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Building a better working world

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BOA/PRC Reg. No. 0001,
December 28, 2012, valid until December 31, 2015
SEC Accreditation No. 0012-FR-3 (Group A),
November 15, 2012, valid until November 16, 2015

# INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Basic Energy Corporation and Subsidiaries
7/F Basic Petroleum Bldg.
104 Carlos Palanca St., Legaspi Village
Makati City

We have audited the accompanying consolidated financial statements of Basic Energy Corporation and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2014 and 2013, and the consolidated statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2014, and a summary of significant accounting policies and other explanatory information.

## *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Philippine Financial Reporting Standards, 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.

## *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Basic Energy Corporation and subsidiaries as at December 31, 2014 and 2013, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2014 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Jaime F. del Rosario
Partner
CPA Certificate No. 56915
SEC Accreditation No. 0076-AR-3 (Group A),
March 21, 2013, valid until March 20, 2016
Tax Identification No. 102-096-009
BIR Accreditation No. 08-001998-72-2012,
April 11, 2012, valid until April 10, 2015
PTR No. 4751273, January 5, 2015, Makati City

March 26, 2015

## BASIC ENERGY CORPORATION AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION



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| | December 31 | |
|---|---|---|
| | 2014 | 2013 |
| **ASSETS** | | |
| **Current Assets** | | |
| Cash and cash equivalents (Note 5) | ₱47,143,661 | ₱80,542,774 |
| Receivables (Note 6) | 3,644,289 | 3,031,899 |
| Prepayments and other current assets (Note 7) | 2,295,616 | 1,676,232 |
| **Total Current Assets** | 53,083,566 | 85,250,905 |
| **Noncurrent Assets** | | |
| Available-for-sale (AFS) financial assets (Note 8) | 364,298,764 | 451,425,196 |
| Investment properties (Note 9) | 203,458,387 | 200,634,343 |
| Deferred charges (Note 10) | 54,622,671 | 46,248,903 |
| Project development costs (Note 4) | 151,979,511 | 39,286,179 |
| Property and equipment (Note 11) | | |
| At cost | 4,141,763 | 5,172,506 |
| At revalued amount | 21,003,979 | 22,687,313 |
| Deferred income tax asset (Note 20) | 6,846,316 | – |
| Other noncurrent assets | 3,757,602 | 3,757,602 |
| **Total Noncurrent Assets** | 810,108,993 | 769,212,042 |
| **TOTAL ASSETS** | ₱863,192,559 | ₱854,462,947 |
| **LIABILITIES AND EQUITY** | | |
| **Current Liability** | | |
| Accounts payable and accrued expenses (Note 12) | ₱13,417,841 | ₱1,698,607 |
| **Noncurrent Liabilities** | | |
| Accrued retirement benefits (Note 19) | 11,913,169 | 7,967,637 |
| Dividends payable | 888,714 | 888,714 |
| Deferred income tax liability (Note 20) | – | 6,167,185 |
| **Total Noncurrent Liabilities** | 12,801,883 | 15,023,536 |
| **Total Liabilities** | 26,219,724 | 16,722,143 |
| **Equity Attributable to Equity Holders of Parent** | | |
| Capital stock [held by 6,711 and 6,799 equity holders in 2014 and 2013, respectively] (Note 13) | 639,873,378 | 631,940,878 |
| Additional paid-in capital | 32,699,360 | 32,699,360 |
| Revaluation increment in office condominium (Note 11) | 14,630,975 | 15,809,309 |
| Net unrealized gains on changes in fair value of AFS financial assets (Note 8) | 36,178,097 | 33,364,260 |
| Remeasurement loss on accrued retirement benefits | (5,010,165) | (2,704,577) |
| Cumulative translation adjustment | (2,105,599) | 718,817 |
| Retained earnings | 131,173,688 | 133,574,416 |
| Total equity attributable to equity holders of the Parent Company | 847,439,734 | 845,402,463 |
| **Non-controlling interests** (Note 15) | (7,226,899) | (4,421,659) |
| | 840,212,835 | 840,980,804 |
| Treasury stock - at cost (Note 14) | (3,240,000) | (3,240,000) |
| **Total Equity** | 836,972,835 | 837,740,804 |
| TOTAL LIABILITIES AND EQUITY | ₱863,192,559 | ₱854,462,947 |

*See accompanying Notes to Consolidated Financial Statements.*

# BASIC ENERGY CORPORATION AND SUBSIDIARIES
# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| | Years Ended December 31 | | |
|---|---|---|---|
| | 2014 | 2013 | 2012 |
| **INCOME** | | | |
| Interest income (Note 16) | **₱16,927,917** | ₱18,500,118 | ₱17,707,366 |
| Gain on sale of AFS financial assets (Note 8) | **11,830,398** | – | – |
| Dividend income (Note 8) | **5,145,575** | 3,000,953 | 754,990 |
| Fair value adjustment on investment properties (Note 2) | **2,824,044** | 2,155,000 | 73,393,045 |
| Foreign exchange gains - net | – | 6,883,241 | – |
| Income from previous sale of Basic Petroleum and Minerals, Inc. (BPMI) (Note 4) | - | - | 224,955,850 |
| Others | **24,796** | 1,233 | 1,822,670 |
| | **36,752,730** | 30,540,545 | 318,633,921 |
| **COSTS AND EXPENSES** | | | |
| General and administrative expenses (Note 18) | **49,337,106** | 50,530,759 | 49,383,583 |
| Foreign exchange losses - net | **2,643,127** | – | 5,218,944 |
| Provision for impairment on AFS financial assets (Note 8) | – | – | 3,188,403 |
| | **51,980,233** | 50,530,759 | 57,790,930 |
| **INCOME (LOSS) BEFORE INCOME TAX** | **(15,227,503)** | (19,990,214) | 260,842,991 |
| **PROVISION FOR (BENEFIT FROM) INCOME TAX** (Note 20) | | | |
| Current | **3,429,465** | 3,725,629 | 16,173,203 |
| Deferred | **(12,025,391)** | 3,429,822 | (868,862) |
| | **(8,595,926)** | 7,155,451 | 15,304,341 |
| **NET INCOME (LOSS)** | **(₱6,631,577)** | (₱27,145,665) | ₱245,538,650 |
| **OTHER COMPREHENSIVE INCOME** | | | |
| *Other comprehensive income to be reclassified to profit or loss in subsequent periods:* | | | |
| Unrealized gains in AFS financial assets (Note 8) | **₱2,813,837** | ₱15,294,875 | ₱18,496,932 |
| Income tax effect | – | - | 82,046 |
| | **2,813,837** | 15,294,875 | 18,578,978 |
| Cumulative translation adjustment | **(2,577,141)** | 718,817 | – |
| Income tax effect | – | | |
| | **(2,577,141)** | 718,817 | – |
| | **236,696** | 16,013,692 | 18,578,978 |
| *Other comprehensive loss not to be reclassified to profit or loss in subsequent periods:* | | | |
| Revaluation increment in office condominium | – | – | 11,030,278 |
| Income tax effect | – | – | (3,309,083) |
| | – | – | 7,721,195 |
| Remeasurement gain (loss) on retirement benefits liability (Note 19) | **(3,293,697)** | 951,086 | (1,150,330) |
| Income tax effect | **988,109** | (285,326) | 345,099 |
| | **(2,305,588)** | 665,760 | (805,231) |
| | **(2,305,588)** | 665,760 | 6,915,964 |
| **OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR, NET OF TAX** | **(2,068,892)** | 16,679,452 | 25,494,942 |
| **TOTAL COMPREHENSIVE INCOME (LOSS)** | **(₱8,700,469)** | (₱10,466,213) | ₱271,033,592 |

*(Forward)*

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2014** | 2013 | 2012 |
| **NET INCOME (LOSS) ATTRIBUTABLE TO:** | | | |
| Equity holders of the Parent Company | **(₱3,579,062)** | (₱22,723,865) | ₱245,556,552 |
| Non-controlling interest | **(3,052,515)** | (4,421,800) | (17,902) |
| | **(₱6,631,577)** | (₱27,145,665) | ₱245,538,650 |
| **TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:** | | | |
| Equity holders of the Parent Company | **(₱5,895,229)** | (₱6,044,413) | ₱271,051,494 |
| Non-controlling interest | **(2,805,240)** | (4,421,800) | (17,902) |
| | **(₱8,700,469)** | (₱10,466,213) | ₱271,033,592 |
| **EARNINGS (LOSS )PER SHARE** (Note 21) | | | |
| Basic | **(₱0.001)** | (₱0.009) | ₱0.101 |
| Diluted | **(₱0.001)** | (₱0.009) | ₱0.083 |

*See accompanying Notes to Consolidated Financial Statements*

# BASIC ENERGY CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

### FOR THE YEAR ENDED DECEMBER 31, 2014 AND 2013

| | Attributable to Equity Holders of the Parent Company | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Capital Stock (Note 13) | Additional Paid-in Capital (Note 13) | Deposit for Future Stock Subscription (Note 13) | Revaluation Increment in Office Condominium (Note 11) | Net unrealized gain (loss) on changes in fair value of AFS Financial Assets (Note 7) Equity | Debt | Remeasurement Loss on Accrued Retirement Benefits | Retained Earnings (Deficit) | Cumulative Translation Adjustment | Total | Non-controlling Interest (NCI) | Treasury Stock | Total Equity |
| BALANCES AT DECEMBER 31, 2011 | ₱610,623,378 | ₱32,699,360 | ₱– | ₱10,437,004 | (₱509,593) | ₱– | (₱2,565,106) | (₱91,607,161) | ₱– | ₱559,077,882 | ₱18,043 | (₱3,240,000) | ₱555,855,925 |
| Net income | – | – | – | – | – | – | – | 245,556,552 | | 245,556,552 | (17,902) | – | 245,538,650 |
| Other comprehensive income, net of tax | – | – | – | 7,721,195 | (361,316) | 18,940,294 | (805,231) | – | – | 25,494,942 | – | – | 25,494,942 |
| Total comprehensive income | – | – | – | 7,721,195 | (361,316) | 18,940,294 | (805,231) | 245,556,552 | | 271,051,494 | (17,902) | – | 271,033,592 |
| Transfer of portion of revaluation increment realized through depreciation | – | – | – | (1,098,742) | – | – | | 1,098,742 | | – | – | – | – |
| Increase in deposits for future stock subscription | – | – | 6,675,000 | | – | – | – | – | | 6,675,000 | – | | 6,675,000 |
| BALANCES AT DECEMBER 31, 2012 | ₱610,623,378 | ₱32,699,360 | ₱6,675,000 | ₱17,059,457 | (₱870,909) | ₱18,940,294 | (₱3,370,337) | ₱155,048,133 | – | ₱836,804,376 | ₱141 | (₱3,240,000) | ₱833,564,517 |
| Net loss | – | – | – | – | – | – | – | (22,723,865) | – | (22,723,865) | (4,421,800) | – | (27,145,665) |
| Other comprehensive loss net of tax | – | – | | – | (1,803,799) | 17,098,674 | 665,760 | | 718,817 | 16,679,452 | – | – | 16,679,452 |
| Total comprehensive loss | – | – | – | – | (1,803,799) | 17,098,674 | 665,760 | (22,723,865) | 718,817 | (6,044,413) | (4,421,800) | – | (10,466,213) |
| Increase in capital stock | 14,642,500 | – | – | – | | – | – | – | – | 14,642,500 | – | – | 14,642,500 |
| Transfer of portion of revaluation increment realized through depreciation | – | – | – | (1,250,148) | – | – | – | 1,250,148 | – | – | – | – | – |
| Conversion of deposits for future stock subscription to capital stock | 6,675,000 | – | (6,675,000) | – | – | – | – | – | – | – | – | – | – |
| BALANCES AT DECEMBER 31, 2013 | ₱631,940,878 | ₱32,699,360 | ₱– | ₱15,809,309 | (₱2,674,708) | ₱36,038,968 | (₱2,704,577) | ₱133,574,416 | ₱718,817 | ₱845,402,463 | (₱4,421,659) | (₱3,240,000) | ₱837,740,804 |
| Net loss | – | – | – | – | – | | | (3,579,062) | – | (3,579,062) | (3,052,515) | – | (6,631,577) |
| Other comprehensive loss, net of tax | – | – | – | | 1,185,524 | 1,628,313 | (2,305,588) | – | (2,824,416) | (2,316,167) | 247,275 | – | (2,068,892) |
| Total comprehensive loss | – | – | – | – | 1,185,524 | 1,628,313 | (2,305,588) | (3,579,062) | (2,824,416) | (5,895,229) | (2,805,240) | – | (8,700,469) |
| Increase in capital stock | 7,932,500 | | – | – | – | – | – | | | 7,932,500 | – | | 7,932,500 |
| Transfer of portion of revaluation increment realized through depreciation | – | – | – | (1,178,334) | – | – | – | 1,178,334 | – | – | – | – | – |
| BALANCES AT DECEMBER 31, 2014 | ₱639,873,378 | ₱32,699,360 | ₱– | ₱14,630,975 | (₱1,489,184) | ₱37,667,281 | (₱5,010,165) | ₱131,173,688 | (₱2,105,599) | ₱847,439,734 | (₱7,226,899) | (₱3,240,000) | ₱836,972,835 |

*See accompanying Notes to Consolidated Financial Statements*

## BASIC ENERGY CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2014** | 2013 | 2012 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Income (loss) before income tax | **(₱15,227,503)** | (₱19,990,214) | ₱260,842,991 |
| Adjustments for: | | | |
| Interest income (Note 16) | **(16,927,717)** | (18,500,118) | (17,707,366) |
| Realized gain from sale of AFS financial assets | **(11,830,398)** | – | – |
| Dividend income | **(5,145,575)** | (3,000,953) | (754,990) |
| Depreciation and amortization (Note 18) | **3,486,723** | 3,264,564 | 3,642,532 |
| Fair value adjustment on investment properties (Note 9) | **(2,824,044)** | (2,155,000) | (73,393,045) |
| Unrealized foreign exchange losses (gains) – net | **1,880,581** | (6,893,272) | 4,091,773 |
| Movements in accrued retirement benefits (Note 19) | **651,835** | 1,004,951 | 647,942 |
| Provision for impairment on AFS financial assets | **–** | – | 3,188,403 |
| Others | **–** | (790,398) | 402,597 |
| Operating income (loss) before working capital changes | **(45,936,098)** | (47,060,440) | 180,960,837 |
| Decrease (increase) in: | | | |
| Short-term cash investments | **–** | 8,210,000 | 140,702 |
| Receivables | **(612,390)** | 44,112,598 | (44,040,071) |
| Prepayments and other current assets | **(619,385)** | (245,776) | (589,914) |
| Increase (decrease) in accounts payable and accrued expenses | **11,621,828** | 74,068 | (4,296,601) |
| Net cash generated from (used in) operations | **(35,546,045)** | 5,090,450 | 132,174,953 |
| Interest received | **16,952,715** | 16,806,186 | 13,277,419 |
| Income taxes paid (including final taxes on interest income) | **(3,377,902)** | (3,725,985) | (12,720,266) |
| Net cash flows generated from (used in) operating activities | **(21,971,232)** | 18,170,651 | 132,732,106 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Additions to: | | | |
| Deferred charges (Note 10) | **(8,373,768)** | (40,349,668) | (4,504,959) |
| Project development costs (Note 10) | **(112,693,332)** | | |
| AFS financial assets | **–** | (126,688,325) | (234,571,375) |
| Investment property (Note 9) | **–** | (5,000,000) | |
| Proceeds from sale of AFS financial assets | **101,764,074** | – | |
| Net movements from long term cash investment | **–** | 6,157,500 | (6,431,500) |
| Additions to property and equipment | **(772,646)** | (456,904) | (3,365,792) |
| Dividends received | **5,145,575** | 3,000,953 | 754,990 |
| Proceeds from sale of property and equipment | | – | 1,420,000 |
| Net cash flows used in investing activities | **(14,930,097)** | (163,336,444) | (246,698,636) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from issuance of capital stock | **7,932,500** | – | – |
| Exercise of stock option | **–** | 14,642,500 | – |
| Increase in deposit for future stock subscription | | – | 6,675,000 |
| Net cash flows generated from financing activities | **7,932,500** | 14,642,500 | 6,675,000 |
| **EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS** | **(4,430,284)** | 8,629,068 | (2,025,476) |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | **(33,399,113)** | (121,894,225) | (109,317,006) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | **80,542,774** | 202,436,999 | 311,754,005 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** (Note 5) | **₱47,143,661** | ₱80,542,774 | ₱202,436,999 |

*See accompanying Notes to Consolidated Financial Statements.*

## 1. Corporate Information, Organizational Changes and Authorization for Issuance of the Consolidated Financial Statements

Corporate Information
Basic Energy Corporation (BEC or the Parent Company), a publicly listed corporation, and its subsidiaries (collectively referred to as the Group) were incorporated in the Philippines. The Parent Company's registered business address is at 7/F Basic Petroleum Bldg., 104 Carlos Palanca St., Legaspi Village, Makati City.

On August 10, 2007, the Philippine Securities and Exchange Commission (SEC) approved the amendment of the Parent Company's primary and secondary purposes, transforming the Parent Company into a holding company with diversified business interests in the different fields of renewable energy and alternative fuels, while pursuing its core business in oil and gas exploration and development.

On May 28, 2014, July 10, 2014 and September 10, 2014, the BOD, the stockholders and SEC, respectively, approved the amendments of the Parent Company's Articles of Incorporation and By-laws to specify the principal address from Makati City to 7/F Basic Petroleum Bldg., 104 Carlos Palanca St., Legaspi Village, Makati City and to change the date of annual meeting of stockholders from any day of May to the last Wednesday of June or such date and time as the Board of Directors may fix prior to June of each year, respectively.

