

# COVER SHEET

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SEC Registration No.

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(Company's Full Name)

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

**Atty. Arsenio A. Alfiler Jr.**

## Contact Person

**(632) 706-7888**

Contact Telephone No.

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Fiscal Year

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## FORM TYPE

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Month      Day

## Annual Meeting

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Secondary License Type, If Applicable

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Dept. Requiring this Doc.

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### Amended Articles Number/Section

879

Total No. of Stockholders

## Total Amount of Borrowings

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Domestic

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Foreign

To be accomplished by SEC Personnel concerned

[illegible]

File Number

LCU

[illegible]

Document I.D.

Cashier

## STAMPS

Remarks = pls. use black ink for scanning purposes

2nd Quarter Report: FPI

SECURITIES AND EXCHANGE COMMISSION  
SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 11  
OF THE SECURITIES REGULATION CODE AND SECTION 144  
OF THE CORPORATION CODE OF THE PHILIPPINES



1. For the Quarter Period ended June 30, 2017
2. SEC Identification Number AS 093000120
3. BIR Tax Identification No. 312-002-155-598
4. **FORUM PACIFIC, INC.**  
Exact name of registrant as specified in its charter
5. **Metro Manila, Philippines**  
(Province, country or other jurisdiction of incorporation or organization)
6. (SEC Use only)  
Industry Classification Code
7. **35/F One Corporate Center, Doña Julia Vargas Ave., Cor. Meralco Ave., Ortigas Center Pasig City**  
Address of principal office
8. **Telephone No. 706-7888**  
Registrant's telephone number, including area code
9. **NOT APPLICABLE**  
Former name, former address, and former fiscal year, if changed since last report.
10. Securities registered pursuant to Sections 4 and 8 of the RSA :
 

<u>Title of Each Class</u>	<u>No. of Shares of Common Stock Outstanding: and Amount of Debt Outstanding</u>
Common Shares - ₱1.00 par value	Issued - ₱1,838,943,246 (Partially paid Subscription - ₱1,171,486,871)
11. Are any or all of these securities listed on the Philippine Stock Exchange?  
Yes ☒ No ☐

12. Check whether the registrant:

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

Yes ☒ No ☐

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

Yes ☒ No ☐

13. The aggregate market value of the voting stock held by non-affiliates: ₱1,303,929,249

14. Not Applicable

## PART I - FINANCIAL INFORMATION

### Item 1. Financial Statements

See Annex A.1 to A.5 and the accompanying notes to financial statements.

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

#### ☐ Unaudited Income Statements

	April – June 2017	April – June 2016	January – June 2017	January – June 2016
Revenues	–	–	–	–
Less: Cost and Expenses	544,524	291,962	1,264,431	968,058
Loss from Operation	(544,524)	(291,962)	(1,264,431)	(968,058)
Add: Other Income	128	–	128	168
Loss before Income Tax	(544,396)	(291,962)	(1,264,303)	(967,890)
Income Tax Expense	–	–	–	–
Net Income(Loss)	(544,396)	(291,962)	(1,264,303)	(967,890)
Earnings (Loss) Per Share	(₱0.00046)	(₱0.00025)	(₱0.00108)	(₱0.00083)

#### ☐ Unaudited Balance Sheet

	As of June 30 2017	As of June 30 2016	As of December 31 2016
<b>Assets</b>	<b>₱ 359,061,398</b>	<b>₱ 358,684,065</b>	<b>₱ 357,001,705</b>
Liabilities	4,153,231	3,933,736	4,844,959
Stockholders' Equity	354,908,167	354,750,329	352,156,746
<b>Total Liabilities &amp; Stockholders' Equity</b>	<b>₱ 359,061,398</b>	<b>358,684,065</b>	<b>₱ 357,001,705</b>

### Interim Quarter ended June 30, 2017 Compared with quarter ended June 30, 2016

#### RESULTS OF OPERATION

##### **Revenue and Earnings per share**

- Since the company is still exploring new business opportunities given the volatile situation of metal and oil prices in the global market, the Company has no revenues for the second quarter of 2017 and 2016.
- The company incurred losses of ₱0.5 million and ₱0.3 million for quarters ended June 30, 2017 and 2016, respectively. Earnings (loss) per share for the 2nd quarter of 2017 and 2016 were (₱0.00046) and (₱0.00025), respectively. In line with the plan for the next twelve months, the Board will continue to explore business opportunities to aspire for maximized potential earnings.

##### **Cost and Expenses**

- Cost and expenses consisted primarily of professional fees, taxes and licenses, PSE annual maintenance fee, management fee and office rental. Cost and expenses recorded for the 2nd quarter of 2017 and 2016 were ₱544,524 and ₱291,962 respectively. Increase of ₱252,562 or 86.5% pertains to additional legal and audit fee expenses.

## FINANCIAL CONDITION

### Current Assets

- Current assets consist of Cash in Bank and Input Tax. Cash in Bank carries interest at respective bank deposit rate. On July 19, 2012, the Board of Directors approved the opening of a deposit account with Banco De Oro to facilitate the collection and disbursement processes of the company. Input tax is stated at face value less provision for impairment, if any. Allowance for unrecoverable input tax, if any, is maintained by the Company at a level considered adequate to provide potential uncollectible portion of the claims. The Company, on a continuing basis, makes a review of the status of the claims designed to identify those that may require provision for impairment losses. Balance of cash in bank as of June 30, 2017 and 2016 were ₱202,453 and ₱121,296, respectively. The Company provided full valuation on its Input tax as of June 30, 2017 amounting to ₱1,448,630.

### Available-For-Sale Financial Assets

Available-for-sale financial assets as at June 30 consist of:

	2017	2016
<b>Unquoted shares</b>		
Cost	₱ 73,211,573	₱ 73,211,573
Impairment loss	(9,320,935)	(9,320,935)
	63,890,638	63,890,638
<b>Quoted shares</b>		
Cost	7,529,480	7,529,480
Net unrealized fair value gain	10,541,279	6,776,538
	18,070,759	14,306,018
	₱ 81,961,397	₱ 78,196,656

#### *Forum Exploration, Inc. (FEI)*

Investment in unquoted shares of stock represents 33.33% ownership of the Company in Forum Exploration, Inc. (FEI) as at June 30, 2017 and 2016. This investment is classified as AFS financial assets as the Company does not participate in the financial and operating policy of the investee which manifests control or significant influence. These investments are stated at cost less impairment loss since there is no quoted price in an active market.

#### *Philippine Estates Corporation (PHES)*

Investment in quoted shares of stock represents investment in Philippines Estates Corporation (PHES), a publicly listed Company. The Company owns 50,196,553 common shares and constitutes 3.47% ownership in PHES.

The fair value of these shares as of June 30, 2017 and 2016 has been determined directly by reference to published prices in the active market.

#### *Express Savings Bank, Inc. (ESBI)*

On July 8, 2011, the Monetary Board (MB) of the Bangko Sentral ng Pilipinas placed Express Savings Bank, Inc. under receivership of the Philippine Deposit Insurance Corporation (PDIC) by virtue of MB resolution No. 987.B. As receiver, PDIC took over the bank on July 8, 2011. In 2011, the management, upon recommendation of the Audit Committee, has written off its remaining investment in ESBI. The Company reclassified the corresponding unrealized fair value loss amounting to ₱3,710,917 from unrealized fair value loss on available-for-sale financial assets in equity to the statement of comprehensive income.

The Company's AFS financial assets as at June 30, 2017 and 2016 are not held as collateral for its financial liabilities.

### ***Investments in Subsidiary***

The Company owns 60% of the stockholdings of Forum Coal Cebu Holdings, Inc. (FCCHI), a domestic corporation registered with the SEC on February 3, 2006. Its primary purpose is to acquire, hold and dispose of bonds, debentures, promissory notes, shares of capital and the likes, without engaging as a dealer or broker of securities. Its registered office is located at 14<sup>th</sup> Floor Pearlbank Center, 146 Valero Street, Salcedo Village, Makati City.

On November 30, 2009, FCCHI was formally dissolved pursuant to a resolution duly adopted by the FCCHI's Board of Directors and Stockholders representing at least two-thirds (2/3) of the outstanding capital stock dated October 9, 2009. Such dissolution was subsequently approved by the SEC on July 6, 2012.

In a special meeting held last November 21, 2011, the Company has decided to provide full valuation allowance on its investment in a subsidiary. Consequently, the Company recognized impairment loss of ₱3,888,000 in 2011.

On July 19, 2012, the Board of Directors approved the write-off of the investments in a subsidiary. As per Corporation Code of the Philippines, upon approval by the SEC of the amended Articles of Incorporation to shorten the corporate term, the corporation shall be deemed dissolved without any further proceedings. **Hence, starting 2012, the Company did not present consolidated financial statements.**

### ***Related Party Transaction Account***

The Company, in the normal course of business, has transactions with related parties. Such transactions are unsecured, non-interest bearing and with no definite terms of repayment period. The Company did not provide nor received any guarantee on its transaction with related parties. All outstanding balances are to be settled through cash or offsetting.

#### Relationships, Transactions and Account Balances

Related Parties	Relationship	Outstanding Balance	
		June 30, 2017	June 30, 2016
The Wellex Group, Inc.	Common key management	<b>₱ 155,910,558</b>	₱ 159,432,446
Forum Exploration, Inc.	Common key management	<b>120,875,454</b>	120,875,454
Forum Exploration, Ltd.	Common key management	<b>(4,130,606)</b>	(3,911,110)

#### Advances to The Wellex Group, Inc. (TWGI)

Transactions between the Company and TWGI primarily consist of interest bearing advances granted to finance TWGI's working capital requirements.

On December 15, 2012, to settle its outstanding obligations to the Company, TWGI issued a three-year promissory note to the Company amounting to ₱330,495,385 without interest. Both parties agreed to renew the promissory note, with all terms and conditions to remain the same, on December 16, 2015 with outstanding balance of ₱322,594,547 for another three years maturing on December 16, 2018.

In addition, the Company subleases an office space from TWGI starting April 2012. The lease is for a period of two (2) years but renewable thereafter upon mutual agreement of both parties. Total rental and utilities expense charged to operations amounted to ₱55,500 for both periods ended June 30, 2017 and 2016. The lease contract was renewed for another two (2) years when the contract expired last May 2016.

Also in April 2012, the Company has entered into a consultancy agreement with TWGI, whereby the latter will provide corporate planning and financial services on its various corporate functions and undertakings. Total management fee charged to operations amounted to ₱120,000 for both periods ended June 30, 2017 and 2016. The contract was also renewed for another two (2) years when the contract expired last May 2016.

Total collections of advances from TWGI amounted to ₱1,701,215 and ₱908,391 for the 2nd quarter of 2017 and 2016, respectively.

The carrying amount of advances to TWGI as at June 30 as follows:

	2017	2016
Advances	₱ 318,164,268	₱ 321,686,156
Allowance for impairment loss	( 162,253,710)	( 162,253,710)
Net carrying amount	₱ 155,910,558	₱ 159,432,446

The Company originally provides allowance for impairment amounting to ₱162,253,710 as at June 30, 2017 and 2016 on advances to TWGI prior to agreements entered to settle the outstanding advances. Allowance for impairment will be reversed once the unimpaired portion of advances is substantially collected and upon assessment by the management on the continuity of the existing agreements.

#### Advances to Forum Exploration Inc. (FEI)

Advances to FEI pertain to the carrying value of exploration net assets transferred by the Company. No transaction in the account balance was recognized for the quarter ended June 30, 2017 and 2016.

FEI is a legal and beneficial owner of 100% interest in Service Contract (SC 40), an upstream oil and gas contract area in the Philippines, entered into with the Philippine Government through the Department of Energy (DOE). Annual gas production from field on SC 40 totaled 41.09 million standard cubic feet (MMSCF) and 78.66 MMSCF since the start of production in 2012.

FEI has also implemented Work Program and Budget as approved by DOE on November 17, 2014 which includes, among others, a commitment to perform land gravity survey over the Dalingding Structure starting March 2015. Since 2014, FEI has performing geological and geophysical study aimed to identify and prioritize highly prospective areas for future exploration.

The Company has outstanding advances to FEI pertaining to the value of exploration assets transferred by the Company as follows:

	2017	2016
Advances	₱ 171,631,076	₱ 171,631,076
Allowance for impairment loss	( 50,755,622)	( 50,755,622)
Net carrying amount	₱ 120,875,454	₱ 120,875,454

The Company is positive on FEI's success on its exploration and future development work in providing the viability of its oil properties to produce oil in commercial quantities. Accordingly, the Company has not provided additional allowance for impairment on the advances.

#### Advances from Forum (FEI), Ltd.

The Company received cash advances from Forum (FEI), Ltd. to finance its acquisition of 60% stockholdings of Forum Coal Cebu Holdings, Inc. (FCCHI). The advances have no definite terms of payment. Outstanding balance as at June 30, 2017 and 2016 amounted to ₱4,130,606 and ₱3,911,110 respectively.

