the difference between the gross carrying amount and the present value of estimated future cash flows discounted by the effective interest rate.

The Group leverages existing risk management indicators (e.g. internal credit risk classification and restructuring triggers), credit risk rating changes and reasonable and supportable information which allows the Group to identify whether the credit risk of financial assets has significantly increased.

Simplified Approach for Trade Receivables

The Group uses a provision matrix to calculate ECLs for receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

No provision for doubtful accounts was recognized as at June 30, 2019 and 2018. The carrying value of receivables amounted to ₱115,156 and ₱95,390 as at June 30, 2019 and December 31, 2018, respectively (see Note 6).

4. Cash and Cash Equivalents

	June 30, 2019	December 31, 2018
Cash on hand and in banks	₱9,853,669	₱5,455,179
Short-term deposits	–	4,408,409
	₱8,827,460	₱9,863,588

Cash in banks earn interest at the respective bank deposit rates. Short-term deposits are made for varying periods between one day and three months depending on the immediate cash requirements of the Company and earn interest at the respective short-term deposit rates.

Interest income on cash and short-term deposits amounted to ₱12,830 and ₱13,236 as at June 30, 2019 and 2018, respectively.

5. Investments Held for Trading

Investments held for trading consist of investments in UITFs amounting to ₱47,288,779 and ₱57,584,369 as at June 30, 2019 and December 31, 2018, respectively. The changes in fair value on investments held for trading amounted to a net gain of ₱771,417 and ₱695,785 as at June 30, 2019 and 2018, respectively.

6. Receivables

This account consists of the following:

	June 30, 2019	2018
Trade receivables	₱31,802	₱31,863
Due from third party (see Note 8)	20,000,000	20,000,000
Due from officers and employees	–	–
Accrued interest receivable	–	3,826
Others	83,354	59,701
	20,115,156	20,095,390
Less allowance for credit losses	20,000,000	20,000,000
	₱115,156	₱95,390

The aging analysis of receivables is as follows:

June 30, 2019							
	Total	Neither Past Due nor Impaired	Past Due but not Impaired				Past Due and Impaired
			<30 Days	30–60 Days	61–90 Days	Over 90 Days	
Trade receivables	₱31,802	₱–	₱–	₱–	₱–	₱31,802	₱–
Receivable from a third party	20,000,000	–	–	–	–	–	20,000,000
Due from officers and employees	–	–	–	–	–	–	–
Others	83,354	–	–	–	–	83,354	–
	20,115,156	₱–	₱–	₱–	₱–	₱88,156	₱20,000,000

December 2018							
	Total	Neither Past Due nor Impaired	Past Due but not Impaired				Past Due and Impaired
			<30 Days	30–60 Days	61–90 Days	Over 90 Days	
Trade receivables	₱31,863	₱–	₱–	₱–	₱–	₱31,863	₱–
Due from third party	20,000,000	–	–	–	–	–	20,000,000
Accrued interest receivable	3,826	3,826	–	–	–	–	–
Others	59,701	3,347	–	29,974	–	26,380	–
	₱20,095,390	₱7,173	₱–	₱29,974	₱–	₱58,243	₱20,000,000

Trade receivables mainly represent return of cash call from the service contract operator. The Group's receivables are noninterest-bearing and are due and demandable.

Due from third party pertains to advance payment made pursuant to the Memorandum of Agreement with Frontier Energy and Frontier Oil and is due and demandable (see Note 8).

Accrued interest receivable pertains to the accrued interest on cash in banks.

Others pertain to advances to employees and a service provider subject to liquidation.

In 2016, the Group recognized a provision for credit losses amounting to ₱20,000,000 on its advance payment to Frontier Oil (see Note 8). As at June 30, 2019 and 2018, no provision for credit losses was recognized.

7. Property and Equipment

Details and movement of this account follow:

	June 30, 2019		
	Equipment	Miscellaneous Assets	Total
Cost -			
Balance at beginning and end of year	₱245,000	₱124,215	₱369,215
Balance at the of March 31, 2018	245,000	124,215	369,215
Less accumulated depreciation:			
Balance at beginning of year	245,000	100,703	345,703
Depreciation expense	–	3,712	3,712
Balance at end of year	245,000	104,415	349,415
Net book value	₱–	₱19,800	₱19,800

	December 2018		
	Equipment	Miscellaneous Assets	Total
Cost:			
Balance at beginning of year	₱245,000	₱94,515	₱339,515
Additions	–	29,700	29,700
Balances at end of year	245,000	124,215	369,215
Less accumulated depreciation:			
Balance at beginning of year	245,000	94,515	339,515
Depreciation expense	–	6,188	6,188
Balance at end of year	245,000	100,703	345,703
Net book value	₱–	₱23,512	₱23,512

The Group's fully depreciated assets are still in use as at June 30, 2019.