Organizational Changes
The Parent Company amended its By-laws on June 29, 2011 to delineate the position and responsibilities of the Chairman from the Chief Executive Officer (CEO) of the Parent Company and to define the duties and responsibilities of the President and the Chief Operating Officer (COO). These amendments were in line with corporate governance principles enjoining the separation of the positions and responsibilities of the Chairman and the CEO, and were approved by the SEC on July 29, 2011. On August 31, 2011, the Board of Directors (BOD) appointed Mr. Oscar C. De Venecia as Chairman and Mr. Oscar L. De Venecia, Jr. as President and CEO. The duties and responsibilities of the COO were incorporated with those of the Executive Vice President.

On February 28, 2011, former Speaker of the House of Representatives, Mr. Jose C. De Venecia, Jr., was appointed by the BOD as the Chairman of the Advisory Board.

Authorization for Issuance of the Consolidated Financial Statements
The consolidated financial statements were authorized for issuance by the BOD during its meeting on March 26, 2015.

## 2. Basis of Preparation, Statement of Compliance and Summary of Significant Accounting and Financial Reporting Policies

Basis of Preparation
The consolidated financial statements have been prepared on a historical cost basis, except for quoted available-for-sale (AFS) financial assets and investment properties that have been measured at fair value and office condominium that have been measured at revalued amounts. The consolidated financial statements are presented in Philippine Peso, which is the Group's functional and presentation currency. Amounts are rounded off to the nearest Philippine Peso unless otherwise indicated.

Statement of Compliance
The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Basis of Consolidation
The consolidated financial statements include the accounts of the Parent Company and its subsidiaries after eliminating significant intercompany balances and transactions. The financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company, using uniform and consistent accounting policies.

Control is achieved when the Parent 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. The Parent Company controls an investee if and only if the Parent Company has all of the following:

- 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.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Parent Company obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions are eliminated in full.

*Subsidiaries*
Subsidiaries are entities over which the Parent Company has control.

All intra-group balances, transactions, income and expenses, and profits and losses resulting from intra-group transactions that are recognized in assets are eliminated in full.

The ownership of the Parent Company over the following subsidiaries as of December 31, 2014 and 2013 are as follows:

| Subsidiaries | 2014 | 2013 | Nature of Business |
|---|---|---|---|
| Basic Diversified Industrial Holdings, Inc. (BDIHI) | **100.00** | 100.00 | Investment holding |
| iBasic, Inc. (iBasic) | **100.00** | 100.00 | Real estate (no development activities) and information technology |
| Basic Renewables, Inc. (BRI) | **100.00** | 100.00 | Exploration and development of renewable energy resources |
| Basic Biofuels Corporation (BBC) | **100.00** | 100.00 | Development of biofuels (no development activities) |
| Basic Geothermal Energy Corporation (BGEC) | **100.00** | 100.00 | Exploration and development of geothermal energy resources |
| Southwest Resources, Inc. (SWR) | **72.58** | 72.58 | Oil exploration and investment holding |
| Grandway Group Limited (Grandway) | **70.00** | 70.00 | Investment holding |
| PT Basic Energi Solusi (PT BES) | **66.50** | 66.50 | Oil exploration |

*Non-controlling Interest*
Where the ownership of a subsidiary is less than 100%, and therefore a non-controlling interest exists, any losses of that subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

Non-controlling interest represents the 30% equity interest in the net assets of Grandway, 33.50% equity interest in the net asset of PT BES and 27.42% equity interest in the net assets of SWR as at December 31, 2014 and 2013.

Non-controlling interest are presented separately in the consolidated statement of comprehensive income, consolidated statements of changes in equity and within the equity section in the consolidated statement of financial position, separately from the equity attributable to the equity holders of the Parent Company. Non-controlling interest shares in the losses even if the losses exceed the non-controlling equity interest in the subsidiary.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any non-controlling interest
- Derecognizes the cumulative translation differences, recognized in equity
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss
- Reclassifies the Parent Company's share of components previously recognized in other comprehensive income or OCI to profit or loss or retained earnings, as appropriate.

Changes in Accounting Policies and Disclosures
The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those of the previous financial year except for the following new and amended PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations based on International Financial Reporting Interpretations Committee (IFRIC) and improvements to PFRS which were adopted as at January 1, 2014:

- Amendments to PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities* and PAS 27, *Separate Financial Statements*
  These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss (FVPL). The amendments must be applied retrospectively, subject to certain transition relief. These amendments have no effect on the Group since it does not qualify to be an investment entity under PFRS 10.

- PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* (Amendments)
  The amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and are applied retrospectively. The amendments have no effect on the Group, since none of the entities in the Group has any offsetting arrangement.

- PAS 36, *Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets* (Amendments)
  These amendments remove the unintended consequences of PFRS 13, *Fair Value Measurement*, on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period. The application of these amendments has no impact on the disclosure in the Group's consolidated financial statements.

- PAS 39, *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting* (Amendments)
  These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria and retrospective application is required. These amendments have no impact on the Group as the Group has no derivatives during the current or prior periods.

- Philippine Interpretation IFRIC 21, *Levies*
  IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21. The interpretation has no impact on the Group's consolidated financial statements as it has applied the recognition principles under PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, consistent with the requirements of IFRIC 21 in prior years.

- *Annual Improvements to PFRSs* (2010-2012 cycle)
  In the 2010 - 2012 annual improvements cycle, seven amendments to six standards were issued, which included an amendment to PFRS 13. The amendment to PFRS 13 is effective immediately and it clarifies that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This amendment has no impact on the Group's consolidated financial statements.

- *Annual Improvements to PFRSs* (2011-2013 cycle)
  In the 2011 - 2013 annual improvements cycle, four amendments to four standards were issued, which included an amendment to PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards - First-time Adoption of PFRS*. The amendment to PFRS 1 is effective immediately. It clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first PFRS financial statements. This amendment has no impact on the Group as it is not a first time PFRS adopter.

Standards and Interpretations Issued but not yet Effective
The Group will adopt the following standards and interpretations enumerated below when these become effective.

*Effective Date to be Determined*

- PFRS 9, *Financial Instruments - Classification and Measurement* (2010 version)
  PFRS 9 (2010 version) reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39.

PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at FVPL. All equity financial assets are measured at fair value either through OCI or profit or loss. Equity financial assets held for trading must be measured at FVPL. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change relating to the entity's own credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward to PFRS 9, including the embedded derivative bifurcation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

PFRS 9 (2010 version) is effective for annual periods beginning on or after January 1, 2015. This mandatory adoption date was moved to January 1, 2018 when the final version of PFRS 9 was adopted by the FRSC. Such adoption, however, is still for approval by the Board of Accountancy (BOA).

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*
  This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The SEC and the FRSC have deferred the effectivity of this interpretation until the final revenue standard is issued by the International Accounting Standards Board (IASB) and an evaluation of the requirements of the final revenue standard against the practices of the Philippine real estate industry is completed. Adoption of the interpretation when it becomes effective will not have any impact on the consolidated financial statements of the Group.

The following new standards and amendments issued by the IASB were already adopted by the FRSC but are still for approval of the BOA.

*Effective January 1, 2015:*

- PAS 19, *Employee Benefits - Defined Benefit Plans: Employee Contributions* (Amendments)
  The amendments apply to contributions from employees or third parties to defined benefit plans. Where contributions are linked to service, they should be attributable to periods of service as a negative benefit. These amendments clarify that, if the amount of the contribution is independent of the number of year of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after January 1, 2015. It is not expected that this amendment would be relevant to the Group, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.

*Annual Improvements to PFRSs* (2010-2012 cycle)
The Annual Improvements to PFRSs (2010-2012 cycle) are effective for annual periods beginning on or after January 1, 2015 and are not expected to have a material impact on the Group. They include:

- PFRS 2, *Share-based Payment - Definition of Vesting Condition*
  This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:
  - A performance condition must contain a service condition
  - A performance target must be met while the counterparty is rendering service
  - A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
  - A performance condition may be a market or non-market condition
  - If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

- PFRS 3, *Business Combinations - Accounting for Contingent Consideration in a Business Combination*
  The amendment is applied prospectively for business combinations for which the acquisition date is on or after July 1, 2014. It clarifies that a contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PAS 39, *Financial Instruments: Recognition and Measurement* (or PFRS 9, *Financial Instruments*, if early adopted). The Group shall consider this amendment for future business combinations.

- PFRS 8, *Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*
  The amendments are applied retrospectively and clarify that:

  a. An entity must disclose the judgments made by management in applying the aggregation criteria in the standard, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'.
  b. The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

- PAS 16, *Property, Plant and Equipment - Revaluation Method - Proportionate Restatement of Accumulated Depreciation*
  The amendment is applied retrospectively and clarifies in PAS 16 and PAS 38 that the asset may be revalued by reference to the observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset.

- PAS 24, *Related Party Disclosures - Key Management Personnel*
  The amendment is applied retrospectively and clarifies that a management entity, which is an entity that provides key management personnel services, is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

*Annual Improvements to PFRSs* (2011-2013 cycle)
The Annual Improvements to PFRSs (2011-2013 cycle) are effective for annual periods beginning on or after January 1, 2015 and are not expected to have a material impact on the Group. They include:

- PFRS 3, *Business Combinations - Scope Exceptions for Joint Arrangements*
  The amendment is applied prospectively and clarifies the following regarding the scope exceptions within PFRS 3:

  a. Joint arrangements, not just joint ventures, are outside the scope of PFRS 3.
  b. This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

- PFRS 13, *Fair Value Measurement - Portfolio Exception*
  The amendment is applied prospectively and clarifies that the portfolio exception in PFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of PAS 39 *(or PFRS 9, as applicable)*.

- PAS 40, *Investment Property*
  The amendment is applied prospectively and clarifies that PFRS 3, and not the description of ancillary services in PAS 40, is used to determine if the transaction is the purchase of an asset or business combination. The description of ancillary services in PAS 40 only differentiates between investment property and owner-occupied property (i.e., property, plant and equipment).

*Effective in January 1, 2016*

- PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortization* (Amendments)
  The amendments clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. The Group does not expect that these amendments will have material impact in the Group's future consolidated financial statements.

- PAS 16, *Property, Plant and Equipment*, and PAS 41, *Agriculture - Bearer Plants* (Amendments)
  The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial recognition, bearer plants will be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, will apply. The amendments are retrospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group as the Group does not have any bearer plants.

- PAS 27, *Separate Financial Statements - Equity Method in Separate Financial Statements* (Amendments)
  The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of PFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to PFRS. This amendment has no impact on the Group's consolidated financial statements.

- PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures* - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
  These amendments address an acknowledged inconsistency between the requirements in PFRS 10 and those in PAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. These amendments are effective from annual periods beginning on or after 1 January 2016. This amendment has no impact on the Group's consolidated financial statements.

- PFRS 11, *Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations* (Amendments)
  The amendments to PFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant PFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to PFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group's consolidated financial statements.

- PFRS 14, *Regulatory Deferral Accounts*
  PFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income (OCI). The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. Since the Group is an existing PFRS preparer, this standard would not apply.

*Annual Improvements to PFRSs* (2012-2014 cycle)
The Annual Improvements to PFRSs (2012-2014 cycle) are effective for annual periods beginning on or after January 1, 2016 and are not expected to have material impact on the Group. They include:

- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations - Changes in Methods of Disposal*
  The amendment is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.

- PFRS 7, *Financial Instruments: Disclosures - Servicing Contracts*
  PFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance in PFRS 7 in order to assess whether the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendments.

- PFRS 7 - *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
  This amendment is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.

- PAS 19, *Employee Benefits - Regional Market Issue Regarding Discount Rate*
  This amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

- PAS 34, *Interim Financial Reporting Disclosure of Information 'Elsewhere in the Interim Financial Report'*
  The amendment is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).

*Effective January 1, 2018*

- PFRS 9, *Financial Instruments - Hedge Accounting and amendments to PFRS 9, PFRS 7 and PAS 39* (2013 version)
  PFRS 9 (2013 version) already includes the third phase of the project to replace PAS 39 which pertains to hedge accounting. This version of PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include

replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items but also for non-financial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a derivative instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

PFRS 9 (2013 version) has no mandatory effective date. The mandatory effective date of January 1, 2018 was eventually set when the final version of PFRS 9 was adopted by the Financial Reporting Standards Council (FRSC). The adoption of the final version of PFRS 9, however, is still for approval by BOA.

The adoption of PFRS 9 is not expected to have any significant impact on the Group's consolidated financial statements.

- PFRS 9, *Financial Instruments* (2014 or final version)
  In July 2014, the final version of PFRS 9, *Financial Instruments*, was issued. PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of PFRS 9 is permitted if the date of initial application is before February 1, 2015.

  The adoption of PFRS 9 is not expected to have any significant impact on the Group's consolidated financial statements.

*Issued by IASB but not yet adopted by the FRSC*

- International Financial Reporting Standard (IFRS) 15, *Revenue from Contracts with Customers*
  IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 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 IFRS 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 IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2017 with early adoption permitted. The Group is currently assessing the effect of IFRS 15 and plans to adopt the new standard on the required effective date once adopted locally.

The revised, amended and additional disclosures or accounting changes provided by the standards and interpretations will be included in the consolidated financial statements in the year of adoption, if applicable.

Summary of Significant Accounting and Financial Reporting Policies

Presentation of Financial Statements
The Group has elected to present all items of recognized income and expense in one single statement of comprehensive income.

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

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

Financial Instruments - Initial Recognition and Subsequent Measurement
*Date of Recognition*
The Group recognizes a financial asset or a financial liability in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the trade date.

*Initial Recognition and Measurement of Financial Instruments*
Financial instruments are recognized initially at fair value. Directly attributable transaction costs are included in the initial measurement of all financial assets and financial liabilities, except for financial instruments at FVPL.

Financial assets within the scope of PAS 39, *Financial Instruments: Recognition and Measurement*, are classified into the following categories: financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments, and available-for-sale (AFS) financial assets or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Financial liabilities are classified as financial liabilities at FVPL, derivatives designated as hedging instruments in an effective hedge, or as loans and borrowings. The Group determines the classification at initial recognition and, where allowed and appropriate, re-evaluates such designation at every financial reporting date.

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

The Group's financial assets are in the nature of loans and receivables and AFS financial assets. As at December 31, 2014 and 2013, the Group has no financial assets at FVPL and HTM investments or derivatives designated as hedging instruments in an effective hedge.

The Group's financial liabilities are in the nature of loans and borrowings as at December 31, 2014 and 2013.

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

*Loans and Receivables*
Loans and receivables are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. After initial measurement, such financial assets are subsequently measured in the consolidated statement of financial position at amortized cost using the effective interest rate (EIR) method, less any provision for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of EIR. The losses arising from impairment are recognized in the consolidated statement of comprehensive income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Loans and receivables are included in current assets if maturity is within twelve (12) months from the financial reporting date. Otherwise, these are classified as noncurrent assets.

The Group's cash and cash equivalents and receivables as at December 31, 2014 and 2013 are classified under this category (see Notes 5 and 6).

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

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

The Group evaluated its AFS financial assets whether the ability and intention to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intention to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or until maturity. Reclassification to the HTM category is permitted only when the entity has the ability and intention to hold the financial asset accordingly.

For a financial asset reclassified out of the AFS financial assets category, any previous gain or loss on that asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortized cost and the expected cash flows is also amortized over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the profit or loss.

As of December 31, 2014 and 2013, included under AFS financial assets are the Group's investments in shares of stock and government bonds (see Note 8).

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

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

After initial recognition, loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in the consolidated statement of comprehensive 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 shall be included in other charges in the consolidated statement of comprehensive income.

Loans and borrowings are included in current liabilities if settlement is to be made within twelve (12) months from the financial reporting date. Otherwise, these are classified as noncurrent liabilities.

As at December 31, 2014 and 2013, included in loans and borrowings are the Group's accounts payable and accrued expenses and dividends payable (see Note 12).

<u>Derecognition of Financial Assets and Financial Liabilities</u>
*Financial Assets*
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

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

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

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

*Financial Liabilities*
A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

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

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

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

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

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

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

*Assets carried at cost*
If there is objective evidence of impairment loss on an unquoted equity instrument that is not carried at fair value, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

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

In case of equity investments classified as AFS financial assets, this would include a significant or prolonged decline in the fair value of the investments below its cost. The determination of what is "significant" or "prolonged" requires judgment. The Group treats "significant" as 20% or more and "prolonged" as greater than 12 months for quoted equity securities. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in consolidated statement of comprehensive income is removed from OCI and recognized in consolidated statement of comprehensive income.

Impairment losses on equity investments are not reversed through profit or loss. Increases in fair value after impairment are recognized directly in equity.

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

Fair Value Measurement
The Group measures AFS financial assets and investment property, at fair value at each end of reporting period.

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

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

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

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

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

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

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

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

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

An analysis of the fair values of AFS financial assets and investment property and further details as to how they are measured are provided in Notes 9 and 23.

Offsetting of Financial Instruments
Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

Prepayments and Other Current Assets
*Prepayments*
Prepayments are expenses paid in advance and recorded as asset before they are utilized. This account comprises prepaid rentals and insurance premiums and other prepaid items. The prepaid rentals and insurance premiums and other prepaid items are apportioned over the period covered by the payment and charged to the appropriate accounts in profit or loss when incurred. Prepayments that are expected to be realized for no more than 12 months after the reporting period are classified as current assets otherwise, these are classified as other noncurrent assets.

*Input Valued-added Tax (VAT)*
Revenue, expenses, assets and liabilities are recognized net of the amount of VAT, except where the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable.