#### Remuneration to key management personnel

With the Company's tight cash position, management decided to suspend any form of compensation given to key management personnel for the period ended June 30, 2017 and 2016. The administrative function of the Company is performed by its related party, TWGI.

### ***Current liabilities***

- This is primarily consists of Trade and Other Payable. Outstanding balance as at June 30, 2017 and 2016 amounted to ₱22,625 and ₱22,626, respectively. This includes payable for retainer fees of legal counsel and stock transfer agent of the Company and withholding taxes payable.

### **The Top five (5) Key Performance Indicators are:**

1. Advances to Related Parties – currently, TWGI is funding all operational expenses of the Company.
2. Current Ratios – Current Assets against the Current Liabilities of the Company. It measures the company's ability to pay short-term obligations. Current Ratio for the 2nd Quarter of 2017 and 2016 are 1388% and 793%, respectively.
3. Cash Ratio – the most conservative liquidity ratio. It excludes all current assets except the most liquid: cash and cash equivalents. It measures the amount of cash and cash equivalents there are in the current assets to cover current liabilities. The cash ratio of the company for the 2nd Quarter of 2017 and 2016 are 895% and 536%, respectively.
4. Debt ratio - It is one of the financial leverage ratios which measure the extent to which the firm is using long term debt. Formula is total debt divided by total assets. Debt ratio for the 2nd Quarter of 2017 and 2016 are 1.16% and 1.10%, respectively.
5. Debt-to-equity ratio - The formula is total debt divided by total equity. It indicates what proportion of equity and debt that the company is using to finance its assets. The debt to equity ratio for the 2nd Quarter of 2017 and 2016 are 1.17% and 1.11%, respectively.

### **(i) Summary of Material Trends, Events and Uncertainties**

#### **Forum Pacific, Incorporated**

The shares of FPI are listed and traded in Philippine Stock Exchange (PSE). The company was registered to engage in investing, purchasing and acquiring assets of any kind and description with the secondary purpose of engaging in the exploration, development and production of petroleum and related products, as well as other mineral and chemical substances. It is presently a holding company and owning shares of stocks of an exploration company.

On July 13, 2005, the PSE suspended the trading of its shares for failure to comply with certain reporting requirements. Also on July 25, 2006, the Securities and Exchange Commission suspended the registration of the Company's securities for period of 60 days for non-filing/late filing of financial reports for 2004 and 2005.

On January 24, 2008, SEC resolved to deny the Company's request that it be allowed to pay a monetary fine in lieu of revocation of the registration of its securities. On March 27, 2008, SEC revoked the Company's registration of securities and permit to sell due to late filing of its annual financial report and other reportorial requirements. On May 5, 2008, the Company filed a petition to lift SEC's order of revocation of the registration of its securities and the permit to sell securities citing its compliance with SEC's directives to pay the assessed penalties in addition to said revocation and the fact that it has no pending case for violation of the provisions of the Securities Regulations Code and its Implementing Rules and Regulations.

On July 31, 2008, the SEC resolved to lift and set aside the revocation of the registration of the Company's securities and the permit to sell its securities.

In 2009, the Company again received an order of revocation of the registration and permits to sell the Company's securities due to late filing of the Company's 2008 audited financial statements.



On August 31, 2010, the Company received an order of revocation of the registration and the permit to sell the Company's securities due to late filing of the Company's 2009 annual reports. On September 8, 2010, the Company requested for an extension of time until September 30, 2010 for the filing of the Company's 2009 audited financial statements which was granted by SEC in a letter dated September 13, 2010. On October 5, 2010, the Company again requested the SEC an additional thirty (30) working days within which to comply with the letter from the SEC dated August 31, 2010. However, on October 7, 2010, the Company's request was denied and the SEC provided a non-extendible period of three (3) days from receipt of the letter within which to submit the 2009 annual reports.

Subsequently on February 14, 2011, the Company paid fines and penalties in the amount of P2.77 million in lieu of the Company's revocation of Registration of securities and Permit to sell securities.

On May 13, 2011, the Company again paid SEC in the amount of P760,500 as payment for its outstanding fines and penalties. On May 17, 2011, PSE lifted the Company's revocation of Registration of Securities and Permit to sell securities.

### *Business Plans*

To address the foregoing matters that may raise doubt on the Company's ability to continue as a going concern, the shareholders of the Company have committed in principle to provide full financial support to the Company to sustain its operations, meet the working capital requirements and settle obligations as they fall due.

With the volatile situation of metal and oil prices in the global market, the management's previous plan on banking on new petroleum and gas and other mining contracts is temporarily reserved. The management is currently evaluating potential buyers who recently expressed interest to buy out the Company's remaining 33.33% capital stock investment in Forum Exploration, Inc. (FEI), a subsidiary of Pangilinan-led Forum Energy Plc and the project operator for Libertad Gas Field or Service Contract (SC40). The management is currently on talks with three (3) different companies for the negotiation of the possible sale.

The Company's previous plan of acquiring a mining company with existing Mineral Product Sharing Agreement (MPSA) with the government is temporarily set aside due to the current inactivity of the mining sector.

On the other hand, the Company is considering investing into industry of potential renewable energy sources like solar power, biofuels, hydro, wind and geothermal energy. The management is currently conducting research and feasibility study on this project.

With the Company's experience in the participation on Department of Energy's (DOE) 4<sup>th</sup> Philippine Energy Contracting Round (PECR 4) last April 2012, evaluation of which focuses on the Company's financial and technical qualifications, the Company will prioritize the improvement of its financial position and exploring new business opportunities in order to maintain strong and healthy cash flows, and at the same time, aspiring for maximized potential earnings.

For the next twelve months, the Company will do the following:

### *Plan of Operation*

- a. The Company will outline business target projects, welcome other business opportunities from different industries apart from oil and gas and mineral exploration like investing into industries of potential renewable energy sources like solar power, biofuels, hydro, wind and geothermal energy; and improve its financial position. As mentioned above, the management is currently discussing on how they will proceed with its remaining 33.33% capital stock investment in Forum exploration, Inc.: On whether to sell or enter into partnership with potential buyers.

### *Capital Generation and Satisfaction*

- b. The Company will evaluate outstanding receivables and advances to affiliates and design collection program to improve the Company's financial status. The Board will also evaluate calling

for the remaining stock subscription as source of fund for the future projects. The Company has net advances to affiliate of ₱277.5M, subscription receivable of ₱600M and unsubscribed stocks of ₱1.6B as of June 30, 2017. The Officers and major stockholders of the Company have committed to provide full financial support to the Company once its projects will materialize and a definite project is in place. The Company estimates that it will satisfy its capital funding within two (2) years from the finalization of business project plan.

#### *Project Research and Development*

- c. The Company is affiliated with group of mining companies. Research for areas and land mine with potential mineral deposits is being outsourced from the affiliate's group of researchers composed of geologists and mining engineers. As of this report, the management has yet to identify areas and plan of exploration to be presented to the Board for approval and resolution. With the current situation of the mining sector in the country, whereas Department of Environment and Natural Resources (DENR) is carefully evaluating mining activities, the company will observe due diligence on its planned exploration once the Board approves pursuing investment in mining activities again.

#### *Manpower and Capital Expenditures*

- d. The Company is contemplating to purchase equipment needed should the exploration results of the mine sites prove to be favorable. Additional equipment will also be acquired to enhance its operations. Other equipment needed will be provided also by its exploration partner, Forum Exploration, Inc. (FEI).

To date, the Company's main source of revenue came from its 33.33% capital stock investment in Forum Exploration, Inc. (FEI). With the new development on its management, the Company is hoping for a positive return on its investment.

The Company's management believes that such financial support and management plan are sufficient to provide the Company the ability to continue as a going concern. Accordingly, the financial statements have been prepared on a going concern basis.

#### ***Writing-Off of Investments***

##### Express Savings Bank, Inc. (ESBI)

ESBI was 56% owned by the Company as of December 31, 2007. During 2007, the Company did not avail of its pre-emptive right to subscribe for additional shares in ESBI's increase in capitalization. This diluted the Company's interest in ESBI. In 2008, the Company eventually ceased to have control in ESBI.

On June 3, 2009, the Company executed a deed of absolute sale for its 127,415 shares in ESBI for P179.63 per share or equivalent to P22,887,556. The carrying amount of 289,806 shares in ESBI as of December 31, 2008 amounted to P1,22,592,758 or P423.02 per share. The difference between selling price and cost per share multiply by the number of ESBI shares as of December 31, 2008 was recognized as impairment loss in 2008.

The investment had been recorded for P22,887,556 in the 2008 audited financial statements but the said amount represent only 127,415 shares out of 289,806 shares or 44%. An impairment loss of P99,705,202 was recorded which resulted to understatement of available-for-sale financial assets and overstatement of impairment loss in 2008 amounting to P29,170,296.

The fair value of ESBI investment as of December 31, 2009 was based on the actual partial sale that occurred on July 13, 2010 in which 46,602 shares were sold for P4,660,200 at P100/share.

On August 12, 2010, the Company executed a deed of absolute sale for its 115,789 shares in ESBI at P100 per share or equivalent to P11,578,900 which is equal to the carrying value as of December 31, 2009 of P11,578,900. The Company reclassified the corresponding unrealized fair value loss amounting to P9,220,278 from unrealized fair value loss on available-for-sale financial assets in equity to the statement of comprehensive income.

On July 8, 2011, the Monetary Board (MB) of the Bangko Sentral ng Pilipinas placed Express Savings Bank, Inc. under receivership of the Philippine Deposit Insurance Corporation (PDIC) by virtue of MB resolution No. 987.B. As receiver, PDIC took over the bank on July 8, 2011. In 2011, the management, upon recommendation of the Audit Committee, has written off its remaining investment in ESBI. The Company reclassified the corresponding unrealized fair value loss amounting to P3,710,917 from unrealized fair value loss on available-for-sale financial assets in equity to the statement of comprehensive income.

#### Forum Coal Cebu Holdings, Inc. (FCCHI)

The Company owns 60% of the stockholdings of Forum Coal Cebu Holdings, Inc. (FCCHI), a domestic corporation registered with the SEC on February 3, 2006. Its primary purpose is to acquire, hold and dispose of bonds, debentures, promissory notes, shares of capital and the likes, without engaging as a dealer or broker of securities. Its registered office is located at 14<sup>th</sup> Floor Pearlbank Center, 146 Valero Street, Salcedo Village, Makati City.

On November 30, 2009, FCCHI was formally dissolved pursuant to a resolution duly adopted by the FCCHI's Board of Directors and Stockholders representing at least two-thirds (2/3) of the outstanding capital stock dated October 9, 2009. Such dissolution was subsequently approved by the SEC on July 6, 2012.

In a special meeting held last November 21, 2011, the Company has decided to provide full valuation allowance on its investment in a subsidiary. Consequently, the Company recognized impairment loss of P3,888,000 in 2011.

On July 19, 2012, the Board of Directors approved the write-off of the investments in a subsidiary. As per Corporation Code of the Philippines, upon approval by the SEC of the amended Articles of Incorporation to shorten the corporate term, the corporation shall be deemed dissolved without any further proceedings. **Hence, starting 2012, the Company did not present consolidated financial statements.**

#### **ii) Events that will Trigger Direct of Contingent Financial Obligation**

Since Forum Pacific Inc. are still looking a strategic partner to enhance the development of the company specially in exploration business, the company are no events that will trigger direct of contingent financial obligation that is material to Forum Pacific Inc. including any default or acceleration of an obligation.

#### **(iii) Material Off-Balance Sheet Transactions, Arrangements, Obligations**

There are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of Forum Pacific Inc. with unconsolidated entities or other persons created during the reporting period.

#### **(iv) Commitment For Capital Expenditures**

The material commitments for capital expenditures of the company are primarily includes; salaries and wages, taxes, depreciation and utilities and other related overheads. Since the parent company, still focus on looking for a strategic partner, there are no major expenses of the business for the year.

#### **(v) Any Known Trends, Events of Uncertainties (Material Impact on Net Sales / Net Income)**

The Company is mainly exposed to liquidity risk through its maturing liabilities. The Company has a policy of regularly monitoring its cash position to ensure that maturing liabilities will be

adequately met. Liquidity refers to the risk that the Company will not be able to meet its financial obligations as they fall due.

The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The details of the maturity analysis of the Company's liabilities are as follows:

June 30, 2017					
	Total	On demand	Less than three months	3-12 months	1-5 years
Advances from related parties	P 4,130,606	P –	P –	P –	P 4,130,606
Trade and other payables	22,625	–	–	22,625	–
	P 4,153,231	P –	P –	P 22,626	P 4,130,606

June 30, 2016					
	Total	On demand	Less than three months	3-12 months	1-5 years
Advances from related parties	P 3,911,110	P –	P –	P –	P 3,911,110
Trade and other payables	22,626	–	–	22,626	–
	P 3,933,736	P –	P –	P 22,626	P 3,911,110

#### (vi) Significant Element of Income or Loss That Did Not Arise From Continuing Operation

*PFRS 9, Financial Instruments.* The standard requires all recognized financial assets that are within the scope of PAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortized cost or at fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely for payments of principal and interest on the outstanding balance are generally measured at amortized cost at the end of subsequent reporting periods. All other debts investments and equity investments are measured at their fair values at the end of subsequent reporting periods. For financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income would create or increase an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. The standard is to be effective no earlier than the annual periods beginning January 1, 2017, with earlier application permitted.

