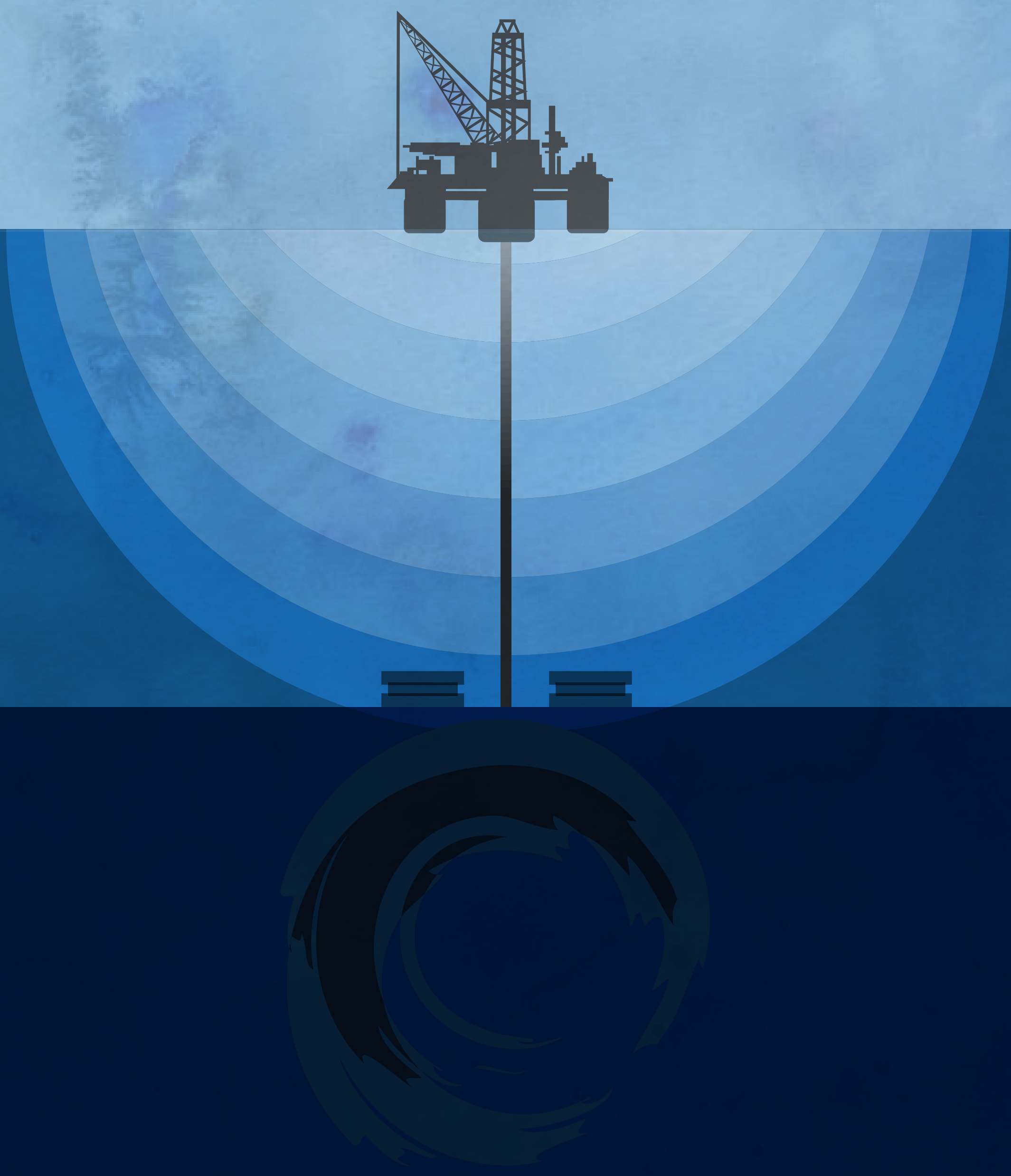
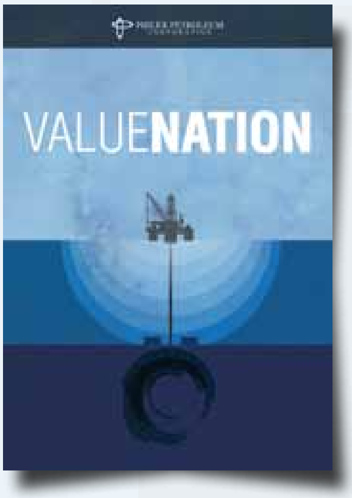
PHILEX PETROLEUM
CORPORATION

VALUENATION





ABOUT THE COVER

While the business of petroleum exploration and production is far from simple, our cover aims to illustrate this complex business through simple lines, icons and bold colors. Beyond the bottom line, our success must also be measured against a long-term commitment to enhancing lives, protecting the environment, and creating value for the nation.

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CORPORATE PROFILE

Philex Petroleum Corporation (Philex Petroleum or the Company) is an upstream oil and gas company incorporated in the Philippines in December 2007 as a wholly-owned subsidiary of Philex Mining Corporation. After the distribution of approximately 36% of Philex Petroleum shares to Philex Mining shareholders as property dividends, Philex Petroleum listed its shares on the second board of the Philippine Stock Exchange under the Amended Rules on Listing by Way of Introduction of the PSE on September 12, 2011.

The Company has interests in various Petroleum Contracts held directly and through its subsidiaries, Forum Energy Plc and Pitkin Petroleum Plc. It also holds one coal operating contract through its wholly-owned subsidiary, Brixton Energy & Mining Corporation.

Forum Energy Plc

Philex Petroleum has a 60.49% controlling interest in Forum Energy Plc with 36.44% held directly and 24.05% held indirectly through FEC Resources, Inc., a 51.24%-owned subsidiary. Forum Energy is a UK incorporated upstream oil and gas company with focus on the Philippines. Its principal asset is a 70% interest in Service Contract 72 Reed Bank offshore west Palawan, which contains the Sampaguita gas discovery. The Service Contract is currently in the second Sub-Phase of the Exploration Period which involves the drilling of two wells before August 2015.