VAT is stated at 12% of the applicable purchase cost of goods or services, net of output tax liabilities. The net amount of VAT recoverable from or payable to, the taxation authority is included as part of "Prepayments and other current assets" or "Accounts payable and accrued expenses," respectively, in the consolidated statement of financial position.

Investment Properties
Investment properties, consisting of parcels of land owned by the Group, are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in consolidated profit or loss in the year in which they arise.
Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses from derecognition of an investment property are recognized in consolidated profit or loss in the year of retirement or disposal.

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

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

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

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

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

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

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

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

| | Number of Years |
|---|---|
| Office condominium | 15 |
| Office equipment, furniture and fixtures | 3 |
| Building and leasehold improvements | 15 |
| Transportation equipment | 5 |

Leasehold improvements are amortized over the term of the lease or estimated useful life of fifteen (15) years, whichever is shorter.

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

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

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

When assets are retired or otherwise disposed of, their cost, accumulated depreciation and amortization and any allowance for impairment loss are eliminated from the accounts and any gain or loss resulting from their disposal is included in the consolidated statement of comprehensive income.

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

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

Impairment of Nonfinancial Assets

*Property and Equipment and Noncurrent Assets*

The Group assesses at each financial reporting date whether there is an indication that an asset may be impaired. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets or CGU are written down to their estimated recoverable amounts. The estimated recoverable amount of an asset is the greater of the fair value less cost to sell and value in use. The fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's-length transaction less the costs of disposal while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the estimated recoverable amount is determined for the CGU to which the asset belongs. Impairment losses of continuing operations are recognized in the consolidated statement of comprehensive income in those expense categories consistent with the function of the impaired asset.

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

*Prepayments and Other Current Assets*

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

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

Capital Stock and Additional Paid-in Capital

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

*Operating Leases*
Operating leases represent those leases under which substantially all risks and rewards of ownership of the leased assets remains with the lessors. Noncancellable operating lease payments are recognized under "General and administrative expenses" in the consolidated statement of comprehensive income on a straight-line basis over the lease term.

*Finance Leases*
Finance leases, which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and the reduction of the lease liability so as to achieve a constant periodic rate of interest on the remaining balance of the liability. Lease receivables are based on the present value of contractual cash flows discounted at market adjusted rates. Finance income and costs are reflected in the consolidated statement of comprehensive income.

Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership of the asset by the end of the lease term.

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

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

Retirement benefit costs comprise the following:

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

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

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

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

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

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

*Termination Benefit*
Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either an entity's decision to terminate an employee's

employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment.

A liability and expense for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of those benefits and when the entity recognizes related restructuring costs. Initial recognition and subsequent changes to termination benefits are measured in accordance with the nature of the employee benefit, as either post-employment benefits, short-term employee benefits, or other long-term employee benefits.

*Employee Leave Entitlement*
Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled wholly before twelve (12) months after the end of the financial reporting period is recognized for services rendered by employees up to the end of the reporting period.

Foreign Currency Transactions
Foreign currency transactions are recorded in Philippine Peso by applying to the foreign currency amount the exchange rate between the Philippine Peso and the foreign currency at the date of the transaction. Foreign currency-denominated monetary assets and liabilities are translated to Philippine peso using the prevailing exchange rates at the end of the reporting period. Exchange rate differences arising from the settlement of monetary items at rates different from those at which they were initially recorded during the year are credited or charged to current operations. Nonmonetary 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.

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

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

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

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable income or loss;

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss;

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable income will be available against which the temporary differences can be utilized.

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

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

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

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

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

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

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

## 3. Significant Accounting Judgments and Estimates

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

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

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

*Reserves estimation*
The Group estimates its commercial reserves and resources based on information compiled by appropriately qualified persons relating to the geological and technical data on the size, depth, shape and grade of the hydrocarbon body and suitable production techniques and recovery rates.

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

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

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

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

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

Allowance for impairment on unquoted investment in shares of stock amounted to ₱4,090,435 as at December 31, 2014 and 2013 (see Note 8).

The carrying value of the Group's AFS financial assets amounted to ₱364,298,764 and ₱451,425,196 as at December 31, 2014 and 2013, respectively (see Note 8).

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

The carrying value of receivables, net of allowance for impairment of accounts receivable amounting to ₱2,549,217 and ₱2,732,947 as at December 31, 2014 and 2013, amounted to ₱3,644,289 and ₱3,031,899 as at December 31, 2014 and 2013, respectively (see Note 6).

*Estimation of useful lives of property and equipment*
The Group estimates the useful lives of their property and equipment based on the period over which the assets are expected to be available for use. The Group annually reviews the estimated useful lives of property and equipment based on factors that include asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of the assets. It is possible that future results of operation could be materially affected by changes in these estimates brought about by changes in factors mentioned. A reduction in the estimated useful lives of property and equipment would increase depreciation expense and decrease noncurrent assets. The depreciation expense recognized during 2014, 2013 and 2012 amounted to ₱3,486,723, ₱3,264,564 and ₱3,642,532, respectively (see Note 18).

*Impairment of property and equipment*
The Group assesses impairment on property and equipment recorded at cost whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. The factors that the Group considers important which could trigger an impairment review include the following:

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

As at December 31, 2014 and 2013, the Group assessed that there were no impairment indicators on its property and equipment. The carrying value of property and equipment, net of accumulated depreciation and amortization amounted to ₱25,145,742 and ₱27,859,819 as at December 31, 2014 and 2013, respectively (see Note 11).

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

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

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

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

There was no provision for impairment loss on deferred charges and project development costs in 2014 and 2013 and 2012.

The carrying amount of deferred charges, net of allowance for impairment loss amounting to ₱45,742,635 as at December 31, 2014 and 2013, amounted to ₱54,622,671 and ₱46,248,903 as at December 31, 2014 and 2013, respectively (see Note 10).

The carrying amount of project development costs amounted to ₱151,979,511 and ₱39,286,179 as at December 31, 2014 and 2013, respectively (see Note 4).

*Realizability of deferred income tax assets*
Deferred income tax assets are recognized for all temporary deductible differences to the extent that it is probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. The Group's recognized deferred income tax assets amounted to ₱14,136,766 and ₱2,676,212, as at December 31, 2014 and 2013, respectively.

As at December 31, 2014 and 2013, the Group has temporary difference on NOLCO, excess MCIT over RCIT, preoperating expenses and allowance for impairment losses amounting to ₱136,911,137 and ₱178,684,030, respectively, for which no deferred income tax asset was recognized because it is more likely than not that the carryforward benefit will not be realized on or prior to its expiration (see Note 20).

*Estimation of fair value of unquoted equity securities classified as AFS financial assets*
Management believes that while the range of reasonable fair value estimates is significant, the probabilities of the various estimates cannot be reasonably assessed given the unquoted nature of these equity investments. As a result, the Group carries these financial assets at cost less any impairment in value. As of December 31, 2014 and 2013, unquoted equity securities amounted to ₱135,248 and ₱54,648,364, respectively. Allowance for impairment losses on AFS financial assets amounted to ₱4,090,435 as at December 31, 2014 and 2013 (see Note 8).

*Estimation of retirement benefits*
The cost of defined benefit pension plans as well as the present value of the pension obligation is determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. The assumptions made by the Group resulted in accrued retirement benefits amounting to ₱11,913,169 and ₱7,967,637 as at December 31, 2014 and 2013, respectively (see Note 19).

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The mortality rate is based on publicly available mortality tables for the specific country and is modified accordingly with estimates of mortality improvements. Future salary increases and pension increases are based on expected future inflation rates for the specific country.

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

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

The Group recognized a fair value adjustment on its investments properties amounting to ₱2,824,044, ₱2,155,000, and ₱73,393,045 in 2014, 2013 and 2012, respectively. The fair value adjustments on its investment properties are based on the latest appraisal reports in 2012 for the land in Bolinao, Pangasinan, San Fabian, Pangasinan and Tanay, Rizal, and latest appraisal report in 2013 for the land in Gutalac, Zamboanga del Norte. The fair value of the Group's investment properties amounted to ₱203,458, 387 and ₱200,634,343 as at December 31, 2014 and 2013, respectively (see Note 9).

4. **Status of Investments and Management's Outlook**

Sale of BPMI

On April 3, 2006, the Parent Company entered into a Sale and Purchase Agreement (SPA) covering the sale of the entire interest in its wholly owned subsidiary, Basic Petroleum & Minerals, Inc. (BPMI) to Forum Energy PLC (FEP), for a total consideration of US$17,000,000. Of this amount, US$5,000,000 was in cash and FEP shares and US$12,000,000 was payable upon FEP's utilization of the historical cost recoveries of BPMI and upon oil production by FEP in excess of 5,420,000 barrels. By April, 2007, the Parent Company received full payment and delivery of the first tranche of US$5,000,000. The amount of US$10,000,000 was due upon FEP's utilization of the historical cost recovery accounts of BPMI and the amount of US$2,000,000 was due, in staggered basis, upon production of 5,240,000 barrels of oil in the service contracts that are part of the sale of BPMI.

In 2008, the Parent Company declared FEP in default and the receivables from FEP were the subject of arbitration proceedings between the Parent Company and FEP. On June 14, 2012, the Ad-Hoc Arbitration Tribunal rendered its decision in favor of the Parent Company and awarded payment by Forum of the balance of the share of the Parent Company in the historical cost recoveries received by Forum on the oil assets sold to Forum under the SPA and directed the parties to cause the election of the Parent Company's nominee to FEP's Board until full payment of FEP's obligations to the Parent Company. Even prior to the arbitration award, the parties has been in continuing discussions on a global settlement on all issues pertaining to the SPA, as the arbitration proceedings covered only the Parent Company's claim for its share in historical cost recoveries and a global settlement would be beneficial to both parties. Subsequently, the parties entered into a Compromise Agreement covering settlement of the aforementioned award by the Ad-Hoc Arbitration Tribunal in favor of the Parent Company and other claims under the SPA. Under the agreement, Forum will pay the Parent Company an aggregate amount of P186,567,854 (US$4,400,000) and the Parent Company agreed not to nominate a representative to the FEP Board. Prior to the finalization of settlement between the Parent Company and Forum, the latter already paid P38,367,996 to the Parent Company as part of the sale of BPMI. As at December 31, 2013, FEP had settled all its obligations to the Parent Company.

The total settlement amount due to the Parent Company of P224,955,850 was recorded in 2012 as "Income from previous sale of BPMI" in the consolidated statement of comprehensive income. The remaining balance of the settlement proceeds amounted to P41,050,000 (US$1,000,000) as at December 31, 2012, which amount was fully paid by FEP as at December 31, 2013.

Oil Service Contracts (SCs)

The Parent Company is a party, together with other companies, to SC 47 (Offshore Mindoro) and SC 53 (Onshore Mindoro) with the Philippine Government, through the Department of Energy (DOE), for the exploration, development and exploitation of the contract areas situated in offshore and onshore Mindoro, respectively.

*SC 47* (Offshore Mindoro)

SC 47 was awarded by the DOE on January 10, 2005 to PNOC Exploration Corporation (PNOC EC) and Petronas Carigali (Petronas). Upon Petronas' withdrawal in January 2008, PNOC-EC interest became 97% with Petroenergy Resources Corporation at 2% and the Parent Company at 1%.

SC 47 covers originally 14,667 sq. km and is located within the Northwest Palawan Micro-Continental Block (NPMCB). The NPMCB is the only area in the Philippines where there is oil and gas and includes the Nido Oilfield, Matinloc Oilfield and the Malampaya Gasfield, all in the northwest Palawan area. SC 47 has been the site of the first significant oil discovery outside the proven petroleum province of offshore northwest Palawan. PNOC-EC drilled the Maniguin-2 well on the island of Maniguin in 1994. This well flowed sub-commercial quantities of oil and proved the existence of a valid petroleum system in the area.

In 2009, the Parent Company along with its partners, continued exploration efforts in this service contract. The Department of Energy approved the seismic program commitment under sub-phase 2 (January 2008 to January 2010). The 2D seismic survey was carried out by CGG Veritas from August 19-29, 2009 covering a total of 1,091.6 kms at a cost of US$637,417. On August 14, 2009, the DOE approved the relinquishment of 25% of the original area of the service contract, reducing the area to 1,098,000 hectares, where the islands of Caluya, Sibay and Semirara were retained.

Previous work programs involved the processing and interpretation of the seismic data which have resulted in the identification of some leads and prospects and the conduct of the technical evaluation of data acquired from the seismic program. Early this year, PNOC-EC requested the Department of Energy for the approval of its proposed work program for Sub-Phase 3 to cover a period of three (3) years and which will involve a 2-year geological and geophysical work and the drilling of one exploration well on the third and final year. Estimated cost for this program is US$70,000,000. As at March 26, 2015, the Department of Energy has not advised PNOC-EC of its decision on the said proposed work program. The Parent Company has a 1% interest in this service contract.

*SC 53* (Onshore Mindoro)
SC 53 was awarded by the DOE on July 8, 2005, for a ten years exploration period. It covers 6,600 sq. km. of the onshore areas of Mindoro Island which is within the North Palawan Micro-Continental Block. Past exploration efforts in SC 53 included the acquisition of 2,000 kilometers of 2D seismic data and the drilling of 4 exploration wells. Three of the 4 wells encountered oil and gas but were considered non-commercial at the time of drilling.

The consortium entered into a Farm-In Agreement with Pitkin Petroleum Ltd. (Pitkin) which was approved by the Department of Energy on June 11, 2008. Under the Farm-In Agreement, Pitkin completed a magneto-telluric survey in onshore Mindoro and acquired in May, 2010, over 200 kilometers of 2D seismic designed to delineate and assess the hydrocarbon potential of the Progreso-1X in San Jose, Mindoro Occidental and the Sablayan, Mindoro Occidental.
On July 11, 2011, Resource Management Associates Pty Limited of Australia signed a Farm In Agreement with Pitkin to acquire 35% from its 70% participating interest.

On November 11, 2011, Pitkin reported that Sub-Phase 1, which was to end March 6, 2012, was fulfilled with the completion of the 200 kilometers of seismic data. Sub-Phase 2 which carries a minimum work obligation of 2 wells and a financial commitment of US$2,000,000, have been extended up to the resolution of the complaint filed by Famatodi, Inc., an organization of indigenous peoples in Mindoro and the issuance of the Certificate of Precondition by the National Commission of Indigenous Peoples (NCIP).

The consortium agreed to drill Progreso-2 to fulfil one of the 2 well obligations and the planned geology and geophysical works will be negotiated as fulfilment of the second well. For this phase, the approved firm budget amounts to US$8,400,000 and the contingent budget amounts to US$6,140,000. Preparations are on-going for the drilling of Progreso-2, pending resolution of the aforementioned case filed by Famatodi, Inc. and clearance by the NCIP. The Parent Company has a 3% participation in this service contract.

Indonesia Oil Project

In 2013, the Parent Company entered into a joint venture arrangement with Petrosolve Sdn Bhd, a company registered in Malaysia, which is into the business of developing oil fields and holds a technology for enhanced chemical oil recovery. The joint venture established Grandway, a joint venture company in Hong Kong, which is 70% owned by the Parent Company and 30% owned by Petrosolve Sdn Bhd, as the corporate vehicle of the joint venture in entering into business relationships in connection with the management and operation of oil wells. The joint venture then established PT BES, as its operating arm in Indonesia for the management and operation of oil wells located in said country.

PT BES acquired the rights to manage ten (10) wells in the area, with the objective of rehabilitating these wells for possible limited oil production. As at December 4, 2014, Well BES-02 has completed wire logging. Production casings are presently being installed. After which, production testing will be conducted. Well BES-06 is in the first phase production testing. Well BES-03 has completed production testing. Data from the testing is presently being analyzed and will determine the optimum parameters to be used during regular production. Equipment for Well BES-04 and BES-05 are now being procured for use in production testing and regular production.

Project development costs amounting to ₱151,979,511 and ₱39,286,179 as at December 31, 2014 and 2013, respectively, was incurred in connection with the Group's project in PT BES. The full recovery of these project development costs is dependent upon determination of technical feasibility and commercial quantity of the managed and operated oil wells located in Indonesia.

Incidental production during the testing period amounted to 56, 233 liters of oil, 45,410 liters of which have already been delivered to the local cooperatives as per contract terms.

The Parent Company has budgeted US$3.59 million for 2015 for this project.

Geothermal Service Contracts (GSCs)

The Parent Company is likewise involved in the exploration, development and production of geothermal energy. It has been awarded service contracts for various areas by the DOE, which prescribes the periods and programs for these service contracts, pursuant to Presidential Decree No. 87 for the Mabini GSC and pursuant to Republic Act 9513 (Renewable Energy Act of 2008) for the subsequent GSC.

*GSC 8.* GSC 8, which is the Mabini, Batangas GSC, was awarded to the Parent Company on July 10, 2008. The contract area is approximately 32.5 square kilometers and covers the Calumpan Peninsula. The contract period for exploration is 5 years, and was extended up to 2015, subdivided in 3 Phases. Sub Phase 1 (Years 1 and 2) and sub phase 2 (Year 3) minimum work commitments include geological, geophysical and geochemical works that are designed to identify a drilling location and assess the geothermal potential of the contract area. The Parent Company has the option to drill a well or return the Service Contract to the DOE in case there is no technical justification to drill a well.

The Parent Company has secured the commitments of the Local Government Units which indicated support to the project. The Certificate of Non Coverage was issued by the Environmental Management Bureau on March 25, 2009 and the Certificate of Non Overlap from the National Commission on Indigenous People was issued on April 15, 2009.

The Parent Company has conducted the first stage of the exploration program consisting of geophysical and geological surveys covering 3,481 hectares in the Calumpan Peninsula, Mabini, Batangas. A Controlled Source Magneto-Telluric Survey covering the area had been conducted and completed on March 8, 2010. The data obtained from the survey had been processed by a Japanese consultant, with the objective of establishing the geothermal resource and the exploration drilling site in the area.