The management does not anticipate significant impact on the application of PFRS 9 on the Company's financial statements as the AFS financial assets will continue to be measured at fair value with fair value changes recognize in the other comprehensive income, and advances to related parties, accounts payable and other liabilities and advances from related parties will continue to be measured at amortized cost.

#### (vii) Material Changes on Line Items in Financial Statements

Material changes on line items in financial statements are presented under the captions 'Changes in Financial Condition' and 'Changes in Operating Results' above, see attached Notes to Financial Statements.

#### (viii) Effect of Seasonal Changes in the Financial Condition or Results of Operations

The financial condition or results of operations is not affected by any seasonal change.

## **PART II - OTHER INFORMATION**

### **(1) Market Information**

a) The principal market of Forum Pacific Inc. common equity is the Philippine Stock Exchange, Inc. (PSE) where it was listed on December 19, 1994. The high and low sales prices by quarter for the last 3 years are as follows:

		<b><u>“ CLASS A ”</u></b>	
		<u>High</u>	<u>Low</u>
2017	First Quarter	0.190	0.189
	Second Quarter	0.207	0.205
2016	First Quarter	0.240	0.231
	Second Quarter	0.235	0.210
	Third Quarter	0.208	0.202
	Fourth Quarter	0.190	0.180
2015	First Quarter	0.325	0.300
	Second Quarter	0.208	0.208
	Third Quarter	0.295	0.250
	Fourth Quarter	0.225	0.225
2014	First Quarter	0.180	0.180
	Second Quarter	0.163	0.154
	Third Quarter	0.215	0.189

The high, low and close market price is ₱0.207, ₱0.205, and ₱0.207 per share as of June 30, 2017, respectively (the latest practicable trading date). There were no stock price quotations for the 1<sup>st</sup> quarter of 2011 due to trading suspension imposed by PSE for non-compliance with various reports. On May 17, 2011, trading suspension has been lifted after the Company complied thereof. The Corporation has only one class of registered security, “Class A – Common Shares”.

b) The number of shareholders of record as of June 30, 2017 was 879. Common shares issued and subscribed as of June 30, 2017 were 1,838,943,246.

**Forum Pacific Inc.**  
**List of Top 20 Stockholders**  
**As of June 30, 2017**

	<b>Name</b>	<b>Number of Shares Held Class A</b>	<b>Percentage to Total</b>
1	International Polymer Corporation	496,887,494	26.501
2	PCD Nominee Coporation	412,809,574	22.017
3	The Wellex Group, Inc.	376,950,000	20.104
4	E.F. Durkee & Associates, Inc.	77,838,563	4.151
5	Intra-Invest Sec., Inc.	48,159,000	2.568
6	Forum Pacific, Inc.	36,056,750	1.923
7	Metropolitan Management Corporation	30,000,000	1.600
8	Juanito C. Uy	22,625,001	1.207
9	Pacrim Energy N.L.	21,000,000	1.120
10	PCD Nominee Coporation (Non-Filipino)	20,530,050	1.095
11	Sapphire Securities, Inc.	19,433,500	1.036
12	Benito Ong and/or Zita Y. Ong	18,000,000	0.960
13	Li Chih-Hui	17,100,000	0.912
14	Nestor S. Mangio	12,500,000	0.667
15	A & A Securities, Inc.	11,911,320	0.635
16	Mark Securities Corporation	10,772,800	0.575
17	Globalinks Sec. & Stocks, Inc. (A/C# CWUSO001)	9,400,000	0.501
18	Belson Securities, Inc.	9,200,000	0.491
19	Wealth Securities, Inc.	8,240,000	0.439
20	Ruben M. Gan	7,610,000	0.406

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in Pasig City on QUEZON CITY

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Pasig.

Registrant: **PETER S. SALUD**

Title: **President**

Signature: 

Registrant: **ATTY. ARSENIO A. ALFILER, JR.**

Title: **Corporate Secretary**

Signature: 

Registrant: **KENNETH T. GATCHALIAN**

Title: **Treasurer**

Signature: 

Dated \_\_\_\_\_

QUEZON CITY **SUBSCRIBED AND SWORN** to before me this AUG 08 2017 day of \_\_\_\_\_, 2017 in  
affiant (s) exhibiting to me his/her Tax Identification No. as follows:


**AFFIANTS**

1. Peter S. Salud
2. Atty. Arsenio A. Alfiler, Jr.
3. Kenneth T. Gatchalian

**Tax Identification No.**

107-777-803-000  
108-760-143-000  
167-406-526-000

Doc. No.: 414  
Page No.: 83  
Book No.: 24  
Series of 2017

  
**ATTY. BENJAMIN F. ALFONSO**  
**NOTARY PUBLIC**  
**UNTIL DECEMBER 31, 2017**  
**PTR. NO. 3806846 - 1/16/2017 QUEZON CITY**  
**IBP NO. 1035379 - 11/24/2016 QUEZON CITY**  
**ROLL NO. 13296**  
**ADM. MATTER NO. NP-646 (2017-2018)**  
**0.34 ASSET'S ST. GSIS VILL., PROJ. 6, J.C.**  
**MCLE NO. II-0029276- OCT. 29, 2011**

**FORUM PACIFIC, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**AS OF JUNE 30, 2017 (in Php)**

**Annex A.1**

<b>Account Titles</b>	<b>Note</b>	<b>Unaudited June 30, 2017</b>	<b>Unaudited June 30, 2016</b>	<b>Audited Dec. 31, 2016</b>
<b>Current Assets</b>				
Cash	5	202,453	121,296	527,872
Prepayments and other current assets	6	111,535	58,213	40,932
		<u>313,988</u>	<u>179,509</u>	<u>568,804</u>
<b>Non-current Assets</b>				
Advances to related parties	10	276,786,012	280,307,900	278,487,228
Available-for-sale financial assets – net	7	81,961,398	78,196,656	77,945,673
		<u>358,747,410</u>	<u>358,504,556</u>	<u>356,432,901</u>
<b>TOTAL ASSETS</b>		<u>359,061,368</u>	<u>358,684,065</u>	<u>357,001,705</u>
<b>Current Liabilities</b>				
Accounts payable and other current liabilities	8	22,625	22,626	714,353
<b>Non-current Liabilities</b>				
Advances from related parties	10	4,130,606	3,911,110	4,130,606
<b>TOTAL LIABILITIES</b>		<u>4,153,231</u>	<u>3,933,736</u>	<u>4,844,959</u>
<b>EQUITY</b>				
Capital Stock	9			
Common stock, ₱1 par value				
Authorized shares – 3,500,000,000 shares				
Issued – 819,355,920 shares		819,355,920	819,355,920	819,355,920
Subscribed – 1,055,644,080 shares				
(on which subscription receivables amounts to ₱667,456,379)		388,187,701	388,187,701	388,187,701
		<u>1,207,543,621</u>	<u>1,207,543,621</u>	<u>1,207,543,621</u>
Treasury shares – 36,056,750 shares at cost		(36,056,750)	(36,056,750)	(36,056,750)
Unrealized fair value loss on AFS assets		10,541,279	6,776,538	6,525,555
Deficits		(827,119,983)	(823,513,080)	(825,855,680)
<b>TOTAL EQUITY</b>		<u>354,908,167</u>	<u>354,750,329</u>	<u>352,156,746</u>
<b>TOTAL LIABILITIES AND EQUITY</b>		<u>359,061,398</u>	<u>358,684,065</u>	<u>357,001,705</u>

*(The accompanying notes are integral part of these financial statements)*



**STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE QUARTER ENDED JUNE 30, 2017 AND 2016**

	<b>April – June 2017</b>	<b>April – June 2016</b>	<b>January – June 2017</b>	<b>January – June 2016</b>
<b>Revenue</b>	–	–	–	–
<b>Costs and Expenses (Note 11)</b>	<b>(P 544,524 )</b>	<b>(P 291,962)</b>	<b>(P 1,264,431)</b>	<b>(P 968,058)</b>
<b>Gross Income (Loss)</b>	<b>( 544,524)</b>	<b>( 291,962)</b>	<b>( 1,264,431)</b>	<b>( 968,058)</b>
<b>Other Income</b>	<b>128</b>	–	<b>128</b>	168
<b>Income (Loss) for the period</b>	<b>( 544,396)</b>	<b>( 291,962)</b>	<b>(P 1,264,303)</b>	<b>(P 967,890)</b>
<b>Loss per share (Note 14)</b>	<b>(P 0.00046)</b>	<b>(P 0.00025)</b>	<b>(P 0.00108)</b>	<b>(P 0.00083)</b>

*(The accompanying notes are integral part of these financial statements)*

**FORUM PACIFIC, INC. AND SUBSIDIARY**  
**STATEMENTS OF CASH FLOW**  
For the quarter ended June 30, 2017

**Annex A.3**

	Unaudited 2nd Qtr. Jan.-Jun. 2017	Unaudited 2nd Qtr. Jan.-Jun. 2016	Audited Dec. 31, 2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Loss before tax	(P 1,264,303)	(P 967,890)	(P3,310,490)
Adjustments for:			
Provision for impairment of input tax	85,172	115,070	286,409
Unrealized foreign exchange loss (gain)	—	—	219,496
Operating income (loss) before working capital changes	( 1,179,131)	( 852,820)	(2,804,585)
Decrease (Increase) in prepayments and other current assets	(155,775)	—	( 269,128)
Increase (decrease) in accounts payable and other liabilities	(691,728)	( 333,316)	358,412
Net cash used in operating activities	(2,026,634)	(1,186,136)	(2,715,301)
<b>CASH FLOWS FROM INVESTING ACTIVITY</b>			
Collections from (payments of):			
Available-for-sale financial assets – net	(4,015,724)		
Advances to related parties	1,701,216	793,322	2,729,063
Net cash provided by investing activity	(2,314,508)	793,322	2,729,063
<b>CASH FLOW FROM FINANCING ACTIVITY</b>			
Collections from (payments of):			
Unrealized fair value gain on AFS	4,015,724		
Advances from related parties	—	—	2,729,063
Net cash used in financing activity	4,015,724	—	P2,729,063
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>(325,419)</b>	<b>10,906</b>	<b>13,762</b>
<b>CASH</b>			
At beginning of year	527,872	131,186	514,110
At end of year	P202,453	P142,092	P527,872

*(The accompanying notes are an integral part of these financial statements)*

**FORUM PACIFIC, INC. AND SUBSIDIARY**  
**Statements of Changes in Equity**  
**For The Quarter Ended June 30, 2017 and 2016**

**Annex A.4**

	<b>2nd Qtr. Jan. – Jun. 2017</b>	<b>2nd Qtr. Jan. – Jun. 2016</b>	<b>Audited Dec. 31, 2016</b>
Capital Stock	<b>₱1,207,543,621</b>	₱1,207,543,621	₱1,207,543,621
Treasury Shares	<b>(36,056,750)</b>	(36,056,750)	(36,056,750)
Unrealized Fair Value Gain (Loss) on Available-For-Sale Financial Assets	<b>10,541,279</b>	6,776,538	6,525,555
Deficit - Beginning	<b>(825,855,680)</b>	(822,545,190)	(822,545,190)
Net Loss for the period	<b>( 1,264,303)</b>	( 967,890)	( 3,310,490)
Deficit - Ending	<b>(827,119,983)</b>	(823,513,080)	(825,855,680)
<b>TOTAL STOCKHOLDER'S EQUITY</b>	<b>₱354,908,167</b>	₱354,750,329	₱352,156,746

*(The accompanying notes are an integral part of these financial statements)*

**FORUM PACIFIC, INC.**

**Annex A.5**

**NOTES TO INTERIM FINANCIAL STATEMENTS**

June 30, 2017

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**Note 1 – Organizational Information**

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Forum Pacific, Inc., (the "Company"), was incorporated in the Philippines on January 8, 1993 primarily to engage in investing, purchasing and acquiring assets of any kind and description with the secondary purpose of engaging in the exploration, development and production of petroleum and related products as well as other mineral and chemical substances was formerly known as Cophil Exploration, Inc.

On September 2, 1996, the Company changed its name from Cophil Exploration, Inc. to Forum Pacific, Inc. and again on September 8, 1997, the Company changed its name from Forum Pacific, Inc. to Air Philippines International Corporation (APIC). In 2000, the Company changes back its name to Forum Pacific, Inc.