Forum Energy also has a 2.27% interest in Service Contract 14 Block C-1 Galoc offshore northwest Palawan. The block contains the Galoc oil field which produced a total of 1.5 million barrels in 2012 and is expected to produce a total of 2.6 million barrels in 2013. A second phase of development involving the drilling of two additional production wells is currently being implemented and is expected to increase the total recoverable oil resources from the Galoc oil field.

Pitkin Petroleum Plc

On April 5, 2013, the Company increased its shareholding in Pitkin Petroleum Plc from 18.46% to 50.28%, through a subscription of 10 million new ordinary shares and the purchase of 36.4 million shares from existing shareholders for a total consideration of US$34.80 million.

Pitkin Petroleum is a UK-registered upstream oil and gas company with operations in the Philippines, Vietnam, Peru and the USA. Its key assets include a 25% interest in Block 07/03 in the Nam Con Son basin offshore Vietnam which contains the Ca Rong Do oil and gas discovery drilled in 2009 and appraised in 2011. It is expected that further exploration and appraisal wells will be drilled in 2013.

Pitkin Petroleum also has a 25% interest in Block Z-38 in the Tumbes basin offshore northwest Peru. A number of seismic surveys have been carried out over the block including a 1,500 square kilometer 3D seismic survey completed in 2010. The block license is currently in the third exploration period and preparations are currently underway for drilling in late 2013 or early 2014 subject to rig availability.

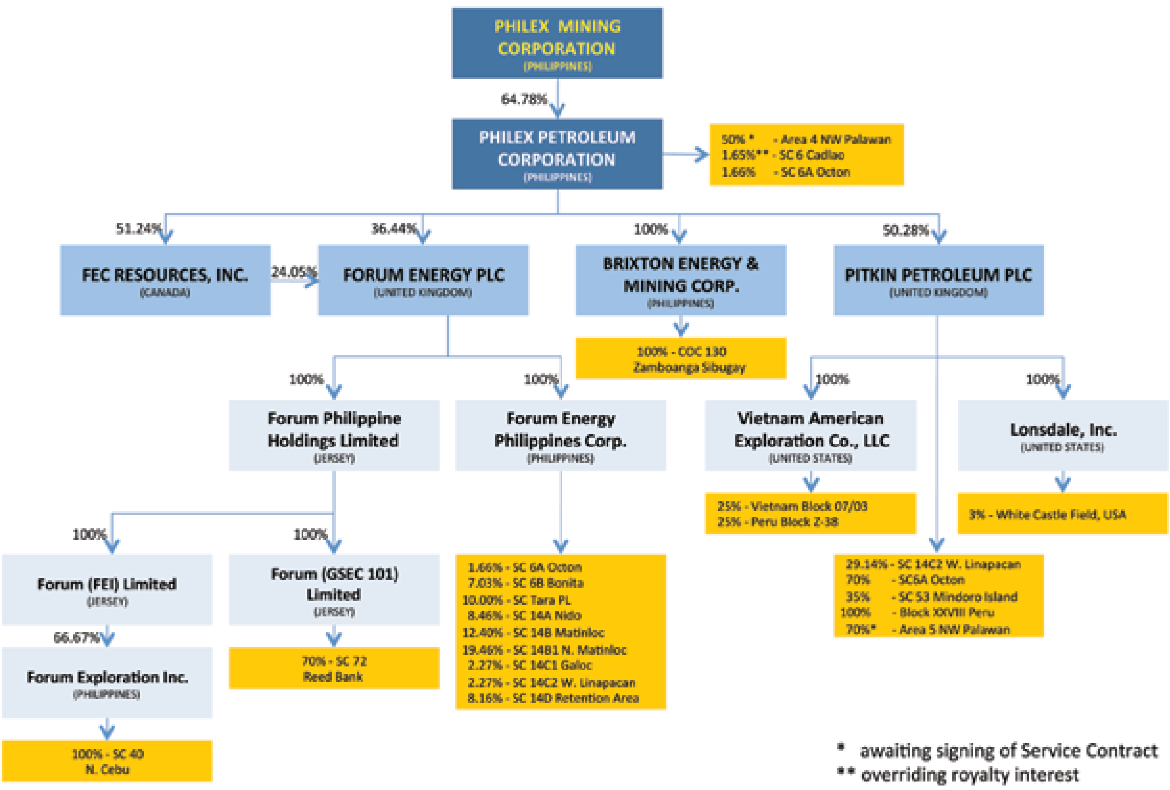
In the Philippines, Pitkin Petroleum has a 35% interest in Service Contract 53 in Mindoro; a 70% interest in Service Contract 6A Octon Block offshore northwest Palawan; and a 29.14% interest in Service Contract 14 Block C-2 West Linapacan offshore northwest Palawan where the viability of redeveloping the West Linapacan oil field is currently being evaluated.

Brixton Energy and Mining Corporation

The Company owns 100% of Brixton Energy and Mining Corporation, which is a coal mining company operating Coal Operating Contract 130 (COC 130) in Zamboanga Sibugay in Mindanao. The underground coal mining operations in COC 130 were suspended in January 2013 while a review of operations and prospects of the coal mining project is being undertaken. This review is expected to be completed by June 2013.

As of March 31, 2013, Philex Petroleum has 35,948 shareholders with 86.37% of its outstanding shares owned by Filipinos. The Company's two biggest shareholders, Philex Mining and First Pacific, are leaders in business and industry in the Philippines and Asia. Philex Mining is a leader in mining and a pioneer in oil exploration in the Philippines, and First Pacific is an investment management and holding company with business interests in Asia relating to Telecommunication, Infrastructure, Consumer Food Products and Natural Resources.

CORPORATE ORGANIZATION



* awaiting signing of Service Contract
** overriding royalty interest

MESSAGE FROM THE CHAIRMAN & CHIEF EXECUTIVE OFFICER

Fellow Shareholders,

2012 was a challenging year for Philex Petroleum and its subsidiaries (the Group). Whilst we received an independent competent person's report on Service Contract 72 indicating increased potential hydrocarbon resources, the implementation of the drilling program has been delayed by the territorial dispute between the Philippine and Chinese Governments. In addition, a write-down of P578 million was recognized following the decision to suspend underground mining operations in Brixton Energy, and of P388 million following receipt by Forum Energy of an independent competent person's report on the potential hydrocarbon resources in Service Contract 40. Amidst these challenges, we remain hopeful in our efforts to overcome these hurdles by working closely with the Philippine Government and through active portfolio management of the Group's energy assets.

