



PHINMA Petroleum and Geothermal, Inc.
2017 Annual Report

Seizing New Opportunities



PHINMA PETROLEUM AND GEOTHERMAL, INC.

Trans-Asia Petroleum Corporation is a Philippine corporation organized on September 28, 1994 as a subsidiary of PHINMA Energy Corporation with the primary purpose of engaging in the business of oil and gas exploration and production, both domestically and internationally.

On May 31, 2017, the Company changed its name to **PHINMA Petroleum and Geothermal, Inc. (“PPG”)** to reflect the Company’s entry into the exploration and production of geothermal resources in line with its underlying mission to help the country attain energy self-reliance.

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Our new name and logo reflect our commitment to resource development in pursuit of energy self-reliance.

The oil drop represents PPG's pioneering venture in the upstream in oil and gas business. Seizing new opportunities, the Company expands its scope to include midstream petroleum and geothermal exploration and production.

The three hues represent the primary sources of energy: red for oil, orange for natural gas, and green for geothermal.

Message to Shareholders



“

Cognizant of the continuing challenges to its core business, your Company broadened its corporate purpose in mid-2017 to include geothermal exploration and production, power generation and liquefied natural gas (LNG) midstream operations, and changed its name to PHINMA Petroleum and Geothermal, Inc. (PPG).

”

Dear Fellow Shareholders,

Due to the lingering supply glut, the price of crude oil continued to drop with West Texas Intermediate (WTI) bottoming at \$44 per barrel by mid-2017. However, in July 2017, prices began to recover. Extension of the supply curb by OPEC and Russia, and strong demand especially in China propped WTI futures to trade within the \$50 to \$60 per barrel range. Most analysts believe 2018 prices will fall within the same band as rising US and non-OPEC production during said year would limit the upside for prices.

Buoyed by the increase in oil prices during the second half of 2017, annual upstream global spending grew by 4% compared to the 2016 level, following two (2) years of double digit declines. Risk-capital investments are expected to grow through 2018 albeit at modest rates.

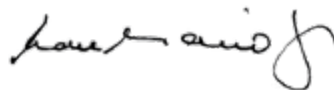
The bearish market sentiment rendered the local upstream petroleum industry to remain almost at a standstill in 2017. Activities were limited to production of existing fields. To help revive investor interest, the Department of Energy announced plans to implement a new system of competitive bidding for contract blocks that would allow year-round applications.

Cognizant of the continuing challenges to its core business, your Company broadened its corporate purpose in mid-2017 to include geothermal exploration and production, power generation and liquefied natural gas (LNG) midstream operations, and changed its name to PHINMA Petroleum and Geothermal, Inc. (PPG).

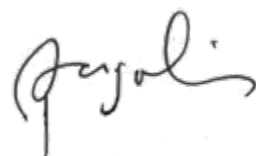
In line with its amended charter, PPG commenced evaluation of geothermal investment opportunities in-country and overseas. In November 2017, your Company also signed an agreement with three (3) foreign companies providing for joint development of an LNG-to-Power Project in central Philippines.

PPG's Management will continue to explore ways to preserve, if not improve, the value of the Company while waiting for the eventual upturn in the business cycle. Thank you for your unwavering confidence and support.

May the Lord God Almighty bless and prosper all our forthcoming endeavors!



RAMON R. DEL ROSARIO, JR.
Chairman



FRANCISCO L. VIRAY, PH. D.
President and Chief Executive Officer

Operational Highlights

SC 6 Block A (Offshore Northwest Palawan) (7.78%)

The Consortium completed its CY 2017 work program consisting of more advanced seismic data reprocessing and quantitative seismic inversion. The studies yielded significant improvement in the imaging of complex and deeper geological structures.

Partners submitted to the Department of Energy (DOE) its proposed CY 2018 work program composed of seismic interpretation and mapping and integration of quantitative inversion results that would serve as input to preliminary well design and cost estimates.

SC 6 Block B (Offshore Northwest Palawan) (14.063%)

PPG relinquished its 14.064% participating interest in SC 6B in favor of its partners. The assignment of participating interest, however, does not include PPG's 2.475% Carried Interest in the block, which is applicable to gross proceeds from any production in the block.

Documentation of the transfer of participating interest from PPG to SC 6B continuing parties is in process.

SC 51 (East Visayas) (6.67%)

The Filipino Partners submitted a Deed of Undertaking to assume the outstanding training fund obligation of the previous Operator, a condition of the DOE for approval of the transfer of interests from the latter to the former. The Deed is subject to an extension of the term of the contract and conduct of gravity and pore pressure studies prior to exploratory drilling.

The proposed transfer of interests is pending with the DOE.

SC 55 (Ultra Deepwater – West Palawan) (Palawan55, 6.82%)

Palawan55 notified the DOE of its willingness to assume its proportionate share in the outstanding training fund obligation of the former Operator upon DOE approval of the transfer of the latter's participating interest to the remaining partners.

The continuing partners committed to undertake specialized geophysical studies that would reassess the prospectivity of the block in light of the gas discovery in Hawkeye-1 well, once the request for transfer of interests and extension of the moratorium period is approved.

SC 69 (Central Visayas) (50%)

The Consortium invoked a Force Majeure event under SC 69 brought about by the unforeseen cancellation of a programmed seismic survey due to challenges in securing local government permits and environmental clearances in the area of interest.

The DOE approved the Force Majeure situation with an attendant work program of permitting and information and education campaigns to address the aforementioned impediments to the planned seismic survey.



Board of Directors



RAMON R. DEL ROSARIO, JR.
CHAIRMAN

Ramon R. del Rosario, Jr. has been a Director of the Company since 2002 and is the Chairman of the Board of Directors of the Company. He is the President and CEO of PHINMA Inc. and PHINMA Corp. He is also the Chairman of PHINMA Energy Corporation, PHINMA Power Generation Corporation, PHINMA Renewable Energy Corporation, CIP II Power Corporation, Palawan55 Exploration and Production Corporation, One Subic Power Generation Corp., PHINMA Solar Energy Corporation, One Subic Oil Distribution Corp., PHINMA Microtel Hotels, Inc, PHINMA Hospitality, Inc. and the Chairman of the Boards of Trustees of Southwestern University, University of Iloilo, University of Pangasinan, Araullo University and Cagayan de Oro College. He is a Director of several PHINMA-managed companies and currently serves as a member of the Board of Directors of Ayala Corp. and as Chairman of United Pulp and Paper Company of the Siam Cement Group. He served as Secretary of Finance of the Philippines from 1992 to 1993. He is the Chairman of the National Museum of the Philippines and Philippine Business for Education (PBEd). He was the former Chairman of the Makati Business Club, the Integrity Initiative and Ramon Magsaysay Award Foundation. He was selected as the Most Outstanding Student of the Philippines in 1967, one of the Ten Outstanding Young Men (TOYM) of the Philippines in 1978, and the MAP Management Man of the Year in 2010. He is the brother of Mr. Victor J. del Rosario. Mr. del Rosario obtained his Bachelor of Science in Accounting and Bachelor of Arts in Social Sciences degrees (Magna cum Laude) from De La Salle University and Master's degree in Business Administration from the Harvard Business School.

Francisco L. Viray is the President and Chief Executive Officer of the Company. He is concurrently the President and Chief Executive Officer of PHINMA Energy Corporation, PHINMA Power Generation Corporation, PHINMA Renewable Energy Corporation, One Subic Oil Distribution Corp. and PHINMA Solar Energy Corporation. He is the Vice-Chairman & CEO of CIP II Power Corporation, One Subic Power Generation Corp. and Palawan55 Exploration & Production Corporation. At present, Dr. Viray is a member of the Boards of Trustees of Araullo University, Cagayan de Oro College and University of Pangasinan of the PHINMA Education Network (PEN). He joined the PHINMA Group in 1999, a year after he served as Secretary of the Department of Energy from 1994 to 1998. Earlier, he was President of the National Power Corporation beginning May 1993. He also served on the Board of Directors of Meralco, Petron, Union Cement Corporation (now Holcim Philippines, Inc.) and United Pulp and Paper Company, Inc. Dr. Viray received his Bachelor of Science and Master's degrees in Electrical Engineering from the University of the Philippines and his Doctorate degree in Engineering from West Virginia University.



FRANCISCO L. VIRAY
PRESIDENT AND CHIEF EXECUTIVE OFFICER



OSCAR J. HILADO
VICE CHAIRMAN

Oscar J. Hilado is the Vice-Chairman of the Board of Directors of the Company, and has been the Chairman of the Board of PHINMA Energy from 2008 to April 2017. He has been the Chairman of PHINMA Inc. since January 1994 and has served as CEO thereof from January 1994 to August 2005. He is likewise the Chairman of the Board & Chairman of the Executive Committee of PHINMA Corp., Chairman of the Board of PHINMA Property Holdings Corp., Chairman of Union Galvasteel Corporation, and Vice Chairman of PHINMA Power Generation Corp. He is a Director of One Subic Power Generation Corp., Palawan55 Exploration & Production Corporation, PHINMA Renewable Energy Corporation, One Subic Oil Distribution Corp., Manila Cordage Corp., Seven Seas Resorts & Leisure, Inc., First Philippine Holdings Corporation, A. Soriano Corporation, Philex Mining Corporation, Smart Communications, Inc., Digital Telecommunications Phils., Inc. (DIGITEL), Rockwell Land Corporation and Roxas Holdings, Inc. Mr. Hilado received his Bachelor of Science degree in Commerce from De La Salle College-Bacolod in 1958 and his Master's degree in Business Administration from the Harvard Graduate School of Business in 1962.



MAGDALENO B. ALBARRACIN, JR.
DIRECTOR

Magdaleno B. Albarracin, Jr. joined the PHINMA Group in 1971 as a consultant. He is currently the Vice-Chairman of PHINMA Inc. and is the Chairman of its Executive Committee. He is also Vice-Chairman of PHINMA Education Holdings, Inc. He is a member of the Boards of Directors of PHINMA Foundation, Union Galvasteel Corporation, PHINMA Energy Corporation, PHINMA Power Generation Corporation, One Subic Power Generation Corp., PHINMA Renewable Energy Corporation, and PHINMA Property Holdings Corp. He is the former Chairman of the Board of Trustees of the University of San Carlos in Cebu City, and was a member of the UP Board of Regents. He was formerly Chairman of UP Engineering Research and Development Foundation and President of Holcim Philippines, Inc. He was a director of Holcim from 1986 to 2014. Dr. Albarracin received his Bachelor of Science degree in Electrical Engineering from the University of the Philippines and Master of Science degree in Electrical Engineering from the University of Michigan. He received his Master's degree in Business Administration from the University of the Philippines and Doctorate degree in Business Administration from Harvard University.



VICTOR J. DEL ROSARIO
DIRECTOR

Victor J. del Rosario was elected as Director on August 8, 2013. He is the Chairman of Union Galvasteel Corporation and is the Executive Vice-President and Chief Strategic Officer of PHINMA Inc. For PHINMA Corp, he is Executive Vice-President and Chief Finance Officer. He is also a member of the Boards of Directors of PHINMA Inc. and various PHINMA-managed companies. Mr. del Rosario is the brother of Mr. Ramon R. del Rosario, Jr. Mr. Victor del Rosario is an Economics and Accounting graduate of De La Salle University and holds a Master's degree in Business Administration from Columbia University.