The Company's shares are listed and traded in the Philippine Stock Exchange (PSE). Its principal office is located at 35<sup>th</sup> Floor One Corporate Center, Doña Julia Vargas Ave. corner Meralco Ave., Ortigas Center, Pasig City.

The Company has 60% ownership interest in Forum Coal Cebu Holdings, Inc. (FCCHI).

On November 30, 2009, FCCHI was formally dissolved pursuant to a resolution duly adopted by the FCCHI's Board of Directors and Stockholders representing at least two-thirds (2/3) of the outstanding capital stock dated October 9, 2009. Such dissolution was subsequently approved by the SEC on July 6, 2012.

In a special meeting held last November 21, 2011, the Company has decided to provide full valuation allowance on its investment in FCCHI. On July 19, 2012, the Board of Directors approved the write-off of the investments in FCCHI. As per Corporation Code of the Philippines, upon approval by the SEC of the amended Articles of Incorporation to shorten the corporate term, the corporation shall be deemed dissolved without any further proceedings. **Hence, starting 2012, the Company did not present consolidated financial statements.**

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**Note 2 – Management Assessment of the Going Concern Assumption and Business Plans**

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*Management's Assessment of the Going Concern Assumption*

Management believes that the going concern assumption is appropriate despite the existence of material uncertainty caused by recurring substantial losses of the Company. The Company incurred losses amounting to ₱544,396 and ₱291,962 in June 30, 2017 and 2016, respectively. The Company had accumulated deficit of ₱827,119,983 and ₱823,513,080 as at June 30, 2017 and 2016 respectively.

*Business Plans*

To address the foregoing matters that may raise doubt on the Company's ability to continue as a going concern, the shareholders of the Company have committed in principle to provide full financial support to the Company to sustain its operations, meet the working capital requirements and settle obligations as they fall due.

With the volatile situation of metal and oil prices in the global market, the management's previous plan on banking on new petroleum and gas and other mining contracts is temporarily reserved. The management is currently evaluating potential buyers who recently expressed interest to buy out the

Company's remaining 33.33% capital stock investment in Forum Exploration, Inc. (FEI), a subsidiary of Pangilinan-led Forum Energy Plc and the project operator for Libertad Gas Field or Service Contract (SC40). The management is currently on talks with three (3) different companies for the negotiation of the possible sale.

The Company's previous plan of acquiring a mining company with existing Mineral Product Sharing Agreement (MPSA) with the government is temporarily set aside due to the current inactivity of the mining sector.

On the other hand, the Company is considering investing into industry of potential renewable energy sources like solar power, biofuels, hydro, wind and geothermal energy. The management is currently conducting research and feasibility study on this project.

With the Company's experience in the participation on Department of Energy's (DOE) 4<sup>th</sup> Philippine Energy Contracting Round (PECR 4) last April 2012, evaluation of which focuses on the Company's financial and technical qualifications, the Company will prioritize the improvement of its financial position and exploring new business opportunities in order to maintain strong and healthy cash flows, and at the same time, aspiring for maximized potential earnings.

For the next twelve months, the Company will do the following:

#### *Plan of Operation*

- a. The Company will outline business target projects, welcome other business opportunities from different industries apart from oil and gas and mineral exploration like investing into industries of potential renewable energy sources like solar power, biofuels, hydro, wind and geothermal energy; and improve its financial position. As mentioned above, the management is currently discussing on how they will proceed with its remaining 33.33% capital stock investment in Forum exploration, Inc. on whether to sell or enter into partnership with potential buyers.

#### *Capital Generation and Satisfaction*

- b. The Company will evaluate outstanding receivables and advances to affiliates and design collection program to improve the Company's financial status. The Board will also evaluate calling for the remaining stock subscription as source of fund for the future projects. The Company has net advances to affiliate of ₱277.5M, subscription receivable of ₱600M and unsubscribed stocks of ₱1.6B as of December 31, 2016. The Officers and major stockholders of the Company have committed to provide full financial support to the Company once its projects will materialize and a definite project is in place. The Company estimates that it will satisfy its capital funding within two (2) years from the finalization of business project plan.

#### *Project Research and Development*

- c. The Company is affiliated with group of mining companies. Research for areas and land mine with potential mineral deposits is being outsourced from the affiliate's group of researchers composed of geologists and mining engineers. As of this report, the management has yet to identify areas and plan of exploration to be presented to the Board for approval and resolution. With the current situation of the mining sector in the country, whereas Department of Environment and Natural Resources (DENR) is carefully evaluating mining activities, the company will observe due diligence on its planned exploration once the Board approves pursuing investment in mining activities again.

#### *Manpower and Capital Expenditures*

- d. The Company is contemplating to purchase equipment needed should the exploration results of the mine sites prove to be favorable. Additional equipment will also be acquired to enhance its operations. Other equipment needed will be provided also by its exploration partner, Forum Exploration, Inc. (FEI).

To date, the Company's main source of revenue came from its 33.33% capital stock investment in Forum Exploration, Inc. (FEI). With the new development on its management, the Company is hoping for a positive return on its investment.

The Company's management believes that such financial support and management plan are sufficient to provide the Company the ability to continue as a going concern. Accordingly, the financial statements have been prepared on a going concern basis.

#### **BASIS OF PREPARATION OF INTERIM FINANCIAL STATEMENT**

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain investments, in accordance with applicable Philippine Accounting Standards and in accordance with reporting practices applicable to the subsidiary bank.

The financial statements are presented in Philippine pesos, which is the Company's functional currency.

The financial statements have been prepared in accordance with the Philippine Financial Reporting Standards (PFRS), which are accounting principles generally accepted in the Philippines. These are the Company's first PFRS financial statements where PFRS 1, "First Time Adoption of the Philippine Financial Reporting Standards", has been applied.

The preparation of the financial statements in conformity with PFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

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#### **Note 3 – Summary of Significant Accounting Policies**

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The significant accounting policies that have been used in the preparation of these financial statements are summarized below and in the succeeding pages. The policies have been consistently applied to all the years presented, unless otherwise stated.

##### **Statement of Compliance**

The financial statements of the Company have been prepared in accordance with the Philippine Financial Reporting Standards (PFRS). The term PFRS in general includes all applicable PFRS, Philippine Accounting Standards (PAS), interpretations of the Philippine Interpretations Committee (PIC), Standing Interpretations Committee (SIC) and International Financial Reporting Interpretations Committee (IFRIC) which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by the SEC.

##### **Basis of Preparation**

The financial statements have been prepared on a historical cost basis, except for the Company's available-for-sale financial assets, which are stated at fair value.

##### **Functional and Presentation Currency**

The financial statements are presented in Philippine Peso (₱), the Company's functional currency. All amounts are rounded to the nearest peso except when otherwise indicated.

## **Changes in Accounting Policies and Disclosures**

The accounting policies adopted are consistent with those of the previous financial years except for the following new and amended PFRSs and Philippine Interpretations which were adopted as at January 1, 2016.

*PFRS 5 (Amendment), Non-current Assets Held for Sale and Discontinued Operations – Reclassification of Asset from Held for Sale to Held for Distribution or Vice Versa.* The amendment adds specific guidance in for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued.

*PFRS 7 (Amendment), Financial Instruments: Disclosures – Continuing Involvement in a Transferred Asset and Offsetting Disclosures in Condensed Interim Financial Statements.* The amendment provides additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset, and clarification on offsetting disclosures in condensed interim financial statements.

*PAS 19 (Amendments), Employee Benefits – Discount Rate for Post-Employment Benefits.* The amendments clarify that the high quality corporate bonds used to estimate the discount rate for post-employment benefits should be issued in the same currency as the benefits to be paid. These amendments would result in the depth of the market for high quality corporate bonds being assessed at currency level.

*PAS 34 (Amendments), Interim Financial Reporting – Disclosure of Information Elsewhere in the Interim Report.* The amendments clarify the requirements relating to information required by PAS 34 that is presented elsewhere within the interim financial report but outside the interim financial statements. The amendments require that such information be incorporated by way of a cross-reference from the interim financial statements to the other part of the interim financial report that is available to users on the same terms at the same time as the interim financial statements.

The application of the above improvements has no impact on the disclosures and amounts recognized on the Company's financial statements.

The above improvements are effective for annual periods beginning on or after January 1, 2016.

*PAS 1 (Amendment), Presentation of Financial Statements – Disclosures Initiative.* This amendment gives some guidance on how to apply the concept of materiality in practice. This also provides additional guidance for line items to be presented in statement of financial position and statement of comprehensive income and also introduce new requirements regarding the use of subtotals. Further, the amendments add additional examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes and to demonstrate that the notes need not be presented in the order so far listed in paragraph 114 of PAS 1. Guidance and examples are also removed with regard to the identification of significant accounting policies that were perceived as being potentially unhelpful. The amendments are effective and applicable for annual periods beginning on or after January 1, 2016.

The amendment has no material impact on the disclosures and amounts recognized on the Company's financial statements.

*PAS 16 (Amendment), Property, Plant and Equipment – Clarification of Acceptable Methods of Depreciation.* These amendments clarify that a depreciation method that is based on revenue generated by an activity that includes the use of an asset is not appropriate. This is because such methods reflect a pattern of generation of economic benefits that arise from operation of the business of which an asset is part, rather than the pattern of consumption of an asset's expected future economic benefits. The amendments are effective for annual periods beginning on or after January 1, 2016.

The amendment is not applicable to the financial statements as the Company has no property, plant and equipment.

*PAS 38 (Amendments), Intangible Assets – Clarification of Acceptable Methods of Amortization.* These amendments introduce rebuttable presumption that a revenue-based amortization method for intangible assets is inappropriate for the same reasons as in PAS 16. However, the IASB states that there are limited circumstances when the presumption can be overcome, (a) the intangible asset is expressed as a measure of revenue (the predominant limiting factor inherent in an intangible is the achievement of a revenue threshold); and (b) it can be demonstrated that revenue and the consumption of economic benefits of the intangible asset are highly correlated (the consumption of the intangible asset is directly linked to the revenue generated using the asset). The amendments are effective for annual periods beginning on or after January 1, 2016.

The amendments are not applicable to the financial statements as the Company has no intangible assets.

*PAS 16, Property, Plant and Equipment, and PAS 41, Agriculture – Bearer Plants (Amendments).* The amendments clarify that bearer plants are within the scope of PAS 16 rather than PAS 41, allowing such assets to be accounted for as property, plant and equipment and measured after initial recognition on a cost or revaluation basis in accordance with PAS 16. The amendments also introduce the definition of 'bearer plants' as a living plant that is used in the production or supply of agricultural produce, is expected to bear produce for more than one period and has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales. Moreover, it also clarifies that produce growing on bearer plants remains within the scope of PAS 41. The amendments are effective for annual periods beginning on or after January 1, 2016.

The amendments are not applicable to the financial statements as the Company has no bearer plants.

*PAS 27 (Amendments), Separate Financial Statements – Equity Method in Separate Financial Statements.* These amendments permit investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in the separate financial statements. The amendments are effective for annual periods beginning on or after January 1, 2016.

The amendment is not applicable to the Company's financial statements.

*PFRS 10, Consolidated Financial Statements, PFRS 12, Disclosure of Interests in Other Entities and PAS 28, Investments in Associates and Joint Ventures – Investments Entities: Applying the Consolidation Exception (Amendments).* The amendments clarify that (a) the exemption from preparing consolidated financial statements for an intermediate parent entity is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all of its subsidiaries at fair value in accordance with PFRS 10. The amendments further clarify that a subsidiary that provides services related to the parent's investment activities should not be consolidated if the subsidiary itself is an investment entity. Moreover, the amendments clarify that in applying the equity method to an associate or a joint venture that is an investment entity, an investor may retain the fair value measurements that the associate or joint venture used for its subsidiaries. Clarification is also made that an investment entity that measures all its subsidiaries at fair value should provide the disclosures required by PFRS 12. The amendments are effective and applicable for annual periods beginning on or after January 1, 2016.

The amendment is not applicable to the financial statements as the Company is not an investment entity and does not have any holding company, subsidiary or joint venture that qualifies as an investment entity.

*PFRS 11 (Amendment), Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations.* The amendments requires an acquirer of an interest in a joint operation in which the activity constitutes a business (as defined in PFRS 3 to: (1) apply all of the business combinations accounting principles in PFRS 3 and other PFRSs, except for those principles that conflict with the guidance in PFRS 11; and, (2) disclose the information required by PFRS 3 and other PFRSs for business combinations. The amendments apply both to the initial acquisition of an interest in joint operation, and the acquisition of an additional interest in a joint operation (in the latter case, previously held interests are not re-measured). The amendments apply prospectively to acquisitions of interests in joint operations in which the activities of the joint operations constitute businesses, as



defined in PFRS 3, for those acquisitions occurring from the beginning of the first period in which the amendments apply. Amounts recognized for acquisitions of interests in joint operations occurring in prior periods are not adjusted. The amendments are effective for annual periods beginning on or after January 1, 2016.

The amendment is not applicable to the financial statements as the Company does not have interests in joint operations.