The Parent Company has completed due diligence studies and preliminary technical data collection, collation and re-evaluation as part of its commitment under Sub Phase 1 (Years 1 and 2) of the work program committed with the DOE. Initial assessments disclosed that the area has a good potential for a 20-megawatts capacity and could be developed within a 2-year period considering the existence of adequate infrastructure, adjacency to transmission lines and a strong power demand in the area.

For this service contract, the work program is currently on Sub-Phase 3 which involves the drilling of one (1) exploratory well by 2015. Estimated costs for this work program is ₱166,000,000. On February 26, 2015, Trans-Asia Energy Corporation executed a Farm-in Agreement with the Parent Company acquiring a twenty-five percent (25%) participating interest in this project. Discussions are on-going with prospective drilling contractors and project management service providers.

*New GSCs*

The Parent Company was also awarded the service contracts from the DOE, covering four (4) geothermal projects, namely: Iriga Geothermal Power Project, Mariveles Geothermal Power Project , the East Mankayan Geothermal Power Project and the West Bulusan Geothermal Power Project, all carrying a maximum exploration period of 5 years. For the first year program, these projects are undergoing evaluation of existing data, permitting and coordination with the local government units involved. Estimated costs for the first year work programs for these service contracts is ₱7,700,000.

The East Mankayan Geothermal Power Project lies immediately east of the Cervantes, Ilocos Sur geothermal block of Pan Pacific Power Phils, Inc. and south of the Bontoc-Sadanga block which is operated by Magma Energy Resources. Immediately south is the Daklan block operated by Clean Rock Energy. The area actually covers the 3 provinces of Benguet, Mountain Province and Ifugao. The proposed area is surrounded by lots of known thermal manifestations, e.g. hot springs and thermally altered grounds.

The Mariveles Geothermal Power Project, in Bataan is situated along the West Luzon Volcanic Arc which starts from Mt. Pinatubo in the north and extends farther south across the Manila Bay towards Batangas and northeastern Mindoro.

The Iriga Geothermal Power Project in Camarines Sur is bounded to the north by Isarog geothermal block of Philippine National Oil Company- Renewal Corporation and to the east by the highly productive Tiwi geothermal service contract area of formerly Chevron, now AP Renewables Inc. The areal landscape is dominated by Iriga or Asog Volcano, a relatively in stratovolcano immediately southwest of Lake Buhi in southern Luzon.

The West Bulusan Geothermal Power Project is situated in the municipalities of Juban, Magallanes, Irosin, Bulan, Matnog, Santa Magdalena, and Bulusan, in the province of Sorsogon. It is bounded on the northeast by the geothermal contract area of SKI Construction Group, Inc. and is in close vicinity to Mount Bulusan, an active volcano and a declared Natural Park by virtue of Proclamation No. 421 on 27 November 2000. The DOE estimates the project site to have a potential installed capacity of 50 MW. The area has previously been explored by the PNOC-Energy Development Corporation in the 1980's. Data gathered from this study is the take-off point for the feasibility study currently being undertaken by the Parent Company.

Hydropower Service Contracts (HSCs)
The Parent Company is likewise involved in the exploration, development and production of hydro-power energy. It has been awarded service contracts for various areas by the DOE, which prescribes the periods and programs for these service contracts, pursuant to R.A. 9513 (Renewable Energy Act of 2008).

The Malogo 2 Hydropower Project was awarded to the Parent Company in February 2014 and is situated in Cadiz City and Victorias City in Negros Occidental. It is situated on the northern slopes of the North Negros Protected Park. Malogo 2 is a run-of-river mini-hydropower scheme of development. The two branches of the Malogo River will each have a weir site, wherein both headrace channels lead to a common powerhouse located in the confluence of the two river branches. Map studies indicate that Malogo 2 has a combined indicative capacity of 5 MW. The headrace lengths run 1.3 km and 2.3 km each, while the gross head between both weirs and the powerhouse site is 80 m. Confirmation of these preliminary data is being conducted via a feasibility study currently being conducted by the Parent Company.

The Puntian I Hydropower Project was awarded to the Parent Company in February 2014 and is situated along Puntian River in the municipality of Murcia, Negros Occidental. It is located on the southwestern slopes of the North Negros Protected Park. Puntian I is a run-of-river mini-hydropower scheme of development, wherein a portion of the river water is diverted to a channel leading to a powerhouse located downstream of the diversion structure. Map studies indicate that Puntian I has an indicative capacity of 4 MW. The headrace length runs 1.95 km, while the gross head is 60 m. Confirmation of these preliminary data is being conducted via a feasibility study currently being conducted by the Parent Company.

The Puntian II Hydropower Project was awarded to the Parent Company in February 2014 and is situated along Puntian River in the municipality of Murcia, Negros Occidental. It is located on the southwestern slopes of the North Negros Protected Park. Puntian II is a run-of-river mini-hydropower scheme of development, wherein a portion of the river water is diverted to a channel leading to a powerhouse located downstream of the diversion structure. Map studies indicate that Puntian II has an indicative capacity of 5 MW. The headrace length runs 1.5 km, while the gross head is 100 m. Confirmation of these preliminary data is being conducted via a feasibility study currently being conducted by the Parent Company.

The Talabaan Hydropower Project was awarded to the Parent Company in February 2014 and is situated in Cadiz City, Negros Occidental. It is situated on the northern slopes of the North Negros Protected Park. Talabaan is a run-of-river mini-hydropower scheme of development along the Talabaan River, wherein a portion of the river water is diverted to a channel leading to a powerhouse located downstream of the diversion structure. Map studies indicate that Talabaan has an indicative capacity of 5 MW. The headrace lengths run 2 km, while the gross head is 80 m. Confirmation of these preliminary data is being conducted via a feasibility study currently being conducted by the Parent Company.

These service contracts carry a two-years non-extendible period for pre-development. For the first year program, these projects are undergoing evaluation of existing data, permitting and coordination with the local government units involved. Estimated costs for the first year work programs for these service contracts is ₱7,200,000.

The full recovery of the deferred charges, amounting to ₱54,622,671 and ₱46,248,903 as at December 31, 2014 and 2013, respectively, incurred in connection with the Parent Company's participation in the acquisition, exploration and development of petroleum concessions is dependent upon the discovery of oil and gas and other renewable resources in commercial quantities from the respective contract areas and the success of future developments thereof (see Note 10).

## 5. Cash and Cash Equivalents

| | 2014 | 2013 |
|---|---|---|
| Cash on hand and in banks | **₱47,143,661** | ₱68,938,616 |
| Cash equivalents | **–** | 11,604,158 |
| | **₱47,143,661** | ₱80,542,774 |

Cash in banks and cash equivalents earn interest at the respective bank deposit rates. Cash equivalents are made for varying periods of up to three months depending on the immediate cash requirements of the Group.
Interest income amounted to ₱442,686, ₱2,530,679 and ₱11,026,845 in 2014, 2013 and 2012, respectively (see Note 16).

The Group has United States dollar (US$) denominated cash on hand and in banks amounting to US$7,695 and US$1,463,831 as at December 31, 2014 and 2013, respectively. The Group has Indonesian Rupiah (IDR) denominated cash on hand and in banks amounting to 2,178,896,351 IDR and 60,456,142 IDR as at December 31, 2014 and 2013, respectively (see Note 24).

## 6. Receivables

| | 2014 | 2013 |
|---|---|---|
| Accounts receivable | **₱718,606** | ₱– |
| Interest receivable | **1,160,796** | 1,693,932 |
| Advances to officers and employees | **123,427** | – |
| Other receivables | **4,190,677** | 3,887,184 |
| | **6,193,506** | 5,581,116 |
| Less allowance for impairment | **(2,549,217)** | (2,549,217) |
| | **₱3,644,289** | ₱3,031,899 |

Accounts receivables are short term, non-interest bearing due from third parties. Other receivable arises from short-term, noninterest-bearing transactions of the Group.

## 7. Prepayments and Other Current Assets

| | 2014 | 2013 |
|---|---|---|
| Prepaid expenses | **₱602,533** | ₱442,728 |
| Input VAT | **1,693,083** | 1,233,504 |
| | **₱2,295,616** | ₱1,676,232 |

Prepaid expenses mainly consists of prepayments of the Group on rent, membership dues, life and nonlife insurance, and communication expenses.

## 8. AFS Financial Assets

| | 2014 | 2013 |
|---|---|---|
| Debt securities - quoted, at fair value | ₱268,205,803 | ₱317,960,235 |
| Investments in shares of stock: | | |
| Quoted - at fair value | 95,957,713 | 78,816,597 |
| Unquoted | 135,248 | 54,648,364 |
| | 96,092,961 | 133,464,961 |
| | ₱364,298,764 | ₱451,425,196 |

Quoted instruments are carried at fair market value as at end of reporting period. Unquoted equity instruments are carried at cost as at end of reporting period, since the fair values cannot be reliably measured.

The movements in AFS financial assets account follow:

| | 2014 | 2013 |
|---|---|---|
| Balances at January 1 | ₱451,425,196 | ₱305,867,784 |
| Additions | – | 126,688,325 |
| Disposals | (89,933,676) | |
| Effect of changes in foreign exchange rate | (6,593) | 3,574,212 |
| Valuation gains on AFS financial assets | 2,813,837 | 15,294,875 |
| Balances at December 31 | ₱364,298,764 | ₱451,425,196 |

Interest rates in 2014 and 2013 on these AFS debt securities range from 3.25% to 8.13% and 5.80% to 8.13%, respectively. Interest income earned on these securities amounted to ₱16,485,231, ₱15,969,439, and ₱6,340,763 in 2014, 2013 and 2012, respectively (see Note 16).

The movements in unrealized gains on quoted AFS financial assets in 2014 and 2013 are as follows:

| | 2014 | 2013 |
|---|---|---|
| Beginning balances | ₱33,364,260 | ₱18,069,385 |
| Gains recognized in equity | 14,644,235 | 15,294,875 |
| Gain on sale of AFS financial assets | (11,830,398) | |
| Unrealized gains in AFS financial assets taken in other comprehensive income | 2,813,837 | 15,294,875 |
| Ending balances | ₱36,178,097 | ₱33,364,260 |

Provision for impairment losses amounted to nil in 2014 and 2013 and ₱3,188,403 in 2012. These are carried at cost less allowance for impairment losses. Equity securities of the Group have an allowance for impairment losses as at December 31, 2014 and 2013 amounting to ₱4,090,435.

Dividend income earned from quoted equity shares amounted to ₱5,145,575, ₱3,000,953 and ₱754,990 in 2014, 2013 and 2012, respectively.

## 9. Investment Properties

| | 2014 | 2013 |
|---|---|---|
| Acquisition cost | **₱125,086,298** | ₱120,086,298 |
| Additions | **–** | 1,500,000 |
| Reclassifications (Note 11) | **–** | 3,500,000 |
| | **125,086,298** | 125,086,298 |
| Accumulated unrealized gain on investment properties: | | |
| Beginning balances | **75,548,045** | 73,393,045 |
| Unrealized valuation gain on investment property | **2,824,044** | 2,155,000 |
| | **78,372,089** | 75,548,045 |
| Ending balances | **₱203,458,387** | ₱200,634,343 |

The investment properties consist of two (2) parcels of land located in Bolinao, Pangasinan and San Fabian, Pangasinan. The Group has no definite plan as to the use of these properties purchased as at December 31, 2014 and 2013. In accordance with PAS 40, *Investment Property*, land held for a currently undetermined future use is classified as investment property. The Parent Company applies the fair value model in measuring the current value of the investment properties.

The Group engaged Vitale Valuation Services, Inc., an independent firm of appraisers, to determine the fair values of the property in Bolinao, Pangasinan and San Fabian, Pangasinan as at November 29, 2012 and November 6, 2012, respectively. The fair valuation was estimated through the direct market comparison approach; categorized as level 3 which is a comparative approach that considers the sales of similar or substitute assets and related market data. The investment property in Bolinao, Pangasinan has a price per square meter of ₱200. The investment property located in San Fabian, Pangasinan has two (2) sites: Site 1 and Site 2 with a price per square meter of ₱1,000 and ₱1,500, respectively.

The significant unobservable input used in the fair value measurement of the Group's investment property is discounts for lack of marketability. Significant increase (decrease) in this input would result in a significantly lower (higher) fair value measurement.

Direct operating expenses related to the investment properties include real property taxes paid in 2014 and 2013 amounting to ₱266,903, ₱354,858 and ₱268,146, respectively.

The Group has no restriction on the realizability of its investment properties and no contractual obligations to purchase, construct or develop investment properties or for repairs, maintenance and enhancements.

## 10. Deferred Charges

The movements in deferred charges follow:

| | 2014 | 2013 |
|---|---|---|
| Beginning balances | **₱91,991,538** | ₱90,928,049 |
| Additions | **8,373,768** | 1,063,489 |
| | **100,365,306** | 91,991,538 |
| Less allowance for impairment loss | **45,742,635** | 45,742,635 |
| Ending balances | **₱54,622,671** | ₱46,248,903 |

Under the SCs entered into with the DOE covering certain petroleum contract areas in various locations in the Philippines, the participating oil companies (collectively known as Contractors) are obliged to provide, at their sole risk, the services, technology and financing necessary in the performance of their obligations under these contracts. The Contractors are also obliged to spend specified amounts indicated in the contract in direct proportion to their work obligations.

However, if the Contractors fail to comply with their work obligations, they shall pay to the government the amount they should have spent but did not, in direct proportion to their work obligations. The participating companies have Operating Agreements among themselves, which govern their rights and obligations under these contracts.

On July 10, 2008, the Group and the Government of the Republic of the Philippines through the DOE, engaged a GSC wherein the Group will undertake and execute the geothermal operations contemplated under the GSC. The geothermal operations shall include geothermal exploration, development and production. It shall also consists of surface exploration and subsurface exploration. Surface exploration deals primarily with reconnaissance to detailed activities, studies and geo-scientific investigations. Subsurface exploration refers mainly to drilling activities for the purpose of making discovery and delineating the reservoir. Geothermal development, on the other hand, refers to the drilling of appraisal, development and reinjection wells and geo-scientific activities related thereto for the purpose of exploiting the delineated geothermal reservoir, which includes the installation of wellhead equipment, collecting pipes and pressure vessels for steam extraction. Geothermal production is the set of activities which involves the actual extraction of geothermal fluid for commercial utilization, but does not include the utilization of such geothermal fluid.

The term of the GSC is for five years from the effective date consisting of three subphases, renewable for another two years.

The 4 new GSCs this year start with a five-year pre-development stage. Afterwards, the developer has to declare commerciality before proceeding to development stage. The second phase can run from 25 to as long as 50 years, depending on results of exploration tests.

The recently received HSCs include hydropower exploration, development, production and utilization, including the construction, installation, operation and maintenance of hydropower systems to convert hydropower to electrical power and the transmission of such electrical power and/or non-electrical uses.

The accumulated costs incurred in connection with the exploration contracts are shown under "Deferred charges" account in the consolidated statements of financial position. The full recovery of these deferred exploration costs is dependent upon determination of technical feasibility and commercial quantity of an identifiable resource.

## 11. Property and Equipment

At cost:

**2014**

| | Office Equipment, Furniture and Fixtures | Building and Leasehold Improvement | Transportation Equipment | Total |
|---|---|---|---|---|
| **Cost:** | | | | |
| **Beginning balances** | ₱9,918,379 | ₱5,156,648 | ₱6,522,935 | ₱21,597,962 |
| **Additions** | 772,646 | – | – | 772,646 |
| **Ending balances** | 10,691,025 | 5,156,648 | 6,522,935 | 22,370,608 |
| **Accumulated Depreciation:** | | | | |
| **Beginning balances** | 9,289,987 | 3,635,818 | 3,499,651 | 16,425,456 |
| **Depreciation (Note 18)** | 589,206 | 172,025 | 1,042,158 | 1,803,389 |
| **Ending balances** | 9,879,193 | 3,807,843 | 4,541,809 | 18,228,845 |
| **Net book values** | ₱811,832 | ₱1,348,805 | ₱1,981,126 | ₱4,141,763 |

2013

| | Land | Office Equipment, Furniture and Fixtures | Building and Leasehold Improvement | Transportation Equipment | Total |
|---|---|---|---|---|---|
| Cost: | | | | | |
| Beginning balances | ₱3,500,000 | ₱9,559,215 | ₱5,156,648 | ₱6,425,195 | ₱24,641,058 |
| Additions | – | 359,164 | – | 97,740 | 456,904 |
| Reclassification (Note 9) | (3,500,000) | – | – | – | (3,500,000) |
| Ending balances | – | 9,918,379 | 5,156,648 | 6,522,935 | 21,597,962 |
| Accumulated Depreciation: | | | | | |
| Beginning balances | – | 8,897,824 | 3,463,793 | 2,482,607 | 14,844,224 |
| Depreciation (Note 18) | – | 392,163 | 172,025 | 1,017,044 | 1,581,232 |
| Ending balances | – | 9,289,987 | 3,635,818 | 3,499,651 | 16,425,456 |
| Net book values | ₱– | ₱628,392 | ₱1,520,830 | ₱3,023,284 | ₱5,172,506 |

At revalued amounts:

| | 2014 | 2013 |
|---|---|---|
| **Revalued Amount** | **₱25,250,000** | ₱25,250,000 |
| **Accumulated Depreciation** | | |
| Beginning balances | **2,562,687** | 879,355 |
| Depreciation (Note 18) | **1,683,334** | 1,683,332 |
| Ending balances | **4,246,021** | 2,562,687 |
| **Net Book Values** | **₱21,003,979** | ₱22,687,313 |

The land located in Imelda, Gutalac, Zamboanga del Norte was reclassified by the Group in 2013 as investment properties from property and equipment.