RAYMUNDO A. REYES, JR.
DIRECTOR

Raymundo A. Reyes, Jr. has been a member of the Board of Directors since February 2013. He is the Executive Vice President & Chief Operating Officer of the Company. After a short teaching and graduate assistantship stint at the U.P. Department of Chemistry and Department of Geology and Geography, he started his career as a geologist with the Philippine National Oil Company in 1976, and was subsequently seconded to the Department of Energy and its predecessor agencies. In 1987, he joined the Company as Exploration Manager and in 1994, became its Vice President for Exploration. He is currently PHINMA Energy's Senior Vice President responsible for energy resources development. He is concurrently the President & COO of Palawan55 Exploration and Production Corporation, and Vice President of Maibarara Geothermal, Inc., a 25%-owned subsidiary of PHINMA Energy. He is also a Director of Palawan55 Exploration and Production Corporation since February 2013, and Maibarara Geothermal, Inc. since April 2016. Mr. Reyes holds a Bachelor of Science in Chemistry and Master of Science in Geology degrees from the University of the Philippines and is both a licensed geologist and chemist.

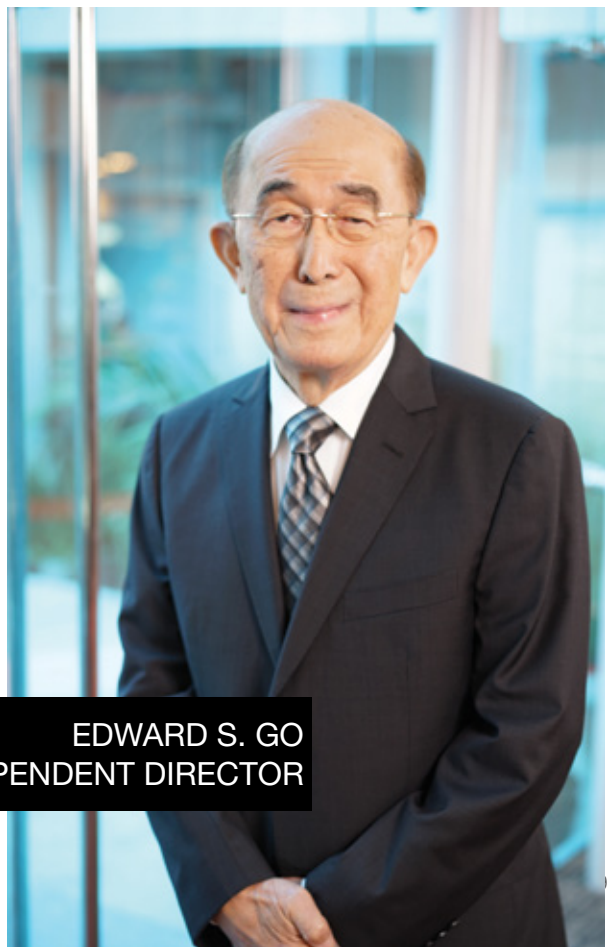
Board of Directors

Roberto M. Laviña is the Senior Executive Vice-President and Chief Operating Officer (COO) of PHINMA Inc. & PHINMA Corp. and concurrently is the President and CEO of PHINMA Property Holdings Corp. He is also the Treasurer of PHINMA Energy, and is a member of the Board of all the companies in the PHINMA Group which include companies in power generation, education, hotels, steel roofing, property development, oil exploration, strategic consulting and insurance brokerage. Mr. Laviña is also the President of PHINMA Foundation. He has a Bachelor of Arts in Economics degree from Ateneo de Manila University and a Masters in Business Management from Asian Institute of Management. He finished his Program for Management Development at Harvard University in 1988.



ROBERTO M. LAVIÑA
DIRECTOR

Edward S. Go currently serves as Chairman of the Board of Hyundai Asia Resources, Inc. and of ASA Philippines Foundation. He is an Independent Director of Metro Pacific Investments Corporation, PLDT Communications and Energy Ventures, Inc. (PCEV) and Filipino Fund Inc. He is also Chairman of the PLDT Beneficial Trust Fund and member of the Board of BTF Holdings, Inc., Mediaquest Holdings, Inc., TV5 Network, Inc., Signal TV, Inc., BusinessWorld Publishing Corporation, PhilSTAR Daily, Inc., AB Capital Investment Corporation, Vicsal Investment Corporation, Union Galvasteel Corporation and PHINMA Petroleum and Geothermal, Inc. He has over 40 years of management experience in banking and finance, starting as Executive Trainee with Citibank N.A. and became President of Philippine Bank of Communications in 1974 and Chairman and Chief Executive Officer of Chinabank in 1985. Mr. Go is also Chairman of the Audit Committee of MPIC and PCEV. He obtained his Bachelor of Arts degree (Magna cum Laude), and underwent postgraduate studies at Ateneo de Manila University, where he served as member of the Board of Trustees from 1998 to 2014. He was Chairman of the Board of Ateneo during his last four years in the Board.



EDWARD S. GO
INDEPENDENT DIRECTOR

Board of Directors



RAPHAEL PERPETUO M. LOTILLA
INDEPENDENT DIRECTOR

Raphael Perpetuo M. Lotilla has a varied experience in law, legislation, ocean law and marine affairs, energy, power sector reform, privatization, sustainable development, and justice and development. He is currently a member of the Board of Trustees of the Philippine Institute for Development Studies, and chairs the boards of the Center for Advancement of Trade Integration and Facilitation (CATIF) and the Asia-Pacific Pathways for Progress Foundation, Inc. He also serves as an Independent Director of several private companies. Atty. Lotilla served as Secretary of Energy from 2005 to 2007 and was a former Professor of Law at the University of the Philippines. He obtained his degrees in Bachelor of Science in Psychology in 1979, and Bachelor of Arts in History in 1980 from the UP College of Arts and Sciences in Diliman. He graduated from the UP College of Law in 1984, and earned his Master of Laws degree from the University of Michigan, Ann Arbor in 1988. He was an undergraduate scholar of the National Science and Development Board and the Chief Justice Fred Ruiz Castro Foundation, and was also a De Witt Fellow.

Corazon dela Paz Bernardo was elected as an Independent Director of PHINMA Petroleum and Geothermal Inc. on April 12, 2017. She is the Honorary President of the International Social Security Association (ISSA), an affiliate of the International Labor Organization, based in Geneva, Switzerland. She was the first woman and first non-European to be elected as ISSA's President from 2004 to 2010. She is the first woman President of the Social Security System from 2001 to 2008 and the first woman elected partner of Price Waterhouse International in 1973. She was Chairman and Senior Partner of Joaquin Cunanan & Co. (Price Waterhouse Philippines) from 1981 to 2001, and was in the World Board of Price Waterhouse World Firm from 1992 to 1995. She has served as Trustee or Commissioner of the Philippine Health Insurance Corporation (Philhealth), Home Development Mutual Fund (PAG-IBIG), National Commission on the Role of Filipino Women, University of the East, UE Ramon Magsaysay Memorial Medical Center, Medical Doctors Inc. (Makati Medical Center), Miriam College, the Makati Business Club, MFI Foundation (where she also serves as treasurer), the Philippine Business for Education (PBEd), the BDO Foundation, and the Laura Vicuña Foundation for Streetchildren. She sits on the boards of PHINMA Energy Corporation, Republic Glass Holdings Corporation, and Roxas & Co., Inc. She serves as adviser the board and audit committees of BDO Unibank, Inc. and the audit committee of PLDT. Mrs. dela Paz-Bernardo was a Director of San Miguel Corporation, PLDT, Philex Mining, and Ionics Inc. and Chairperson of Equitable PCI Bank while serving as SSS President. Mrs. dela Paz-Bernardo graduated from the University of the East with a Bachelor of Business Administration degree in 1960 (Magna Cum Laude) and was the topnotcher of the CPA board examination. She obtained her MBA in 1965 from Cornell University in New York as a Fulbright grantee. She is a TOWNS and TOFIL awardee.

Romeo L. Bernardo co-founded Lazaro Bernardo Tiu and Associates, Inc. in 1997. His public sector work spans teaching finance at the state university, a career in the Department of Finance rising to the Undersecretary post and working in multilateral institutions such as the International Monetary Fund and the World Bank, based in Washington DC, as well as the Asian Development Bank in Manila. Presently, he is a Director in leading listed Philippine companies such as ALFM Family of Funds (Chairman), Bank of the Philippine Islands, Globe Telecom, Aboitiz Power, RFM Corporation, National Reinsurance Corporation of the Philippines, Institute of Development and Econometric Analysis, Inc. and an Independent Director of Philippine Investment Management (PHINMA), Inc. His past positions include Alternate Director in Asian Development Bank, Finance Attaché for the Philippine Mission to the United Nations in Geneva, Switzerland, as well as an Assistant Chief for the technical staff. He has also written and co-written economics-related articles that were prepared for the World Bank and ADB. He has done policy advisory for multilateral and bilateral institutions and the Philippine government in public finance, capital markets, public-private partnership, pension reform, economic governance. He is the lead Philippine partner/advisor to Global Source Partners, a global network of independent analysts. Mr. Bernardo has a Bachelor of Science degree in Business Economics (Magna cum Laude) from the University of the Philippines and a Master's Degree in Development Economics from Williams College, Mass. USA.



ROMEO L. BERNARDO
INDEPENDENT DIRECTOR



CORAZON DELA PAZ BERNARDO
INDEPENDENT DIRECTOR

Executive Officers



RAMON R. DEL ROSARIO, JR.
Chairman



OSCAR J. HILADO
Vice Chairman



FRANCISCO L. VIRAY
President and Chief Executive Officer



ALAN T. ASCALON
Vice President-Legal



CECILLE B. ARENILLO
Vice President and Compliance Officer



TROY A. LUNA
Corporate Secretary



RAYMUNDO A. REYES, JR.
Executive Vice President
and Chief Operating Officer



PYTHAGORAS L. BRION, JR.
Executive Vice President, Treasurer and
Chief Financial Officer



MARIEJO P. BAUTISTA
Senior Vice President-
Finance and Controller



BENJAMIN S. AUSTRIA
Senior Adviser



ARTHUR R. VILLACORTE
Assistant Vice President-
Materials Management



DANEIA ISABELLE F. PALAD
Assistant Corporate Secretary

Integrated Annual Corporate Governance Report

The Company was listed on August 28, 2014 and as mandated by the Securities and Exchange Commission (SEC) Memorandum Circular No. 3, Series of 2015, the Company submitted its first Annual Corporate Governance Report (ACGR) on May 26, 2016.

SEC MC No. 15, Series of 2017 was released in December 2017 which mandates all publicly-listed companies to submit an Integrated Annual Corporate Governance Report (I-ACGR) covering all relevant information for the year 2017 on May 30, 2018. The report supersedes the Annual Corporate Governance Report (ACGR) last submitted for 2016.

As of December 31, 2017, PHINMA Petroleum has substantially complied with the principles and best practices contained in the Manual on Good Corporate Governance. There were no sanctions imposed on any director, officer or employee for non-compliance of the Manual.