*PFRS 14, Regulatory Deferral Accounts.* This new standard permits an entity which is a first-time adopter of Philippine Financial Reporting Standards to continue to account, with some limited changes, for 'regulatory deferral account balances' in accordance with its previous GAAP, both on initial adoption of PFRS and in subsequent financial statements. Entities which are eligible to apply this standard are not required to do so, and so can choose to apply only the requirements of PFRS 1 when first applying PFRSs. However, an entity that elects to apply this standard in its PFRS financial statements must continue to apply it in subsequent financial statements. This standard cannot be applied by entities that have already adopted PFRSs. The standard is effective and applicable on first annual financial statements for annual periods beginning on or after January 1, 2016.

The standard is not applicable to the financial statements since the Company is not subject to rate regulations.

#### **New accounting standards, interpretations and amendments to existing standards effective subsequent to January 1, 2016**

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. This listing of standards and interpretations issued are those that the Company reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Company intends to adopt these standards when they become effective.

*PAS 7 (Amendments), Statement of Cash Flows – Disclosure Initiative.* The amendments require to provide disclosures to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments are effective for annual periods beginning on or after January 1, 2017, with earlier application permitted.

The amendments will result in added disclosures to reflect the cash and non-cash changes in liabilities arising from financing activities.

*PAS 12 (Amendments), Income Taxes – Recognition of Deferred Tax Assets on Unrealized Losses.* These amendments clarify the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value. The amendments also clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how entity should determine future taxable profits and explains in which circumstances taxable profit may include the recovery of some assets for more than their carrying amount. The amounts are effective for annual periods beginning on or after January 1, 2017, with earlier application permitted.

The amendments will not have a material impact on the disclosures and amounts recognized on the Company's financial statements.

#### *Annual Improvements to PFRSs 2014-2016 Cycle*

The annual improvements addressed the following issues:

*PFRS 1 (Amendment), First-time Adoption of Philippine Financial Reporting Standards – Deletion of Short-term Exemptions for First-Time Adopters.* The amendments deleted some short-term exemptions for first-time adopters and the related effective date paragraphs as the reliefs provided were no longer applicable and had been available to entities only for reporting periods that had passed. The amendments are effective for annual periods beginning on or after January 1, 2018.

*PFRS 12 (Amendment), Disclosure of Interests in Other Entities – Clarification of the Scope of the Standard.* The amendments clarify the scope of PFRS 12 by specifying that its disclosure requirements, except for those in paragraphs B10-B16, apply to an entity's interest that are classified (or included in a disposal group that is classified) as held for sale or discontinued operations in accordance with PFRS 5 Non-current Assets Held for Sale and Discontinued Operations. The amendments are effective for annual periods beginning on or after January 1, 2017 and shall be applied retrospectively.

*PAS 28 (Amendment), Investments in Associates and Joint Ventures – Measuring an Associate or Joint Venture at Fair Value.* The amendments clarify that the election to measure at fair value through profit or loss an investment in associate or a joint venture that is held by an entity that is a venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition. The amendments are effective for annual periods beginning on or after January 1, 2018 and shall be applied retrospectively. However, early application for these amendments is permitted.

The application of the above improvements will have no impact on the disclosures and amounts recognized on the Company's financial statements.

*PAS 40 (Amendment), Investment Property – Transfers of Investment Property.* The amendments clarify that to transfer to, or from, investment properties there must be a change in use. A change in use would involve (a) an assessment of whether a property meets, or has ceased to meet, the definition of investment property; and (b) supporting evidence that a change in use has occurred. The application of the amendments provides two options for transition: (a) An entity shall apply those amendments to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments; or (b) retrospective application if, and only if, that is possible without the use of hindsight. The amendments are effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.

The amendment will not have a material impact on the disclosures and amounts recognized on the Company's financial statements.

*PFRS 2 (Amendments), Share-based Payment – Classification and Measurement of Share-based Payment Transactions.* The amendments address the: (a) accounting for modifications to the terms and conditions of share-based payments that change the classification of the transaction from cash-settled to equity-settled; (b) accounting for the effects of vesting conditions on the measurement of cash-settled share-based payments; and (c) the classification of share-based payment transactions with a net settlement feature for withholding tax obligations. The amendments are effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.

The amendments will not have an impact on the disclosures and amounts recognized on the Company's financial statements.

*PFRS 4 (Amendments), Insurance Contracts – Applying PFRS 9 Financial Instruments and PFRS 4 Insurance Contracts.* The amendments provide two options for entities that issue insurance contracts within the scope of PFRS 4: (a) an option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets (the "overly approach"); and (b) an optional temporary exemption from applying PFRS 9 for entities whose predominant activity is issuing contracts within the scope of PFRS 4 (the "deferral approach"). The application of both approaches is optional and an entity is permitted to stop applying them before the new insurance contracts standard is applied. An entity would apply the overly approach retrospectively to designated financial assets, when it first applies PFRS 9. An entity would apply the deferral approach for annual periods beginning on or after January 1, 2018.

The amendments will not have an impact on the disclosures and amounts recognized on the Company's financial statements.

*PFRS 9, Financial Instruments.* The standard requires all recognized financial assets that are within the scope of PAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortized cost or at fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual

cash flows that are solely for payments of principal and interest on the outstanding balance are generally measured at amortized cost at the end of subsequent reporting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. For financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effect of changes in the liability's credit risk in other comprehensive income would create or increase an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. The standard is to be effective no earlier than the annual periods beginning January 1, 2018, with earlier application permitted.

The management does not anticipate that the application of PFRS 9 will have a significant impact on the financial statements as the Company's AFS financial assets will continue to be measured at fair value with fair value recognize in other comprehensive income, and financial liabilities pertains only to debt securities that will continue to be measure at amortized cost.

*PFRS 15, Revenue from Contracts with Customers.* This new standard establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize. The core principle in that framework is that an entity should recognize revenue to depict the transfer or promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognizes revenue in accordance with that core principle by applying the following steps: (a) identify the contracts with customers; (b) identify the performance obligations in the contract; (c) determine the transaction price; (d) allocate the transaction price to the performance obligations in the contract; (e) recognize revenue when the entity satisfies a performance obligation. The standard is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.

The new standard will not have an impact on the disclosures and amounts recognized on the Company's financial statements.

*PFRS 15 (Amendment), Revenue from Contracts with Customers – Clarifications to PFRS 15 Revenue from Contracts with Customers.* This addresses clarifying amendments to PFRS 15 and introduced a transitional relief for entities applying the standard for the first time. The focus of these amendments is on clarifying the application of PFRS 15 when (a) identifying performance obligations by clarifying how to apply the concept of 'distinct', (b) determining whether an entity is acting as principal or an agent in a transaction by clarifying how to apply the control principle, and when a company's activities significantly affect the intellectual property to which the customer has rights. The amendments also add two practical expedients to the transition requirements of PFRS 15 for completed contracts under the full retrospective transition approach and contract modifications at transition. The amendments are effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.

The Company's amendment will not have an impact on the disclosures and amounts recognized on the Company's financial statements.

*Philippine Interpretation IFRIC-22, Foreign Currency Transactions and Advance Consideration.* This Interpretation addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency.

The amendments are effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.

The interpretation will have no significant impact on the Company's financial statements.

*PFRS 2 (Amendments), Share-based Payment – Classification and Measurement of Share-based Payment Transactions.* The amendments address the: (a) accounting for modifications to the terms and conditions of share-based payments that change the classification of the transaction from cash-settled to equity-settled; (b) accounting for the effects of vesting and non-vesting conditions on the

measurement of cash-settled share-based payments; and (c) the classification of share-based payment transactions with a net settlement feature for withholding tax obligations. The amendments are effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.

The amendments will not have an impact on the disclosures and amounts recognized on the Company's financial statements.

*PFRS 4 (Amendments), Insurance Contracts – Applying PFRS 9 Financial Instruments and PFRS 4 Insurance Contracts.* The amendments provide two options for entities that issue insurance contracts within the scope of PFRS 4(a) an option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets (the “overlay approach”); and (b) an optional temporary exemption from applying PFRS 9 for entities whose predominant activity is issuing contracts within the scope of PFRS 4 (the “deferral approach”). The application of both approaches is optional and an entity is permitted to stop applying them before the new insurance contracts standard is applied. An entity would apply the overlay approach retrospectively to designated financial assets, when it first applies PFRS 9. An entity would apply the deferral approach for annual periods beginning on or after January 1, 2018. The amendments will not have an impact on the disclosures and amounts recognized on the Company's financial statements.

*PFRS 16, Leases.* This new standard introduces a single lessee accounting model to be applied to all leases, whilst substantially carries forward the lessor accounting requirements in PAS 17 Leases. Lessees recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments for all leases with a term of more than twelve (12) months, unless the underlying asset is of low value. Whereas, lessors continue to classify leases as operating leases or finance leases, and to account for those two types of leases differently. The standard is effective for annual periods beginning on or after January 1, 2019, with earlier application not permitted until the FRSC has adopted the IFRS 15, Revenue from Contracts with Customers.

The management is still evaluating the impact of the above new standard on the Company's financial statements.

## **Financial Instruments**

### *Initial recognition, measurement and classification of financial instruments*

The Company recognizes financial assets and financial liabilities in the statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place are recognized on the settlement date.

Financial instruments are recognized initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments includes transaction costs, except for those financial assets and liabilities at fair value through profit or loss (FVPL) where the transaction costs are charged to expense in the period incurred.

On initial recognition, the Company classifies its financial assets in the following categories: financial assets at fair value through profit and loss (FVPL), loans and receivables, available-for-sale (AFS) financial assets and held to maturity investment (HTM). The Company also classifies its financial liabilities into FVPL and other financial liabilities. The classification depends on the purpose for which the investments are acquired and whether they are quoted in an active market. Management determines the classification of its financial assets and financial liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at the end of each reporting period. Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability are reported as expense or income. Distributions to holders of

financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

As at June 30, 2017 and 2016, the Company did not hold any financial assets at FVPL and HTM, and financial liabilities at FVPL.

### **Determination of Fair Value and Fair Value Hierarchy**

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 Company.

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

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

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

All assets and liabilities for which fair value is measured or disclosed in the 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 financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Company determines the policies and procedures for both recurring fair value measurement, such as financial assets at FVPL, and for non-recurring measurement, such as investment properties.

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

Fair value measurement disclosures of AFS financial assets are presented in Note 15.

### **“Day 1” Difference**

When the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose

variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a “Day 1” difference) in the Company statement of comprehensive income unless it qualifies for recognition as some other type of asset or liability. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the Company statement of comprehensive income when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the “Day 1” difference amount.

### **Amortized Cost of Financial Instruments**

Amortized cost is computed using the effective interest method less any allowance for impairment and principal repayment or reduction. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

### **Loans and Receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest rate method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the comprehensive income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

These financial assets are included in current assets if maturity is within twelve (12) months from the end of reporting period. Otherwise, these are classified as noncurrent assets.

The Company's loans and receivables comprise of cash and advances to related parties (see Notes 5 and 10).

### **Cash**

The Company's cash represents cash in bank that are not legally restricted for use, which carries interest at respective bank deposit rate.

### **AFS Financial Assets**

AFS financial assets are non-derivative financial assets that are designated in this category or are not classified in any of the three other categories. The Company designates financial instruments as AFS if they are purchased and held indefinitely and may be sold in response to liquidity requirements or changes in market conditions. After initial recognition, AFS financial assets are measured at fair value with unrealized gain or loss being recognized in other comprehensive income as “Unrealized fair value gain (loss) on AFS financial assets”, net of deferred income tax effect. When fair value cannot be reliably measured, AFS financial assets are measured at cost less any impairment in value.

When the investment is disposed or determined to be impaired, the cumulative gains or losses recognized as other comprehensive income is reclassified from other comprehensive income in equity to profit or loss as reclassification adjustment. The amount of the cumulative loss that is to be reclassified from equity to profit or loss is the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that financial assets previously recognized in the Company's statement of comprehensive income.

Interests earned on the investments are reported as interest income using the effective interest method. Dividends earned on investments are recognized in the Statement of comprehensive income when the right of payment has been established. These financial assets are classified as

noncurrent assets unless the intention is to dispose of such assets within twelve (12) months from the end of reporting period.

The Company's AFS financial assets include equity securities as at June 30, 2017 and 2016 (see Note 7).

### **Other Financial Liabilities**

Other financial liabilities are initially recorded at fair value, less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

As at June 30, 2017 and 2016, included in other financial liabilities are the Company's accounts payable and other liabilities (excluding government liabilities), and advances from related parties (see Notes 8 and 10).

### **Offsetting of Financial Instruments**

Financial assets and financial liabilities are offset and the net amount is reported in the 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 assets and settle the liabilities simultaneously.

### **Derecognition of Financial Assets and Financial Liabilities**

#### ***(a) 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 Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to third party under a "pass-through" arrangement; or
- the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all risks and rewards of the asset, but has transferred control of the asset.