*Revaluation of Office Condominium*
The Group engaged Royal Asia Appraisal Corporation, an independent firm of appraisers, to determine the fair value of its office condominium as at June 8, 2012. The fair value is determined using the generally accepted sales comparison approach. The date of the appraisal was June 14, 2012. The estimated remaining life of the office condominium is 16.75 years as at appraisal date.

Revaluation increment in office condominium as at December 31, 2014 and 2013 amounted to ₱14,630,975 and ₱15,809,309, respectively, which is presented under the "Revaluation increment in office condominium" account in the consolidated statements of financial position and consolidated statements of changes in equity.

If the office condominium was measured using the cost model, the carrying amount as of December 31, 2014 and 2013 would be as follows:

| | 2014 | 2013 |
|---|---|---|
| Cost | ₱1,730,010 | ₱1,730,010 |
| Accumulated depreciation | (807,338) | (692,004) |
| | ₱922,672 | ₱1,038,006 |

The cost of the Group's fully depreciated assets still in use amounted to ₱11,939,760 and ₱11,012,028 as at December 31, 2014 and 2013, respectively.

## 12. Accounts Payable and Accrued Expenses

| | 2014 | 2013 |
|---|---|---|
| Accounts payable | ₱12,381,693 | ₱978,557 |
| Income tax payable | 97,391 | 45,827 |
| Other payables | 938,757 | 674,223 |
| | ₱13,417,841 | ₱1,698,607 |

Accounts payable consists of short-term and noninterest-bearing trade payables to the Group's local suppliers with an average credit terms of 30 days. Other payables are liabilities to various government agencies generally payable within 30 days.

## 13. Equity

Capital Stock

The details of the capital stock are as follows:

**2014**

| | No. of Shares | Amount |
|---|---|---|
| **Authorized - ₱0.25 par value** | 10,000,000,000 | ₱2,500,000,000 |
| **Unissued** | (8,241,854,545) | (2,060,463,636) |
| **Issued** | 1,758,145,455 | 439,536,364 |
| **Subscribed** | 2,678,578,057 | 669,644,514 |
| **Subscriptions receivable** | (1,877,230,000) | (469,307,500) |
| | 801,348,057 | 200,337,014 |
| | 2,559,493,512 | ₱639,873,378 |

2013

| | No. of Shares | Amount |
|---|---|---|
| Authorized - ₱0.25 par value | 10,000,000,000 | ₱2,500,000,000 |
| Unissued | (8,241,854,545) | (2,060,463,636) |
| Issued | 1,758,145,455 | 439,536,364 |
| Subscribed | 2,646,848,057 | 661,712,014 |
| Subscriptions receivable | (1,877,230,000) | (469,307,500) |
| | 769,618,057 | 192,404,514 |
| | 2,527,763,512 | ₱631,940,878 |

The movements on shares outstanding in 2014 and 2013 are as follows:

| | **2014** | 2013 |
|---|---|---|
| Beginning balances | **2,527,763,512** | 2,442,493,512 |
| Additional subscription | **31,730,000** | – |
| Payment of subscription | – | 85,270,000 |
| Ending balances | **2,559,493,512** | 2,527,763,512 |

Below is the Parent Company's track record of registration:

a. On January 26, 1973, the SEC authorized the Parent Company to sell to the public 617.5 million shares out of its unissued capital stock as of December 31, 1972 within one year from order date, unless extended by the SEC. As of December 31, 1973, the Parent Company's authorized capital stock is 1.5 billion shares with par value of ₱0.01.

b. On September 8, 1973, the Parent Company applied with the Manila Stock Exchange and Makati Stock Exchange for the listing of its capital stock as of September 8, 1973 (495,251,000 fully paid-up shares and with respect to 1,004,749,000 shares, upon full payment and issuance of the corresponding stock certificates). The applications for listing were approved by the Board of Governors of both the Manila Stock Exchange and Makati Stock Exchange on September 30, 1973 and September 13, 1973 respectively. Said listing was duly approved by the SEC on October 16, 1973.

c. On October 17, 1974, the SEC approved the increase in the Parent Company's authorized capital stock from ₱15.0 million (consisting of 1.5 billion shares) to ₱40.0 million (consisting of 4.0 billion shares) at the same par value of ₱0.01. The SEC also approved the 60% stock dividend (₱9.0 million) declaration to stockholders of record as of August 15, 1974. The Parent Company granted to stockholders of record as of November 15, 1974 the right to subscribe at par of ₱0.01 per share to the unissued and unsubscribed portion of the increased capital stock amounting to ₱16.0 million (1.6 billion shares), at the ratio of 2 shares of stock for every 3 shares of stock registered in the stockholders' name.

   On October 23, 1974, the SEC authorized the listing of the additional 2.5 billion shares of the Parent Company's increased capital stock (900.0 million fully paid-up shares representing the 60% stock dividend, and with respect to 1.60 billion shares, upon full payment and issuance of corresponding stock certificates) in the Manila Stock Exchange, Makati Stock Exchange, Inc. and Metropolitan Stock Exchange, Inc. The listing took effect on November 6, 1974. On October 16, 1973, the SEC had authorized the listing of the Parent Company's original shares of stock of 1.5 billion shares in the first two stock exchanges.

d. On February 4, 1976, the SEC approved the increase in authorized capital stock from ₱40.0 million (₱24.0 million or 60% Class A and ₱16.0 million or 40% Class B) to ₱100.0 million (₱60.0 million or 60% Class A and ₱40.0 million or 40% Class B) both with a par value of ₱0.01 per share. The Parent Company also granted pre-emptive rights to stockholders of record as of October 31, 1975 to subscribe at par value of ₱0.01 per share to ₱20.0 million (₱12.0 million Class A and ₱8.0 million Class B) at the ratio of one share for every two shares held. The right was exercisable on or before January 15, 1976 with a 25% down payment and the balance payable upon call by the BOD.

On December 22, 1975, the SEC issued to the Parent Company a "Certificate of Permit to Offer Securities for Sale" covering the said capital increase of ₱60.0 million (₱36.0 million Class A and ₱24.0 million Class B). On February 26, 1976, the listing of the shares representing the said ₱60.0 million increase in authorized capital stock of the Parent Company in the stock exchanges was approved.

e. On November 13, 2007, the SEC approved the increase in the capital stock of the Parent Company for ₱500.0 million consisting of the 2 billion shares to ₱2.5 billion consisting of 10.0 billion shares. Pursuant to this increase, 537.5 million shares to the subscribers to the capital increase were on January 10, 2008.

f. On May 28, 2009, the Parent Company issued 120,853,182 shares to a new investor, ZN Biofuels, Inc., the registration of which was exempt and confirmed as such by the SEC.
g. On September 22, 2009, the Parent Company issued 31,818,182 shares to Shouk Financial Services Ltd., the registration of which was exempt and likewise confirmed as such by the SEC.

h. On September 8, 2011, the SEC approved the Stock Option Plan of the Parent Company granting directors, members of the advisory board, officers and employees of the Parent Company options to purchase, at the par value of ₱0.25 per share, a total of 500,000,000 shares. Out of these shares, 26.7 million have been paid and listed in the Philippine Stock Exchange on January 21, 2013 which was classified as deposit for future stock subscription as of December 31, 2012. On July 24, 2013, the Philippine Stock Exchange approved for listing the remaining 473,000,000 shares.

As at December 31, 2014 and 2013, additional 31.73 million and 58.57 million shares for listing, respectively have been paid and listed in the Philippine Stock Exchange.

SOP

On July 11, 2007, the Parent Company's BOD and stockholders approved the SOP.
On September 8, 2011, the SEC approved the SOP.

The Basic terms and conditions of the SOP are:

- The SOP covers up to 500,000,000 in favor of directors, officers and employees of the Parent Company.
- The agreement provides for an exercise price of ₱0.25 per share.
- These options will be settled in equity once exercised.
- All options are exercisable on the third (3rd) year after the approval of the SOP by the stockholders which will therefore expire on July 11, 2010.

On June 18, 2010, the stockholders approved the extension of the exercise period to July 11, 2013. In 2013, a total of seventeen directors, and the chairman and a member of the advisory board and certain officers of the Parent Company have exercised the stock option plan and subscribed for the total of 500,000,000 shares at the exercise price. Weighted average exercise price amounted to ₱0.25 per share. Out of these shares, 26.7 million have been paid and listed in the Philippine Stock Exchange on January 21, 2013 which was classified as deposit for future stock subscription as at December 31, 2012. On July 24, 2013, the Philippine Stock Exchange approved for listing the remaining 473,000,000 shares. As at December 31, 2013, additional 58.57 million shares have been paid and listed in the Philippine Stock Exchange.

There was no new SOP granted in 2014 and 2013.

The stock price at exercise date is ₱0.25.

## 14. Treasury Stock

The treasury stock represents 18.0 million shares of the Parent Company which are held by BGEC.

## 15. Group Information

Subsidiary with material non-controlling interest
In 2013, the Parent Company entered into an agreement with Petrosolve SDN BHD, a Malaysian corporation engaged in the business of oil fields services, to incorporate Grandway, in which the Parent Company has 70% equity interest. The Group's interest in Grandway is accounted for under PFRS 10, *Consolidated Financial Statements*.

The Parent Company, through Grandway, incorporated PT BES to carry out its oil well business in Indonesia. The Group owns 67% equity interest in PT BES.

This information is based on amounts before intercompany eliminations.

The summarized financial information of SRI, Grandway and PT BES provided below:

| 2014 | SRI | Grandway | PT BES |
|---|---|---|---|
| Non-controlling interest | 27.42% | 30.00% | 33.50% |
| Financial position: | | | |
| Current assets | ₱7,897 | ₱377,660 | ₱8,658,016 |
| Non-current assets | | 173,228,242 | 152,123,599 |
| Current liabilities | (216,954) | (174,086,583) | (181,752,873) |
| Non-controlling interest | (₱57,323) | (₱144,204) | (₱7,025,372) |
| Financial performance: | | | |
| General and administrative expense | ₱96,280 | ₱144,193 | ₱8,933,702 |
| Other income | – | (44) | (29,611) |
| Provision for final tax | – | – | – |
| Group's share in net loss for the year | 69,880 | 100,904 | 5,921,221 |
| Non-controlling interest share in net loss for the year | 26,400 | 43,245 | 2,982,870 |
| Net loss | ₱96,280 | ₱144,149 | ₱8,904,091 |

| 2014 | SRI | Grandway | PT BES |
|---|---|---|---|
| Cash flow: | | | |
| Operating activities | (₱77,883) | (₱131,807) | ₱4,570,646 |
| Investing activities | – | (121,680,467) | (112,693,332) |
| Financing activities | 71,949 | 121,784,690 | 119,716,449 |
| Net increase (decrease) in cash and cash equivalents | (₱5,934) | ₱2,511 | ₱7,577,591 |

| 2013 | SRI | Grandway | PT BES |
|---|---|---|---|
| Non-controlling interest | 27.42% | 30.00% | 33.50% |
| Financial position: | | | |
| Current assets | ₱13,831 | ₱341,609 | ₱253,476 |
| Non-current assets | – | 51,490,451 | 39,488,472 |
| Current liabilities | (126,608) | (52,153,246) | (51,049,952) |
| Non-controlling interest | (₱31,035) | (₱92,090) | (₱4,298,534) |
| | | | |
| Financial performance: | | | |
| General and administrative expense | ₱13,796 | ₱306,971 | ₱12,834,056 |
| Other income | (121) | (4) | (2,959) |
| Provision for final tax | 24 | – | 346 |
| Group's share in net loss for the year | 82,523 | 214,877 | 8,532,909 |
| Non-controlling interest share in net loss for the year | 31,176 | 92,090 | 4,298,534 |
| Net loss | ₱13,699 | ₱306,967 | ₱12,831,443 |
| | | | |
| Cash flow: | | | |
| Operating activities | (₱42,325) | ₱51,846,279 | ₱38,206,266 |
| Investing activities | | (51,490,451) | (39,738,641) |
| Financing activities | | – | – |
| Net increase (decrease) in cash and cash equivalents | (₱42,325) | ₱355,828 | (₱1,532,375) |

## 16. Interest Income

| | **2014** | 2013 | 2012 |
|---|---|---|---|
| Interest income on: | | | |
| AFS financial assets - debt securities (Note 8) | **₱16,485,231** | ₱15,969,439 | ₱6,340,763 |
| Cash and cash equivalents (Note 5) | **442,686** | 2,530,679 | 11,026,845 |
| Short-term cash investments | – | – | 282,379 |
| Long-term cash investment | – | – | 57,379 |
| | **₱16,927,917** | ₱18,500,118 | ₱17,707,366 |

## 17. Related Party Transactions and Relationships

Enterprises and individuals that directly, or indirectly through one or more intermediaries, control or are controlled by or under common control with the Group, including holding companies, subsidiaries and fellow subsidiaries, are related parties of the Group. Associates and individuals owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the enterprise, key management personnel, including directors and officers of the Group and close members of the family of these individuals, and companies associated with these individuals also constitute related parties. In considering each possible related entity relationship, attention is directed to the substance of the relationship and not merely the legal form.

Compensation of Key Management Personnel

a. Shares of stock of the Parent Company held by members of the BOD aggregated to 142,437,245 and 114,497,245 as at December 31, 2014 and 2013, respectively.

b. Compensation of key management personnel consists of short-term employee benefits and post-employment benefits. Short-term employee benefits amounted to ₱10.9 million, ₱10.1 million and ₱11.9 million in 2014, 2013 and 2012, respectively, while, post-employment benefits amounted to ₱8.7 million, ₱4.3 million and ₱3.05 in 2014, 2013 and 2012, respectively.
Directors' remuneration consists only of per diems for attendance at the BOD and Committee meetings. In 2014, 2013 and 2012, total per diems received by the members of the BOD amounted to ₱2.1 million, ₱1.88 million and ₱2.72 million, respectively. There is no existing compensatory plan or arrangement for directors of the Parent Company.

Remuneration of existing officers of the Group are covered in their employment contracts, and except for retirement benefits under the Group's Retirement Plan, there are no existing compensatory plans or arrangements for officers of the Group.

A stock option plan (SOP) for directors and officers was approved by the stockholders on July 11, 2007, and the exercise period was extended to July 2013. The SEC issued on September 8, 2011 a resolution exempting the SOP from the registration requirements under the Securities Regulation Code.

The Parent Company's outstanding amounts of investments in and advances to subsidiaries which were eliminated in the consolidated level are as follows:

**2014**

| | Cost | Allowance for Impairment | Total | Advances | Allowance for Impairment | Total |
|---|---|---|---|---|---|---|
| BDIHI | ₱227,085,800 | ₱227,085,800 | ₱– | ₱21,618,280 | ₱21,439,342 | ₱178,938 |
| SWR | 75,341,250 | 75,341,250 | – | 171,954 | – | 171,954 |
| BBC | 64,000,000 | 64,000,000 | - | 5,814,716 | 5,584,083 | 230,633 |
| iBasic | 53,547,840 | 53,547,840 | – | 3,684,662 | 3,346,880 | 337,782 |
| BGI | 20,000,000 | – | 20,000,000 | 200 | – | 200 |
| BRI | 56,975,000 | 20,000,000 | 36,975,000 | – | – | – |
| Grandway | – | – | – | 173,995,267 | - | 173,995,267 |
| | ₱496,949,890 | ₱439,974,890 | ₱56,975,000 | ₱205,285,079 | ₱30,370,305 | ₱174,914,774 |

2013

| | Investments | Allowance for Impairment | Total | Advances | Allowance for Impairment | Total |
|---|---|---|---|---|---|---|
| BDIHI | ₱227,085,800 | ₱227,085,800 | ₱– | ₱21,548,721 | ₱21,439,342 | ₱109,379 |
| SWR | 75,341,250 | 75,341,250 | – | 100,005 | – | 100,005 |
| BBC | 64,000,000 | 64,000,000 | – | 5,738,370 | 5,584,083 | 154,287 |
| iBasic | 53,547,840 | 53,547,840 | | 3,572,039 | 3,346,880 | 225,159 |
| BGI | 20,000,000 | | 20,000,000 | – | – | – |
| BEFI | 20,000,000 | 20,000,000 | – | 36,975,000 | 36,975,000 | – |
| Grandway | – | – | – | 52,372,365 | – | 52,372,365 |
| | ₱459,974,890 | ₱439,974,890 | ₱20,000,000 | ₱120,306,500 | ₱67,345,305 | ₱52,961,195 |

The amounts of transactions with subsidiaries that were eliminated in the consolidated level are as follows:

| | Amount of Transactions | | Outstanding Receivable Balance | | Terms and |
|---|---|---|---|---|---|
| Nature of Transaction | **2014** | 2013 | **2014** | 2013 | Conditions |
| BRI | | | | | |
| Advances | **₱–** | ₱ | **₱–** | ₱36,975,000 | (*a*), (*e*) |
| Collection of advances | – | – | – | – | |
| BDIHI | | | | | |
| Advances | **69,560** | 111,727 | **21,618,280** | 21,548,721 | (*a*), (*b*) |
| Collection of advances | – | 16,063 | – | – | |
| BBC | | | | | |
| Advances | **76,346** | 156,941 | **5,814,716** | 5,738,370 | (*a*), (*d*) |
| Collection of advances | – | 2,654 | – | – | |
| iBasic | | | | | |
| Advances | **112,623** | 185,429 | **3,684,662** | 3,572,039 | (*a*), (*c*) |
| BGEC | | | | | |
| Advances | **200** | 86,944 | **200** | – | (*a*) |
| Collection of advances | – | 86,944 | – | | |
| SWR | | | | | |
| Advances | **71,949** | 116,709 | **171,954** | 100,005 | (*a*), (*f*) |
| Collection of advances | – | 16,704 | – | – | |
| Grandway | | | | | |
| Advances | **121,622,902** | 52,372,365 | **173,995,267** | 52,372,365 | |
| | | | **205,285,079** | 120,306,500 | |
| Less: allowance for impairment | | | **30,370,305** | 67,345,305 | |
| | | | **₱174,914,774** | ₱52,961,195 | |

*(a) Noninterest bearing, unsecured advances, due and demandable.*
*(b) With allowance for impairment amounting to ₱21,439,342 as at December 31, 2014 and 2013.*
*(c) With allowance for impairment amounting to ₱3,346,880 as at December 31, 2014 and 2013.*
*(d) With allowance for impairment amounting to ₱5,584,083 as at December 31, 2014 and 2013.*
*(e) With 100% provision for impairment as at December 31, 2013.*
*(f) No provision for impairment as at December 31, 2014.*

Reversal of impairment loss on advances to related parties amounted to ₱36,975,000 and nil in 2014 and 2013, respectively.