Operational Highlights

Forum Energy Plc

Service Contract 72 Recto Bank (SC 72) - 70% participating interest

In April 2012, Weatherford Petroleum Consultants, an independent competent person, completed their interpretation of the 3D and 2D seismic data acquired over the SC 72 contract area in 2011. The results of the seismic interpretation which indicated increased potential hydrocarbon resources in the contract area, was used to plan a two-well drilling program under the second exploration sub-phase of SC 72. However, the implementation of the two-well drilling program was delayed because of the territorial dispute between the Philippine and Chinese Governments.

Recognizing that these matters were beyond the control of Forum Energy, the Department of Energy extended the expiry of the second exploration sub-phase of SC 72 to August 2015.

Service Contract 40 North Cebu (SC 40) – 66.67% participating interest

Forum Energy commissioned Petroleum Geo-Services Asia Pacific Pte Ltd (PGS), an independent competent person, to undertake an evaluation of the potential hydrocarbon resources in SC 40. Due to a number of factors including the results of recent drilling activities in adjacent areas, the PGS evaluation downgraded previously identified leads and prospects within the SC 40 contract area. At the Group level, this resulted in a write down of P388 million being recorded in 2012.

Service Contract 14 Block C-1 Galoc (SC 14C-1) – 2.27% participating interest

Oil production from the Galoc field averaged 5,410 barrels per day over 268 days of operations, for a total gross production of 1.5 million barrels in 2012 compared to 6,575 barrels a day and gross production of 2.4 million barrels in 2011. The substantial reduction in Galoc oil production was mainly due to the production shutdown during the first quarter of 2012 for the refurbishment of the Floating Production, Storage and Offloading (FPSO) vessel and the upgrading of the FPSO mooring system. Forum Energy received a total of US$2.5 million from its 2.27% participating interest in SC 14C-1, after deduction of its share of operating costs.

In September 2012, the SC 14C-1 consortium approved the Final Investment Decision for the Galoc Phase II development which is expected to increase the total recoverable oil resources from the Galoc field. The project involves the drilling of two additional production wells in 2013, and Forum Energy has secured US$2.58 million of project financing to fund approximately 60% of its share of the project cost.

Brixton Energy and Mining Corporation

Brixton Energy produced a total of 47,974 metric tons of coal in 2012 from Coal Operating Contract No. 130 (COC 130) in Diplahan, Zamboanga Sibugay, which was significantly below the production target of 100,000 metric tons. The low production output was mainly due to geological and quality issues, and unreliable power supply from the local electric cooperative.

In addition to the production issues, efforts to increase coal sales were adversely affected by competition from cheap coal imports from Indonesia. In response to this unexpected change in market conditions, Brixton Energy took the hard decision not to commit to any term supply contracts for 2013, and to suspend underground mining operations until a detailed review of the operations and prospects of the coal mining project is completed. In the meantime, site activities have been confined to maintenance and repair of the coal mine, and to processing and marketing of the existing coal inventory.

As a prudent step following the decision to suspend underground mining operations, the Group recorded an impairment loss of P578 milllion on its mining properties, machinery and equipment, surfaces structures and construction in progress, and its other coal assets.

In April 2013, the Company received notification from the Department of Energy that its bid in the 4th Philippine Energy Contracting Round for six coal blocks in the vicinity of COC 130 was unsuccessful.

Pitkin Petroleum Plc

Block 07/03, Vietnam – 25% participating interest

The transfer of a 15% participating interest in Block 07/03 from Pitkin Petroleum to Pearl Oil Limited and to Petro Vietnam Exploration Production Corporation was completed in 2012. In return for the transfer of a 15% participating interest, Pitkin Petroleum received a cash premium and a free carry on all expenditure incurred in the current exploration phase of the licence. A two-well drilling program has been scheduled in the second half of 2013, which includes an exploration well in the central part of the block, and an appraisal well in the Ca Rong Do discovery.

Block Z-38, Peru – 25% participating interest

Work continued on seismic interpretation of offshore Block Z-38, together with the mapping and review of prospects considered the likely initial targets. The drilling team assembled by the operator, Karoon Gas of Australia, has begun preliminary work for the drilling campaign, and long lead items have been ordered. Up to three wells are planned in the current exploration phase, with drilling expected to begin in fourth quarter 2013 or first quarter 2014 depending on rig availability.

Service Contact 14 Block C-2 West Linapacan (SC 14C-2) – 29.14% participating interest

A detailed reservoir modelling over the West Linapacan A oil field continued with a view to determining the viability and optimum re-development solution for the field which was shut-in in 1996 due to high water production. Reservoir modelling studies are expected to be completed in the first half of 2013 and, subject to satisfactory reserves certification, the SC 14C-2 consortium will begin front end engineering and design work in order to move towards a development decision.

Service Contract 53 Mindoro (SC 53) – 70% participating interest

Pitkin Petroleum completed a 10,000 kilometer airborne gradiometry survey over the SC 53 contract area. A review of the processed data is currently being undertaken and is expected to provide an effective tool in confirming the potential boundaries of existing prospects and in identifying new leads. A firm work program for SC 53 has been approved, which includes the drilling of the Progreso-2 well, aimed at establishing sufficient hydrocarbon resources for gas-fired power generation in Mindoro.

Financial Results

The Company recorded a Net Loss amounting to P1.086 billion, compared to a Net Income of P537.53 million in 2011 which included a non-recurring extraordinary income of P443.67 million. The Net Loss in 2012 was mainly due to a P388.63 million write-down of the investment made in SC 40 and a write-down of P578.25 million of the assets in Brixton.

Outlook

The Company continues to actively manage its portfolio of energy assets to help address the inherent risks and uncertainties in the upstream oil and gas business, and to gain access to potential commercial hydrocarbon resources.