Where the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement 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 Company'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 Company could be required to repay.

#### ***(b) Financial liabilities***

A financial liability is derecognized when the obligation under the liability was discharged, cancelled or has expired.

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

## **Impairment of Financial Assets**

The Company assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

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

- *Financial assets carried at cost*

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument 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 discounted at the current market rate of return of a similar financial asset.

- *Loans and receivables*

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in the group of financial assets with similar credit risk and characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on financial assets carried at amortized cost has been incurred, the amount of loss is measured as a difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future 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 loss is recognized in the Statement of comprehensive income.

If in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, and the increase or decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance for impairment losses account. If a future write-off is later recovered, the recovery is recognized in the Statement of comprehensive income under Other income account. Any subsequent reversal of an impairment loss is recognized in the Statement of comprehensive to the extent that the carrying value of the asset does not exceed its amortized cost at reversal date. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral, if any, has been realized or has been transferred to the Company.

- *AFS financial assets*

For AFS financial assets, the Company assesses at the end of each reporting period 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 fair value of the investments below its cost. The determination of what is “significant” or “prolonged” requires judgment. 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 other comprehensive income is removed from equity and recognized in the Statement of comprehensive income.

Impairment losses on equity investments are not reversed through the statement of comprehensive income. Increases in fair value after impairment are recognized directly as other comprehensive income. In the case of debt instruments classified as AFS financial assets, increase in fair value after impairment is reversed in statement of comprehensive income.

### **Input Tax**

The Company's input tax is stated at face value less provision for impairment, if any. Allowance for unrecoverable input tax, if any, is maintained by the Company at a level considered adequate to provide for potential uncollectible portion of the claims. The Company, on a continuing basis, makes a review of the status of the claims designed to identify those that may require provision for impairment losses.

### **Impairment of Non-financial Assets**

At each reporting date, the Company reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. 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 which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized as an expense immediately. When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income.

### **Retirement Benefits**

The Company does not provide any retirement benefits because it does not have any employee as at June 30, 2017 and 2016. The Company's administrative functions are performed by its related party, The Wellex Group, Inc. (TWGI).

### **Current and Deferred Income Tax**

The tax expense for the period comprises current and deferred tax. Tax is recognized in the Company statement of comprehensive income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at reporting date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of

goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable income. Deferred income tax is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. At each reporting date, the Company reassesses the need to recognize previously unrecognized deferred income tax assets.

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

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

### **Leases**

Leases which transfer to the Company substantially all risks and benefits incidental to ownership of the leased item are classified as finance leases and are recognized as assets and liabilities in the Company statement of financial position at amounts equal at the inception of the lease to the fair value of the leased property or, if lower, at the present value of minimum lease payments. Lease payments are apportioned between the finance costs and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are recognized in statements of comprehensive income. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases which do not transfer to the Company substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expense in the Company statement of comprehensive on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

The Company is a party to an operating lease as a lessee. Payments made under operating leases (less any incentives given by the lessor) are charged to statement of comprehensive income.

### **Equity**

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

*Capital stock* represents the par value of the shares that are issued and outstanding as at reporting date.

*Subscribed capital stock* represents the par value of the subscribed shares.

*Subscription receivable* represents par value of the shares subscribed but the Company has not yet received the payments from the subscriber.

*Treasury shares* are own equity instruments which are reacquired, are recognized at cost and deducted from equity. No gain or loss is recognized in the statement of comprehensive income on

the purchase, sale issue or cancellation of the Company's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in additional paid-in capital. Voting rights related to treasury shares are nullified for the Company and no dividends are allocated to them respectively. When the shares are retired, the capital stock account is reduced by its par value and the excess of cost over par value upon retirement is debited to additional paid-in capital when the shares were issued and to retained earnings for the remaining balance.

*Unrealized fair value gain on AFS financial assets* represents gains from increase in the market value of AFS financial assets.

*Deficit* includes all current and prior period accumulated losses as disclosed in the statements of comprehensive income.

### **Revenue Recognition**

Revenue is recognized to the extent that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business.

The following specific recognition criteria must also be met before revenue is recognized:

Interest income is accrued on a timely basis, by reference to the principal outstanding and at the effective interest rate applicable.

### **Cost and Expense Recognition**

Cost and expenses are recognized in statements of comprehensive income when decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably. Expenses are recognized in statements of comprehensive income: on the basis of a direct association between the costs incurred and the earning of specific items of income; on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined; or immediately when an expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify, or cease to qualify, for recognition in the statements of financial position as an asset.

Expenses in the statements of comprehensive income are presented using the nature of expense method.

### **Foreign Currency-denominated Transactions and Translations**

#### *(a) Functional and Presentation Currency*

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (functional currency). The financial statements are presented in Philippine Peso (₱), the Company's functional and presentation currency.

#### *(b) Transactions and Balances*

Transactions denominated in foreign currencies are recorded using the applicable exchange rate at the date of the transaction. Outstanding monetary assets and monetary liabilities denominated in foreign currencies are retranslated using the applicable rate of exchange at the reporting date. Foreign exchange gains or losses are recognized in the statement of comprehensive income.

### **Related Party Relationships and Transactions**

Related party relationship exists when the party has the ability to control, directly or indirectly, through one or more intermediaries, or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting entity and its key management personnel, directors or stockholders. In considering each possible related party relationship, attention is directed to the substance of the relationships, and not merely to the legal form.

### **Basic Earnings (Loss) Per Share**

Basic earnings/ (loss) per share is calculated by dividing the profit (loss) by the weighted average number of common shares in issue during the year, excluding common shares purchased by the Company and held as treasury shares.

### **Provisions and Contingencies**

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. When the Company expects a provision or loss to be reimbursed, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain and its amount is estimable. The expense relating to any provision is presented in the Company statement of comprehensive income, net of any reimbursement.

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but disclosed when an inflow of economic benefits is probable. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the Company's financial statements.

### **Events After the Reporting Date**

The Company identifies post-year events as events that occurred after the reporting date but before the date when the financial statements were authorized for issue. Post year-end events that provide additional information about the Company's position at the reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the financial statements when material.

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### **Note 4 – Significant Accounting Judgments, and Estimates and Assumptions**

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The preparation of the Company's financial statements requires management to make judgments and estimates that affect amounts reported in the Company financial statements. These judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Company believes the following represent a summary of these significant judgments and estimate and related impact and associated risks in the Company financial statements.

## **Significant Accounting Judgments in Applying the Company's Accounting Policies**

### *a) Functional currency*

The Company considers the Philippine Peso as the currency that most fairly represents the economic effect of the underlying transactions, events and conditions. The Philippine Peso is the currency of the primary economic environment in which the Company operates. It is the currency in which the Company measures its performance and reports its operating results.

### *b) Impairment of available-for-sale financial assets*

The determination when an investment is other-than-temporarily impaired requires significant judgment. In making this judgment, the Company evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology, and operational and financing cash flows.

### *c) Operating lease commitments*

The Company has entered into contract of lease for the office space it occupies. The Company has determined that all significant risks and benefits of ownership on these properties will be retained by the lessor. In determining significant risks and benefits of ownership, the Company considered, among others, the significance of the lease term as compared with the estimated useful life of the related asset. The Company accordingly accounted for these as operating leases.

### *d) Impairment of input tax*

Management believes that the recoverability of input tax is doubtful since the Company is not expecting income subject to output tax in the near future. Consequently, the Company has provided full valuation allowance of its input tax as of June 30, 2017.

### *e) Provisions and contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provision and disclosure of contingencies are discussed below.

The Company has a legal case involvement in the "Field Investigation Office vs. Prospero Pichay, et al. For: Malversation." This case involves a complaint for Malversation, under R.A. No. 3019, otherwise known as the Anti-Graft and Corrupt Practices Act," and violation of the Manual of Regulations for Banks in relation to Section 36 and 37 of R.A. No. 7653, otherwise known as the "New Central Bank Act," wherein the Board of Directors of the Local Water Utilities Administration (LWUA, FPI and Wellex Group, Inc. ("WGI"), among others, are charged with conspiring to (a) effect LWUA's supposed anomalous purchase in June 2009 from the Company (127,415 shares), WGI (310,036 shares) and other individual stockholders (78,767 shares) of their total 445,377 shares, representing approximately 60% of the total shares, in Express Savings Bank, Inc. ("ESBI") in the total amount of ₱101,363,302.85; and (b) infuse fresh capital in ESBI amounting to a total of ₱700,000,000. The Company considers this as a contingency.

As at June 30, 2017, the Company has no outstanding liabilities in relation to the above mentioned case.

## **Significant Accounting Estimates and Assumptions**

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

a) *Deferred tax assets*

The Company reviews the carrying amounts at each reporting date and reduces deferred tax assets to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Due to non-operation of the Company, management expects that the Company will continue to incur losses and the related deferred tax assets will not be utilized in the near future.

The Company's deferred tax assets with full valuation allowance are fully disclosed in Note 13.

b) *Allowance for impairment of advances to related parties*

Allowance for impairment of advances to related parties is maintained at a level considered adequate to provide for potentially uncollectible receivables. The level of allowance is based on the status of the advances to related parties, past collection experience and other factors that may affect collectibility. Allowance for impairment loss on advances to related parties amounted to ₱213,009,332 in the second quarter of 2017 and 2016, respectively (see Note 10).

c) *Allowance for impairment on AFS carried at cost*

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. Since management has assessed that the investment in AFS financial assets cannot be recovered in full and the decline in book value per share is other than temporary, the Company has provided allowance for impairment loss.

5. **CASH**

Cash represents cash in bank with outstanding balance of ₱202,453 and ₱121,296 as at June 30, 2017 and 2016, respectively. Interest income earned from bank deposits was ₱128 and ₱168 for the quarter ended June 30, 2017 and 2016.

6. **PREPAYMENTS AND OTHER CURRENT ASSETS**

Prepayments and other current assets as at June 30 consist of:

	2017	2016
Input tax	₱ 1,519,157	₱ 1,192,119
Other current assets	41,009	58,213
	1,560,166	1,250,332
Less: Valuation allowance on input tax – note 12	(1,448,630)	(1,192,119)
	₱ 111,536	₱ 58,213

Movements in the allowance on input tax are as follows:

	2017	2016
Balance at beginning of year	₱ 1,363,458	₱ 1,077,050
Provision – note 12	85,172	115,069
Balance at end of year	₱ 1,448,630	₱ 1,192,119

**7. AVAILABLE-FOR-SALE FINANCIAL ASSETS - (net)**

Available-for-sale financial assets as at June 30 consist of:

	2017	2016
<b>Unquoted shares</b>		
Cost	₱ 73,211,573	₱ 73,211,573
Impairment loss	( 9,320,935)	( 9,320,935)
	<b>63,890,638</b>	<b>63,890,638</b>
<b>Quoted shares</b>		
Cost	7,529,480	7,529,480
Net unrealized fair value gain	10,541,279	6,776,538
	<b>18,070,759</b>	<b>14,306,018</b>
	<b>₱81,961,397</b>	<b>₱ 78,196,656</b>

Investment in unquoted shares of stock represents 33.33% ownership of the Company in Forum Exploration, Inc. (FEI) in 2017 and 2016. This investment is classified as AFS financial assets as the Company does not participate in the financial and operating policy of the investee which manifests control or significant influence. These investments are stated at cost less impairment loss since there is no quoted price in an active market (see Note 7).

Investment in quoted shares of stock represents 3.47% ownership investment in Philippine Estates Corporation (PHES), a publicly listed Company. The fair value of these shares has been determined directly by reference to published prices in the active market.

Management believes that the foregoing carrying amount of the Company's FEI and PHES investments approximate their fair value.

The movements in the net unrealized fair value gain on available-for-sale financial assets are as follows:

	June 30, 2017	June 30, 2016
At beginning of year	₱6,525,555	₱6,776,538
Fair value changes during the period	4,015,724	—
Reclassification adjustment due to impairment	—	—
	<b>₱10,541,279</b>	<b>₱6,776,538</b>

**8. ACCOUNTS PAYABLE AND OTHER LIABILITIES**

Accounts payable and other liabilities as at June 30 consist of:

	2017	2016
Accounts payable	₱ 15,000	₱ 15,000
Taxes payable	7,625	7,626
	<b>₱ 22,625</b>	<b>₱ 20,626</b>

The Company believes that the carrying amount of accounts payable and other liabilities approximates fair value.