COMPLIANCE REPORT

As required by the Philippine Stock Exchange, the Compliance Officer submitted on March 30, 2017, the Compliance Report on Corporate Governance for the year 2016. For the said year under review, the Company is compliant with all guidelines of the Compliance Report.

For the year 2017, the report is superseded by the submission of the I-ACGR due on May 30, 2018.

BOARD OF DIRECTORS

Composition

The Board of Directors consists of eleven (11) members, nominated in accordance with the By-laws of the Company. In compliance with the requirement of the SEC for publicly-listed corporations, PHINMA Petroleum's Board of Directors includes four (4) independent directors. The independent directors are not officers or substantial shareholders of the Company and have no relationship with the Company that may hinder their independence from the Company or management or would interfere with their exercise of independent judgment in carrying out their responsibilities.

In order that no director or small group of directors can dominate the decision making process, the Board is a combination of executive and non-executive directors.

The Board of Directors held six (6) regular and one (1) organizational meetings in 2017. The details of the matters taken up during the board meetings are included in the Definitive Information Statement sent to the shareholders.

The attendance of the directors in the board meetings is as follows:

Directors' 2017 Board Meeting Attendance

	Regular BOD Meeting	Regular BOD Meeting	Regular BOD Meeting	Organizational BOD Meeting	Regular BOD Meeting	Regular BOD Meeting	Regular BOD Meeting
	Jan 30	Mar 3	Apr 10	Apr 10	May 15	Aug 9	Nov 6
Mr. Ramon R. del Rosario, Jr. - Chairman	P	P	P	P	P	P	P
Mr. Oscar J. Hilado	P	P	P	P	P	P	A
Dr. Magdaleno B. Albarracin, Jr.	P	P	P	P	P	P	P
Dr. Francisco L. Viray	P	P	P	P	P	P	P
Mr. Roberto M. Laviña	P	P	P	P	P	P	A
Mr. Raymundo A. Reyes, Jr.	P	P	P	P	P	P	P
Mr. Victor J. del Rosario	P	P	P	P	P	P	P
Mr. Edward S. Go	P	P	P	P	P	P	A
Mrs. Corazon S. dela Paz Bernardo	P	P	P	P	P	P	P
Mr. Raphael Perpetuo M. Lotilla	P	P	P	P	P	P	P
Mr. Romeo L. Bernardo	P	A	P	P	A	A	A

P: Present

A: Absent

Board Committees

To aid in compliance with the principles of good corporate governance, the Board constitutes committees which directly report to the Board in accordance with duly approved procedures.

For 2017, the board committees and their members are as follows:

Board Committees

Directors	Audit	Risk Oversight	Corp Governance and Related Party Transactions	Executive	Compensation
Ramon R. del Rosario, Jr.			M	M	
Oscar J. Hilado			M	C	
Magdaleno B. Albarracin, Jr.				M	C
Francisco L. Viray				M	
Roberto M. Laviña	M	M		M	M
Raymundo A. Reyes, Jr.					
Victor J. del Rosario					
Edward S. Go (Independent)	M	C	M		M
Corazon S. dela Paz Bernardo (Independent)	C	M	M		
Raphael Perpetuo M. Lotilla (Independent)			C	M	
Romeo L. Bernardo (Independent)			M		

C: Chairman

M: Member

Corporate Governance and Related Party Transactions Committee

The Corporate Governance and Related Party Transactions Committee is composed of six (6) directors, four (4) of whom are independent directors including the Chairman. The Committee was formed at the Organizational Meeting dated April 10, 2017 to replace the Nominations Committee and is tasked to assist the Board in the performance of its corporate governance responsibilities, in reviewing all material related party transactions of the company including the functions that were formerly assigned to the Nominations Committee.

There were two (2) meetings of the committee in 2017 held on May 15 and November 3 with majority of the committee members in attendance in both meetings.

Risk Oversight Committee

The Risk Oversight Committee is composed of three (3) members, two (2) of whom are independent directors, including the Chairman. The Committee is tasked to oversee the risk management systems, implementation, activities and evaluation for the continued relevance and effectiveness of the system.

In 2017, the oversight of risk management and audit functions were originally performed by a single committee, the Audit and Risk Oversight Committee. These two functions were eventually separated and assigned to two distinct committees, the Audit Committee and the Risk Oversight Committee. To facilitate the continuity of risk-related discussions, the Audit Committee continued to perform the risk oversight functions up to the end of 2017 and held meetings to review key emerging risks, particularly in relation to the Company's exposure to retail clients.

The newly constituted Risk Oversight Committee held its initial meeting on February 26, 2018 to review and endorse its own Charter for the Board's approval.

Compensation Committee

The Compensation Committee is composed of three (3) directors, one of whom is an independent director. The duties and responsibilities of this committee include establishing policies on executive remuneration, ensuring that the compensation is consistent with the Company's culture, strategy and control environment, and strengthening policies on conflict of interest, salaries and benefits, and compliance with statutory requirements.

There was no Compensation Committee meeting held in 2017 and none was required.

Audit Committee

The Audit Committee is composed of three (3) directors, two (2) of whom are independent directors. The Audit Committee is responsible for checking all financial report against its compliance with both the internal financial management systems and pertinent accounting standards, including regulatory requirements. The Committee ensures that the Company's controls are functioning effectively and efficiently. Up to the end of 2017, the Committee continued to perform risk oversight functions to facilitate the transition of risk management to the Risk Oversight Committee.

The Audit Committee had four (4) meetings during the year. The three (3) meetings obtained complete attendance while one (1) meeting only had two (2) members in attendance. Overall, the attendance is at ninety-two percent (92%). The meetings were timed to review the quarterly and yearly financial reporting of the Company. Also, the Committee reviewed the results of the annual audit of the external auditor, SGV & Co., the findings and status of Group Internal Audit's engagements and Integrity Assurance activities and the 2017 Audit Committee Report.

Report of the Audit Committee

The Board of Directors
PHINMA Petroleum & Geothermal, Inc.

MEMBERSHIP OF THE COMMITTEE

The Audit Committee is composed of two (2) independent directors and one (1) non-executive director. An independent director, Ms. Corazon de la Paz - Bernardo, chairs the Audit Committee. The other members are Mr. Edward S. Go (independent director) and Mr. Roberto M. Laviña (non-executive director). Other attendees at Committee meetings (or parts thereof) were the Chief Financial Officer, Group Internal Audit, Group Controller, Compliance Officer and the external auditors. The Committee has accounting expertise and adequate understanding of the Company's business and industry in which it operates.

ROLE OF THE COMMITTEE

The roles and responsibilities of the Committee are defined in the Audit Committee Charter. As a Board-level Committee, we assist the Board of Directors in fulfilling its oversight responsibility to the shareholders relating to the financial statements and financial reporting process, internal control system, internal and external auditor's performance, and compliance with legal and regulatory matters including approving and recommending the appointment, reappointment, removal, fees and assessing the integrity and independence of the external auditor.

We are pleased to report our activities for Calendar Year 2017.

ACTIVITIES OF THE COMMITTEE

The Audit Committee had four (4) meetings during the year. The first, second and last meetings obtained complete attendance while the third meeting had two members in attendance. Overall, attendance is at ninety-two percent (92%). The meetings were timed to review the quarterly and yearly financial reporting of the Company. Also, the Committee reviewed the results of the annual audit of the external auditor, SGV & Co., the findings and status of Group Internal Audit's engagements and the status of Integrity Assurance activities and the 2016 Audit Committee Report.

We received information and support from Management, the Compliance Officer and Group Internal Audit to enable us to effectively carry out our functions as defined in our Charter approved by the Board of Directors.

Management's Financial Report

We reviewed and endorsed to the Board of Directors for approval the 2016 audited consolidated financial statements and the 2017 unaudited quarterly consolidated financial statements.

Informatively, in our first meeting for 2018 held on February 26, 2018, we likewise reviewed and endorsed to the Board of Directors for approval the 2017 audited consolidated financial statements presented in this 2017 annual report. These activities were performed in the following context:

- Management has primary responsibility for the financial statements and the financial reporting process.
- SyCip, Gorres, Velayo & Co. (SGV & Co.) is responsible for expressing an opinion on the annual audited consolidated financial statements prepared in accordance with Philippine Financial Reporting Standards. They have likewise confirmed that the audit was conducted in accordance with Philippine Standards on Auditing.

We also reviewed the Management Representation Letter prior to its submission by Management to the external auditors.

External Audit

The Audit Committee assessed the ongoing effectiveness, suitability and quality of the external auditor and the audit process through feedback from members of the Committee and a questionnaire-based internal review with Management. On the basis of their performance and qualifications, we endorsed to the Board of Directors the nomination of Sycip, Gorres, Velayo & Co. (SGV) as the Company's external auditor for 2017.

During the year, we reviewed and approved the scope and deliverables of the SGV audit plan. The Committee ensured that SGV's scope included the review of Company's compliance to Philippine Financial Reporting Standards (PFRS). Non-audit services and related fees for their services were also reviewed and we concluded that these fees are not significant to impair their independence.

In our Committee meeting held February 26, 2018, we agreed to propose to the Board of Directors the retention of SGV & Co. as the external auditor for 2018.

Internal Audit

We reviewed and approved the Internal Audit plan for 2017 and found them to be appropriate. Based on this plan, the Committee received and reviewed the audit reports submitted by Group Internal Audit and found that the Company's internal control system is adequate and effective.

We also reviewed the organization and performance of Group Internal Audit for 2017 and found them to be sufficiently independent and effective.

Risk Oversight

In 2017, the oversight of risk management and audit functions were originally performed by a single committee, the Audit and Risk Oversight Committee. These two functions were eventually separated and assigned to two distinct committees, the Audit Committee and the Risk Oversight Committee. To facilitate the continuity of risk-related discussions, the Audit Committee continued to perform the risk oversight functions up to the end of 2017.

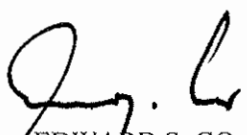
Integrity Assurance Program

We reviewed the status of ongoing activities related to the Company's Integrity Assurance program. This program provides a formal structure for institutionalizing policies, programs and mechanisms based on good corporate governance and ethical business practices, including the adoption of a Code of Business Conduct and the creation of a whistleblower policy and hotline. The Company's officers and employees have substantially complied with the policies under the Code.

Audit Committee Performance

We performed a self-assessment of the Committee's performance against the approved Audit Committee Charter in line with the guidelines issued by Securities and Exchange Commission for publicly listed companies. Based on this assessment, we attest to the Committee's effective performance of its duties in 2017.


CORAZON DE LA PAZ-BERNARDO
Chairwoman, Independent Director


EDWARD S. GO
Vice Chairman, Independent Director


ROBERTO M. LAVIÑA
Non-Executive Director

Statement of Management's Responsibility for Consolidated Financial Statements

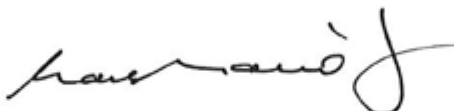
The management of **PHINMA Petroleum and Geothermal, Inc.** formerly Trans-Asia Petroleum Corporation (the "Company") is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, as at and for the years ended December 31, 2017 and December 31, 2016 and for each of the three years in the period ended December 31, 2017, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

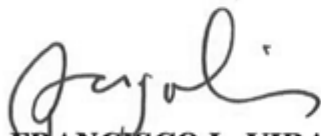
The Board of Directors is responsible for overseeing the Company's financial reporting process.