8. Deferred Exploration Costs

Details of deferred exploration costs are as follows:

	June 30, 2019	December 31, 2018
TA Petroleum:		
SC 51/Geophysical Survey and Exploration		
Contract (GSEC) 93 (East Visayas)	P32,665,864	P32,665,864
SC 69 (Camotes Sea)	15,596,930	15,596,930
SC 6 (Northwest Palawan):		
Block A	22,800,145	22,568,129
Block B	4,892,178	4,892,178
SC 50 (Northwest Palawan)	11,719,085	11,719,085
	87,674,202	87,442,186
Less allowance for probable loss	64,874,057	64,874,057
	22,800,145	22,568,129
Palawan55 -		
SC 55 (Southwest Palawan)	10,731,399	6,815,985
	P33,531,544	P29,384,114

Below is the rollforward analysis of the deferred exploration costs:

	June 30, 2019	December 31, 2018
Cost:		
Balances at beginning of year	P94,258,171	P92,716,658
Additions:		
Cash calls	4,147,430	1,541,513
Balance at end of year	98,405,601	94,258,171
Allowance for a probable loss:		
Balances at beginning of year	64,874,057	16,611,263
Provisions	–	48,262,794
Balance at end of year	64,874,057	64,874,057
Net book value	P33,531,544	P29,384,114

The foregoing deferred exploration costs represent the Group's share in the expenditures incurred under petroleum SCs with the Department of Energy (DOE). The contracts provide for certain minimum work and expenditure obligations and the rights and benefits of the contractor. Operating agreements govern the relationship among co-contractors and the conduct of operations under an SC.

In 2017, the Group capitalized its share in various expenses to deferred exploration costs due to its operatorship in SC 69. Expenses capitalized were salaries and wages, depreciation expense and other expenses. In 2019, additional costs were incurred and capitalized in the current work program for SC 55.

Refer to Annex B-1 for the status of the Company's projects.

9. Accounts Payable and Other Current Liabilities

This account consists of:

	June 30, 2019	December 31, 2018
Accounts payable	P-	P1,096,177
Accrued expenses	10,611,118	4,852,037
Due to:		
Third party	2,941,349	3,663,170
Employees	5,831	166,888
Related parties (see Note 10)	-	32,481
Withholding taxes	830	70,077
Others	-	7,907
	P13,559,128	P9,888,737

Accounts payable and other current liabilities, other than accrued expenses and due to third party, are noninterest-bearing and are settled on 30 to 60-day terms.

Accrued expenses include accrual for professional fees and training obligations for SC 55 payable to the DOE. Accruals for professional fee are noninterest-bearing and are settled on 30 to 60-day terms. Training obligations for SC 55 payable to the DOE are due and demandable.

Accounts payable are trade payables to suppliers and service providers.

Due to a third party is an advance payment from a partner in the consortium to be applied to SC 55's 2019 work program.

Due to employees refer to refund for over withholding of taxes.

10. Related Party Transactions

Parties are considered to be related if one party has the ability, directly, or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely its legal form.

Outstanding balances at year-end are unsecured and settlement occurs in cash throughout the financial year. There have been no guarantees provided or received for any related party receivables or payables.

The transactions and balances of accounts as at June 30, 2019 and for the year ended December 31, 2018 with related parties are as follows:

Company	For the six months ended June 30, 2019				
	Amount/ Volume	Nature	Outstanding Balance	Terms	Conditions
Ultimate Parent Company					
PHINMA, Inc.					
Accounts payable and other current liabilities	P56,273	Share in expenses	P-	30-60 day terms; noninterest-bearing	Unsecured
Parent Company					
PHINMA Energy					
Others	1,000,000	Accommodation	-	30-60 day terms; noninterest-bearing	Unsecured

For the six months ended June 30, 2019						
Company	Amount/ Volume	Nature	Outstanding Balance		Terms	Conditions
<i>Entity Under Common Control</i>						
PHINMA Corporation Accounts payable and other current liabilities	4,166	Share in expenses	–		30–60 day terms; noninterest- bearing	Unsecured
T-O Insurance, Inc. Accounts payable and other current liabilities	1,104	Insurance expense	–		30–60 day terms; noninterest- bearing	Unsecured
As at and for the Year Ended December 31, 2018						
Company	Amount/ Volume	Nature	Outstanding Balance		Terms	Conditions
			Receivable	Payable		
<i>Ultimate Parent Company</i>						
PHINMA, Inc. Accounts payable and other current liabilities	₱262,645	Share in expenses	₱–	₱29,445	30–60 day terms; noninterest- bearing	Unsecured
<i>Parent Company</i>						
PHINMA Energy Others	140,724	Purchase of dollar	–	–	30–60 day terms; noninterest- bearing	Unsecured
<i>Entity Under Common Control</i>						
PHINMA Corporation Accounts payable and other current liabilities	54,038	Share in expenses	–	3,036	30–60 day terms; noninterest- bearing	Unsecured
T-O Insurance, Inc. Accounts payable and other current liabilities	2,459	Insurance expense	–	–	30–60 day terms; noninterest- bearing	Unsecured
Due to related parties (see Note 09)						
			₱–	₱32,481		

PHINMA, Inc.

The Parent Company has a management contract with PHINMA, Inc. up to January 1, 2018. Under this contract, PHINMA, Inc. has a general management authority with corresponding responsibility over all operations and personnel of the Company including planning, direction, and supervision of all the operations, and other business activities. Under the existing agreement, the Company pays PHINMA, Inc. a fixed monthly management fee plus an annual incentive based on a certain percentage of the Company's net income. On February 23, 2016, the Company's BOD approved the suspension of the management contract. The contract was not renewed after January 1, 2018. PHINMA, Inc. also bills the Group for its share in expenses.

PHINMA Energy

The Company purchased US dollars to pay various expenses through PHINMA Energy's banking facilities and accommodation of expenses.

PHINMA Corporation

PHINMA Corporation is likewise controlled by PHINMA, Inc. through a management agreement. PHINMA Corporation bills the Company for its share in expenses.

T-O Insurance

T-O Insurance is likewise controlled by PHINMA, Inc. through a management agreement. The Company insures its properties through T-O Insurance.