In February 2013, the Company received notification from the Department of Energy that the bid group of Philex Petroleum, PNOC Exploration Corporation, and PetroEnergy has won the bidding for Area 4 in offshore Northwest Palawan that was offered in the 4th Philippine Energy Contracting Round for Petroleum (PECR 4). The Company is awaiting the signing of the Service Contract in which Philex Petroleum will be the appointed Operator of the consortium with a 50% participating interest. In addition, the bid group of Pitkin Petroleum and Philodrill Corporation was awarded Area 5 also in offshore Northwest Palawan furthering the Group's asset portfolio in the proven hydrocarbon basins in the West Philippine Sea.

In April 2013, the Company capitalized on an opportunity to acquire a controlling interest in Pitkin Petroleum. The Company increased its shareholding in Pitkin Petroleum from 18.46% to 50.28% through a subscription of 10 million new ordinary shares and the purchase of 36.4 million shares from existing shareholders. The new and existing shares were purchased at US$0.75 per share for a total consideration of US$34.80 million, which was funded through advances from Philex Mining Corporation. The Company looks forward to Pitkin Petroleum's exploration and appraisal program which includes the drilling of up to 6 wells in the next 18 months.

On the divestment side, the Company sold its 28.2 million shares of PetroEnergy Resources Corporation for P168 million in February 2013. While PetroEnergy has consistently performed well with a reliable revenue stream from oil production in Gabon, West Africa, the Company's 10.31% minority interest in PetroEnergy was deemed too small to make a material impact to the Company's strategic objectives.

The Company is also in the process of reviewing the prospects and materiality of its coal business particularly with the Company's unsuccessful bid in PECR 4 for six coal blocks in the vicinity of COC 130 which was meant to enhance the economies of scale and materiality of the Company's coal business.

As for SC 72, the Company will continue to focus on the goal of proving the commerciality of the potential hydrocarbon resources in the SC 72 contract area located in the West Philippine Sea. However, in pursuing such goal, we appreciate the significant challenges arising from the location of SC 72, for which the continued support of the Philippine Government remains a critical factor.

I would like to take this opportunity once again to thank all shareholders, the Board of Directors, staff and consultants for the continued support and commitment.

Yours sincerely,

Manuel V. Pangilinan
Chairman & Chief Executive Officer

BOARD OF DIRECTORS

MANUEL V. PANGILINAN

66, Filipino citizen. Mr. Pangilinan has been the Chairman of the Board and Chief Executive Officer since December 8, 2009. He is also the Chairman since June 24, 2009 and subsequently Chairman and Chief Executive Officer since December 7, 2009 of Philex Mining Corporation ("PMC"). He has been a Director of the PMC and PGPI since November 2008, and was re-elected on June 27, 2012. He is also Managing Director and Chief Executive Officer of First Pacific Company Limited, and Chairman of the Philippine Long Distance Telephone Company (PLDT) since 2004, after serving as its President and Chief Executive Officer since 1998. He is also Chairman of Smart Communications, Inc., PLDT Communications and Energy Ventures, Inc. (PILTEL), Metro Pacific Investments Corporation, Landco Pacific Corporation, Medical Doctors Inc. (Makati Medical Center), Colinas Verdes Corporation (Cardinal Santos Medical Center), Asian Hospital, Inc., Davao Doctors, Inc., Riverside Medical Center Inc., Our Lady of Lourdes Hospital, Maynilad Water Services Corporation, Mediaquest, Inc., Associated Broadcasting Corporation (TV5) and Manila North Tollways Corporation. Mr. Pangilinan is also Chairman of the Manila Electric Company (MERALCO), after serving as its President and Chief Executive Officer from July 2010 to May 2012.

CARLO S. PABLO

49, Filipino citizen. Mr. Pablo has been a Director of the Company since May 18, 2010 and is the Company's President and Chief Operating Officer. He is presently an Executive Director of Forum Energy Plc, Chairman and President of FEC Resources, Inc., and a Director of Brixton Energy & Mining Corporation. He was a Director of PetroEnergy Resources Corporation from July 2010 to February 2013 and PT KridapetraGraha from October 2001 to September 2005. Prior to joining Philex Petroleum in 2010, he held various engineering, commercial and management positions with Shell in the Philippines, Indonesia and Malaysia from 1985 to 2010.

EULALIO B. AUSTIN, JR.

51, Filipino citizen. Mr. Austin has been a Director of the Company since May 17, 2012. He is concurrently a Director of PMC and PGPI since June 29, 2011. He became President and Chief Operating Officer of the PMC in January 2012, after serving as its Senior Vice President for Operations and Padcal Resident Manager in 2011, Vice President & Resident Manager for Padcal Operations from 2004 to 2010, Mine Division Manager (Padcal) from 1999 to 2003, Engineering Group Manager in 1998 and Mine Engineering & Draw Control Department Manager from 1996 to 1998. Mr. Austin serves as President and Director of Silangan Mindanao Mining Co., Inc. He is likewise a member of the Board of Directors of the Philippine Society of Mining Engineers (PSEM), and was Founding President of PSEM's Philex Chapter.

ROBERT C. NICHOLSON

57, British citizen. Mr. Nicholson has been a Director of the Company since February 23, 2011. He has been a Director of PMC and PGPI since November 28, 2008. He is Executive Director of First Pacific Company Limited, Executive Chairman of Forum Energy Plc, and Commissioner of PT Indofood SuksesMakmurTbk. He is also a Director of Metro Pacific Investments Corporation and Silangan Mindanao Mining Co., Inc., and an Independent Non-Executive Director of QPL International Holdings Limited and Pacific Basin Shipping Limited. A qualified solicitor in England and Wales and in Hong Kong, Mr. Nicholson was Senior Partner of Richards Butler from 1985 to 2001, and Senior Advisor to The Board of Directors of PCCW Limited from 2001 to 2003.

RENATO N. MIGRIÑO

63, Filipino citizen. Mr. Migriño has been a Director of the Company since October 6, 2009 to present. He is also the Treasurer of the Company, and Treasurer, Chief Financial Officer, Senior Vice President for Finance and Compliance Officer of PMC since November 2010. He is also Director and Chief Financial Officer of Philex Gold, Inc., and Director and Treasurer of FEC, BEMC, Lascogon Mining Corporation and Fidelity Stock Transfers, Inc.