On June 25, 2014 and December 29, 2014, the BOD and by the vote of the stockholders owning or representing at least two-thirds of the outstanding capital stock and SEC, respectively, approved the conversion of advances to BRI amounting to ₱36,975,000 to investment in subsidiary.

Allowance for impairment loss on investment in subsidiaries amounted to ₱439,974,890 as at December 31, 2014 and 2013. No provision for impairment loss was recognized in 2014 and

2013.

Transactions with Retirement Benefit Fund

a. The Parent Company's retirement benefit fund is in the form of a trust being maintained by a trustee bank.

b. The carrying amount and fair value of the retirement benefit fund as at December 31, 2014 and 2013 amounted to ₱9,518,876 and ₱5,918,763, respectively (see Note 19).

c. The assets and investments of the retirement benefit fund as at December 31, 2014 and 2013 follows:

| | **2014** | 2013 |
|---|---|---|
| Investments in bonds | **₱4,109,609** | ₱2,076,808 |
| Investment in unit investment trust fund | **2,791,217** | 1,928,616 |
| Special savings deposits | **1,397,118** | 1,895,578 |
| Investment in stocks | **1,185,700** | – |
| Others | **43,369** | 17,761 |
| Accrued payables | **(8,137)** | – |
| | **₱9,518,876** | ₱5,918,763 |

d. In 2014 and 2013, the Parent Company contributed ₱3,000,000 and ₱2,500,000 to the retirement benefit fund (see Note 19).

## 18. General and Administrative Expenses

| | **2014** | 2013 | 2012 |
|---|---|---|---|
| Personnel: | | | |
| Salaries and wages | **₱17,748,514** | ₱13,431,877 | ₱14,281,245 |
| Other employee benefits | **4,430,130** | 4,125,341 | 7,912,734 |
| Retirement benefits cost | **3,651,835** | 3,504,951 | 3,147,942 |
| Transportation and travel | **3,621,375** | 3,054,013 | 4,348,504 |
| Depreciation and amortization (Note 11) | **3,486,723** | 3,264,564 | 3,642,532 |
| Representation and entertainment | **3,303,483** | 2,709,818 | 4,643,108 |
| Outside Services | **2,906,578** | 9,517,304 | – |
| Taxes and licenses | **1,871,133** | 3,133,226 | 1,130,770 |
| Professional fees | **1,685,285** | 2,056,846 | 957,196 |
| Communication | **977,944** | 802,892 | 602,201 |
| Utilities | **919,389** | 826,642 | 897,430 |
| Rent | **815,928** | 510,960 | – |
| Office supplies | **492,586** | 342,334 | 278,290 |
| Repairs and maintenance | **171,771** | 226,605 | 180,144 |
| Annual stockholders meeting | – | 804,763 | 704,205 |
| Donation | | 300,000 | 31,000 |
| Association and membership dues | – | 219,385 | 105,273 |
| Arbitration and legal fees | – | – | 2,789,877 |
| Provision for impairment of receivables (Note 6) | – | – | 588,375 |
| Others | **3,254,432** | 1,699,238 | 3,142,757 |
| | **₱49,337,106** | ₱50,530,759 | ₱49,383,583 |

## 19. Retirement Benefits

The Parent Company maintains a funded, noncontributory defined retirement benefit plan covering all qualified employees. A trustee bank is administering the retirement benefits fund under the supervision of the Board of Trustees of the plan. The Board of Trustees is responsible for investment of the assets. It defines the investment strategy as often as necessary, at least annually, especially in the case of significant market developments or changes to the structure of the plan participants. When defining the investment strategy, it takes account of the plans' objectives, benefit obligations and risk capacity. The investment strategy is defined in the form of a long-term target structure (investment policy). The Board of Trustees delegates the implementation of the investment.

The following tables summarize the components of retirement benefits cost recognized in the consolidated statements of comprehensive income and the amounts recognized in the consolidated statements of financial position.

The amounts of defined benefit retirement obligation recognized in the consolidated statements of financial position follow:

| 2014 | Defined Benefit Liability | Fair Value of Plan Assets | Net Defined Benefit Liability |
|---|---|---|---|
| **At January 1** | **₱13,886,400** | **(₱5,918,763)** | **₱7,967,637** |
| **Interest cost (income)** | **602,861** | **(326,716)** | **276,145** |
| **Current service cost** | **3,375,690** | **–** | **3,375,690** |
| | **3,978,551** | **(326,716)** | **3,651,835** |
| **Actuarial (gain) loss:** | | | |
| **Change in financial assumptions** | **2,103,673** | **–** | **2,103,673** |
| **Remeasurement gain** | **–** | **(273,397)** | **(273,397)** |
| **Experience adjustments** | **1,463,421** | **–** | **1,463,421** |
| | **3,567,094** | **(273,397)** | **3,293,697** |
| **Contributions** | **–** | **(3,000,000)** | **(3,000,000)** |
| **At December 31** | **₱21,432,045** | **(₱9,518,876)** | **₱11,913,169** |

| 2013 | Defined Benefit Liability | Fair Value of Plan Assets | Net Defined Benefit Liability |
|---|---|---|---|
| At January 1 | ₱11,573,100 | (₱3,659,328) | ₱7,913,772 |
| Interest cost (income) | 541,147 | (247,010) | 294,137 |
| Current service cost | 3,210,814 | – | 3,210,814 |
| | 3,751,961 | (247,010) | 3,504,951 |
| Actuarial losses (gains): | | | |
| Change in financial assumptions | 871,900 | | 871,900 |
| Remeasurement gain | – | (37,796) | (37,796) |
| Changes in demographic assumption | (1,785,190) | – | (1,785,190) |
| | (913,290) | (37,796) | (951,086) |
| Benefits paid | (525,371) | 525,371 | |
| Contributions | | (2,500,000) | (2,500,000) |
| At December 31 | ₱13,886,400 | (₱5,918,763) | ₱7,967,637 |

The major categories of the Company's plan assets as a percentage of the fair value of total plan assets are as follows:

| | 2014 | 2013 |
|---|---|---|
| Money market investments | **85%** | 68% |
| Cash in bank and other receivables | **15%** | 32% |
| | **100.00%** | 100.00% |

The cost of defined benefit pension plans and other post-employment medical benefits as well as the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. The principal assumptions used in determining pension and post-employment medical benefit obligations for the defined benefit plans are shown below:

| | 2014 | 2013 |
|---|---|---|
| Discount rate | **4.61%** | 5.52% |
| Salary projection rate | **8.00%** | 8.00% |

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as at end of the financial reporting date, assuming if all other assumptions were held constant:

| | Increase (Decrease) | Salary Increase Rate |
|---|---|---|
| Discount rate | +1.00% | (₱2,277,258) |
| | -1.00% | ₱2,812,345 |
| Future salary increase | +1.00% | ₱2,600,789 |
| | -1.00% | (₱2,167,294) |

The Group expects to contribute ₱10.0 million to the defined benefit pension plan in 2015.

## 20. Income Taxes

a. Being engaged in petroleum operations in the Philippines, the Parent Company and SWR are entitled to certain tax incentives under Presidential Decree (PD) No. 87, as amended. Under PD No. 87, contractors are exempt from all taxes, except income taxes.

b. Current income tax in 2014, 2013 and 2012 pertains to MCIT. Provision for income tax consists of::

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| Current | **₱97,391** | ₱45,827 | ₱102,770 |
| Deferred | **(12,025,391)** | 3,429,822 | (868,862) |
| | **(11,928,000)** | 3,475,649 | (766,092) |
| Final tax | **3,332,074** | 3,679,802 | 3,480,804 |
| Capital gains tax | **–** | – | 12,589,629 |
| | **(₱8,595,926)** | ₱7,155,451 | ₱15,304,341 |

c. The components of net deferred income tax assets recognized by the Group as at December 31, 2014 and 2013 are as follows:

| | 2014 | 2013 |
|---|---|---|
| Deferred income tax assets on: | | |
| NOLCO | ₱10,389,557 | ₱210,054 |
| Accrued retirement benefits | 1,426,736 | 1,231,187 |
| MCIT | 97,392 | – |
| Other payables | 75,867 | 75,867 |
| | 11,989,552 | 1,517,108 |
| Deferred income tax liability on: | | |
| Revaluation increment on office condominium | (6,270,416) | (6,775,416) |
| Unrealized foreign exchange gain | (1,020,034) | (2,067,981) |
| | (7,290,450) | (8,843,397) |
| Accrued retirement benefits - OCI | 2,147,214 | 1,159,104 |
| Net deferred income tax assets (liabilities) | ₱6,846,316 | (₱6,167,185) |

d. As at December 31, 2014 and 2013, the Group has temporary difference for which no deferred income tax asset was recognized as management expects that it is not probable that sufficient future taxable profit will be available against which deferred income tax asset can be utilized. Details are as follows:

| | 2014 | 2013 |
|---|---|---|
| NOLCO | ₱80,963,756 | ₱122,571,672 |
| Allowance for impairment on: | | |
| Deferred charges | 45,742,635 | 45,742,635 |
| AFS financial assets | 4,090,935 | 4,090,935 |
| Receivables | 2,549,217 | 2,549,217 |
| Pre-operating expenses | 3,415,997 | 3,415,997 |
| Excess of MCIT over RCIT | 148,597 | 313,574 |
| | ₱136,911,137 | ₱178,684,030 |

e. As at December 31, 2014, the Group has NOLCO and MCIT that can be utilized as deduction from future taxable income and income tax due, respectively, follow:

| Year Incurred | NOLCO | Excess MCIT over RCIT | Expiry Year |
|---|---|---|---|
| 2014 | ₱35,435,230 | ₱97,392 | 2017 |
| 2013 | 40,939,479 | 45,827 | 2016 |
| 2012 | 40,024,277 | 102,770 | 2015 |
| | ₱116,398,986 | ₱245,989 | |

Movements in NOLCO and excess MCIT follow:

| NOLCO | 2014 | 2013 |
|---|---|---|
| Beginning balances | ₱123,271,852 | ₱177,122,782 |
| Additions | 35,435,230 | 40,939,479 |
| Expirations | (42,308,096) | (94,790,409) |
| Ending balances | ₱116,398,986 | ₱123,271,852 |

| MCIT | 2014 | 2013 |
|---|---|---|
| Beginning balances | **₱313,574** | ₱267,747 |
| Additions | **97,392** | 45,827 |
| Expirations | **(164,977)** | – |
| Ending balances | **₱245,989** | ₱313,574 |

For income tax purposes, the BGEC's and BBC's pre-operating expenses totaling ₱3,415,997 as at December 31, 2014, 2013 and 2012, respectively, will be amortized over five years from the start of commercial operations.

f. The reconciliation of the provision fo (benefit from) income tax computed at the statutory tax rate to the provision for income tax as shown in the consolidated profit or loss follows:

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| Provision for (benefit from) income tax computed at 30% | **(₱4,568,251)** | (₱5,997,064) | ₱78,252,897 |
| Adjustments for: | | | |
| Movement in temporary differences for which no deferred income tax assets were recognized | **(9,894,875)** | 14,031,739 | 9,723,633 |
| Interest income subjected to final tax | **(1,746,301)** | (935,696) | (2,056,983) |
| Non-taxable income subjected to final tax | **(2,390,886)** | – | – |
| Nondeductible expenses | **991,045** | 10,645 | 1,793,484 |
| Gain on sale of AFS investments subjected to final tax | **(3,549,119)** | – | – |
| Expiration of NOLCO and MCIT | **12,857,406** | 45,827 | 102,770 |
| Capital gains tax | **–** | – | 12,589,629 |
| Effect of lower tax rate on fair value adjustments on investment properties | – | – | (17,614,334) |
| Income from previous sale of BPMI subject to capital gains tax | – | – | (67,486,755) |
| Others | **(294,945)** | – | – |
| Provision for (benefit from) income tax | **(₱8,595,926)** | ₱7,155,451 | ₱15,304,341 |

## 21. Basic/Diluted Earnings Per Share

The following reflects the income and share data used in the basic and diluted earnings per share computation:

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| Net income (loss) attributable to equity holders of the Parent Company (a) | **(₱3,579,062)** | (₱22,723,865) | ₱245,443,662 |
| Transaction cost on potential issuance of common shares | – | | (625,000) |
| Net income attributable to holders of the Parent Company adjusted for the effect of dilution (b) | **(₱3,579,062)** | (₱22,723,865) | ₱244,818,662 |
| Weighted average number of shares for basic earnings per share (c ) | **2,559,493,512** | 2,527,763,512 | 2,442,493,512 |
| Stock options (Note 18) | – | | 500,000,000 |
| Weighted average number of shares adjusted for the effect of dilution (d) | **2,559,493,512** | 2,527,763,512 | 2,942,493,512 |
| Basic earnings (loss) per share (a/c) | **(₱0.001)** | (₱0.009) | ₱0.101 |
| Diluted earnings (loss) per share (b/d) | **(0.001)** | (0.009) | 0.083 |

There have been no other transactions involving common shares or potential common shares between the end of financial reporting period and the date of issuance of these consolidated financial statements.

## 22. Segment Information

The primary segment reporting format is determined to be divided into business segments for which the Group's risk and rate of return are affected predominantly by differences in the products produced. The operating businesses are organized and managed separately through the Parent Company and its subsidiaries according to the nature of the products provided, with each segment representing a strategic business unit that offers different products to different markets.

As of December 31, 2014 and 2013, the Group has three main business segments - investment holding, agriculture and energy oil and gas exploration.

The Group's operating business segments remain to be neither organized nor managed by geographical segment.

The following table presents certain segment results, assets and liability information regarding the Group's business segments:

**2014**

| | Investment Holding | Energy, Oil and Gas Exploration | Eliminations | Total |
|---|---|---|---|---|
| **Results:** | | | | |
| Income (loss) before income tax | ₱31,212,710 | (₱9,465,213) | (₱36,975,000) | (₱15,227,503) |
| Benefit from (provision for) income tax | 8,596,379 | (453) | – | 8,595,926 |
| Net income (loss) | 39,809,090 | (9,465,666) | (36,975,000) | (6,631,577) |
| **Assets and Liabilities:** | | | | |
| Segment assets | ₱881,636,440 | ₱184,678,145 | (₱406,580,413) | ₱659,734,172 |
| Investment properties | 199,096,387 | 4,362,000 | – | 203,458,387 |
| Consolidated total assets | ₱1,080,732,827 | ₱189,040,145 | (406,580,413) | ₱863,192,559 |

| | Investment Holding | Energy, Oil and Gas Exploration | Eliminations | Total |
|---|---|---|---|---|
| Consolidated total liabilities | ₱214,157,267 | ₱169,723,882 | (₱357,661,425) | ₱26,219,724 |
| Other Segment Information: | | | | |
| Additions to: | | | | |
| Property and equipment | ₱772,646 | ₱– | ₱– | ₱772,646 |
| Deferred charges | – | 54,622,671 | – | 54,622,671 |
| Project development costs | – | 151,979,511 | | 151,979,511 |
| Depreciation | 3,428,519 | 58,204 | – | 3,486,723 |

2013

| | Investment Holding | Energy, Oil and Gas Exploration | Agriculture | Eliminations | Total |
|---|---|---|---|---|---|
| Results: | | | | | |
| Income (loss) before income tax | (₱7,928,153) | (₱11,946,372) | (₱115,689) | ₱ | (₱19,990,214) |
| Provision for income tax | (6,828,524) | (324,945) | (1,982) | | (7,155,451) |
| Net income (loss) | (14,756,677) | (₱12,271,317) | (₱117,671) | ₱– | (27,145,665) |
| Assets and Liabilities: | | | | | |
| Segment assets | ₱666,966,231 | ₱110,837,026 | ₱790,798 | (₱124,765,451) | ₱653,828,604 |
| Investment properties | 196,272,343 | 4,362,000 | – | | 200,634,343 |
| Consolidated total assets | ₱863,238,574 | ₱115,199,026 | ₱790,798 | (₱124,765,451) | ₱854,462,947 |
| Consolidated total liabilities | ₱94,477,000 | ₱57,239,848 | ₱36,999,084 | (₱171,993,789) | ₱16,722,143 |
| Other Segment Information: | | | | | |
| Additions to: | | | | | |
| Property and equipment | ₱230,673 | ₱226,231 | ₱– | ₱– | ₱456,904 |
| Deferred charges | – | 46,248,903 | – | – | 46,248,903 |
| Project development costs | – | 39,286,179 | – | – | 39,286,179 |
| Depreciation | 3,240,625 | 23,939 | – | – | 3,264,564 |

2012

| | Investment Holding | Energy, Oil and Gas Exploration | Agriculture | Eliminations | Total |
|---|---|---|---|---|---|
| Results | | | | | |
| Income (loss) before income tax | ₱262,506,598 | ₱397,530 | (₱1,493,911) | (₱728,497) | ₱260,681,720 |
| Provision for income tax | (15,125,860) | (127,066) | (3,034) | – | 15,255,960 |
| Net income (loss) | ₱247,380,738 | ₱270,464 | (₱1,496,945) | (₱728,497) | ₱245,425,760 |
| Assets and Liabilities | | | | | |
| Segment assets | ₱602,203,531 | ₱70,664,627 | ₱951,483 | (₱21,155,843) | ₱652,663,798 |
| Investment properties | 193,479,343 | – | – | – | 193,479,343 |
| Deferred income tax assets | 13,311,942 | – | – | | 13,311,942 |
| Consolidated total assets | ₱808,994,816 | ₱70,664,627 | ₱951,483 | (₱21,155,843) | ₱859,455,083 |
| Consolidated total liabilities | ₱47,211,568 | ₱5,795,167 | ₱37,042,100 | (₱67,398,750) | ₱22,650,085 |
| Other Segment Information | | | | | |
| Provision for impairment loss | ₱3,776,778 | ₱– | ₱– | ₱– | ₱3,776,778 |
| Additions to: | | | | | |
| Property and equipment | 3,365,792 | – | – | – | 3,365,792 |
| Deferred charges | – | 45,185,414 | | | 45,185,414 |
| Project development costs | – | – | – | – | – |
| Depreciation and amortization | 2,892,146 | – | 750,386 | | 3,642,532 |

## 23. Fair Value Measurements

Fair value is defined as 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. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models, as appropriate.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate such value:

*Cash and cash equivalents, receivables and accounts payable and accrued expenses*
Due to the short-term nature of cash and cash equivalents, receivables and accounts payable and dividends payable and accrued expenses, the carrying values of these accounts were assessed to approximate their fair values.