11. Capital Stock

Following are the details of the Parent Company's capital stock as at June 30, 2019 and December 31, 2018:

	Number of Shares
Authorized - ₱1 par value	1,000,000,000
Issued and outstanding - ₱1 par value	250,000,000

The issued and outstanding shares as at June 30, 2019 and December 31, 2018 are held by 2,907 and 2,926 equity holders, respectively.

12. Income Taxes

- The Company has no current income tax in June 30, 2019 and 2018.
- The reconciliation of the Company's provision for (benefit from) income tax using the statutory tax rate is as follows:

	For the six months ended June 30,	
	2019	2018
Income tax at statutory rate	(₱2,943,725)	(₱17,266,391)
Tax effects of:		
Movement in temporary differences, NOLCO and MCIT for which no deferred income tax assets were recognized	2,751,955	17,843,956
Effect of difference in tax rates	62,769	(69,578)
Realized gains on changes in fair value of investments held for trading	(81,793)	(84,642)
Interest income subject to final tax	(3,849)	(3,971)
	(₱214,643)	₱59,374

- The Company recognized provision for (benefit from) deferred income tax amounting to ₱214,643 and ₱59,374 for the period ended June 30, 2019 and 2018, respectively.
- Deferred income tax liability amounting to ₱72,491 and ₱287,133 as at June 30, 2019 and December 31, 2018, respectively, relate to unrealized gain on changes in fair value of investments held for trading and unrealized gain on foreign exchange translation.
- Deferred income tax assets related to the following temporary differences, NOLCO and excess of MCIT over RCIT were not recognized because management believes that it is not probable that sufficient future taxable income will be available to allow deferred income tax assets to be utilized.

	June 30, 2019	December 31, 2018
Provision for:		
Probable losses (see Note 8)	P64,874,057	P64,874,057
Credit losses (see Note 6)	20,000,000	20,000,000
NOLCO	38,752,638	39,255,480
MCIT	3,754	3,754
Unrealized foreign exchange loss	–	19,465

Unrecognized deferred income tax assets amounted to P40,001,000 and P37,248,455 as at June 30, 2019 and December 31, 2018.

- f. The details of the Company's MCIT and NOLCO as at June 30, 2019 follows:

Year Incurred	Available Until	NOLCO		MCIT	
		2019	2018	2019	2018
2019	2022	P9,173,185	P–	P–	P–
2018	2021	20,765,861	P20,765,861	P–	P–
2017	2020	8,813,592	8,813,592	–	–
2016	2019	9,676,026	9,676,026	3,754	3,754
		P48,428,664	P39,255,480	–	–

No deferred income tax asset was recognized as at June 30, 2019 and December 31, 2018, respectively.

- g. Impact of Tax Reform for Acceleration and Inclusion Act (TRAIN)

Republic Act (RA) No.10963 or the Tax Reform for Acceleration and Inclusion Act (TRAIN) was signed into law on December 19, 2017 and took effect January 1, 2018. Although the TRAIN changes existing tax law and includes several provisions that will generally affect businesses on a prospective basis, the same did not have any significant impact on the financial statement balances as of the reporting date.

13. Basic/Diluted Loss Per Share

Basic/diluted loss per share is computed as follows:

	For the six months ended June 30	
	2019	2018
(a) Net loss attributable to equity holders of the Parent Company	P9,420,191	P57,606,232
(b) Weighted average number of common shares outstanding	250,000,000	250,000,000
Basic/diluted loss per share (a/b)	P0.0376	P0.230

As at June 30, 2019 and 2018, the Company does not have any potential common share nor other instruments that may entitle the holder to common shares. Hence, diluted loss per share is the same as basic loss per share.

14. Material Partly-Owned Subsidiary

Financial information of Palawan55 is provided below:

	For the six months ended June 30	
	2019	2018
Equity interest held by NCI	30.65%	30.65%
Accumulated balances of NCI	P538,993	P2,390,595
Net loss for the year allocated to NCI	177,584	7,777

The summarized financial information of Palawan55 is provided below. There are no intercompany transactions and balances for eliminations between the Parent Company and Palawan55.

Statements of Income and Statements of Comprehensive Income

	For the six months ended June 30	
	2019	2018
Income	P4,824	P11,293
Expenses	686,927	36,668
Net loss	P681,088	P25,375
Total comprehensive loss	P681,088	P25,375
Attributable to NCI	P177,584	P7,777

Statements of Financial Position

	June 30, 2019	December 31, 2018
Total current assets	P2,189,681	P5,777,218
Total noncurrent assets	10,731,399	6,815,985
Total current liabilities	(11,264,103)	(10,254,963)
Total equity	P1,656,977	P2,338,066
Attributable to equity holders of the Parent Company	P1,117,984	P1,621,489
NCI	P538,993	P2,390,595

Cash Flow Information

	For the six months ended June	
	2019	2018
Net cash flows provided by (used in):		
Operating activities	(P2,221,932)	(P39,049)
Investing activities	(3,915,414)	—
Financing activity	2,553,810	—

There were no dividends paid to NCI in June 30, 2019 and 2018.

15. Financial Risk Management Objectives and Policies

The PHINMA Treasury Group manages the funds of the Group and invests in short-term deposits, marketable instruments, and mutual and trust funds denominated in Peso and U.S. Dollar (USD). It is responsible for the sound and prudent management of the Group's financial assets that finance the Group's operations and investments in enterprises.

The main risks arising from the Group's financial instruments is credit risk. The BOD reviews and approves policies for managing credit risk, foreign currency risk and market risk.

Professional competence, prudence, clear and strong separation of office functions, due diligence and use of risk management tools are exercised at all times in the handling of the funds of the Group. An Investment Committee, which comprises some of the Group's BOD, reviews and approves policies, controls and strategies for investments and risk management.