The Board of Directors reviews and approves the consolidated financial statements including the schedules attached therein, and submits the same to the Stockholders.


SyCip Gorres Velayo & Co., the independent auditors, appointed by the stockholders for the years ended December 31, 2017 and 2016, has audited the financial statements of the Company in accordance with Philippine Standards on Auditing, and in its report to the Stockholders, has expressed their opinion on the fairness of presentation upon completion of such audit.



RAMON R. DEL ROSARIO, JR.
Chairman of the Board



FRANCISCO L. VIRAY
President and CEO



PYTHAGORAS L. BRION, JR.
Executive Vice President,
Treasurer, and CFO

Signed this 28th day of February 2018

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
PHINMA Petroleum and Geothermal, Inc.
Level 11, PHINMA Plaza
39 Plaza Drive, Rockwell Center
Makati City

Opinion

We have audited the consolidated financial statements of PHINMA Petroleum and Geothermal, Inc. (formerly Trans-Asia Petroleum Corporation) and its subsidiary (the Company), which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2017 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Recoverability of Deferred Exploration Costs

Under PFRS 6, *Exploration for and Evaluation of Mineral Resources*, the Company is required to assess whether there are facts and circumstances indicating that the carrying amounts of its deferred exploration costs exceed the recoverable amounts. Should there be indicators, the Company is required to conduct a recoverability test on the deferred exploration costs. The Company's deferred exploration costs pertain to participating interests in oil and gas service contracts (SC), which provide for certain minimum work and expenditure obligations and the rights and benefits of a consortium member. Each SC has an expiration date and can be renewed, subject to approval of the Philippine Department of Energy. The Company's SCs are still under the exploration phase. The deferred exploration costs account for 48% of the Company's total assets. The substantial amount of this account and the significant management judgment required when performing an impairment review make this a key area of focus in our audit.

The Company's disclosures regarding the status of the SCs are presented in Note 8 to the consolidated financial statements while the disclosures about the impairment assessment are mentioned in Note 3.

Audit response

Our audit procedures included understanding the processes and controls involved in determining whether there are impairment indicators under PFRS 6, including performing the recoverability test when applicable. We obtained management's assessment on the recoverability of the deferred exploration costs and inquired into the status of the SCs and their plans on operations. We obtained the summary of the status of each exploration project as of December 31, 2017 and compared it with the disclosures submitted to regulatory agencies. We inspected the licenses/permits of each exploration project to determine that the period for which the Company has the right to explore in the specific area has not expired, will not expire in the near future, and will be renewed accordingly. We also read the minutes of the meetings of the Company's Board of Directors for the discussion of management plans and significant developments on the SCs or of any concession areas that are expected to be abandoned or any exploration activities that are planned to be discontinued in those areas. We considered the status of the SCs and management's plans in determining whether the deferred exploration costs may be impaired. For deferred exploration costs where the status of the SCs shows an indicator of impairment, we obtained management's estimate of the SC's recoverable amount.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2017, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2017 are expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

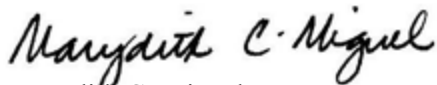
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Marydith C. Miguel.

SYCIP GORRES VELAYO & CO.



Marydith C. Miguel

Partner

CPA Certificate No. 65556

SEC Accreditation No. 0087-AR-4 (Group A),

May 1, 2016, valid until May 1, 2019

Tax Identification No. 102-092-270

BIR Accreditation No. 08-001998-55-2018,

February 26, 2018, valid until February 25, 2021

PTR No. 6621301, January 9, 2018, Makati City

February 28, 2018

PHINMA PETROLEUM AND GEOTHERMAL, INC.
(Formerly Trans-Asia Petroleum Corporation)
AND A SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31	
	2017	2016
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	₱3,271,882	₱3,752,652
Investments held for trading (Notes 5 and 15)	77,519,176	85,677,433
Receivables (Notes 6 and 15)	59,030	203,428
Prepaid expenses	24,399	82,843
Total Current Assets	80,874,487	89,716,356
Noncurrent Assets		
Property and equipment (Note 7)	–	103,740
Deferred exploration costs (Note 8)	76,105,395	80,034,927
Total Noncurrent Assets	76,105,395	80,138,667
TOTAL ASSETS	₱156,979,882	₱169,855,023
LIABILITIES AND EQUITY		
Current Liability		
Accounts payable and other current liabilities (Note 9)	₱1,536,629	₱772,927
Noncurrent Liability		
Deferred income tax liability (Note 12)	111,051	239,376
Total Liabilities	1,647,680	1,012,303
Equity		
Attributable to Equity Holders of the Parent Company:		
Capital stock (Note 11)	250,000,000	250,000,000
Deficit	(97,066,170)	(83,567,059)
Total Equity	152,933,830	166,432,941
Non-controlling interest (Note 14)	2,398,372	2,409,779
Total Equity	155,332,202	168,842,720
TOTAL LIABILITIES AND EQUITY	₱156,979,882	₱169,855,023

See accompanying Notes to Consolidated Financial Statements.

PHINMA PETROLEUM AND GEOTHERMAL, INC.
(Formerly Trans-Asia Petroleum Corporation)
AND A SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31		
	2017	2016	2015
INTEREST INCOME (Note 4)	₱14,770	₱11,163	₱69,058
EXPENSES			
Employee costs	5,043,585	5,176,697	4,840,359
Provision for probable losses (Note 8)	4,892,178	11,719,085	–
Professional fees	2,639,204	3,538,913	4,738,367
Supplies	757,394	239,574	519,625
Utilities	375,943	181,908	150
Filing and registration fees	266,387	268,168	497,437
Meetings	230,405	120,470	177,480
Transportation	194,335	73,652	143,971
Depreciation (Note 7)	84,578	49,937	113,172
Taxes and licenses	27,820	21,650	49,751
Insurance	19,713	1,122	259,117
Provision for doubtful account (Note 6)	–	20,000,000	–
Others	368,953	177,690	568,687
	14,900,495	41,568,866	11,908,116
OTHER INCOME (CHARGES)			
Gains on changes in fair value of investments held for trading (Note 5)	1,239,682	1,305,038	1,245,176
Foreign exchange gain (losses) - net	7,200	(4,431)	(35,299)
Miscellaneous income	–	187,683	–
	1,246,882	1,488,290	1,209,877
LOSS BEFORE INCOME TAX	13,638,843	40,069,413	10,629,181
PROVISION FOR (BENEFIT FROM) DEFERRED INCOME TAX (Note 12)			
Current	–	3,754	–
Deferred	(128,325)	242,816	65,433
	(128,325)	246,570	65,433
NET LOSS	₱13,510,518	₱40,315,983	₱10,694,614
Net Loss Attributable to:			
Equity holders of the Parent Company	₱13,499,111	₱40,310,205	₱10,568,411
Non-controlling interest (Note 14)	11,407	5,778	126,203
	₱13,510,518	₱40,315,983	10,694,614
Basic/Diluted Loss Per Share (Note 13)	₱0.054	₱0.161	₱0.042

See accompanying Notes to Consolidated Financial Statements.

PHINMA PETROLEUM AND GEOTHERMAL, INC.
(Formerly Trans-Asia Petroleum Corporation)
AND A SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2017	2016	2015
NET LOSS	₱13,510,518	₱40,315,983	₱10,694,614
OTHER COMPREHENSIVE INCOME	–	–	–
TOTAL COMPREHENSIVE LOSS	₱13,510,518	₱40,315,983	₱10,694,614
Total Comprehensive Loss Attributable to:			
Equity holders of the Parent Company	₱13,499,111	₱40,310,205	₱10,568,411
Non-controlling interest (Note 14)	11,407	5,778	126,203
	₱13,510,518	₱40,315,983	₱10,694,614

See accompanying Notes to Consolidated Financial Statements.

PHINMA PETROLEUM AND GEOTHERMAL, INC.
(Formerly Trans-Asia Petroleum Corporation)
AND A SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015

	Attributable to Equity Holders of the Parent Company				Total Equity
	Capital Stock (Note 11)	Deficit	Total	Non-controlling Interest (Note 14)	
BALANCES AT JANUARY 1, 2017	₱250,000,000	(₱83,567,059)	₱166,432,941	₱2,409,779	₱168,842,720
Net loss for the year	—	(13,499,111)	(13,499,111)	(11,407)	(13,510,518)
BALANCES AT DECEMBER 31, 2017	₱250,000,000	(₱97,066,170)	₱152,933,830	₱2,398,372	₱155,332,202
BALANCES AT JANUARY 1, 2016	₱250,000,000	(₱43,256,854)	₱206,743,146	₱2,415,557	₱209,158,703
Net loss for the year	—	(40,310,205)	(40,310,205)	(5,778)	(40,315,983)
BALANCES AT DECEMBER 31, 2016	₱250,000,000	(₱83,567,059)	₱166,432,941	₱2,409,779	₱168,842,720
BALANCES AT JANUARY 1, 2015	₱250,000,000	(₱32,688,443)	₱217,311,557	₱2,541,760	₱219,853,317
Net loss for the year	—	(10,568,411)	(10,568,411)	(126,203)	(10,694,614)
BALANCES AT DECEMBER 31, 2015	₱250,000,000	(₱43,256,854)	₱206,743,146	₱2,415,557	₱209,158,703

See accompanying Notes to Consolidated Financial Statements.

PHINMA PETROLEUM AND GEOTHERMAL, INC.
(Formerly Trans-Asia Petroleum Corporation)
AND A SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before income tax	(₱13,638,843)	(₱40,069,413)	(₱10,629,181)
Adjustment for:			
Provision for probable loss (Note 8)	4,892,178	11,719,085	–
Gains on changes in fair value of investments held for trading (Note 5)	(1,239,682)	(1,305,038)	(1,245,176)
Interest income (Note 4)	(14,770)	(11,163)	(69,058)
Depreciation (Note 7)	84,578	49,937	113,172
Unrealized foreign exchange loss (gain) - net	(7,387)	1,970	11,465
Operating loss before working capital changes	(9,923,926)	(29,614,622)	(11,818,778)
Decrease (increase) in:			
Receivables	146,566	(145,155)	834,028
Prepaid expenses	58,444	(27,111)	(55,732)
Increase (decrease) in accounts payable and other current liabilities	763,702	174,999	(90,708)
Provision for doubtful account (Note 6)	–	20,000,000	–
Interest income received	12,602	11,381	69,165
Income tax paid	–	(3,754)	–
Net cash flows used in operating activities	(8,942,612)	(9,604,262)	(11,062,025)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from redemption of investments held for trading	144,749,517	50,275,380	10,189,485
Additions to:			
Investments held for trading	(135,351,578)	(38,810,217)	(34,310,000)
Deferred exploration costs (Note 8)	(943,484)	(2,560,910)	(3,162,749)
Net cash flows from (used in) investing activities	8,454,455	8,904,253	(27,283,264)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(488,157)	(700,009)	(38,345,289)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	7,387	(3,516)	(7,156)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Note 4)	3,752,652	4,456,177	42,808,622
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	₱3,271,882	₱3,752,652	₱4,456,177
NONCASH ACTIVITIES			
Depreciation capitalized (see Note 7)	₱19,162	₱63,235	₱–

See accompanying Notes to Consolidated Financial Statements.