*AFS financial assets*
AFS financial assets in quoted equity instruments and quoted debt instruments are carried in the consolidated statement of financial position at fair value, which is determined by reference to quoted market prices at the close of business on the reporting date. AFS financial assets in unquoted equity instruments are composed of non-listed shares of common stock and proprietary clubs membership which are carried at cost because fair value cannot be reliably measured. Fair value cannot be reasonably determined because the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed.

*Investment Properties*
Investment properties are carried in the consolidated statement of financial position at fair value, which reflects market conditions at the reporting date.

Fair Value Hierarchy
As at December 31, 2014 and 2013, the following table presents the level of hierarchy of the Company's AFS debt and equity instruments:

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Level 1 | Level 2 | Level 3 |
| Recurring fair value measurements: | | | | | | |
| AFS Financial Assets | | | | | | |
| Quoted debt securities | ₱268,205,803 | ₱– | ₱– | ₱317,960,235 | ₱– | ₱– |
| Quoted equity securities | 95,957,713 | – | – | 78,816,364 | – | – |
| Unquoted equity securities | – | – | 135,248 | – | – | 54,648,364 |
| | 364,163,516 | – | 135,248 | 396,776,599 | – | 54,648,364 |
| Investment properties | | – | 203,458,387 | – | – | 200,634,343 |
| | ₱364,163,516 | ₱– | ₱203,593,635 | ₱396,776,599 | ₱– | ₱255,282,707 |

Fair value of quoted debt and equity securities available-for-sale financial assets is derived from quoted market prices in active markets.

Fair value of investment properties are derived using the direct market comparison approach (Note 9).

As at December 31, 2014 and 2013, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements.

## 24. Financial Risk Management Objectives and Policies

The Group's financial instruments consist of cash and cash equivalents, receivables, AFS financial assets, accounts payables, accrued expenses and dividends payable. Cash and cash equivalents, short-term and long-term cash investments and AFS financial assets are used for investment purposes, while receivables, accounts payable and dividends payable arise from operations.

The Group's activities expose it to a variety of financial risks: foreign exchange risk, price risk, credit risk and liquidity risk. The Group has no significant exposure to interest rate risk as of December 31, 2014 and 2013. The Group's overall risk management program focuses on minimizing the potential adverse effects on the Group's financial performance due to unpredictability of financial markets.

The Group's exposures to these risks are managed through close monitoring by the Group's key management and BOD through the Finance and Investments Committee.

*Foreign exchange risk*
Foreign exchange risk is the risk to earnings or capital arising from changes in foreign exchange rates. The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial statements. Fluctuations in exchange rates can have significant effects on the Group's reported results. The Group is exposed to foreign exchange risk arising from its foreign currency-denominated cash, receivable and AFS financial assets accounts. The Group's policy is to minimize economic and material transactional exposures arising from currency movements against the Philippine Peso.

The Group's foreign currency-denominated exposures comprise significantly of its exposure in its US$, Great Britain Pound (GBP), and Indonesia Rupiah (IDR) financial assets.

The Group's significant foreign currency-denominated financial assets as at December 31, 2014 and 2013 are as follows:

| | **2014** | | 2013 | |
|---|---|---|---|---|
| | **Original Currency** | **Peso Equivalent** | Original Currency | Peso Equivalent |
| Assets: | | | | |
| Cash and cash equivalents: | | | | |
| US$ | **7,695** | **₱344,120** | 1,463,831 | ₱64,986,777 |
| IDR | **2,178,896,351** | **7,795,233** | 60,456,142 | 217,642 |
| AFS financial assets: | | | | |
| Quoted equity investments: | | | | |
| US$ | **2,500** | **111,800** | 9,000 | 399,555 |
| GBP | **2,400** | **166,575** | 8,300 | 605,045 |
| | | **₱8,417,728** | | ₱66,209,019 |

For purposes of translating the foreign currency-denominated monetary assets and liabilities as of December 31, the exchange rates applied were as follows:

| | **2014** | 2013 |
|---|---|---|
| US$ | **44.720** | 44.395 |
| GBP | **69.406** | 72.897 |
| IDR | **0.0036** | 0.0036 |

The following table summarizes the impact on the consolidated financial statements of reasonably possible changes in the exchange rates of foreign currencies against the Philippine Peso as at December 31, 2014 and 2013 until the Group's next financial reporting date:

| | Change in US$ rate | Increase (decrease) in income before income tax |
|---|---|---|
| **2014** | **+ 0.7%** | **₱51,489** |
| | **- 0.7%** | **(51,489)** |
| 2013 | + 8% | ₱5,230,907 |
| | - 8% | (5,230,907) |

| | Change in GBP rate | Increase (decrease) in income before income tax |
|---|---|---|
| **2014** | **+ 5%** | **₱8,329** |
| | **- 5%** | **(8,329)** |
| 2013 | + 10% | ₱60,505 |
| | - 10% | (60,505) |

| | Change in IDR rate | Increase (decrease) in income before income tax |
|---|---|---|
| **2014** | **+ 16%** | **₱34,823** |
| | **- 16%** | **(34,823)** |

There is no other effect on the Group's equity other than those already affecting the consolidated income before income tax.

*Price risk*
Price risk is the risk that the value of a financial instrument will fluctuate because of changes in market prices. The Group is exposed to equity securities price risk because of investments held by the Group, which are classified on the consolidated statements of financial position as AFS financial assets. The Group employs the service of a third party stock broker to manage its investment in shares of stock.

The following table presents the effect on the consolidated financial statements of reasonably possible changes in market prices of AFS financial assets - quoted equity and debt securities as of December 31, 2014 and 2013 until the Group's next financial reporting date:

| | Change in Quoted Prices of Investments Carried at Fair Value | Increase (decrease) in equity |
|---|---|---|
| 2014 | | |
| **AFS financial assets** | **Increase by 11.9%** | **₱7,293,201** |
| **AFS financial assets** | **Decrease by 11.9%** | **(7,293,201)** |
| 2013 | | |
| AFS financial assets | Increase by 9% | ₱35,709,915 |
| AFS financial assets | Decrease by 9% | (35,709,915) |

*Credit risk*

Credit risk is the risk that the Group will incur a loss because its counterparties failed to discharge their contractual obligations. The Group manages and controls credit risk by doing business only with recognized, creditworthy third parties. Receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The Group does not have any collateral held as security and other credit enhancements on its financial assets as of December 31, 2014 and 2013. Therefore, the Group's maximum exposure to credit risk is equal to the carrying amount of its financial assets as at December 31, 2014 and 2013.

It is the Group's policy to maintain the receivables at a low level except for one-time non-trade transaction which the Group classifies under the collectible/not impaired because the parties have no history of default especially on transactions as agreed on the contract.

The following table provides information regarding the credit quality by class of financial assets (amounts gross of allowance for credit losses) based on the Group's credit rating system:

| | 2014 | | |
|---|---|---|---|
| | Neither Past Due nor Impaired (Satisfactory) | Past Due And Impaired | Total |
| Loans and receivable: | | | |
| Cash and cash equivalents* | ₱47,136,418 | ₱– | ₱47,136,418 |
| Receivables: | | | |
| Interest receivable | 1,160,796 | – | 1,160,796 |
| Other receivables | 1,641,460 | 2,549,217 | 4,190,677 |
| | 2,802,256 | 2,549,217 | 5,351,473 |
| AFS financial assets: | | | |
| Debt securities - quoted, at fair value | 268,205,803 | – | 268,205,803 |
| Quoted equity investments | 95,957,713 | – | 95,957,713 |
| Unquoted equity investments | 135,248 | 4,090,435 | 4,225,683 |
| | 364,298,764 | 4,090,435 | 368,389,199 |
| | ₱414,237,438 | ₱6,639,652 | ₱420,877,090 |

*Excluding cash on hand.*

| | 2013 | | |
|---|---|---|---|
| | Neither Past Due nor Impaired (Satisfactory) | Past Due And Impaired | Total |
| Loans and receivable: | | | |
| Cash and cash equivalents* | ₱80,536,778 | ₱– | ₱80,536,778 |
| Receivables: | | | |
| Interest receivable | 1,693,932 | – | 1,693,932 |
| Other receivables | 1,337,967 | 2,732,947 | 4,070,914 |
| | 3,031,899 | 2,732,947 | 5,764,846 |
| AFS financial assets: | | | |
| Debt securities - quoted, at fair value | 317,960,235 | | 317,960,235 |
| Quoted equity investments | 78,816,597 | – | 78,816,597 |
| Unquoted equity investments | 54,648,364 | 4,090,435 | 58,738,799 |
| | 451,425,196 | 4,090,435 | 455,515,631 |
| | ₱534,993,873 | ₱6,823,382 | ₱541,817,255 |

*Excluding cash on hand.*

The credit quality of the financial assets was determined as follows:

Financial instruments classified as "high grade" are those cash and cash equivalents and cash investments transacted with reputable local and multi-national banks and receivables with some history of default on the agreed terms of the contract. AFS financial assets are considered "high grade" since these are invested in blue chip shares of stock. "Past due and impaired" are those that are long outstanding and has been fully provided with an allowance for doubtful accounts. There are no past due but not impaired receivables as of December 31, 2013 and 2012, respectively.

Concentrations of credit risk arise from financial instruments that have similar characteristics and are affected similarly by changes in economic or other conditions. There are no significant concentrations of credit risk within the Group arising from financial assets since these are not directly affected by changes in economic or other external conditions.

*Liquidity risk*

Liquidity risk is defined as the risk that the Group could not be able to settle or meet its obligations on time or at a reasonable price. Management is responsible for liquidity, funding as well as settlement management. Management also ensures that the Group will maximize its gain on trading of marketable securities to finance future capital intensive projects. The Group manages its liquidity risk on a consolidated basis based on business needs, tax, capital or regulatory considerations, if applicable, through numerous sources of finance in order to maintain flexibility.

The Group manages its liquidity profile to be able to finance its working capital requirements and capital expenditures and service due and maturing debts. To cover its financing requirements, the Parent Company intends to use internally generated funds. The BOD closely monitors the Parent Company's financial position during its regular meetings.

The table below summarizes the maturity profile of the financial instruments of the Group based on remaining contractual undiscounted cash flows:

| | 2014 | | | |
|---|---|---|---|---|
| | Less than 3 months | More than 3 months but less than one year | More than one year | Total |
| **Financial assets** | | | | |
| Loans and receivable: | | | | |
| Cash and cash equivalents | ₱47,143,661 | ₱– | ₱– | ₱47,143,661 |
| Receivables: | | | | |
| Accrued interest receivable | 1,160,796 | – | – | 1,160,796 |
| Other receivables | 1,641,460 | – | – | 1,641,460 |
| | 49,945,917 | – | – | 49,945,917 |
| AFS financial assets - Quoted debt Securities | | 55,291,146 | 212,914,657 | 268,205,803 |
| | 49,945,917 | 55,291,146 | 212,914,657 | 318,151,720 |
| **Financial liabilities** | | | | |
| Loans and borrowings: | | | | |
| Accounts payable and accrued expenses: | | | | |
| Accounts payable | 12,615,823 | – | – | 12,615,823 |
| Dividends payable | 888,714 | – | – | 888,714 |
| | 13,504,537 | – | – | 13,504,537 |
| Net liquidity position | ₱36,441,380 | ₱55,291,146 | ₱212,914,657 | ₱304,647,183 |

| | 2013 | | | |
|---|---|---|---|---|
| | Less than 3 months | More than 3 months but less than one year | More than one year | Total |
| Financial assets | | | | |
| Loans and receivable: | | | | |
| Cash and cash equivalents | ₱80,542,774 | ₱– | ₱– | ₱80,542,774 |
| Receivables. | | | | |
| Accrued interest receivable | 1,693,932 | | | 1,693,932 |
| Other receivables | 1,337,967 | – | – | 1,337,967 |
| | 83,574,673 | – | – | 83,574,673 |
| AFS financial assets - Quoted debt Securities | – | 55,291,146 | 262,669,089 | 317,960,235 |
| | 83,574,673 | 55,291,146 | 262,669,089 | 401,534,908 |
| Financial liabilities | | | | |
| Loans and borrowings: | | | | |
| Accounts payable and accrued expenses: | | | | |
| Accounts payable | 978,557 | – | – | 978,557 |
| Dividends payable | 888,714 | | | 888,714 |
| | 1,867,271 | | – | 1,867,271 |
| Net liquidity position | ₱81,707,402 | ₱55,291,146 | ₱262,669,089 | ₱399,667,637 |

Capital Management
The objective of the Group's capital management is to ensure that it maintains a healthy capital ratio in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may issue new shares. No changes were made on the objectives, policies or processes during the years ended December 31, 2014 and 2013.

Management of working capital focuses on short-term decisions relating to cash and cash equivalents and other current assets and liabilities. The goal of working capital management is to ensure that the Group is able to continue its business operations and that it has sufficient funds to satisfy maturing current liabilities and operating expenses.

As at December 31, 2014 and 2013, the Group is not subject to any externally imposed capital requirements.

The table below summarizes the total capital considered by the Group:

| | 2014 | 2013 |
|---|---|---|
| Capital stock | ₱639,873,378 | ₱631,940,878 |
| Additional paid-in capital | 32,699,360 | 32,699,360 |
| Retained earnings | 131,173,688 | 133,574,416 |
| | ₱803,746,426 | ₱798,214,654 |

SGV
Building a better working world

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ey.com/ph

BOA/PRC Reg. No. 0001,
December 28, 2012, valid until December 31, 2015
SEC Accreditation No. 0012-FR-3 (Group A),
November 15, 2012, valid until November 16, 2015

**INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY SCHEDULES**

The Stockholders and the Board of Directors
Basic Energy Corporation
7th Floor, Basic Petroleum Building
C. Palanca, Jr. Street, Legaspi Village
Makati City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Basic Energy Corporation and its subsidiaries as at December 31, 2014 and 2013 and for each of the three years in the period ended December 31, 2014, included in this Form 17-A, and have issued our report thereon dated March 26, 2014. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011) and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Jaime F. del Rosario
Partner
CPA Certificate No. 56915
SEC Accreditation No. 0076-AR-3 (Group A),
March 21, 2013, valid until March 20, 2016
Tax Identification No. 102-096-009
BIR Accreditation No. 08-001998-72-2012,
April 11, 2012, valid until April 10, 2015
PTR No. 4751273, January 2, 2015, Makati City

March 26, 2015

**BASIC ENERGY CORPORATION AND SUBSIDIARIES**
**INDEX TO THE FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES**

**BASIC ENERGY CORPORATION AND SUBSIDIARIES**
**SUPPLEMENTARY SCHEDULES UNDER ANNEX 68-E**
**PURSUANT TO SRC RULE 68, AS AMENDED**
**DECEMBER 31, 2014**

**Schedule A. Financial Assets**

*AFS financial assets*

| Description | Beginning balances | Disposals at cost | Increase (decrease) in fair value, net | Ending balances |
|---|---|---|---|---|
| Debt securities - quoted, at fair value | ₱317,960,235 | (₱35,420,560) | (₱14,333,872) | ₱268,205,803 |
| Investments in shares of stock: | | | | |
| Quoted | 78,816,597 | – | 17,141,116 | 95,957,713 |
| Unquoted | 54,648,364 | (54,513,116) | – | 135,248 |
| | 133,464,961 | (89,933,676) | 17,141,116 | 96,092,961 |
| | ₱451,425,196 | (₱89,933,676) | ₱2,807,244 | ₱364,298,764 |

**BASIC ENERGY CORPORATION AND SUBSIDIARIES**
**SUPPLEMENTARY SCHEDULES UNDER ANNEX 68-E**
**PURSUANT TO SRC RULE 68, AS AMENDED**
**DECEMBER 31, 2014**