Basic investment policies as approved by the Investment Committee are:

- Safety of principal
- Duration of investment must be consistent with the respective company's investment horizon based on needs as approved by the Investment Committee
- Exposure limits:
 - For banks or fund managers: maximum 20% of total fund of each company per bank or fund
 - For Peso investments: minimal corporate exposure except for registered bonds for non-affiliates
 - Limits on third currencies outside USD, equities and offshore investments are set regularly and reviewed at least once a year by the Investment Committee
 - For total foreign currencies: maximum 50% of total portfolio
 - For investments in equities whether directly managed or managed by professional fund managers: limits are set as approved by the Investment Committee and based on current market outlook at the time of review.

Credit Risk

The Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of the instruments.

The Group has assessed the credit quality of cash and cash equivalents as high grade since these are deposited in or transacted with reputable banks, which have low probability of insolvency.

With respect to credit risk arising from the receivables of the Group, the Group's exposures arise from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

	2019					
	Neither Past Due nor Impaired			Past Due but not Impaired	Past Due Individually Impaired	Total
	Class A	Class B	Class C			
Trade receivables	P-	P-	P-	P31,802	P-	P31,802
Receivable from a third party	-	-	-	-	20,000,000	20,000,000
Due from officers and employees	-	-	-	-	-	-
Others	-	-	-	83,354	-	83,354
	P-	P-	P42,000	P115,156	P20,000,000	P20,115,156

	2018					
	Neither Past Due nor Impaired			Past Due but not Impaired	Past Due Individually Impaired	Total
	Class A	Class B	Class C			
Trade receivables	P=	P=	P=	P31,863	P=	P31,863
Due from third party	–	–	–	–	20,000,000	20,000,000
Accrued interest receivable	–	–	3,826	–	–	3,826
	P=	P=	P3,826	P31,863	P20,000,000	P20,035,689

The Group uses the following criteria to rate credit risk as to class:

Class	Description
Class A	Collateralized accounts with excellent paying habits
Class B	Secured accounts with good paying habits
Class C	Unsecured accounts

Write-off Policy

Financial assets together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group.

Market Risk

Market risk is the risk that the value of an investment will decrease due to drastic adverse market movements that consist of interest rate fluctuations affecting bid values or fluctuations in stock market valuation due to gyrations in offshore equity markets or business and economic changes. Interest rate, foreign exchange rate and risk appetite are factors of a market risk as the summation of the three defines the value of an instrument or a financial asset.

Market risk is managed through:

- Constant review of global and domestic economic and financial environments as well as regular discussions with banks' economists or strategy officers are done to get multiple perspectives on interest rate trends or forecasts;
- "Red Lines" are established then reviewed and revised as the need arises for major movements in the financial markets and are used to determine dealing parameters. Red lines are the strategic yield curves, bond prices or spreads that the PHINMA Group Treasury uses as guides whether to buy, hold or sell bonds as approved by the PHINMA Group Investment Committee or, in cases of high volatility, by the PHINMA Group Chief Financial Officer;
- In cases of high volatility, dealers constantly give updates to approving authorities regarding changes in interest rates or prices in relation to strategies; and
- Regular comparison of the portfolio's marked-to-market values and yields with defined benchmarks.

The Group's exposure to market risk is minimal. The underlying financial instruments in the Group's investments in UITFs are Peso fixed-rate bonds and low-risk fixed income securities.

Foreign Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group had foreign currency exposures arising from cash calls and refunds in currency other than the Philippine peso. The Group's financial instruments denominated in US\$ as at June 30, 2019 and December 31, 2018 are as follows;

	2019		2018	
	In US\$	In Philippine Peso	In US\$	In Philippine Peso
<i>Financial Assets</i>				
Cash and cash equivalents	US\$49,745.9	P2,548,980	US\$71,253.0	P3,746,483
Trade receivable under 'Receivables'	606.0	31,802	606.0	31,863
	50,351.9	2,372,938.0	71,859.0	3,778,346
<i>Financial Liability</i>				
Due to third party under 'Accounts payable and other current liabilities'	57,403	2,941,348	69,668.5	3,663,170
	US\$(7,051.1)	P568,410	US\$2,190.5	P115,176

Exchange rates used were P51.24 to \$1.00 and 52.58 to \$1.00 as at June 30, 2019 and December 31, 2018, respectively.

Management has determined that the volume of foreign currency-denominated transactions is not significant to the Company and, accordingly, its exposure to the risk of changes in foreign exchange rates has no material impact to its profitability.

Capital Management

The primary objective of the Company's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust its capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes in 2019 and 2018.

Capital includes all the items appearing in the equity section of the Group's consolidated statements of financial position totaling to P85,294,238 and P86,812,182 as at June 30, 2019 and December 31, 2018, respectively.

Fair Value of Financial Assets and Financial Liabilities

The following table shows the classifications, carrying values and fair values of the financial instruments, except for those whose fair values approximate its carrying values:

June 30, 2019				
	Carrying Value	Fair Value		
		Quoted Prices in Active Markets (Level 1)	Significant Observable Input (Level 2)	Significant Unobservable Inputs (Level 3)
Asset				
Financial assets at FVPL -				
Investments held for trading	₱47,288,779	₱–	47,288,779	₱–

December 31, 2018				
	Carrying Value	Fair Value		
		Quoted Prices in Active Markets (Level 1)	Significant Observable Input (Level 2)	Significant Unobservable Inputs (Level 3)
Asset				
Financial assets at FVPL -				
Investments held for trading	₱57,584,369	₱–	₱57,584,369	₱–

Cash and Cash Equivalents, Receivables and Accounts Payable and Other Current Liabilities (Excluding Statutory Payables). Due to the short-term nature of these balances, the fair values approximate the carrying values as at reporting date.