PHINMA PETROLEUM AND GEOTHERMAL, INC.
(Formerly Trans-Asia Petroleum Corporation)
AND A SUBSIDIARY

NOTES TO 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 50.74% and 30.65% directly owned, respectively, by PHINMA Energy Corporation (PHINMA Energy or the Intermediate Parent Company). The ultimate parent company is Philippine Investment-Management (PHINMA), Inc. PHINMA Energy and PHINMA, Inc. are both incorporated and domiciled in the Philippines. Both PHINMA Petroleum and Palawan55 have not yet started commercial operations as at February 28, 2018 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 with “TAPET” as its stock symbol.

On March 3, 2017, the Parent Company’s Board of Directors (BOD) initially approved the amendment of its Articles of Incorporation to change its corporate name to PHINMA Oil and Geothermal, Inc. and to include in its primary and secondary purposes the exploration and development of geothermal resources. On April 10, 2017, the BOD finally resolved and approved the amendment of its corporate name to PHINMA Petroleum and Geothermal, Inc. The SEC issued the Certificate of Amended Articles of Incorporation, dated May 31, 2017, while the BIR issued an amended Certificate of Registration, dated June 14, 2017, for the change in name of the Parent Company.

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

The consolidated financial statements were approved and authorized for issuance by the Parent Company’s BOD on February 28, 2018.

2. Summary of Significant Accounting and Financial Reporting Policies

Basis of Preparation

The consolidated financial statements of the Company are prepared in accordance with Philippine Financial Reporting Standards (PFRS).

The consolidated financial statements have been prepared on a historical cost basis, except for investments held for trading that are measured at fair value. The 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 consolidated financial statements comprise the financial statements of the Parent Company and its subsidiary, Palawan55, as at December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017. The financial statements of the subsidiary is prepared for the same reporting year as the Parent Company using uniform accounting policies. When necessary, adjustments are made to the separate financial statements of the subsidiary to bring its accounting policies in line with the Parent Company's accounting policies. Control is achieved when the Company 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 Company controls an investee if, and only if, the Company 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 Company 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 Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Assets, liabilities, income, and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Company gains control until the date the Company 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 Company and to the non-controlling interests (NCI), even if this results in the NCI having a deficit balance. When necessary, adjustments are made to the financial statements of the subsidiary to bring its accounting policies into line with the Company's accounting policies. 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 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 Company has adopted the following new accounting pronouncements starting January 1, 2017. Adoption of these pronouncements did not have any significant impact on the Company's financial position or performance.

- Amendments to PFRS 12, *Disclosure of Interests in Other Entities, Clarification of the Scope of the Standard* (Part of *Annual Improvements to PFRSs 2014 - 2016 Cycle*)
- Amendments to PAS 7, *Statement of Cash Flows, Disclosure Initiative*

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

Future Changes in Accounting Policies

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

Effective beginning on or after January 1, 2018

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

The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and if other criteria are met. Early application of the amendments is permitted.

The Company assessed that the adoption of these amendments will not have any impact on the consolidated financial statements.

- PFRS 9, *Financial Instruments*

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

The Company plans to adopt the new standard on the mandatory effective date and will not restate comparative information. The Company is currently performing its initial impact assessment of all three phases of PFRS 9.

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

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

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

- PFRS 15, *Revenue from Contracts with Customers*

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

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

The Company assessed that the adoption of the new standard will not have impact on the consolidated financial statements since the Company has yet to start commercial operations and has no contracts with customers.

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

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

The amendments should be applied retrospectively, with earlier application permitted. The adoption of the amendment will not have any impact in the Company's consolidated financial statements.

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

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

Since the Company does not have investment properties, the Company assessed that there will be no impact on its consolidated financial statements upon adoption of these amendments.

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

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

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

Effective beginning on or after January 1, 2019

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

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

- PFRS 16, *Leases*

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

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

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

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

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

The Company is currently assessing the impact of adopting PFRS 16 in its consolidated financial statements.

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

The amendments to PAS 28 clarify that entities should account for long-term interests in an associate or joint venture to which the equity method is not applied using PFRS 9. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

The Company does not expect any significant impact in its consolidated financial statements as a result of adopting the amendments.

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

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

The interpretation specifically addresses the following:

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

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

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

Deferred effectivity

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

The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The

amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, the Financial Reporting Standards Council 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 Company has elected to present all items of recognized income and expense in two statements: a statement displaying components of profit or loss (consolidated statement of income) and a second statement beginning with profit or loss and displaying components of OCI (consolidated statement of comprehensive income).

Current versus Noncurrent Classification

The Company 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 Company classifies all other liabilities as noncurrent.

Deferred income 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 Company 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 Company.

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 Company 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 Company 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 Company 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

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 Recognition and Measurement. The Company 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 fair value through profit or loss (FVPL), 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 FVPL, 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 Company commits to purchase or sell the asset.

Subsequent Measurement

a. Financial assets at FVPL

Financial assets at FVPL include financial assets held for trading and financial assets designated upon initial recognition at FVPL. 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 Instruments: Recognition and Measurement*.

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 income.

The Company has no financial asset designated at FVPL on initial recognition.

The Company’s investments in unit investment trust funds (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 income.

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

The Company has no financial assets classified as HTM investments and AFS financial assets as at December 31, 2017 and 2016.

Derecognition

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

- the rights to receive cash flows from the asset have expired; or,
- the Company 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 Company has transferred its rights to receive cash flows from the asset and either (a) the Company has transferred substantially all the risks and rewards of the asset; or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company 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 Company continues to recognize the transferred asset to the extent of the Company's continuing involvement. In that case, the Company 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 Company 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 Company could be required to repay.

Impairment of Financial Assets

The Company 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.

Financial Assets Carried at Amortized Cost. For financial assets carried at amortized cost, the Company 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 Company 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 income. Interest income is recognized in the consolidated statement of 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 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 Company. If a write-off is later recovered, the recovery is recognized in the consolidated statement of income.

Financial Liabilities

Initial Recognition and Measurement. Financial liabilities are classified, at initial recognition, as financial liabilities at FVPL, loans and borrowings, or derivatives designated as hedging instruments in an effective hedge, or as other financial liabilities, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of other financial liabilities, net of directly attributable transaction costs.

Subsequent Measurement

After initial recognition, other financial liabilities that are interest-bearing are measured at amortized cost using the EIR method.

Gains and losses are recognized in the consolidated statement of income when the liabilities are derecognized, as well as through the EIR amortization process.

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

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

The Company has no financial liabilities at FVPL, loans and borrowing and derivatives as at December 31, 2017 and 2016.

Derecognition

A 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 income.

Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if 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 Company 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 Company and all of the counterparties.

Prepaid Expenses

Prepaid expenses, which mainly pertain to prepayments on computer software subscription, are expected to be amortized over a period not exceeding 12 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 Company depreciates them separately based on their specific useful lives. All other repair and maintenance costs are recognized in the consolidated statement of income as incurred.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, as follows:

Equipment	3-5 years
Miscellaneous assets	3-5 years

The residual values, useful lives and depreciation method of property and equipment are reviewed at each financial year-end and adjusted prospectively, if appropriate.

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 income when the asset is derecognized.

Foreign Currency Denominated Transactions and Balances

Transactions in foreign currencies are initially recorded by the entities within the Company 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 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 income are also recognized in OCI or in the consolidated statement of 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 Company's service contracts (SC) are considered joint operations.

Deferred Exploration Costs

The Company 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 Company'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 impairment losses. These costs are written off against the allowance when the projects are abandoned or determined to be definitely unproductive.

The Company classifies exploration cost 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 Company recognizes its exploration costs as intangible assets.

The deferred exploration costs ceased 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 Company 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 Company 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.

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

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

The Company 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 Company 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 Company 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 Company 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 Company 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 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 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 Company 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 Income Tax. Current income 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 Company 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 income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statement of income.

Deferred Income Tax. Deferred income 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 income tax liabilities are recognized for all taxable temporary differences, except:

- when the deferred income 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 income tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred income 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 carry forward of unused tax credits and unused tax losses can be utilized, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting 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 income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax assets are recognized for all deductible temporary differences and carryforward benefits of unused net operating loss carryover (NOLCO) and excess of 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 excess MCIT over RCIT can be utilized.

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 profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred income tax asset to be recovered.

Deferred income 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 income 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 income tax assets and deferred income tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred 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 income 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 EPS 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 Company does not have any potential common share nor other instruments that may entitle the holder to common shares, diluted EPS is the same as basic EPS.

Segment Reporting

The Company'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 Company'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 Company'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.

Judgment

Determining and Classifying a Joint Arrangement. Judgment is required to determine when the Company 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 Company 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 Company to assess their rights and obligations arising from the arrangement. Specifically, the Company 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 Company 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 December 31, 2017 and 2016, the Company's SCs are assessed as joint arrangements in the form of a joint operation.

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 Company measures, presents and discloses the resulting impairment loss in accordance with PAS 36.

The Company recognized impairment loss on its deferred exploration costs amounting to ₱4,892,178 and ₱11,719,085 in 2017 and 2016, respectively and presented as "Provision for probable losses" under "Expenses" in the consolidated statements of income. No similar impairment loss was recognized in 2015. The carrying value of deferred exploration costs amounted to ₱76,105,395 and ₱80,034,927 as at December 31, 2017 and 2016, 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 December 31, 2017 and 2016 amounted to ₱20,115,464 and ₱20,353,311, respectively (see Note 12).

Recoverability of Receivables. The Company maintains allowance for doubtful accounts based on the results of the individual assessment under PAS 39. Under the individual assessment, the Company 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.

In 2016, the Company recognized a provision for a doubtful account amounting to ₱20,000,000. As at December 31, 2017 and 2016, the allowance for a doubtful account amounted to ₱20,000,000. The carrying value of receivables amounted to ₱59,030 and ₱203,428 as at December 31, 2017 and 2016, respectively (see Note 6).

4. Cash and Cash Equivalents

	2017	2016
Cash on hand and in banks	₱1,706,884	₱2,197,319
Short-term deposits	1,564,998	1,555,333
	₱3,271,882	₱3,752,652

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 ₱14,770, ₱11,163, and ₱69,058 in 2017, 2016 and 2015, respectively.

5. Investments Held for Trading

Investments held for trading consist of investments in UITF amounting to ₱77,519,176 and ₱85,677,433 as at December 31, 2017 and 2016, respectively. The changes in fair value on investments held for trading amounted to a net gain of ₱1,239,682, ₱1,305,038 and ₱1,245,176 in 2017, 2016 and 2015, respectively.