**Schedule B. Amounts Receivable from Directors, Officers, Employees, and Principal Stockholders (Other than Related Parties)**

| Name and designation of debtor | Beginning balances | Additions | Amounts collected | Amounts written off | Current | Not current | Ending balances |
|---|---|---|---|---|---|---|---|
| Advances to Officers and Employees | 11,525 | ₱159,034 | ₱– | ₱– | ₱170,559 | ₱– | ₱170,559 |

**BASIC ENERGY CORPORATION AND SUBSIDIARIES**
**SUPPLEMENTARY SCHEDULES UNDER ANNEX 68-E**
**PURSUANT TO SRC RULE 68, AS AMENDED**
**DECEMBER 31, 2014**

**Schedule C. Amounts Receivable from Related Parties which are eliminated during the Consolidation of Financial Statements**

| Name and designation of debtor | Beginning balances | Additions | Amounts collected | Amounts written off | Current | Not current | Ending balances |
|---|---|---|---|---|---|---|---|
| BRI | ₱36,975,000 | ₱– | ₱36,975,000 | ₱– | ₱– | ₱– | ₱– |
| BDIHI | 21,548,721 | 69,560 | – | | – | – | 21,618,281 |
| BBC | 5,738,370 | 76,346 | – | – | – | | 5,814,716 |
| iBasic | 3,572,039 | 112,623 | – | – | – | – | 3,684,662 |
| BGI | – | 200 | – | – | – | – | 200 |
| SWR | 100,005 | 71,949 | – | – | – | – | 171,954 |
| Grandway | 52,372,365 | 121,622,902 | – | – | – | – | 173,995,267 |

**BASIC ENERGY CORPORATION AND SUBSIDIARIES**
**SUPPLEMENTARY SCHEDULES UNDER ANNEX 68-E**
**PURSUANT TO SRC RULE 68, AS AMENDED**
**DECEMBER 31, 2014**

**Schedule D. Intangible Assets - Other Noncurrent Assets**

| Description | Beginning balance | Additions at cost | Charged to cost and expenses | Charged to other accounts | Other charges additions (deductions) | Ending balance |
|---|---|---|---|---|---|---|
| Goodwill | ₱3,757,602 | ₱– | ₱– | ₱– | ₱– | ₱3,757,602 |

**BASIC ENERGY CORPORATION AND SUBSIDIARIES**
**SUPPLEMENTARY SCHEDULES UNDER ANNEX 68-E**
**PURSUANT TO SRC RULE 68, AS AMENDED**
**DECEMBER 31, 2014**

**Schedule E. Long Term Debt**

| Title of issue and type of obligation | Amount authorized by indenture | Amount shown under caption 'Current position of long term debt' in related statement of financial position | Amount shown under caption 'Long Term Debt' in related statement of financial position |
|---|---|---|---|
| | - Not applicable - | | |

**BASIC ENERGY CORPORATION AND SUBSIDIARIES**
**SUPPLEMENTARY SCHEDULES UNDER ANNEX 68-E**
**PURSUANT TO SRC RULE 68, AS AMENDED**
**DECEMBER 31, 2014**

**Schedule F. Indebtedness to Related Parties (Long-Term Loans from Related Companies)**

| Name of related party | Balance at beginning of period | Balance at end of period |
|---|---|---|
| | - Not applicable - | |

**BASIC ENERGY CORPORATION AND SUBSIDIARIES**
**SUPPLEMENTARY SCHEDULES UNDER ANNEX 68-E**
**PURSUANT TO SRC RULE 68, AS AMENDED**
**DECEMBER 31, 2014**

**Schedule G. Guarantees of Securities of Other Issuers**

| Name of issuing entity of securities guaranteed by the Group for which this statement is filed | Title of issue of each class of securities guaranteed | Total amount guaranteed and outstanding | Amount owned by a person for which statement is filed | Nature of guarantee |
|---|---|---|---|---|
| | | - Not applicable - | | |

**BASIC ENERGY CORPORATION AND SUBSIDIARIES**
**SUPPLEMENTARY SCHEDULES UNDER ANNEX 68-E**
**PURSUANT TO SRC RULE 68, AS AMENDED**
**DECEMBER 31, 2014**

**Schedule H. Capital Stock**

| Title of issue | Number of shares authorized | Number of shares issued and outstanding as shown under related financial condition caption | Number of shares reserved for options, warrants, conversion and other rights | No of shares held by: Employees | Directors and Officers | Others |
|---|---|---|---|---|---|---|
| Common shares | 10,000,000,000 | 2,557,693,512 | – | 2,500,000 | 144,292,842 | 2,025,000 |

## BASIC ENERGY CORPORATION AND SUBSIDIARIES

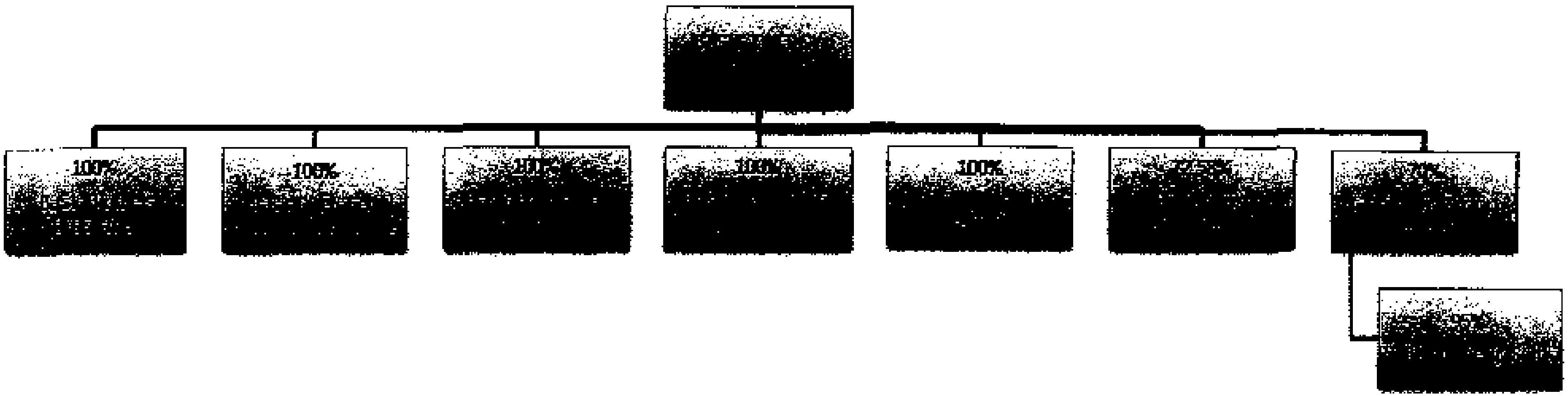
## SUPPLEMENTARY SCHEDULE OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION (Part 1, 4C; Annex 68-C)

**DECEMBER 31, 2014**

| | | |
|---|---|---|
| **Unappropriated Retained Earnings, beginning** | | **P133,574,416** |
| **Fair value adjustment of investment property** | | (2,824,044) |
| **Unappropriated Retained Earnings, as adjusted, beginning** | | 130,750,372 |
| **Net loss during the period closed to retained earnings** | (3,579,062) | |
| Less: Non-actual/unrealized income net of tax | | |
| Equity in net income of associate/joint venture | – | |
| Unrealized foreign exchange gain - net (except those attributable to cash and cash equivalents) | 2,373,976 | |
| Fair value adjustment (M2M gains) | – | |
| Fair value adjustment of investment property resulting to gain | – | |
| Adjustment due to deviation from PFRS/GAAP - gain | – | |
| Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS | – | |
| Subtotal | (1,205,086) | |
| Add: Non-actual losses | | |
| Depreciation on revaluation increment (after tax) | 1,178,334 | |
| Adjustment due to deviation from PFRS/GAAP - loss | – | |
| Subtotal | 1,178,334 | |
| **Net Income (Loss) Actual/Realized** | | (26,752) |
| Add (Less): | | |
| Dividend declarations during the period | | |
| Appropriations of retained earnings based on 10% of December 31, 2014 audited net income | – | |
| Reversals of appropriations | – | |
| Treasury shares | (3,240,000) | |
| Subtotal | (3,240,000) | (3,240,000) |
| **Unappropriated Retained Earnings, as adjusted, ending** | | ₱127,483,620 |

**BASIC ENERGY CORPORATION AND SUBSIDIARIES**

**MAP OF THE RELATIONSHIPS OF THE COMPANIES WITHIN THE GROUP (PART 1, 4H)**



## BASIC ENERGY CORPORATION AND SUBSIDIARIES

## SUPPLEMENTARY SCHEDULE OF ALL EFFECTIVE STANDARDS AND INTERPRETATIONS (PART 1, 4J)

**List of Philippine Financial Reporting Standards (PFRS) [which consist of PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations] and Philippine Interpretations Committee (PIC) Q&A's effective as of December 31, 2014:**

| | | | | |
|---|---|---|---|---|
| **Framework for the Preparation and Presentation of Financial Statements**<br>Conceptual Framework Phase A: Objectives and qualitative characteristics | | ✓ | | |
| **PFRSs Practice Statement Management Commentary** | | ✓ | | |
| **Philippine Financial Reporting Standards** | | | | |
| **PFRS 1 (Revised)** | First-time Adoption of Philippine Financial Reporting Standards | ✓ | | |
| | Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate | ✓ | | |
| | Amendments to PFRS 1: Additional Exemptions for First-time Adopters | | | ✓ |
| | Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters | | | ✓ |
| | Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters | | | ✓ |
| | Amendments to PFRS 1: Government Loans | | | ✓ |
| **PFRS 2** | Share-based Payment | ✓ | | |
| | Amendments to PFRS 2: Vesting Conditions and Cancellations | ✓ | | |
| | Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions | | | ✓ |
| **PFRS 3 (Revised)** | Business Combinations | ✓ | | |
| **PFRS 4** | Insurance Contracts | | | ✓ |
| | Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts | | | ✓ |

| | | | | |
|---|---|---|---|---|
| **PFRS 5** | Non-current Assets Held for Sale and Discontinued Operations | | | ✓ |
| **PFRS 6** | Exploration for and Evaluation of Mineral Resources | ✓ | | |
| **PFRS 7** | Financial Instruments: Disclosures | ✓ | | |
| | Amendments to PFRS 7: Transition | ✓ | | |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets | ✓ | | |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition | ✓ | | |
| | Amendments to PFRS 7: Improving Disclosures about Financial Instruments | ✓ | | |
| | Amendments to PFRS 7: Disclosures - Transfers of Financial Assets | ✓ | | |
| | Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities | ✓ | | |
| | Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures | ✓ | | |
| **PFRS 8** | Operating Segments | ✓ | | |
| **PFRS 9** | Financial Instruments | ✓ | | |
| | Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures | | | ✓ |
| **PFRS 10** | Consolidated Financial Statements | ✓ | | |
| **PFRS 11** | Joint Arrangements | ✓ | | |
| **PFRS 12** | Disclosure of Interests in Other Entities | ✓ | | |
| **PFRS 13** | Fair Value Measurement | ✓ | | |
| **Philippine Accounting Standards** | | | | |
| **PAS 1 (Revised)** | Presentation of Financial Statements | ✓ | | |
| | Amendment to PAS 1: Capital Disclosures | ✓ | | |
| | Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation | | | ✓ |
| | Amendments to PAS 1: Presentation of Items of Other Comprehensive Income | ✓ | | |
| **PAS 2** | Inventories | | | ✓ |

| [redacted] | | | | |
|---|---|---|---|---|
| **PAS 7** | Statement of Cash Flows | ✓ | | |
| **PAS 8** | Accounting Policies, Changes in Accounting Estimates and Errors | ✓ | | |
| **PAS 10** | Events after the Balance Sheet Date | ✓ | | |
| **PAS 11** | Construction Contracts | | | ✓ |
| **PAS 12** | Income Taxes | ✓ | | |
| | Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets | ✓ | | |
| **PAS 16** | Property, Plant and Equipment | ✓ | | |
| **PAS 17** | Leases | ✓ | | |
| **PAS 18** | Revenue | ✓ | | |
| **PAS 19** | Employee Benefits | ✓ | | |
| | Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures | ✓ | | |
| **PAS 19 (Amended)** | Employee Benefits | ✓ | | |
| **PAS 20** | Accounting for Government Grants and Disclosure of Government Assistance | | | ✓ |
| **PAS 21** | The Effects of Changes in Foreign Exchange Rates | ✓ | | |
| | Amendment: Net Investment in a Foreign Operation | ✓ | | |
| **PAS 23 (Revised)** | Borrowing Costs | | | ✓ |
| **PAS 24 (Revised)** | Related Party Disclosures | ✓ | | |
| **PAS 26** | Accounting and Reporting by Retirement Benefit Plans | ✓ | | |
| **PAS 27 (Amended)** | Separate Financial Statements | ✓ | | |
| **PAS 28** | Investments in Associates | | | ✓ |
| **PAS 28 (Amended)** | Investments in Associates and Joint Ventures | | | ✓ |
| **PAS 29** | Financial Reporting in Hyperinflationary Economics | | | ✓ |
| **PAS 31** | Interests in Joint Ventures | | | ✓ |

| | | | | |
|---|---|---|---|---|
| **PAS 32** | Financial Instruments: Disclosure and Presentation | ✓ | | |
| | Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation | | | ✓ |
| | Amendment to PAS 32: Classification of Rights Issues | | | ✓ |
| | Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities | ✓ | | |
| **PAS 33** | Earnings per Share | ✓ | | |
| **PAS 34** | Interim Financial Reporting | | | ✓ |
| **PAS 36** | Impairment of Assets | ✓ | | |
| **PAS 37** | Provisions, Contingent Liabilities and Contingent Assets | ✓ | | |
| **PAS 38** | Intangible Assets | ✓ | | |
| **PAS 39** | Financial Instruments: Recognition and Measurement | ✓ | | |
| | Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities | ✓ | | |
| | Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions | | | ✓ |
| | Amendments to PAS 39: The Fair Value Option | | | ✓ |
| | Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts | | | ✓ |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets | ✓ | | |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition | ✓ | | |
| | Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives | | | ✓ |
| | Amendment to PAS 39: Eligible Hedged Items | | | ✓ |
| **PAS 40** | Investment Property | ✓ | | |
| **PAS 41** | Agriculture | | | ✓ |

| | | | | |
|---|---|---|---|---|
| **Philippine Interpretations** | | | | |
| **IFRIC 1** | Changes in Existing Decommissioning, Restoration and Similar Liabilities | | | ✓ |
| **IFRIC 2** | Members' Share in Co-operative Entities and Similar Instruments | | | ✓ |
| **IFRIC 4** | Determining Whether an Arrangement Contains a Lease | ✓ | | |
| **IFRIC 5** | Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds | | | ✓ |
| **IFRIC 6** | Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment | | | ✓ |
| **IFRIC 7** | Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies | | | ✓ |
| **IFRIC 8** | Scope of PFRS 2 | | | ✓ |
| **IFRIC 9** | Reassessment of Embedded Derivatives | | | ✓ |
| | Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives | | | ✓ |
| **IFRIC 10** | Interim Financial Reporting and Impairment | | | ✓ |
| **IFRIC 11** | PFRS 2- Group and Treasury Share Transactions | ✓ | | |
| **IFRIC 12** | Service Concession Arrangements | | | ✓ |
| **IFRIC 13** | Customer Loyalty Programmes | | | ✓ |
| **IFRIC 14** | The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction | ✓ | | |
| | Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement | ✓ | | |
| **IFRIC 16** | Hedges of a Net Investment in a Foreign Operation | | | ✓ |
| **IFRIC 17** | Distributions of Non-cash Assets to Owners | | | ✓ |
| **IFRIC 18** | Transfers of Assets from Customers | | | ✓ |
| **IFRIC 19** | Extinguishing Financial Liabilities with Equity Instruments | | | ✓ |
| **IFRIC 20** | Stripping Costs in the Production Phase of a Surface Mine | | | ✓ |

| | | | | |
|---|---|---|---|---|
| **SIC-7** | Introduction of the Euro | | | ✓ |
| **SIC-10** | Government Assistance - No Specific Relation to Operating Activities | | | ✓ |
| **SIC-12** | Consolidation - Special Purpose Entities | | | ✓ |
| | Amendment to SIC - 12: Scope of SIC 12 | | | ✓ |
| **SIC-13** | Jointly Controlled Entities - Non-Monetary Contributions by Venturers | | | ✓ |
| **SIC-15** | Operating Leases - Incentives | | | ✓ |
| **SIC-25** | Income Taxes - Changes in the Tax Status of an Entity or its Shareholders | | | ✓ |
| **SIC-27** | Evaluating the Substance of Transactions Involving the Legal Form of a Lease | | | ✓ |
| **SIC-29** | Service Concession Arrangements: Disclosures. | | | ✓ |
| **SIC-31** | Revenue - Barter Transactions Involving Advertising Services | | | ✓ |
| **SIC-32** | Intangible Assets - Web Site Costs | | | ✓ |

## BASIC ENERGY CORPORATION AND SUBSIDIARIES
## SCHEDULE SHOWING FINANCIAL SOUNDNESS INDICATORS PURSUANT TO SRC RULE 68 AS AMENDED
**DECEMBER 31, 2014**

| | 2014 | 2013 |
|---|---|---|
| Profitability ratios: | | |
| Return on assets | **(0.01%)** | (3%) |
| Return on equity | **(0.01%)** | (3%) |
| Net profit margin | **0%** | 0% |
| Solvency and liquidity ratios: | | |
| Current ratio | **3.96:1** | 50.19:1 |
| Debt to equity ratio | **0.03:1** | 0.02:1 |
| Quick ratio | **3.79:1** | 49.20:1 |
| Asset to equity ratio | **1.03:1** | 1.02:1 |