## 9. CAPITAL STOCK

Details of the Company's capital stock as at June 30, 2017 and 2016 are as follows:

Capital stock	Number of Shares	Par value	Total
Authorized	3,500,000,000	₱1	₱ 3,500,000,000
Issued and fully paid	819,355,920	1	₱ 819,355,920
Subscribed and fully paid			
Subscribed	1,055,644,080	1	₱ 1,055,644,080
Subscription receivable	( 667,456,379)	1	( 667,456,379)
	388,187,701	1	₱ 388,187,701
Subscribed and issued	1,207,543,621	1	₱ 1,207,543,621
Treasury shares	( 36,056,750)	1	( 36,056,750)
Issued and outstanding	1,171,486,871	₱1	₱ 1,171,486,871

### *Track record of registration of securities*

The Company was originally registered as Cophil Exploration, Inc. with the SEC on January 8, 1993. The Company was listed with the PSE on December 19, 1994 with an initial registered 50 billion shares at ₱0.01 par value per share .

On September 2, 1996, the Board of Directors and stockholders approved a resolution to amend the Company's Article of Incorporation by changing the par value per share of ₱0.01 to ₱1.00, removing the pre-emptive rights of shareholders and increasing authorized capital stock from ₱500 million divided by 50 billion shares to ₱2 billion divided into 2 billion shares. On September 27, 1996, SEC approved the amendment on the Company's capital structure.

On August 22, 1997, the Board of Directors and the stockholders approved a further increase in the Company's authorized capital stock from ₱2 billion to ₱3.5 billion divided into 3.5 billion shares with a par value of ₱1 per share. On March 11, 1998, SEC approved the Company's increased in authorized capital stock.

The Company's capital stock fair values as at June 30, 2017 and 2016 amounted to ₱0.207 and ₱0.231 per share, respectively.

## 10. RELATED PARTY TRANSACTIONS

The Company, in the normal course of business, has transactions with related parties. Such transactions are unsecured, non-interest bearing and with no definite terms of repayments period.

### Relationship, Transactions and Account Balances

Category	Relationship	Amount/volume of transactions		Outstanding receivable (payable)	
		June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
The Wellex Group, Inc.(TWGI)	Common key management			₱ 318,164,268	₱ 321,686,156 (b)
Management fee		₱ 116,400	₱ 232,800		
Rent expense		58,125	116,250		
Cash advance		374,391	559,341		
Forum Exploration, Inc. (FEI)	Common key management	-	-	171,631,076	171,631,076 (a)
		548,916	908,391	489,795,344	493,317,232
Allowance for impairment loss		-	-	(213,009,332)	(213,009,332)
		548,916	908,391	276,786,012	280,307,900
Forum Exploration, Ltd.(FEL)	Common key management			(4,130,606)	(3,911,110) (c)



(a) *Advances to Forum Exploration, Inc. (FEI)*

Advances to FEI pertain to the carrying value of exploration assets transferred by the Company. No transaction in the account balance was recognized for the quarters ended June 30, 2017 and 2016.

	June 30, 2017	June 30, 2016
Advances	<b>₱ 171,631,076</b>	₱ 171,631,076
Allowance for impairment loss	<b>( 50,755,622 )</b>	( 50,755,622 )
Net carrying amount	<b>₱ 120,875,454</b>	₱ 120,875,454

FEI is a legal and beneficial owner of 100% interest in Service Contract (SC) 40, an upstream oil and gas contract area in the Philippines, entered into with the Philippine Government through the Department of Energy. Annual gas production from field on SC 40 totaled 41.09 million standard cubic feet (MMSCF) and 78.66 MMSCF since the start of production in 2012.

FEI has also implemented Work Program and Budget as approved by DOE on November 17, 2014 which includes, among others, a commitment to perform land gravity survey over the Dalingding Structure starting March 2015. Since 2014, FEI has performing geological and geophysical study aimed to identify and prioritize highly prospective areas for future exploration.

The Company is positive on FEI's success on its exploration and future development work in providing the viability of its oil properties to produce oil in commercial quantities. Accordingly, the Company has not provided additional allowance for impairment on the advances.

(b) *Advances to The Wellex Group, Inc. (TWGI)*

TWGI obtained advances from the Company to finance its working capital requirement.

On December 16, 2012, to settle its outstanding obligations to the Company, TWGI issued a promissory note to the Company maturing on December 15, 2015 amounting to ₱330,495,385 without interest. On December 16, 2015, the promissory note was renewed for another three (3) years maturing on December 16, 2018. To settle the outstanding advances, the Company entered into the following contracts with TWGI, which in return, amounts incurred will be applied to the outstanding advances:

- The Company subleases an office space from TWGI starting April 2012. The lease is for a period of two (2) years but renewable thereafter upon mutual agreement of both parties. Total rental and utilities expense charged to operations amounted to ₱55,500 for both quarters ended June 30, 2017 and 2016, respectively (see Note 12). The lease contract was renewed for another two (2) years last May 2016.

Total rental and utilities expense charged to operations for the quarters ended June 30, 2017 and 2016 as follows (see Note 11):

	June 30, 2017	June 30, 2016
Rent	<b>₱ 37,500</b>	₱ 37,500
Utilities	<b>18,000</b>	18,000
	<b>₱ 55,500</b>	₱ 55,500

As at June 30, the Company has outstanding lease commitment for future minimum lease payments as follows:

	2017	2016
Not later than one year	<b>₱ 180,000</b>	₱ 180,000
Later than one year but not later than five years	<b>300,000</b>	300,000
	<b>₱ 480,000</b>	<b>₱ 480,000</b>

- Also in April 2012, the Company has entered into a consultancy agreement with TWGI, whereby the latter will provide corporate planning and financial services on its various corporate functions and undertakings. Total management fee charged to operations amounted to ₱120,000 for both quarters ended June 30, 2017 and 2016, respectively (see Note 11). The contract was renewed for another two (2) years last May 2016.

The lease and consultancy agreement were settled through offsetting with the advances to TWGI.

	June 30, 2017	June 30, 2016
Advances	<b>₱318,164,268</b>	₱ 321,686,156
Allowance for impairment loss	<b>( 162,253,710)</b>	( 162,253,710)
Net carrying amount	<b>₱155,910,558</b>	₱ 159,432,446

*(c) Advances from Forum Exploration, Inc. Ltd. (FEI – Ltd.)*

The Company received cash advances from FEI, Ltd. to finance its acquisition of 60% stockholdings of Forum Coal Cebu Holdings, Inc. (FCCHI). The advances have no definite terms of payment.

	June 30, 2017	June 30, 2016
At beginning of year	<b>₱4,130,606</b>	₱3,911,110
Unrealized foreign exchange loss (gain) – note 13	–	–
At end of year	<b>₱4,130,606</b>	₱3,911,110

*(d) Remuneration to key management personnel*

The Company did not provide remuneration to key management personnel for the quarter ended June 30, 2017 and 2016. The administrative function of the Company is performed by its related party, TWGI.

## 11. **COSTS AND EXPENSES**

Cost and expenses for the quarters ended **June 30** consists of:

	2017	2016	2015
Professional fees	<b>₱ 465,300</b>	₱ 195,000	₱ 195,000
Membership fees and dues	<b>11,049</b>	11,049	11,049
Office supplies	<b>3,050</b>	2,936	–
Rent and utilities – note 11	<b>55,500</b>	55,500	55,500
Representation	–	–	–
Taxes and licenses	<b>825</b>	–	–
Miscellaneous	<b>8,800</b>	3,250	51,843
Provision for impairment	–	24,395	–
	<b>₱ 544,524</b>	<b>₱ 292,130</b>	<b>₱ 317,227</b>

12. **OTHER INCOME (EXPENSES)** - net

Other income (expenses) as of the quarters ended **June 30** consists of:

	2017	2016	2015
Unrealized foreign exchange gain (loss)	₱ —	₱ —	₱ —
Impairment loss:			
Advances from a related party	—	—	—
AFS financial assets	—	—	—
Investments in a subsidiary – note 8	—	—	—
Others	—	—	—
Interest income from bank deposits	128	168	105
	<b>₱ 128</b>	<b>₱ 168</b>	<b>₱ 105</b>

13. **INCOME TAXES**

***Current and deferred tax***

On May 24, 2005, Republic Act (RA) No. 9337 changed the normal corporate income tax rate from 32% to 35% effective November 1, 2005 and from 35% to 30% effective January 1, 2009.

On December 20, 2008, Revenue Regulations No.16-2008 on the Optional Standard Deduction (OSD) was published. The regulation prescribed the rules for the OSD application by corporations in the computation of their final taxable income. For corporations, OSD shall be 40% based on gross income; “cost of goods sold” will be allowed to be deducted from gross sales.

For taxable period 2008, maximum 40% deduction shall only cover the period beginning July 6, 2008. However, July 1, 2008 shall be considered as the start of the period when the 40% OSD may be allowed.

On February 26, 2010, RR 2-2010 on the amendment of Section 6 and 7 of RR 16-2008 was published. The regulation amended the other implications of the OSD particularly on the election to claim either the OSD or the itemized deduction which must be signified in the first quarter and must be consistently applied for all the succeeding quarterly returns and in the final income tax return for the taxable year.

The Company did not avail of the OSD for purpose of income tax calculation in 2017 and 2016.

The composition of deferred tax assets is as follows:

	June 30, 2017	June 30, 2016
NOLCO	₱ 2,125,374	₱ 15,555,533
Allowance for:		
Doubtful accounts		16,923,978
Impairment loss on AFS Securities	2,796,280	150,846,422
Unrealized foreign exchange loss	579,702	
Provision for input tax	409,038	
Accrued retirement benefits		162,630
MCIT		489,048
	<b>5,910,394</b>	<b>183,977,611</b>
Valuation allowance	<b>(5,910,394)</b>	<b>(183,977,611)</b>
	<b>₱ —</b>	<b>₱ —</b>

Deferred tax assets and liabilities are determined using the income tax rates in the period the temporary differences are expected to be recovered or settled.

A corresponding full valuation allowance on deferred tax assets have been established since management believes, that it is more likely than not, that the carry-forward benefits will not be realized in the future.

As at June 30, 2017 and 2016, the composition of deferred tax liability on the unrealized foreign exchange gain on advances from related parties amounted to nil.

As at June 30, 2017, the Company has NOLCO that can be claimed as deduction from future income tax payable and taxable income, respectively, as follows:

Year Incurred	Expiration Date	Beginning balance	Additions	Expired	Claimed	Ending balance
<b>NOLCO</b>						
2017	2020	₱ -----	1,264,431			₱ 1,264,431
2016	2019	2,805,053	—	—	—	2,805,053
2015	2018	2,154,452	—	—	—	2,154,452
2014	2017	2,125,076				2,125,076
		<b>₱ 7,084,581</b>	<b>₱ 1,264,431</b>	<b>—</b>	<b>₱ —</b>	<b>₱ 8,349,012</b>

#### 14. **LOSS PER SHARE**

The following table presents information necessary to calculate the loss per share for the quarter ended, **June 30**:

	2017	2016	2015
Net loss for the quarter	(₱ 544,396)	(₱ 291,962)	(₱ 3217,227)
Weighted average number of common shares outstanding during the quarter	1,171,486,871	1,171,486,871	1,171,486,871
	(₱ 0.00046)	(₱ 0.00025)	(₱ 0.00027)

#### 15. **FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Company is exposed to a variety of financial risk which results from both its operating and financing activities. The Company's risk management is coordinated with the Group, in close cooperation with the Board of Directors, and focuses on actively securing the short-term cash flows to finance its operation.

The Company's principal financial instruments comprise of cash, advances to related parties, AFS financial assets, accounts payable and other liabilities (excluding local and other taxes and other liabilities to government agencies) and advances from related parties. The main purpose of these financial instruments is to raise financing for the Company's operations. The Company does not actively engage in trading of financial assets for speculative purposes nor does it have options.

The most significant financial risks to which the Company is exposed to are described below:

##### ***Credit risk***

Credit risk arises from cash and advances to related parties.

The maximum credit risk exposure of the financial assets is the carrying amount of the financial assets shown on the face of statement of financial position, as summarized below:

	June 30, 2017	June 30, 2016
Cash in bank	₱ 202,453	₱ 121,296
Advances to related parties, gross of allowance	489,795,344	493,317,232
	<b>₱ 489,997,797</b>	<b>₱ 493,438,528</b>

The credit quality of financial assets is discussed below:

*Cash in bank*

The Company deposits its cash balance in a universal bank to minimize credit risk exposure.

*Advances to related parties*

As at June 30, 2017 and 2016, the Company classifies the credit quality of advances to related parties based on the following:

	2017	2016
Group 1	₱ 155,910,558	₱ 159,432,446
Group 2	120,875,454	120,875,454
Group 3	—	—
	<b>₱ 276,786,012</b>	<b>₱ 280,307,900</b>

- Group 1 – Past due but not impaired with expectation of collection.
- Group 2 – Past due and impaired with expectation of collection.
- Group 3 – Past due and impaired without expectation of collection.

Group 1 and 2 mainly relates to the advances to related parties which are in difficult economic situation.