6. Receivables

This account consists of the following:

	2017	2016
Trade receivables	₱30,258	₱30,109
Receivable from a third party (see Note 8)	20,000,000	20,000,000
Due from related parties (see Note 10)	–	141,143
Others	28,772	32,176
	20,059,030	20,203,428
Less allowance for doubtful account	20,000,000	20,000,000
	₱59,030	₱203,428

As at December 31, the aging analysis of receivables is as follows:

2017							
	Total	Neither Past Due nor Impaired	Past Due but not Impaired			Over 90 Days	Past Due and Impaired
			<30 Days	30–60 Days	61–90 Days		
Trade receivables	₱30,258	₱–	₱–	₱–	₱–	₱30,258	₱–
Receivable from a third party	20,000,000	–	–	–	–	–	20,000,000
Others	28,772	2,392	–	–	–	26,380	–
	₱20,059,030	₱2,392	₱–	₱–	₱–	₱56,638	₱20,000,000

2016							
	Total	Neither Past Due nor Impaired	Past Due but not Impaired			Over 90 Days	Past Due and Impaired
			<30 Days	30–60 Days	61–90 Days		
Trade receivables	₱30,109	₱–	₱–	₱–	₱–	₱30,109	₱–
Receivable from a third party	20,000,000	–	–	–	–	–	20,000,000
Due from related parties	141,143	141,143	–	–	–	–	–
Others	32,176	15,176	–	–	–	17,000	–
	₱20,203,428	₱156,319	₱–	₱–	₱–	₱47,109	₱20,000,000

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

In 2016, the Company recognized a provision for a doubtful account amounting to ₱20,000,000 on its receivable from a third party (see Note 8).

7. Property and Equipment

Details and movement of this account follow:

2017			
	Equipment	Miscellaneous Assets	Total
Cost -			
Balance at beginning and end of year	₱245,000	₱94,515	₱339,515
Less accumulated depreciation:			
Balance at beginning of year	170,145	65,630	235,775
Depreciation expense	61,058	23,520	84,578
Depreciation capitalized (see Note 8)	13,797	5,365	19,162
Balance at end of year	245,000	94,515	339,515
Net book value	₱–	₱–	₱–

	2016		
	Equipment	Miscellaneous Assets	Total
Cost -			
Balance at beginning and end of year	₱245,000	₱94,515	₱339,515
Less accumulated depreciation:			
Balance at beginning of year	88,478	34,125	122,603
Depreciation expense	25,521	24,416	49,937
Depreciation capitalized (see Note 8)	56,146	7,089	63,235
Balance at end of year	170,145	65,630	235,775
Net book value	₱74,855	₱28,885	₱103,740

The Company's fully depreciated assets are still in use as at December 31, 2017.

8. Deferred Exploration Costs

Details of deferred exploration costs are as follows:

	2017	2016
TA Petroleum:		
SC 51/Geophysical Survey and Exploration Contract (GSEC) 93 (East Visayas)	₱32,665,864	₱32,665,864
SC 69 (Camotes Sea)	15,596,930	15,473,702
SC 6 (Northwest Palawan):		
Block A	22,129,391	21,289,973
Block B	4,892,178	4,892,178
SC 50 (Northwest Palawan)	11,719,085	11,719,085
	87,003,448	86,040,802
Less allowance for probable loss	16,611,263	11,719,085
	70,392,185	74,321,717
Palawan55 -		
SC 55 (Southwest Palawan)	5,713,210	5,713,210
	₱76,105,395	₱80,034,927

Below is the rollforward analysis of the deferred exploration costs as at December 31, 2017 and 2016:

	2017	2016
Cost:		
Balances at beginning of year	₱91,754,012	₱89,129,867
Additions:		
Cash calls	839,418	2,235,703
Others	123,228	388,442
Balance at end of year	92,716,658	91,754,012
Allowance for a probable loss:		
Balances at beginning of year	11,719,085	—
Provisions	4,892,178	11,719,085
Balance at end of year	16,611,263	11,719,085
Net book value	₱76,105,395	₱80,034,927

The foregoing deferred exploration costs represent the Company's share in the expenditures incurred under petroleum SCs with the 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.

The Company capitalized its share in various expenses to deferred exploration costs due to its operatorship in SC 69. Expenses capitalized were salaries and wages amounting to ₱93,547 and ₱262,343, depreciation expense amounting to ₱19,162 and ₱63,235 and other expenses with a total amount of ₱10,519 and ₱62,864 in 2017 and 2016, respectively. Total costs capitalized amounted to ₱123,228 and ₱388,442 in 2017 and 2016, respectively. Costs capitalized are included in the current work program for SC 69. No similar costs were capitalized in 2015.

In 2017, the Company assessed and fully provided for probable losses the deferred exploration costs pertaining to SC 6B amounting to ₱4,892,178 due to the Company's relinquishment of its participating interest to its partners. Similarly, in 2016, the Company provided an allowance pertaining to deferred exploration costs in SC 50 amounting to ₱11,719,085 for the expiration of the SC's term and subsequent denial of the DOE of the request for Force Majeure. In December 2016, Frontier Oil submitted a letter of request for reconsideration of the termination of SC 50 to DOE. No impairment was recognized for the other SCs as management believes that extensions and moratoriums requested that are pending approval from the Philippine Department of Energy (DOE) as of February 28, 2018 will eventually be approved based on prior years' experience.

The following summarizes the status of the foregoing projects:

a. SC 51/GSEC 93 (East Visayas)

In April 2012, the Operator, Otto Energy Investments Ltd. (Otto Energy) [formerly "NorAsian Energy Ltd."] commenced a 100-kilometer (km) 2D seismic program in the town of San Isidro, Leyte primarily to pick the optimum location for the drilling of the Duhat prospect, which reservoir objective was not reached by the Duhat-1 and Duhat-1A wells in 2011.

In mid-May 2012, the foreign seismic acquisition contractor unilaterally suspended its field operations as instructed by its government.

In view of said development, the DOE granted on September 30, 2012 the consortium's request for a six-month extension of the current Sub-Phase 4 to January 31, 2013.

The 2D seismic survey resumed after a one-month suspension and was completed on October 1, 2012. Data processing was completed by December 31, 2012.

The consortium elected to enter Sub-Phase 5 (January 31, 2013 to January 31, 2014) with the drilling of Duhat-2 well in Northwest Leyte as work commitment.

Swan Oil and Gas Ltd. (Swan) withdrew from SC 51 in September 2012 after settling disputes over the North Block (Northwest Leyte) and the South Block (Cebu Strait) with Otto Energy and Filipino partners (remaining members of the consortium), respectively. Consequently, the 40% participating interest of Swan in the North Block reverted to Otto Energy, and as between Otto Energy and Filipino partners, the latter retained 100% interest in the South Block.

The Filipino partners signed a Farm-in Option Agreement with Frontier Oil Corporation (Frontier Oil) over the South Block on October 23, 2012. Under the said Agreement, Frontier Oil has the option to acquire 80% participating interest in the area by undertaking to drill the Argao-1 well at its sole cost during Sub-Phase 6 of SC 51 (January 31, 2015 to July 8, 2015). Frontier Oil may exercise its option not later than January 31, 2013, which was extended to February 28, 2013. The Farm-in Option Agreement lapsed since the option was not exercised by Frontier Oil.

On July 24, 2013, Otto Energy spudded the Duhat-2 well in Northwest Leyte but prematurely plugged and abandoned the well on July 26, 2013 at a depth of 201 meters for safety and environmental reasons, after encountering a high-pressure water zone. Otto Energy completed the demobilization for the Duhat-2 well on August 30, 2013 and conducted post-well studies. The new information will be considered in any future decisions on SC 51. The consortium requested the DOE a six-month extension of the current exploration Sub-Phase 5 to July 31, 2014 to be able to conduct post-well geological, geophysical and drilling studies. The DOE approved the foregoing request on November 7, 2013.

On May 5, 2014, Otto Energy notified the Company and the other partners in the consortium that it has elected to withdraw from SC 51. Otto Energy's withdrawal from SC 51 and the transfer of its participating interest to the remaining parties are subject to the approval of the DOE.

On June 28, 2014, the Filipino partners requested the DOE for suspension of the exploration of Sub-Phase 5 from the date Otto Energy notified the DOE of its withdrawal from SC 51 until the DOE approves the transfer of Otto Energy's participating interest to the Filipino partners.

On May 11, 2015, DOE approved the request for an extension of Sub-Phase 5 to July 8, 2016.

On March 3, 2017 and December 20, 2017, the Filipino partners reiterated their intent to carry on with the exploration of SC 51, following Otto Energy's withdrawal from the block and consequent resignation as Operator. They further signed and executed a Deed of Undertaking to pay the outstanding financial obligation of Otto Energy amounting to US\$124,763, subject to the approval of the transfer of interest from Otto Energy to the continuing parties, the extension of the term of the contract, and the revision of work program from drilling of a well to the conduct of pore pressure prediction study and gravity survey. Of this amount, the Company's share is US\$41,596 which is equivalent to the pro-rata amount of liability using its post-adjustment ownership interest. The aforementioned requests are pending with the DOE as of February 28, 2018.

The Company's 6.67% participating interest in SC 51 would be adjusted to 33.34% upon DOE approval of the withdrawal of Otto Energy.

b. SC 69 (Camotes Sea)

Interpretation of the 229-square kilometers (sq. km.) 3D seismic data acquired in June 2011 generated three drillable prospects.

The DOE granted the consortium's request for a nine-month extension of Sub-Phase 3 to May 7, 2013 to allow completion of technical studies.

On April 4, 2013, the DOE granted the consortium's request for a further six-month extension of Sub-Phase 3 to November 6, 2013 to allow completion of technical studies and initiate farm-out efforts.

On August 23, 2013, the Operator, Otto Energy (Philippines) Inc. (Otto Philippines), confirmed to the Company that it did not intend to enter Sub-Phase 4 of SC 69 and will reassign 9% participating interest in SC 69 to the Company pursuant to the Assignment Agreement dated February 3, 2011.

Following an unsuccessful campaign to farm out its participating interest, Otto Philippines notified the Company and Frontier Gasfields Pty. Ltd. (Frontier Gasfields) of its withdrawal in SC 69 on October 4, 2013. The Company and Frontier Gasfields subsequently jointly requested the DOE a six-month extension of the October 7, 2013 deadline to elect to enter the next exploration sub-phase, which started on November 7, 2013. An additional extension of the contract term to December 31, 2014 was requested due to the delays in the transfer of participating interests and operatorship to the remaining partners.

Following DOE approval of the assignment of Otto Philippines' interests to the Company and Frontier Gasfields on October 14, 2014, the Company's participating interest in SC 69 was adjusted from the current 6% to 50%.

On March 17, 2014, the Parent Company and Frontier Gasfields jointly requested the DOE an extension of the term of SC 69 until December 31, 2014. The DOE extended the term of Sub-Phase 3 to May 7, 2014 to enable the remaining parties to proceed with planned exploration activities and the Company was designated as Operator of SC 69.

On April 17, 2015, the consortium entered Sub-Phase 4 (May 2015 to May 2016) which entails a commitment to either undertake a 3D seismic program or drill an exploratory well. The DOE approved the consortium's requests that participation in a proposed multi-client 2D seismic survey be credited as fulfillment of its work obligation under the current Sub-Phase and a 6-month extension of the term of SC 69 to November 2016.

On June 30, 2016, the Company signed a licensing agreement with a seismic contractor for the acquisition of 750 km of seismic data under the multi-client survey. The seismic contractor in a letter dated August 18, 2016 informed the Company that it could not proceed with the Company's leg of the survey due to permitting and weather constraints. The consortium requested an extension of the term of SC 69 due to Force Majeure.