BARBARA ANNE C. MIGALLOS

58, Filipino citizen. Atty. Migallos has been a Director of the Company from December 27, 2007 to June 11, 2008, and from May 18, 2010 to present. She is also the Company's Corporate Secretary and the Corporate Secretary of PMC, BEMC, Silangan Mindanao Mining Co., Inc. and Lascogon Mining Corporation. She is the Managing Partner of the Migallos & Luna Law Officers. She has been a Director of Mabuhay Vinyl Corporation since 2000, a Director of the Philippine Resins Industries since 2001 and Corporate Secretary of Eastern Telecommunications Philippines, Inc. since 2005 and Nickel Asia Corporation since 2010.

BENJAMIN S. AUSTRIA

67, Filipino citizen. Dr. Austria was has been an Independent Director of the Company since August 4, 2011. He is a Senior Consultant of Trans-Asia Oil & Energy Development Corporation, and Executive Director of the Petroleum Association of the Philippines and the Energy Council of the Philippines. He also holds the position of Vice Chairman in the Committee on Energy of the Philippine Chamber of Commerce and Industry and Vice President (Earth Sciences & Geography) of the Philippine Association for the Advancement of Science & Technology. He is currently the Secretary/Treasurer & Director of the American Institute of Mining Engineers (Philippine Section).

EMERLINDA R. ROMAN

63, Filipino citizen. Dr. Roman has been an Independent Director of the Company on since August 4, 2011. She is the Chair of the Board of Trustees of the International Rice Research Institute and the Board of Advisers of Manila Tytana Colleges, Inc. She is also a member of the Board of Advisers of the Development Center for Finance. She served as the President of the University of the Philippines ("UP") from February 10, 2005 to February 9, 2011, and is the first woman to be president of UP, as well as its centennial president. Prior to becoming the President of UP, she served as the Chancellor of the UP Diliman Campus from 1999 to 2005 and from 1991 to 1993. She also held positions in different foundations. From 2005 to 2011, she served as the Chair of the UP Provident Fund, Inc. and the President of UP Foundation, Inc., NEC Foundation, Inc. and UP Foundation in America.

Dr. Rogelio G. Laraya was a director of the Company but has resigned effective March 14, 2013.

*From Left to Right:
Renato N. Migrino,
Eulalio B. Austin, Jr.,
Carlo S. Pablo,
Emerlinda R. Roman,
Manuel V. Pangilinan,
Barbara Anne C. Migallos,
Benjamin S. Austria,
Rogelio G. Laraya
and Robert C. Nicholson*

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of PHILEX PETROLEUM CORPORATION is responsible for the preparation and fair presentation of the financial statements for the years ended December 31, 2012 and 2011, in accordance with the prescribed financial reporting framework indicated therein. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the financial statements and submits the same to the stockholders.

SyCip Gorres Velayo & Co., the independent auditors, appointed by the stockholders, has examined the financial statements of the company in accordance with Philippine Standards on Auditing, and its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such examination.

MANUEL V. PANGILINAN
Chairman & Chief Executive Officer

CARLO S. PABLO
President & Chief Operating Officer

RENATO N. MIGRIÑO
Treasurer

Signed this 21st day of February 2013

SGV & Co
ERNST & YOUNG
Quality In Everything We Do

The Stockholders and the Board of Directors
Philex Petroleum Corporation

We have audited the accompanying consolidated financial statements of Philex Petroleum Corporation (a subsidiary of Philex Mining Corporation) and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2012 and 2011, and the consolidated statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2012, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Philex Petroleum Corporation and its subsidiaries as at December 31, 2012 and 2011, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2012 in accordance with Philippine Financial Reporting Standards.

PHILEX PETROLEUM CORPORATION
(A Subsidiary of Philex Mining Corporation)
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Amounts in Thousands, Except Par Value Per Share and Number of Equity Holders)

	December 31	
	2012	2011
ASSETS		
Current Assets		
Cash and cash equivalents (Note 5)	**₱284,017**	₱217,831
Accounts receivable (Note 6)	**102,164**	74,118
Inventories (Note 7)	**140,881**	143,992
Other current assets (Note 8)	**26,769**	17,451
Total Current Assets	**553,831**	453,392
Noncurrent Assets		
Available-for-sale (AFS) financial assets (Note 10)	**1,399,670**	1,461,889
Property and equipment (Note 9)	**124,205**	408,719
Goodwill (Note 4)	**258,593**	258,593
Deferred income tax assets (Note 19)	**–**	12,755
Deferred oil and gas exploration costs and other noncurrent assets (Note 12)	**858,840**	1,275,501
Total Noncurrent Assets	**2,641,308**	3,417,457
TOTAL ASSETS	**₱3,195,139**	₱3,870,849
LIABILITIES AND EQUITY		
Current Liabilities		
Current portion of long-term loan (Note 20)	**₱615,750**	₱–
Short-term bank loans (Note 13)	**350,000**	350,000
Accounts payable and accrued liabilities (Note 14)	**87,026**	46,746
Advances from related parties (Note 20)	**1,021,138**	845,025
Income tax payable	**22,957**	–
Provision for losses - current portion (Note 26)	**41,050**	144,556
Total Current Liabilities	**2,137,921**	1,386,327
Noncurrent Liabilities		
Provision for losses - net of current portion (Note 26)	**171,631**	172,251
Long-term loan - net of current portion (Note 20)	**–**	263,040
Deferred income tax liabilities - net (Note 19)	**97,599**	57,125
Provision for rehabilitation and decommissioning costs (Note 9)	**833**	1,358
Total Noncurrent Liabilities	**270,063**	493,774
Total Liabilities	**2,407,984**	1,880,101
Equity Attributable to Equity Holders of the Parent Company		
Capital stock - ₱1 par value (Note 17)	**1,700,000**	1,700,000
Equity reserves (Note 4)	**(123)**	40,588
Retained earnings (deficit)	**(819,162)**	57,006
Unrealized gain (loss) on AFS financial assets (Note 10)	**(30,485)**	7,057
Cumulative translation adjustment on foreign subsidiaries	**(163,617)**	(80,804)
	686,613	1,723,847
Non-controlling Interests (Note 17)	**100,542**	266,901
Total Equity	**787,155**	1,990,748
TOTAL LIABILITIES AND EQUITY	**₱3,195,139**	₱3,870,849

See accompanying Notes to Consolidated Financial Statements.