Investments Held for Trading. Net asset value per unit has been used to determine the fair values of investments held for trading.

At June 30, 2019 and 2018, there were no transfers between levels of fair value measurement.

Offsetting of Financial Instruments

There were no offsetting of financial instruments as at June 30, 2019 December 31, 2018.

16. Segment Information

The Group has only one reportable segment, Petroleum and Gas, which is engaged in oil and gas exploration and development. The Group is planning to expand its operations to include geothermal exploration and development; however, there are no activities undertaken under this segment during the year and all activities reported pertains to oil and gas exploration. Management monitors the operating results of the reportable segment for the purpose of making decisions about resource allocation and performance assessment.

Capital expenditures in June 30, 2019 and December 31, 2018 were as follows:

	2019	2018
Deferred exploration cost (Note 8)	P4,147,430	P1,541,513
Property and equipment (Note 7)	–	29,700
	P4,147,430	P1,571,213

As of July 23, 2019, the Company has not started commercial operations yet and has no revenue or gross profit. The total assets of the segment of P90,846,026 and P96,988,052, as at June 30, 2019 and December 31, 2018, respectively, are the same as that reported in the consolidated statements of financial position.

PHINMA PETROLEUM AND GEOTHERMAL, INC.

PROGRESS REPORT

For the Quarter, April 1, 2019 to June 30 2019

SC 6 Block A (Northwest Palawan)

Farm-in negotiations are ongoing for the development of the Octon oil discovery.

Technical studies over the northern part of the block progressed.

PPG has 7.78% participating interest and 2.575% carried interest in SC 6 Block A.

SC 51 (East Visayas)

Approval of relinquishment of the service contract remains pending with the DOE.

PPG holds 33.34% participating interest in SC 51.

SC 55 (Ultra Deepwater West Palawan)

Seismic reprocessing of 1,000 sq. km. of 3D seismic data was completed.

Quantitative Interpretation Study aimed at identifying the gas-bearing zones in the service contract is ongoing.

Palawan55 Exploration & Production Corporation, subsidiary of PPG, holds 37.50% participating interest in SC 55.

SC 69 (Central Visayas)

Approval of relinquishment of the service contract remains pending with the DOE.

PPG holds 50% participating interest in SC 69.

Certified Correct:


RAYMUNDO A. REYES, JR.
Chief Operating Officer

Signed in the presence of:





ANNEX B

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of financial position and results of operations of PHINMA Petroleum and Geothermal, Inc. or "PPG" and its subsidiary should be read in conjunction with the unaudited interim consolidated financial statements as at June 30, 2019 and December 31, 2018 and for the six months ended June 30, 2019 and 2018. The unaudited interim consolidated financial statements have been prepared in compliance with the Philippine Financial Reporting Standards (PFRS).

Results of Operation

	Apr-June		Increase (decrease)		Jan-June		Increase (decrease)	
	2019	2018	Amount	%	2019	2018	Amount	%
Interest income	5,746	9,156	(3,410)	(37)	12,830	13,236	(406)	(3)
Cost and expenses	8,171,047	51,884,051	(43,713,004)	(84)	10,494,988	58,286,888	(47,791,900)	(82)
Other income (charges)	121,850	380,100	(258,250)	(68)	669,740	719,017	(49,277)	(7)
Loss before income tax	8,043,451	51,494,795	(43,451,344)	(84)	9,812,418	57,554,635	(47,742,217)	(83)
Provision for (benefit from)								
Income tax	38,483	42,511	(4,028)	(9)	(214,643)	59,374	(274,017)	-
Net loss	₱8,081,934	₱51,537,306	(₱43,455,372)	(84)	₱9,597,775	₱57,614,009	(₱48,016,234)	(83)

Material Changes for the First Semester of 2019

- Cost and expenses dropped during the first half of 2019 primarily due to termination of project development costs on the LNG-to-Power project, no additional provision for probable losses for the service contracts, and decrease in employee cost and supplies. During the year, the Company accrued training obligations for SC 51, SC 55 and SC 69.
- Other income decreased due to fluctuations in foreign exchange rates.
- Provision for (benefit from) income tax is mainly from movement of unrealized gains from changes in fair value of investments held for trading.

Consolidated Statements of Financial Position

	June 2019	December 2018	Increase (Decrease)	
			Amount	%
Current Assets				
Investment held for trading	47,288,779	57,584,369	(10,295,590)	(18)
Receivables	115,156	95,390	19,766	21
Noncurrent Assets				
Property and equipment	19,800	23,512	(3,712)	(16)
Deferred exploration costs	33,531,544	29,384,114	4,147,430	14
Current Liabilities				
Accounts payable and other current liabilities	₱13,559,128	₱9,888,736	3,670,392	37
Deferred income tax liability	72,491	287,134	(214,643)	(75)

The following are the material changes in asset accounts of the interim consolidated statements of financial position between June 30, 2019 and December 31, 2018:

- Investments held for trading declined due to redemption of short-term investments to fund the Company's activities.
- Advances of third party for business expenses accounted for the increase in receivables.
- Decrease in property and equipment is due to depreciation of assets
- Deferred exploration costs grew due to additional cash calls in SC 55 and SC 6A.
- Increase in current liabilities was mainly due to advance payment from a partner in the consortium to be applied to SC 55's 2019 work program and accrued training commitments with the DOE pertaining to SC 51, SC 55 and SC 69.
- Deferred income tax liability went down from the movement of unrealized gains on changes in fair value of investments held for trading.