As at December 29, 2017, the DOE approved the request for extension due to Force Majeure, effective until November 7, 2018, with an attendant work program of permitting and information and education campaigns to address impediments to the planned seismic survey.

c. SC 6 (Northwest Palawan)

Block A

Pitkin Petroleum Plc. (Pitkin), the Operator, completed a geophysical review of the block.

The partners for SC 6 Block A approved the conduct of a new 500-sq. km. 3D seismic program over selected prospects and leads in the first half of 2013, subject to issuance of local government permits.

Under the Farm-in Agreement dated July 11, 2011, Pitkin shall carry PHINMA Energy and the other non-operating consortium members in the costs of said seismic program and the drilling of two wells, in exchange for the assigned 70% participating interest.

On June 4, 2013, the Sangguniang Panlalawigan of Palawan voted to favorably endorse the proposed bathymetry and 3D seismic survey over the area to the Palawan Council for Sustainable Development (PCSD).

Pitkin completed a 500-sq. km. 3D seismic survey over selected prospects and leads.

Pitkin notified the partners on August 28, 2014 that it shall not exercise its option under the Farm-in Agreement to drill a well in the block and will withdraw from the block by December 31, 2014. By December 31, 2014, Pitkin completed geological and geophysical work programs in fulfillment of its obligations under the first exploration phase. The remaining partners agreed to pursue the geological evaluation of the block.

On August 28, 2015, the consortium completed its work program consisting of geological and geophysical evaluation.

On November 3, 2015, the DOE approved the 2016 work program consisting of specialized geophysical studies. The pertinent geophysical program commenced in November 2015 and was completed by December 31, 2016.

On December 20, 2016, the consortium submitted to the DOE its proposed 2017 work program consisting of advanced geophysical studies. On February 13, 2017, the program was approved by the DOE. The work program of advanced seismic data reprocessing and quantitative seismic inversion study was completed in December 2017. The studies yielded significant improvement in the imaging of complex and deeper geological structures.

On January 8, 2018, the consortium submitted to the DOE its proposed 2018 work program composed of seismic interpretation and mapping and integration of quantitative inversion results that would serve as input to preliminary well design and cost estimates.

The Company's interest reverted to 7.78% from 2.334% following the withdrawal of Pitkin Petroleum, and subsequent approval of the assignment of interest by the DOE on June 24, 2015.

Block B

Pursuant to a Farm-in Agreement dated February 4, 2011, Peak Oil and Gas Philippines Ltd. (Australia), Blade Petroleum Philippines Ltd. (Australia) and Venturoil Philippines, Inc. ("Farminees") exercised their option to acquire 70% participating interest of the SC 6 Block B consortium, which includes PHINMA Energy ("Farmors").

Under the Farm-in Agreement, the Farminees were supposed to shoulder all the Farmors' share of exploration and development expenditures in the Block up to the production of first oil.

The DOE denied the applications for the transfer of participating interests to the Farminees and transfer of operatorship due to failure of the Farminees to comply with DOE requirements. Under the Farm-in Agreement, the Farminees would have been eligible to earn a combined 70% of the participating interest of the farming out parties. On August 7, 2013, the DOE directed the original Operator, The Philodrill Corporation, to submit a new and comprehensive work program and budget of exploration activities over the Block.

On September 13, 2013, the DOE approved the work program and budget for SC 6 Block B for the 5th year of extension period. The pertinent geological and geophysical program commenced in October 2013 and was completed in January 2014.

The consortium formulated a work program for the next five years of the extension period which started on March 1, 2014. Partners submitted, for the DOE's approval, a 3-year work program consisting mainly of geophysical studies with a corresponding budget amounting to US\$724,000. The geophysical studies were completed by the third quarter of 2016.

To improve the viability of the primary prospect, the consortium requested the DOE to reconfigure the contract area to include an adjoining block, which hosts an oil field where production had been suspended.

The Company holds 7.78% and 14.063% participating interests in Block A and Block B, respectively. SC 6 is valid until February 28, 2024 subject to fulfillment of work commitments for each of the three 5-year terms comprising the 15-year extension period of SC 6 in respect of Block A and B and payment of training assistance, development assistance and scholarship funds to the DOE.

On February 20, 2017, the Company gave notice to the consortium of relinquishment of its 14.063% participating interest in SC 6 Block B and the Operating Agreement, but said relinquishment shall not include its 2.475% carried Interest. The retained carried interest would entitle the Company for a share in the gross proceeds from any production in the block, once all exploration costs have been recovered. The transfer of participating interest from PHINMA Petroleum on SC 6 Block B is awaiting approval from DOE as at February 28, 2018.

d. SC 50 (Northwest Palawan)

In 2013, the Company commenced negotiations with Frontier Energy Limited (Frontier Energy), the Operator, regarding a Farm-in Agreement that would provide for the Company's acquisition of 10% participating interest in SC 50.

Subject to execution of said Farm-in Agreement, the Company has committed to subscribe to 136,000,000 in Frontier Oil shares through the latter's planned initial public offering.

On September 1, 2014, the Parent Company made advances to Frontier Oil amounting to ₱20,000,000 pursuant to the Memorandum of Agreement with Frontier Energy and Frontier Oil dated August 22, 2014 subject to execution of a Farm-in Agreement and Loan Agreement among the parties not later than 30 days from date of execution of the MOA. The advances are due 24 months after the release of the funds. In the event a Loan Agreement for ₱136,000,000 is signed between the Company and Frontier Oil, the advances shall be considered as initial drawdown on the Loan.

On October 16, 2014, the Parent Company signed the following agreements providing for its acquisition of 10% participating interest in SC 50:

1. Farm-in Agreement with Frontier Energy and Frontier Oil
2. Deed of Assignment with Frontier Energy
3. Loan Agreement with Frontier Oil

Frontier Oil, the Operator, applied for a Force Majeure in view of the unilateral cancellation of its rig contract by the counter party.

On October 5, 2015, the DOE denied the Operator's request and, consequently, ruled that the contract effectively expired in March 2015. On October 20, 2015, Frontier Oil contested DOE's position and engaged the DOE in discussions aimed at a mutually acceptable resolution of the issue.

In 2016, the Company's advances to Frontier Oil amounting to ₱20,000,000 was fully provided with an allowance for a doubtful account (see Note 6), due to the expiration of the SC's term and denial by the DOE of the request for Force Majeure.

In January 2016, Frontier Oil requested a 2-year moratorium on contract obligations. A subsequent letter was sent to the DOE, dated December 14, 2016, requesting for reconsideration of the termination of SC 50. As of February 28, 2018, negotiations between the DOE and Frontier Oil for possible reinstatement of SC 50 continues.

As of February 28, 2018, approval of the assignment of 10% participating interest in SC 50 to the Parent Company remains pending with the DOE.

e. SC 55 (Southwest Palawan)

On May 2, 2012, the DOE approved a twelve-month extension of exploration Sub-Phase 4 to August 5, 2013 to enable BHP Billiton Petroleum (Philippines) Corporation (BHP Billiton), the Operator, to secure a drilling rig with specialized well control equipment for the committed Cinco-1 well. The Cinco-1 well will test a large interpreted carbonate structure in 1,400 meters of water.

The Company's 6.82% participating interest will be carried in the drilling cost of two (2) wells in the block under its Participation Agreement dated March 15, 2005 with the predecessors-in-interest of Otto Energy [formerly "NorAsian Energy Ltd.,"] and an Agreement with NorAsian Energy Ltd. dated February 3, 2011.

In May 2013, BHP Billiton filed a Notice of Force Majeure under SC 55 with the DOE in order to preserve the term of the current exploration sub-phase that requires the drilling of one exploratory well. It is deemed that the Force Majeure event commenced on September 7, 2012, at which time the endorsement of the Sangguniang Panlalawigan of the province of Palawan and the Strategic Environmental Plan (SEP) Clearance from the PCSD would have been released in the ordinary course of business.

On June 4, 2013, the Sangguniang Panlalawigan of Palawan voted to favorably endorse the proposed Cinco-1 drilling to the PCSD. The PCSD approved the issuance of the SEP clearance for the drilling of Cinco-1 well but BHP Billiton sought amendment and clarification on certain conditions set by PCSD. The SEP was issued by the PCSD and signed by all parties in October 2013.

BHP Billiton requested from the DOE an extension of the current Sub-Phase 4 to October 2014 to account for the Force Majeure period caused by the fourteen-month delay in issuance of the aforementioned PCSD clearance.

In November 2013, BHP Billiton verbally informed the partners of its decision not to drill a well under SC 55 and proposed to reassign its 60% participating interest to Otto Energy. Otto Energy subsequently signed a Letter of Intent with BHP Billiton providing for the termination of their Farm-out Agreement and the reassignment of BHP Billiton's participating interest, including a cash settlement.

In January 2014, BHP Billiton and Otto Energy signed definitive agreements for the reassignment of the former's participating interest to the latter. The DOE approved the transfer of the 60% participating interest of BHP Billiton to Otto Energy Philippines, Inc. and the transfer of Operatorship to Otto Energy. The approval formalized the exit of BHP Billiton in SC 55. Otto Energy submitted a revised work program to the DOE focused on the drilling of an ultra deepwater prospect and commenced a farm-out campaign. The new work program was subsequently approved by the DOE. On April 29, 2014, the DOE extended the term of Sub-Phase 4 to December 23, 2014. Otto Energy commenced preparations for exploratory drilling.

On October 15, 2014, Otto Energy requested the DOE a one-year extension of Sub-Phase 4 to December 23, 2015. The requested extension was approved by the DOE on November 7, 2014.

On July 31, 2015, Otto Energy commenced drilling of the Hawkeye-1 exploratory well and on August 17, 2015 completed the drilling to a total depth of 2,920 meters. The well discovered gas, which is deemed to be non-commercial. Otto Energy informed its partners of its decision to withdraw from the service contract.

On December 22, 2015, the consortium requested the DOE for a two-year contract moratorium and proposed technical studies that would assess the impact of the results of Hawkeye-1 on the remaining prospectively of the area.

On June 14, 2016, the DOE extended the term of SC 55 until December 23, 2017.

On November 21, 2016, Otto Energy and Otto Energy Philippines notified the DOE of their withdrawal from SC 55.

On November 22, 2017, Palawan55 notified the DOE of its willingness to assume its pro-rata, post- adjustment share (37.50%) amounting to US\$64,613 of Otto Energy's outstanding training fund obligation of US\$172,300 in conjunction with the DOE's approval of the assignment of interests and favorable consideration for a reasonable extension of the moratorium period that would allow execution of the committed technical studies. The transfer of interest from Otto Energy to the continuing parties is being processed by the DOE as of February 28, 2018.

The Company's 6.82% participating interest in SC 55 would be adjusted to 37.50% upon DOE approval of the withdrawal of Otto Energy.

9. Accounts Payable and Other Current Liabilities

This account consists of:

	2017	2016
Due to employees	₱616,265	₱-
Withholding taxes	351,009	336,913
Accounts payable	335,115	38,800
Accrued expenses	183,478	391,383
Due to related parties (see Note 10)	27,062	-
Others	23,700	5,831
	₱1,536,629	₱772,927

Accounts payable and other current liabilities are noninterest-bearing and are settled on 30 to 60-day terms.