PHILEX PETROLEUM CORPORATION
(A Subsidiary of Philex Mining Corporation)
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
(Amounts in Thousands, Except Earnings or Loss Per Share)

	Years Ended December 31		
	2012	2011	2010
REVENUE			
Petroleum (Note 25)	**₱191,003**	₱551,568	₱99,731
Coal (Note 25)	**48,030**	1,288	12,181
	239,033	552,856	111,912
COSTS AND EXPENSES			
Petroleum production costs (Note 15)	**98,245**	175,883	61,402
Cost of coal sales (Note 15)	**35,238**	1,210	10,861
General and administrative expenses (Note 15)	**184,036**	167,453	58,171
Handling, hauling and storage	**2,734**	22	560
Mine product royalties	**1,441**	2	40
	321,694	344,570	131,034
OTHER INCOME (CHARGES)			
Foreign exchange gains (losses) - net (Note 22)	**23,778**	(4,526)	(23,620)
Dividend income	**5,645**	5,645	2,823
Interest income (Note 5)	**784**	814	1,204
Gain (loss) on dilution of interest in associates (Note 10)	**–**	443,672	(119,804)
Loss on disposal of property and equipment (Note 9)	**–**	–	(28)
Equity in net losses of associates (Note 11)	**–**	(39,795)	(25,529)
Interest expense (Notes 9, 13 and 20)	**(37,739)**	(28,167)	(1,925)
Provision for impairment of assets (Notes 6, 7, 9 and 12)	**(966,883)**	(8,956)	–
Others - net (Note 16)	**72,549**	259	87
	(901,866)	368,946	(166,792)
INCOME (LOSS) BEFORE INCOME TAX	**(984,527)**	577,232	(185,914)
PROVISION FOR INCOME TAX (Note 19)			
Current	**23,925**	19	25
Deferred	**77,906**	39,679	4,735
	101,831	39,698	4,760
NET INCOME (LOSS)	**(₱1,086,358)**	₱537,534	(₱190,674)
Net Income (Loss) Attributable to:			
Equity holders of the Parent Company	**(₱876,168)**	₱476,001	(₱167,334)
Non-controlling interests	**(210,190)**	61,533	(23,340)
	(₱1,086,358)	₱537,534	(₱190,674)
Basic/Diluted Earnings (Loss) Per Share (Note 24)	**(₱0.515)**	₱0.280	(₱0.098)

See accompanying Notes to Consolidated Financial Statements.

PHILEX PETROLEUM CORPORATION
(A Subsidiary of Philex Mining Corporation)
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Thousands)

	Years Ended December 31		
	2012	2011	2010
NET INCOME (LOSS)	**(₱1,086,358)**	₱537,534	(₱190,674)
OTHER COMPREHENSIVE INCOME (LOSS)			
Loss on translation of foreign subsidiaries	**(124,315)**	(19,537)	(136,084)
Unrealized gain (loss) on AFS financial assets (Note 10)	**(37,542)**	(22,581)	29,638
	(161,857)	(42,118)	(106,446)
TOTAL COMPREHENSIVE INCOME (LOSS)	**(₱1,248,215)**	₱495,416	(₱297,120)
Total Comprehensive Income (Loss) Attributable to:			
Equity holders of the Parent Company	**(₱996,523)**	₱443,312	(₱208,392)
Non-controlling interests	**(251,692)**	52,104	(88,728)
	(₱1,248,215)	₱495,416	(₱297,120)

See accompanying Notes to Consolidated Financial Statements.

PHILEX PETROLEUM CORPORATION
(A Subsidiary of Philex Mining Corporation)
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010
(Amounts in Thousands)

	Equity Attributable to Equity Holders of the Parent Company							
	Capital Stock	Equity Reserves (Note 4)	Retained Earnings (Deficit)	Unrealized Gain (Loss) on AFS Financial Assets (Note 10)	Cumulative Translation Adjustment on Foreign Subsidiaries	Subtotal	Non-controlling Interests (Note 16)	Total
BALANCES AT DECEMBER 31, 2009	**₱1,700,000**	**₱–**	**(₱251,661)**	**₱–**	**₱–**	**₱1,448,339**	**₱–**	**₱1,448,339**
Net loss for the year	–	–	(167,334)	–	–	(167,334)	(23,340)	(190,674)
Other comprehensive income (loss):								
Loss on translation of foreign subsidiaries	–	–	–	–	(70,696)	(70,696)	(65,388)	(136,084)
Unrealized gain on AFS financial asset - net of related deferred income tax (Note 10)	–	–	–	29,638	–	29,638	–	29,638
Total comprehensive income (loss) for the year	–	–	(167,334)	29,638	(70,696)	(208,392)	(88,728)	(297,120)
Effect of acquisitions of shares of stock of subsidiaries (Note 4)	–	40,588	–	–	–	40,588	303,525	344,113
BALANCES AT DECEMBER 31, 2010	**1,700,000**	**40,588**	**(418,995)**	**29,638**	**(70,696)**	**1,280,535**	**214,797**	**1,495,332**
Net income for the year	–	–	476,001	–	–	476,001	61,533	537,534
Other comprehensive loss:								
Loss on translation of foreign subsidiaries	–	–	–	–	(10,108)	(10,108)	(9,429)	(19,537)
Unrealized loss on AFS financial asset - net of deferred income tax (Note 10)	–	–	–	(22,581)	–	(22,581)	–	(22,581)
Total comprehensive income (loss) for the year	–	–	476,001	(22,581)	(10,108)	443,312	52,104	495,416
BALANCES AT DECEMBER 31, 2011	**1,700,000**	**40,588**	**57,006**	**7,057**	**(80,804)**	**1,723,847**	**266,901**	**1,990,748**
Net income for the year	–	–	(876,168)	–	–	(876,168)	(210,190)	(1,086,358)
Other comprehensive loss:								
Loss on translation of foreign subsidiaries	–	–	–	–	(82,813)	(82,813)	(41,502)	(124,315)
Unrealized loss on AFS financial asset - net of related deferred income tax (Note 10)	–	–	–	(37,542)	–	(37,542)	–	(37,542)
Total comprehensive income (loss) for the year	–	–	(876,168)	(37,542)	(82,813)	(996,523)	(251,692)	(1,248,215)
Effect of transactions with owners (Notes 2 and 4)	–	(40,711)	–	–	–	(40,711)	85,333	44,622
BALANCES AT DECEMBER 31, 2012	**₱1,700,000**	**(₱123)**	**(₱819,162)**	**(₱30,485)**	**(₱163,617)**	**₱686,613**	**₱100,542**	**₱787,155**

See accompanying Notes to Consolidated Financial Statements.