Financial Soundness Indicators

Key Performance Indicator	Formula	June 2019	Dec 2018	Increase (Decrease)	
				Amount	%
Liquidity Ratios Current Ratio	Current assets	4.23	6.83	(2.61)	(38)
	Current liabilities				
Acid test ratio	Cash + Short-term investments + Accounts receivables + Other liquid assets	4.22	6.83	(2.61)	(38)
	Current liabilities				
Solvency Ratios Debt-to-equity ratio	Total liabilities	0.18	0.12	(0.06)	51
	Total equity				
Asset-to-equity ratio	Total assets	1.18	1.12	0.06	5
	Total equity				
Interest coverage ratio	Earnings before interest & tax (EBIT)	N/A	N/A	N/A	N/A
	Interest expense				
Net debt-to-equity ratio	Debt - cash and cash equivalents	N/A	N/A	N/A	N/A
	Total equity				
Profitability Ratios Return on equity	Net income after tax	(11.45)	(47.59)	(36.13)	(76)
	Average stockholders' equity				
Return on assets	Net income before taxes	(10.00)	(45.37)	(35.37)	(78)
	Average total assets				
Asset turnover	Revenues	N/A	N/A	N/A	N/A
	Total assets				

Current ratio and Acid test ratio

Current ratio and acid test ratio decreased due to the 15% decrease in current asset primarily brought about by the decrease in cash & cash equivalents used in operating activities. In addition, during the semester, current liabilities increased by 34% due to increase in accrued expenses and accounts payable.

Debt-to-equity ratio

Debt-to-equity ratio increased due to 37% increase in current liabilities

Asset-to-equity ratio

As at June 30, 2019, asset-to-equity ratio increased with the net losses posted during the first semester of 2019.

Interest coverage ratio and Net debt-to-equity ratio

These ratios are not applicable since the Company has no borrowings.

Return on equity and Return on assets

The Company showed negative returns because it has not started commercial operations yet and posted net losses during the periods covered.

Asset turnover

This ratio is not applicable since the Company has not started commercial operations yet.

During the Six Months Period of 2019

- There were no unusual items that affected assets, liabilities, equity, net income or cash flows.
- There were no events that will trigger direct or contingent financial obligation that was material to the company, including any default or acceleration of an obligation.
- There were no contingent assets or contingent liabilities since the last annual balance sheet date.
- There were no material trends, demands, commitments, events or uncertainties known to the Company that would likely affect adversely the liquidity of the Company.
- There were no trends, events or uncertainties that have had or that were reasonably expected to have material favorable or unfavorable impact on net revenues/income from continuing operations.
- There were no significant elements of income or loss that did not arise from continuing operations that had material effect on the financial condition or result of operations.
- 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.
- There were no operations subject to seasonality and cyclicity.
- On July 1, 2019, the Company received the DOE's approval of the relinquishment of SC51. The service contract's deferred exploration cost amounting to ₱32.7M, which was provided with an allowance for probable loss in 2018, will be written off.

ANNEX C

The Company filed the following reports on SEC 17-C during the first half ended June 30, 2019 covered by this report:

Date of filing	Item Reported
April 15, 2019	<p><i>Advisory on the Philippine Competition Commission (“PCC”) Approval of Sale of shares in PHINMA Energy Corporation (“PHEN”), parent company of PHINMA Petroleum and Geothermal, Inc (“PPG”) to AC Energy, Inc. (“AC Energy”)</i></p> <p>Please be informed that Philippine Investment Management (PHINMA), Inc. (“PHI”) has advised PHEN, parent company of PPG, that they have received approval from the Philippine Competition Commission (“PCC”) for the sale of its PHI and PHINMA Corporation's (PHN) combined 51.48% stake in PHEN to AC Energy.</p> <p>This is an update on the company’s disclosure with PSE reference number 0004786 - 2019 dated February 8, 2019.</p>
April 15, 2019	<p><i>Advisory on the Philippine Competition Commission (“PCC”) Approval of Sale of shares in PHINMA Energy Corporation (“PHEN”), parent company of PHINMA Petroleum and Geothermal, Inc (“PPG”) to AC Energy, Inc. (“AC Energy”)</i></p> <p>Please be informed that Philippine Investment Management (PHINMA), Inc. (“PHI”) has advised PHEN, parent company of PPG, that they have received approval from the Philippine Competition Commission (“PCC”) for the sale of its PHI and PHINMA Corporation's (PHN) combined 51.48% stake in PHEN to AC Energy.</p> <p>The disclosure was amended today to indicate the correct PSE reference number. This is an update on the company’s disclosure with PSE reference number C00750 - 2019 dated February 11, 2019.</p>
May 10, 2019	<p><i>Election of new director, appointment of officers and resignation of director and officers.</i></p> <p>Please be advised that the Board of Directors of PHINMA Petroleum and Geothermal, Inc. (PPG) approved today the following:</p>

1. Election of Mr. John Eric T. Francia as Director of the Company.

Mr. Francia is the President and Chief Executive Officer of AC Energy, Inc. He is Managing Director and member of the Management Committee of Ayala Corporation since 2009. Mr. Francia is a Director of Manila Water Company, Inc., a publicly listed company. He is also a member of the Board of Directors of the following companies within the Ayala Group: Purefoods International Limited, AC Education, Inc., AC College of Enterprise and Technology, Inc., AC Ventures Holding Corp., Ayala Aviation Corporation, Zapfam, Inc., Northwind Power Development Corporation, North Luzon Renewable Energy Corporation, Light Rail Manila Corporation, AC Infrastructure Holdings Corporation, MCX Tollway, Inc., and other several companies.