Due to employees refer to sick and vacation leave conversion and incentive pay.

Accrued expenses include accrual for professional fees.

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 and for the years ended December 31, 2017, 2016 and 2015 with related parties are as follows:

Company	As at and for the Year Ended December 31, 2017				
	Amount/ Volume	Nature	Outstanding Balance	Terms	Conditions
Ultimate Parent Company					
PHINMA, Inc.					
Accounts payable and other current liabilities	₱165,787	Share in expenses	₱24,026	30–60 day terms; noninterest-bearing	Unsecured
Parent Company					
PHINMA Energy					
Receivables (see Note 6)	663,643	Accommodation	–	30–60 day terms; noninterest-bearing	Unsecured, no impairment
Others	543,879	Purchase of dollar	–	30–60 day terms; noninterest-bearing	Unsecured
Entity Under Common Control					
PHINMA Corporation					
Accounts payable and other current liabilities	48,118	Share in expenses	3,036	30–60 day terms; noninterest-bearing	Unsecured
T-O Insurance, Inc.					
Accounts payable and other current liabilities	2,209	Insurance expense	–	30–60 day terms; noninterest-bearing	Unsecured
Due to related parties (see Note 9)			₱27,062		

As at and for the Year Ended December 31, 2016

Company	Amount/ Volume	Nature	Outstanding Balance	Terms	Conditions
Ultimate Parent Company					
PHINMA, Inc.					
Accounts payable and other current liabilities	₱56,074	Share in expenses	₱–	30–60 day terms; noninterest-bearing	Unsecured
Parent Company					
PHINMA Energy					
Receivables	141,143	Accommodation	141,143	30–60 day terms; noninterest-bearing	Unsecured, no impairment
Others	373,425	Purchase of dollar	–	30–60 day terms; noninterest-bearing	Unsecured
Entity Under Common Control					
PHINMA Corporation					
Accounts payable and other current liabilities	54,229	Share in expenses	–	30–60 day terms; noninterest-bearing	Unsecured
Due from related parties (see Note 6)			₱141,143		

As at and for the Year Ended December 31, 2015

Company	Amount/ Volume	Nature	Outstanding Balance	Terms	Conditions
Ultimate Parent Company					
PHINMA, Inc.					
Accounts payable and other current liabilities	₱720,000	Management fees	₱–	30–60 day terms; noninterest-bearing	Unsecured
Accounts payable and other current liabilities	141,532	Share in expenses	56,681	30–60 day terms; noninterest-bearing	Unsecured
Entities Under Common Control					
PHINMA Corporation					
Accounts payable and other current liabilities	45,864	Share in expenses	42,624	30–60 day terms; noninterest-bearing	Unsecured
T-O Insurance, Inc.					
Accounts payable and other current liabilities	2,244	Insurance expense	–	30–60 day terms; noninterest-bearing	Unsecured
Due to related parties			₱99,305		

PHINMA, Inc.

The Company has a management contract with PHINMA, Inc. up to January 1, 2018, renewable thereafter upon mutual agreement. 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 for 2016, which remained effective in 2017. PHINMA, Inc. also bills the Company for its share in expenses.

PHINMA Energy

The Company purchased US Dollars to pay various expenses through the Parent Company'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.

Compensation of Key Management Personnel

Compensation of key management personnel of the Company are as follows:

	2017	2016	2015
Short-term employee benefits	₱3,346,688	₱3,586,188	₱3,125,000
Post-employment benefits	–	–	–
	₱3,346,688	₱3,586,188	₱3,125,000

11. Capital Stock

Following are the details of the Parent Company's capital stock as at December 31, 2017 and 2016:

	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 December 31, 2017 and 2016 are held by 2,941 and 2,964 equity holders, respectively.

12. Income Taxes

- In 2016, the Company's current income tax pertains to MCIT amounting to ₱3,754. There was no current income tax in 2017 and 2015 both under RCIT and MCIT.
- The reconciliation of the Company's provision for (benefit from) income tax using the statutory tax rate is as follows:

	2017	2016	2015
Income tax at statutory rate	(₱4,091,653)	(₱12,020,824)	(₱3,188,754)
Tax effects of:			
Movement in temporary differences, NOLCO and MCIT for which no deferred income tax assets were recognized	4,111,141	12,422,878	3,648,458
Realized gains on changes in fair value of investments held for trading	(139,102)	(21,631)	(373,553)
Interest income subject to final tax	(4,431)	(3,349)	(20,718)
Effect of difference in tax rates	(4,280)	(130,504)	–
	(₱128,325)	₱246,570	₱65,433

- c. The Company recognized benefit from deferred income tax amounting to ₱128,325 in 2017 and provision for deferred income tax amounting to ₱246,570 and ₱65,433 in 2016 and 2015, respectively.
- d. Deferred income tax liability amounted to ₱111,051 and ₱239,376 as at December 31, 2017 and 2016, respectively, from unrealized gain on changes in fair value of investments held for trading and unrealized gain on foreign exchange translation.

As at December 31, 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.

	2017	2016
NOLCO	₱30,425,800	₱36,110,803
Provision for doubtful account (see Note 6)	20,000,000	20,000,000
Provision for probable loss (see Note 8)	16,611,263	11,719,085
MCIT	3,754	3,754
Unrealized foreign exchange loss	1,970	1,970
	₱67,042,787	₱67,835,612

Unrecognized deferred income tax assets amounted to ₱20,115,464 and ₱20,353,311 as at December 31, 2017 and 2016.

- e. The details of the Company's MCIT and NOLCO as at December 31, 2017 and 2016 are as follows:

Year Incurred	Valid Until	NOLCO		Excess MCIT	
		2017	2016	2017	2016
2017	2020	₱8,813,592	₱-	₱-	₱-
2016	2019	9,676,026	9,676,026	3,754	3,754
2015	2018	11,936,182	11,936,182	-	-
2014	2017	-	14,498,595	-	-
		₱30,425,800	₱36,110,803	₱3,754	₱3,754

The movements in NOLCO and excess MCIT are as follows:

	NOLCO		Excess MCIT	
	2017	2016	2017	2016
Beginning balances	₱36,110,803	₱35,815,506	₱3,754	₱-
Additions	8,813,592	9,676,026	-	3,754
Expirations	(14,498,595)	(9,380,729)	-	-
	₱30,425,800	₱36,110,803	₱3,754	₱3,754

f. 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, making the new tax law enacted as of the reporting date. Although the TRAIN changes existing tax law and includes several provisions that will generally affect businesses on a prospective basis, the management assessed that the same will 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:

	2017	2016	2015
(a) Net loss attributable to equity holders of the Parent Company	₱13,499,111	₱40,310,205	₱10,568,411
(b) Weighted average number of common shares outstanding	250,000,000	250,000,000	250,000,000
Basic/diluted loss per share (a/b)	₱0.054	₱0.161	₱0.042

As at December 31, 2017, 2016 and 2015, the Company does not have any potential common share nor other instruments that may entitle the holder to common shares. Hence, diluted LPS is the same as basic LPS.

14. Material Partly-Owned Subsidiary

Financial information of Palawan55 is provided below:

	2017	2016
Equity interest held by NCI	30.65%	30.65%
Accumulated balances of NCI	₱2,398,372	₱2,409,779
Net loss for the year allocated to NCI	11,407	5,778

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

	2017	2016	2015
Income	₱12,757	₱8,968	₱10,199
Expenses	49,974	27,821	354,366
Provision for (benefit from) deferred income tax	-	-	67,603
Net loss	₱37,217	₱18,853	₱411,770
Total comprehensive loss	₱37,217	₱18,853	₱411,770
Attributable to NCI	₱11,407	₱5,778	₱126,203

Statements of Financial Position

	2017	2016
Total current assets	₱2,151,469	₱2,188,686
Total noncurrent assets	5,713,210	5,713,210
Total current liabilities	(39,331)	(39,331)
Total equity	₱7,825,348	₱7,862,565
<hr/>		
Attributable to equity holders of the Parent Company	₱5,426,976	₱5,452,786
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NCI	₱2,398,372	₱2,409,779
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Cash Flow Information

Palawan55's net cash flows used in operating activities amounted to ₱39,385, ₱38,624 and ₱331,739 as at December 31, 2017, 2016 and 2015, respectively

There were no dividends paid to NCI in 2017, 2016 and 2015.

15. Financial Risk Management Objectives and Policies

The PHINMA Treasury Group manages the funds of the Company 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 Company's financial assets that finance the Company's operations and investments in enterprises.

The main risks arising from the Company'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 Company. An Investment Committee, which comprises some of the Company'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 Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of the instruments.

The Company 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 Company, the Company's exposures arise from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

	2017					
	Neither Past Due nor Impaired			Past Due but not Impaired	Past Due Individually Impaired	Total
	Class A	Class B	Class C			
Trade receivables	₱-	₱-	₱-	₱30,258	₱-	₱30,258
Receivable from a third party	-	-	-	-	20,000,000	20,000,000
Others	-	-	2,392	26,380	-	28,772
	₱-	₱-	₱2,392	₱56,638	₱20,000,000	₱20,059,030

	2016					
	Neither Past Due nor Impaired			Past Due but not Impaired	Past Due Individually Impaired	Total
	Class A	Class B	Class C			
Trade receivables	₱-	₱-	₱-	₱30,109	₱-	₱30,109
Receivable from a third party	-	-	-	-	20,000,000	20,000,000
Due from related Parties	-	-	141,143	-	-	141,143
Others	-	-	15,176	17,000	-	32,176
	₱-	₱-	₱156,319	₱47,109	₱20,000,000	₱20,203,428

The Company 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

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 Company's exposure to market risk is minimal. The underlying financial instruments in the Company'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 Company had foreign currency exposures arising from cash calls and refunds in currency other than the Philippine peso. The Company has receivables denominated in U.S. dollar amounting to \$606 or ₱30,258 and ₱30,130 as at December 31, 2017 and 2016, respectively. Exchange rates used were ₱49.93 to \$1.00 and ₱49.72 to \$1.00 as at December 31 2017 and 2016, 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 Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust its capital structure, the Company 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 2017, 2016 and 2015.

Capital includes all the items appearing in the equity section of the Company's consolidated statements of financial position totaling to ₱155,332,202 and ₱168,842,720 as at December 31, 2017 and 2016, 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:

2017				
	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	₱77,519,176	₱-	₱77,519,176	₱-

2016				
	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	₱85,677,433	₱-	₱85,677,433	₱-

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.

In 2017 and 2016, there were no transfers between levels of fair value measurement.

Offsetting of Financial Instruments

There were no offsetting of financial instruments as at December 31, 2017 and 2016.

16. Segment Information

The Company has only one reportable segment, Petroleum and Gas, which is engaged in oil and gas exploration and development. The Company 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 amounting to ₱962,646 and ₱2,624,145 pertains to deferred exploration costs in 2017 and 2016, respectively.

As of February 28, 2018, the Company has not started commercial operations yet and has no revenue or gross profit. The total assets of the segment amounting to ₱156,979,882 and ₱169,855,023 and liabilities amounting to ₱1,647,680 and ₱1,012,303 as at December 31, 2017 and 2016, respectively, are the same as that reported in the consolidated statements of financial position.

Shareholder Information

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