PHILEX PETROLEUM CORPORATION
(A Subsidiary of Philex Mining Corporation)
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands)

	Years Ended December 31		
	2012	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES			
Income (loss) before income tax	**(₱984,527)**	₱577,232	(₱185,914)
Adjustments for:			
Depreciation and depletion (Notes 9, 15 and 27)	**70,259**	205,199	53,118
Interest expense (Notes 9, 13 and 20)	**37,739**	28,167	1,925
Dividend income	**(5,645)**	(5,645)	(2,823)
Unrealized foreign exchange losses (gains) - net	**(23,778)**	4,526	(15,635)
Interest income (Note 5)	**(784)**	(814)	(1,204)
Provision for impairment of assets (Notes 6, 7, 9 and12)	**966,883**	8,956	–
Equity in net losses of associates (Note 11)	**–**	39,795	25,529
Loss on disposal of property and equipment (Note 9)	**–**	–	28
Loss (gain) on dilution of interest in associates (Note 10)	**–**	(443,672)	119,804
Operating income (loss) before working capital changes	**60,147**	413,744	(5,172)
Decrease (increase) in:			
Accounts receivable	**(21,455)**	7,674	(15,023)
Inventories	**(140,436)**	(121,134)	(21,485)
Other current assets	**(8,918)**	593	(4,952)
Increase (decrease) in:			
Accounts payable and accrued liabilities	**38,691**	(7,001)	(23,180)
Provision for losses	**(104,126)**	(284,011)	51,586
Payments for provision for rehabilitation and decommissioning costs (Note 9)	**(630)**	(2,836)	–
Cash generated from (used in) operations	**(176,727)**	7,029	(18,226)
Interest paid	**(20,230)**	(21,925)	(1,746)
Interest received	**784**	981	1,023
Income taxes paid, including creditable withholding taxes	**(292)**	(19)	(1,625)
Net cash used in operating activities	**(196,465)**	(13,934)	(20,574)
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to:			
Investments in associates	**–**	–	(766,346)
Property and equipment (Note 9)	**(238,479)**	(181,424)	(176,576)
Deferred oil and gas exploration costs, and other noncurrent assets (Notes 12 and 27)	**(157,905)**	(352,502)	(55,387)
Proceeds from sale of property and equipment (Note 9)	**24,218**	–	144
Dividends received	**5,645**	5,645	8,468
Acquisitions of subsidiaries, net of cash acquired (Notes 1 and 4):			
FEC Resources, Inc.	**–**	–	(244,180)
Brixton Energy & Mining Corporation	**–**	–	(40,689)
Additional acquisition in shares of stock of Forum Energy plc	**–**	–	(36,910)
Cash acquired from Forum Energy plc through business combination (Note 4)	**–**	–	150,392
Net cash used in investing activities	**(366,521)**	(528,281)	(1,161,084)
CASH FLOWS FROM FINANCING ACTIVITIES			
Additional advances from related parties (Note 20)	**216,129**	51,511	238,639
Availment of:			
Long-term loan (Note 20)	**369,450**	263,040	–
Short-term bank loans (Note 13)	**–**	200,000	–
Proceeds from exercise of stock options	**44,622**	–	–
Net cash from financing activities	**630,201**	514,551	238,639
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(1,029)**	(4,511)	(5)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**66,186**	(32,175)	(943,024)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**217,831**	250,006	1,193,030
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	**₱284,017**	₱217,831	₱250,006

See accompanying Notes to Consolidated Financial Statements.

PHILEX PETROLEUM CORPORATION
(A Subsidiary of Philex Mining Corporation)
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Thousands, Except Amounts Per Unit and Number of Shares)

1. **Corporate Information, Business Operations, and Authorization for Issuance of the Consolidated Financial Statements**

Corporate Information

Philex Petroleum Corporation (PPC or the Parent Company) was incorporated in the Philippines on December 27, 2007 to carry on businesses related to any and all kinds of petroleum and petroleum products, mineral oils, and other sources of energy and was subsequently listed on the Philippine Stock Exchange (PSE) on September 12, 2011. PPC's ultimate parent is Philex Mining Corporation (PMC or the ultimate Parent Company) which was incorporated in the Philippines and whose shares of stock are listed in the Philippine Stock Exchange (PSE).

PPC relies on PMC to fund its exploration and development activities and working capital requirements. On August 1, 2012, PMC suspended its operations at the Padcal mine following an accidental discharge of water and sediment. The Padcal operations, which was its only source of income, remain suspended and this may have an impact on PMC's ability to fund PPC's operations.

On September 24, 2010, PPC purchased from PMC all of its investment in the shares of stock of Brixton Energy & Mining Corporation (BEMC), which consisted of 3,000,000 shares at a purchase price of ₱45,000. As a result of the acquisition, PPC has a 100% ownership interest in BEMC. BEMC is engaged in the mining of coal in Zamboanga Sibugay where it commenced operations in late 2010 until underground operations were suspended in January 2013. At the same time, PPC also acquired from PMC all of its investment in the shares of stock of FEC Resources, Inc. (FEC) consisting of 225,000,000 shares, which represents 51.24% ownership interest in FEC at a purchase price of ₱342,338. As a result of the acquisition of FEC, which at that time held 25.63% ownership interest in Forum Energy plc (FEP), the number of shares owned and controlled by PPC in FEP thereafter totaled to 21,503,704 shares, which represented at that time 64.45% ownership interest in FEP. In 2012, certain directors and employees of FEP exercised their option over 2,185,000 ordinary shares. As a result, the ownership interest of PPC and FEC in FEP was diluted to 36.44% and 24.05%, respectively (see Note 2).