2. Change in the Composition of the Executive Committee.

Mr. John Eric T. Francia joins the Executive Committee as Member to replace Francisco L. Viray.

3. Appointment of Officers.

Mr. John Eric T. Francia as President & Chief Executive Officer

Ms. Maria Corazon G. Dizon as Treasurer & Chief Financial Officer

Resignation/Removal or Replacement

Name of Person	Position/Designation	Effective Date of Resignation/Cessation of term (mmm/dd/yyyy)	Reason(s) for Resignation/Cessation	
Francisco L. Viray	Director and President and Chief Executive Officer	May/15/2019	Retirement	
Pythagoras L. Brion, Jr.	Executive Vice President, Treasurer and CFO	May/15/2019	As per agreement on the sale of PHEN to AC Energy.	

Raymundo A. Reyes, Jr.	Executive Vice President and COO	May/15/2019	Retirement
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Election or Appointment						
Name of Person	Position/ Designation	Date of Appointment/Election (mmm/dd/yyyy)	Effective Date of Appointment Election (mmm/dd/yyyy)	Shareholdings in the Listed Company		Nature of Indirect Ownership
				Direct	In direct	
John Eric T. Francia	Director and President & Chief Executive Officer	May/9/2019	May/15/2019	0	0	-
Maria Corazon G. Dizon	Treasurer & Chief Financial Officer	May/9/2019	May/15/2019	0	0	-

May 15, 2019

Election of new director, appointment of officers and resignation of director and officers.

Please be advised that the Board of Directors of PHINMA Petroleum and Geothermal, Inc. (PPG) approved today the following:

1. Election of Mr. John Eric T. Francia as Director of the Company.

Mr. Francia is the President and Chief Executive Officer of AC Energy, Inc. He is Managing Director and member of the Management Committee of Ayala Corporation since 2009. Mr. Francia is a Director of Manila Water Company, Inc., a publicly listed company. He is also a member of the Board of Directors of the following companies within the Ayala Group: Purefoods International Limited, AC Education, Inc., AC College of Enterprise and Technology, Inc., AC Ventures Holding Corp., Ayala Aviation Corporation, Zapfam, Inc., Northwind Power Development Corporation, North Luzon Renewable Energy Corporation, Light Rail Manila Corporation, AC Infrastructure Holdings Corporation, MCX Tollway, Inc., and other several companies.

2. Change in the Composition of the Executive Committee.

Mr. John Eric T. Francia joins the Executive Committee as Member to replace Francisco L. Viray.

3. Appointment of Officers.

Mr. John Eric T. Francia as President and Chief Executive Officer

Mr. Francia is the President and Chief Executive Officer of AC Energy, Inc. He is Managing Director and member of the Management Committee of Ayala Corporation since 2009. Mr. Francia is a Director of Manila Water Company, Inc., a publicly listed company. He is also a member of the Board of Directors of the following companies within the Ayala Group: Purefoods International Limited, AC Education, Inc., AC College of Enterprise and Technology, Inc., AC Ventures Holding Corp., Ayala Aviation Corporation, Zapfam, Inc., Northwind Power Development Corporation, North Luzon Renewable Energy Corporation, Light Rail Manila Corporation, AC Infrastructure Holdings Corporation, MCX Tollway, Inc., and other several companies.

Ms. Maria Corazon G. Dizon as Treasurer and Chief Financial Officer

Ms. Dizon is the Chief Finance Officer of AC Energy, Inc. and Head of AC Energy Retail. She previously held positions with Ayala Land, Inc. as Head of ALI Capital Corp., Head of Business Development and Strategic Planning of the Commercial Business Group, Head of Asset Management Group of Shopping Centers, Head of Control and Analysis, Head of Investor Relations as well as Chief Financial Officer of Residential Buildings, Office Buildings and Shopping Centers groups. Ms. Dizon is a Certified Public Accountant.

Resignation/Removal or Replacement

Name of Person	Position/Designation	Effective Date of Resignation/Cessation of term (mmm/dd/yyyy)	Reason(s) for Resignation/Cessation
Francisco L. Viray	Director and President and Chief Executive Officer	May/15/2019	Retirement
Pythagoras L. Brion, Jr.	Executive Vice President, Treasurer and CFO	May/15/2019	As per agreement on the sale of PHEN to AC Energy.
Raymundo A. Reyes, Jr.	Executive Vice President and COO	May/15/2019	Retirement

Election or Appointment

Name of Person	Position/Designation	Date of Appointment/Election (mmm/dd/yyyy)	Effective Date of Appointment Election (mmm/dd/yyyy)	Shareholdings in the Listed Company		Nature of Indirect Ownership
				Direct	In direct	
John Eric T. Francia	Director and President & Chief Executive Officer	May/9/2019	May/15/2019	0	0	-
Maria Corazon G. Dizon	Treasurer & Chief Financial Officer	May/9/2019	May/15/2019	0	0	-

May 16, 2019

Retirement and change of designation of officers.