The details of the Company's aging analysis of financial assets as at June 30, 2017 and 2016 are as follows:

Past due but not impaired								
June 30, 2017	Total	Neither past due nor impaired	< 30 days	31-90 days	91-180 days	181-360 days	1-3 years	Impaired
Cash in bank	₱ 202,453	₱202,453	₱ -	₱ -	₱ -	₱ -	₱ -	₱ -
Advances to related parties - note 10	489,795,344	-	-	-	-	-	318,164,268	171,631,076
	<b>₱489,795,344</b>	<b>₱202,324</b>	<b>₱ -</b>	<b>₱ -</b>	<b>₱ -</b>	<b>₱ -</b>	<b>₱318,164,268</b>	<b>₱171,631,076</b>
June 30, 2016								
Cash in bank	₱121,296	₱121,296	₱ -	₱ -	₱ -	₱ -	₱ -	₱ -
Advances to related parties - note 10	493,317,232	-	-	-	-	-	321,686,156	171,631,076
	<b>₱493,438,528</b>	<b>₱121,296</b>	<b>₱ -</b>	<b>₱ -</b>	<b>₱ -</b>	<b>₱ -</b>	<b>₱321,686,156</b>	<b>₱171,631,076</b>

The management continues to review receivable from related parties for any legally enforceable right to offset with liabilities with the expressed intention of the borrower to settle on a net basis.

As at June 30, 2017 and 2016, the Company has entered into an agreement with its related party to settle the advances (See Note 10).

### **Liquidity risk**

Liquidity risk refers to the risk that the Company will not be able to meet its financial obligations as they fall due.

The Company is mainly exposed to liquidity risk through its maturing liabilities. The Company has a policy of regularly monitoring its cash position to ensure that maturing liabilities will be adequately met.

The Company manages liquidity risk by obtaining funds from related parties and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of liabilities.

The details of the maturity analysis of the Company's liabilities are as follows:

June 30, 2017	Total	On demand	Less than three months	3-12 months	1-5 years
Account payable and other liabilities	₱ 22,625	₱ 22,625	₱ –	₱ –	₱ –
Advances from related parties	4,130,616	–	–	–	4,130,616
	₱ 4,153,231	₱ 22,625	₱ –	₱ –	₱ 4,130,616

June 30, 2016	Total	On demand	Less than three months	3-12 months	1-5 years
Account payable and other liabilities	₱ 22,626	₱ –	₱ –	₱ 22,626	₱ –
Advances from related parties	3,911,110	–	–	–	3,911,110
	₱ 3,933,736	₱ –	₱ –	₱ 22,626	₱ 3,911,110

### **Foreign currency risk**

The Company is exposed to foreign exchange risk arising from currency exposures primarily with respect to the U.S. Dollars and other foreign currencies. Foreign exchange risk arises when future commercial transactions and recognized assets and liabilities are denominated in a currency that is not the Company's functional currency. Significant fluctuation in the exchange rates could significantly affect the Company's financial position.

The Company is mainly exposed to credit risk through its advances from a related party.

The sensitivity rate used on reporting foreign currency risk internally to key management personnel is 10% and it represents management's assessment of reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary assets and liabilities and adjusts their translation at the period end for a 10% in foreign exchange rates. A positive number indicates an increase in net income when the Philippine Peso strengthens at 10% against the relevant currency. For 10% weakening of the Philippine Peso against the relevant currency, there would be an equal and opposite impact on the net income.

### **Capital Risk Objective and Management**

The primary objective of the Company's capital management is to ensure its ability to continue as a going concern and that it maintains a strong credit rating and healthy capital ratios to support its business and maximize shareholder value.

The Board of Directors have the overall responsibility for monitoring of capital in proportion to risk. Profiles for capital ratios are set in the light of changes in the Company's external environment and the risks underlying the Company's business operations and industry.

The Company monitors capital on the basis of the debt-to-equity ratio which is calculated as total debt divided by total equity. Debt-to-equity ratios as of June 30, 2017 and 2016 are 1.18% and 1.06%, respectively. Total debt is equivalent to debt shown in the Company statements of financial position. Total equity comprises all components of equity as shown in the Company statements of financial position. Total equity amounts to ₱350,892,315 and ₱355,042,292, as at June 30, 2017 and 2016, respectively.

The Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including accrued and other payables and advances from related parties as shown in the Company statement of financial position) less cash. Total capital is calculated as Equity as shown in the Company statement of financial position plus Net Debt.

During 2017, the Company's strategy, which was unchanged from 2016, was to keep the gearing ratio below 50% as proportion to net debt to capital. The gearing ratios as at June 30, 2017 and 2016 were as follows:

	June 30, 2017	June 30, 2016
Accounts payable and other liabilities	₱ 22,625	₱ 94,435
Advances from related parties	4,130,606	3,911,110
Less: Cash	( 202,453)	( 187,147)
Net debt	3,950,778	3,818,398
Total equity	354,908,167	355,042,292
Total capital	₱ 358,858,945	₱ 358,860,690
	1.10%	1.06%

### ***Comparison of Carrying Amounts and Fair Values***

The carrying amounts and fair values of the categories of assets and liabilities presented in the statement of financial position are shown below:

	June 30, 2017		June 30, 2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial Assets</b>				
Cash	₱ 202,453	₱ 202,453	₱ 121,296	₱ 121,296
Advances to related parties – net	276,786,012	276,786,012	280,307,900	280,307,900
AFS financial assets	81,961,398	81,961,398	78,196,656	78,196,656
	₱358,949,863	₱358,949,863	₱358,625,852	₱358,625,852
<b>Financial liabilities</b>				
Accounts payable and other liabilities	₱ 22,625	₱ 22,625	₱ 22,625	₱ 22,625
Advances from related parties	4,130,606	4,130,606	3,911,110	3,911,110
	₱ 4,153,231	₱ 4,153,231	₱ 3,933,735	₱ 3,933,735

### **Fair value estimation**

The methods and assumptions used by the Company's in estimating the fair value of the financial instruments are as follows:

### *Financial assets*

Cash - The carrying amounts of cash approximate fair values due to relatively short-term maturities.

Advances to affiliates - The fair value of advances to affiliates is not reasonably determined due to the unpredictable timing of future cash flows.

The carrying value of AFS financial assets approximates their fair value as they are valued at market to market based on published quoted price.

The investment in FEI is stated at cost since there is no quoted price in an active market.

### *Financial liabilities*

Accounts payable and other liabilities - The carrying amounts of accounts payable and other liabilities approximate fair values due to relatively short-term maturities.

Advances from related parties - The fair value of advances from related parties is not reasonably determined due to the unpredictable timing of future cash flows.

### **Fair value hierarchy**

The Company analyses financial assets carried at fair value, by valuation method.

The fair values of financial assets based on fair value hierarchy are as follows:

<b>June 30, 2017</b>				
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
AFS financial assets	<b>₱ 81,961,398</b>	<b>₱ 18,070,759</b>	<b>₱ –</b>	<b>₱ –</b>

<b>June 30, 2016</b>				
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
AFS financial assets	<b>₱ 78,196,656</b>	<b>₱ 14,306,018</b>	<b>₱ –</b>	<b>₱ –</b>

## **16. SUPPLEMENTARY INFORMATION REQUIRED BY RR-15-2010 AND RR19-2011**

### ***Supplementary information required by Revenue Regulations 15-2010***

On December 28, 2010, Revenue Regulation (RR) No. 15-2010 became effective and amended certain provisions of RR No. 21-2002 prescribing the manner of compliance with any documentary and/or procedural requirements in connection with the preparation and submission of financial statements and income tax returns. Section 2 of RR No. 21-2002 was further amended to include in the Notes to Financial Statements information on taxes, duties and license fees paid or accrued during the year in addition to what is mandated by Philippine Financial Reporting Standards.

#### ***a) Output value-added tax***

The Company has no output VAT since it does not have any income subject to VAT for the quarter ended June 30, 2017 and 2016.

#### ***b) Input value-added tax***



	June 30, 2017	June 30, 2016
At beginning of year	<b>₱1,363,458</b>	₱1,077,050
Current purchases and payments for:		
Goods for resale/ manufacture	—	—
Goods other than for resale or manufacture	—	—
Capital goods subject to amortization	—	—
Capital goods not subject to amortization	—	—
Services lodged under cost of goods sold	—	—
Services lodged under other accounts	<b>155,698</b>	115,069
Allowance for Input VAT	<b>(1,448,630)</b>	(1,192,119)
	<b>₱ 70,526</b>	₱ —

c) *Taxes on importation*

The Company has no import transactions for the quarters ended June 30, 2017 and 2016.

d) *Excise Tax*

The Company does not have excise tax in any of the taxable years presented since it does not have any transactions which are subject to excise tax.

e) *Documentary stamp tax*

There are no documentary stamp tax paid by the Company for the quarter ended June 30, 2017 and 2016.

f) *Taxes and licenses*

Details of taxes and licenses account are broken down as follows:

	2017	2016
Business permits	<b>₱ 16,030</b>	₱ 16,320
Corporate Community tax	<b>660</b>	660
BIR Annual registration	<b>500</b>	500
Others	<b>825</b>	-
	<b>₱ 18,015</b>	₱ 17,480

g) *Withholding taxes*

The details of total withholding taxes for the quarter ended **June 30** are shown below:

	2017	2016
Withholding tax on compensation	<b>₱ —</b>	₱ —
Expanded withholding tax	<b>22,875</b>	22,875
Final withholding tax	<b>—</b>	—
	<b>₱ 22,875</b>	₱ 22,875

h) *Deficiency tax assessment and tax cases*

The Company does not have any deficiency tax assessments with the BIR or tax cases outstanding or pending in courts or bodies outside of the BIR in any of the taxable years.

**Supplementary information required by Revenue Regulation 19-2011**

RR No. 19-2011 prescribes the new BIR forms that should be used for income tax filing covering and starting with the calendar year 2011 and modifies Revenue Memorandum

Circular No. 57-2011. In the Guidelines and Instructions Section of the new BIR Form 1702 (version November 2011), a required attachment to the income tax returns is an Account Information Form and/or Financial Statements that include in the Notes to Financial Statements schedules of sales/receipts/fees, cost of sales/services, non-operating and taxable other income, itemized deductions (if the taxpayer did not avail of the Optional Standard Deduction or OSD), taxes and licenses and other information prescribed to be disclosed in the Notes to the Financial statements.

The schedule and information of taxable income and deductions taken for the quarter ended June 30, 2016 and 2015 are as follows:

*a) Sales/Taxable Income*

	June 30, 2017		June 30, 2016	
	Special rate	Regular rate	Special rate	Regular rate
Sale of goods	₱ –	₱ –	₱ –	₱ –
Sale of services	–	–	–	–
Sale of properties	–	–	–	–
	₱ –	₱ –	₱ –	₱ –

*b) Itemized deductions*

	June 30, 2017		June 30, 2016	
	Special rate	Regular rate	Special rate	Regular rate
Professional fees	₱ –	₱ 465,300	₱ –	₱ 195,000
Rent and utilities	–	55,500	–	55,500
Office supplies	–	–	–	–
Dues and subscription	–	11,049	–	11,049
Training and development	–	–	–	–
Travel and transportation	–	1,313	–	150
Provision for Impairment	–	–	–	24,395
Printing and reproduction	–	3,050	–	2,936
Taxes and licenses	–	825	–	–
Miscellaneous	–	7,487	–	3,100
<b>Sub-total</b>	–	<b>544,524</b>	–	<b>292,130</b>
<b>Allowance of NOLCO</b>	–	–	–	–
<b>Total expenses</b>	<b>₱ –</b>	<b>₱ 544,524</b>	<b>₱ –</b>	<b>₱ 292,130</b>

*c) Taxes and licenses*

The details of the Company's taxes and licenses for the quarter ended **June 30** are presented below:

	2017	2016
Business permits	₱ –	₱ –
Corporate Community tax	–	–
BIR Annual registration	–	–
Others	825	–
	<b>₱ 825</b>	<b>₱ –</b>

*d) Other information*

All other information prescribed to be disclosed by the BIR has been included in this note.

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**FORUM PACIFIC, INC. AND SUBSIDIARY**  
**APPENDIX A – FINANCIAL SOUNDNESS**  
JUNE 30, 2017

	<b>June 30 2017</b>	June 30 2016	December 31 2016
<b>Profitability ratios:</b>			
Return on assets	<b>Nil</b>	Nil	Nil
Return on equity	<b>Nil</b>	Nil	Nil
Net profit margin	<b>Nil</b>	Nil	Nil
<b>Solvency and liquidity ratios:</b>			
Current ratio	<b>13.88:1</b>	7.93:1	0.79:1
Debt to equity ratio	<b>0.01:1</b>	0.01:1	0.01:1
Quick ratio	<b>8.95:1</b>	5.36:1	0.74:1
Cash-flow liquidity ratio	<b>N/A</b>	N/A	N/A
<b>Financial leverage ratio:</b>			
Asset to equity ratio	<b>1.01:1</b>	1.01:1	1.01:1
Debt to asset ratio	<b>0.01:1</b>	0.01:1	0.01:1
Interest rate coverage ratio	<b>Nil</b>	Nil	Nil