Please be advised of the retirement and change of designation of the following officers of the company

Resignation/Removal or Replacement

Name of Person	Position/Designation	Effective Date of Resignation/ Cessation of term (mmm/dd/yy yy)	Reason(s) for Resignation/ Cessation
Benjamin S. Austria	Senior Adviser	May/15/2019	Personal Reasons
Arthur R. Villacorte	Asst Vice Pres.- Materials Management	June/30/2019	Retirement

Election or Appointment

Name of Person	Position/Designation	Date of Appointment /Election (mmm/dd/yy yy)	Effective Date of Appointment Election (mmm/dd/yyyy)	Shareholdings in the Listed Company		Nature of Indirect Ownership
				Direct	Indirect	
-	-	-	-	-	-	-

Promotion or Change in Designation

Name of Person	Position/Designation		Date of Approval (mmm/dd/yyyy)	Effective Date of Change (mmm/dd/yy yy)	Shareholdings in the Listed Company		Nature of Indirect Ownership
	From	To			Direct	In direct	
Raymundo A. Reyes, Jr.	Executive Vice President and COO	Chief Operating Officer	May/15/2019	May/16/2019	111,230	0	

Mr. Raymundo A. Reyes was re-hired by the company as consultant with designation of Chief Operating Officer.

May 16, 2019

Advisory on the signing of the Agreement among PHINMA Corporation (PHN), Philippine Investment Management (PHINMA), Inc. (PHI) and PHINMA Energy Corporation (PHEN) on the sale of PHN and PHI's interests in PHINMA Petroleum and Geothermal, Inc. (PPG).

Please be informed that PHINMA Corporation (PHN) and Philippine Investment Management (PHINMA), Inc. (PHI) have advised PPG that they have signed today an Agreement with PHINMA Energy Corporation, parent company of PPG, for the sale of PHI's 30,481,111 and PHN's 32,481,317 shares in PPG at P 2.44 per share. This represents 25.18% of PPG's total outstanding stock.

May 28, 2019

Election of new director, appointment of officers and resignation of director and officers.

Please be advised that the Board of Directors of PHINMA Petroleum and Geothermal, Inc. (PPG) approved today the following:

1. Election of Mr. John Eric T. Francia as Director of the Company.

Mr. Francia is the President and Chief Executive Officer of AC Energy, Inc. He is Managing Director and member of the Management Committee of Ayala Corporation since 2009. Mr. Francia is a Director of Manila Water Company, Inc., a publicly listed company. He is also a member of the Board of Directors of the following companies within the Ayala Group: Purefoods International Limited, AC Education, Inc., AC College of Enterprise and Technology, Inc., AC Ventures Holding Corp., Ayala Aviation Corporation, Zapfam, Inc., Northwind Power Development Corporation, North Luzon Renewable Energy Corporation, Light Rail Manila Corporation, AC Infrastructure Holdings Corporation, MCX Tollway, Inc., and other several companies.

2. Change in the Composition of the Executive Committee.

Mr. John Eric T. Francia joins the Executive Committee as Member to replace Francisco L. Viray.

3. Appointment of Officers.

Mr. John Eric T. Francia as President & Chief Executive Officer

Ms. Maria Corazon G. Dizon as Treasurer & Chief Financial Officer

Resignation/Removal or Replacement

Name of Person	Position/Designation	Effective Date of Resignation/Cessation of term (mmm/dd/yyyy)	Reason(s) for Resignation/Cessation
Francisco L. Viray	Director and President and Chief Executive Officer	May/15/2019	Retirement
Pythagoras L. Brion, Jr.	Executive Vice President, Treasurer and CFO	May/15/2019	As per agreement on the sale of PHEN to AC Energy.
Raymundo A. Reyes, Jr.	Executive Vice President and COO	May/15/2019	Retirement

Election or Appointment

Name of Person	Position/Designation	Date of Appointment/Election (mmm/dd/yyyy)	Effective Date of Appointment Election (mmm/dd/yyyy)	Shareholdings in the Listed Company		Nature of Indirect Ownership
				Direct	In direct	
John Eric T. Francia	Director and President & Chief Executive Officer	May/9/2019	May/15/2019	1	0	-
Maria Corazon G. Dizon	Treasurer & Chief Financial Officer	May/9/2019	May/15/2019	0	0	-

The disclosure was amended today to correct the shareholding of Mr. Francia from 0 Direct share to 1 Direct share.

June 20, 2019

Execution of the Deeds of Absolute Sale between PHINMA Corporation (PHN), Philippine Investment Management (PHINMA), Inc. (PHI) and PHINMA Energy Corporation (PHEN) on the sale of PHN and PHI's interests in PHINMA Petroleum and Geothermal, Inc. (PPG).

Please be informed that PHN and PHI have advised PPG that they have signed today, separate Deeds of Absolute Sale with PHEN, parent company of PPG, for the sale of PHI's 30,481,111 and PHN's 32,481,317 shares in PPG at P 2.44 per share. This represents 25.18% of PPG's total outstanding stock.

This is to provide an update on the disclosure with PSE reference number C03374-2019 dated May 16, 2019. The Deeds of Absolute Sale shall be effective upon (a) approval by the Exchange authorizing the special block sale, and (b) execution of the special block sale by the crossing of the Shares through the Exchange. The special block sale is expected to be completed on June 24, 2019.

June 24, 2019

Completion of the special block sale relative to the sale among PHINMA Corporation (PHN), Philippine Investment Management (PHINMA), Inc. (PHI) and PHINMA Energy Corporation (PHEN) of PHN and PHI's interests in PHINMA Petroleum and Geothermal, Inc. (PPG).

Please be informed that PPG was advised by PHEN that the Exchange has confirmed the special block sale of PPG shares to PHEN via crossing of shares. This completes PHEN's acquisition of 25.18% of PPG's total outstanding stock. PHEN's voluntary tender offer for PPG shares ended last June 19, 2019 with a total of 3,332 shares tendered as certified and confirmed by BPI Securities Corporation.

This is to provide an update on the disclosures with PSE reference number C03374-2019 dated May 16, 2019.