The foregoing companies are collectively referred to as "the Group" whose income is principally derived from oil and gas and coal mining operations in the Philippines.

The Parent Company's registered business address is Philex Building, No. 27 Brixton corner Fairlane Streets, Pasig City.

Business Operations

BEMC

The underground operations of BEMC were suspended in January 2013 while a review of operations is undertaken. This review is expected to be completed by June 2013.

FEP and its subsidiaries

FEP's principal asset is a 70% interest in Service Contract (SC) 72 which covers an area of 8,800 square kilometres in the West Philippine Sea. FEP has been granted an extension up to August 2015 to complete its obligation under SC72 which require two wells to be drilled at a cost to FEP estimated at US$50 million (₱2.05 billion).

The Group's ability to realize its deferred oil and gas exploration costs amounting to ₱858,562 and ₱1,275,173 as at December 31, 2012 and 2011, respectively (see Note 12) depends on the success of its exploration and future development work in proving the viability of its oil properties to produce oil in commercial quantities, which cannot be determined at this time. The consolidated financial statements do not include any adjustment that might result from this uncertainty.

Authorization for Issuance of the Consolidated Financial Statements
The consolidated financial statements are authorized for issuance by the Parent Company's Board of Directors (BOD) on February 21, 2013.

2. Summary of Significant Accounting Policies and Financial Reporting Practices

Basis of Preparation
The consolidated financial statements of the Group have been prepared on a historical cost basis except for AFS financial assets that are carried at fair value. The consolidated financial statements are presented in Philippine Peso (Peso), which is the Parent Company's functional currency, rounded to the nearest thousand except when otherwise indicated.

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

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following new and amended PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations [based on the International Financial Reporting Interpretations Committee (IFRIC) interpretations] which became effective on January 1, 2012.

Amendments to Standards

- PFRS 7, *Financial Instruments: Disclosures - Transfers of Financial Assets* (Amendment), effective July 1, 2011
- PAS 12, *Income Taxes - Deferred Tax: Recovery of Underlying Assets* (Amendment), effective January 1, 2012

Adoption of these changes did not have any significant effect to the Group.

New Accounting Standards, Philippine Interpretations, and Amendments to Existing Standards Effective Subsequent to December 31, 2012
The Group will adopt the standards and interpretations enumerated below when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended PFRS, PAS and Philippine Interpretations to have significant impact on its financial statements. The relevant disclosures will be included in the notes to the financial statements when these become effective.

Effective in 2013

- Amendments to PFRS 7, *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities*
  The amendment requires an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all

recognized financial instruments that are set off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

a) The gross amounts of those recognized financial assets and recognized financial liabilities
b) The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;
c) The net amounts presented in the statement of financial position;
d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
   i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
   ii. Amounts related to financial collateral (including cash collateral); and
e) The net amount after deducting the amounts in (d) from the amounts in (c) above

The amendment to PFRS 7 is to be retrospectively applied and is effective for annual periods beginning on or after January 1, 2013. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

- PFRS 10, *Consolidated Financial Statements*
  PFRS 10 replaces the portion of PAS 27, *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in *SIC 12, Consolidation - Special Purpose Entities*. PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27. The standard becomes effective for annual periods beginning on or after January 1, 2013.

  The adoption of PFRS 10 will affect disclosures only and has no impact on the Group's financial position or performance.

- PFRS 11, *Joint Arrangements*
  PFRS 11 replaces PAS 31, *Interests in Joint Ventures*, and SIC 13, *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. PFRS 11 removes the option to account for jointly controlled entities using proportionate consolidation. Instead, jointly controlled entities that meet the definition of a joint venture must be accounted for using the equity method. The standard becomes effective for annual periods beginning on or after January 1, 2013.

  The adoption of PFRS 11 will affect disclosures only and has no impact on the Group's financial position or performance.

- PFRS 12, *Disclosure of Interests in Other Entities*
  PFRS 12 includes all of the disclosures related to consolidated financial statements that were previously in PAS 27, as well as all the disclosures that were previously included in PAS 31 and PAS 28, *Investments in Associates*. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. The standard becomes effective for annual periods beginning on or after January 1, 2013.

The adoption of PFRS 12 will affect disclosures only and have no impact on the Group's financial position or performance.

- PFRS 13, *Fair Value Measurement*
PFRS 13 establishes a single source of guidance under PFRSs for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. This standard should be applied prospectively as of the beginning of the annual period in which it is initially applied. Its disclosure requirements need not be applied in comparative information provided for periods before initial application of PFRS 13. The standard becomes effective for annual periods beginning on or after January 1, 2013.

  The Group does not anticipate that the adoption of this standard will have a significant impact on its financial position and performance.

- PAS 19, *Employee Benefits (Revised)*
Amendments to PAS 19 range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and rewording. The revised standard also requires new disclosures such as, among others, a sensitivity analysis for each significant actuarial assumption, information on asset-liability matching strategies, duration of the defined benefit obligation, and disaggregation of plan assets by nature and risk. The amendments become effective for annual periods beginning on or after January 1, 2013. Once effective, the Group has to apply the amendments retroactively to the earliest period presented.

  The Group reviewed its existing employee benefits and determined that the amended standard has no significant impact on its accounting for retirement benefits.

- PAS 27, *Separate Financial Statements (as revised in 2011)*
As a consequence of the issuance of the new PFRS 10, *Consolidated Financial Statements*, and PFRS 12, *Disclosure of Interests in Other Entities*, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in the separate financial statements. The adoption of the amended PAS 27 will not have a significant impact on the separate financial statements of the Group. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

- Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*
This interpretation applies to waste removal costs ("stripping costs") that are incurred in surface mining activity during the production phase of the mine ("production stripping costs"). If the benefit from the stripping activity will be realized in the current period, an entity is required to account for the stripping activity costs as part of the cost of inventory. When the benefit is the improved access to ore, the entity should recognize these costs as a non-current asset, only if certain criteria are met ("stripping activity asset"). The stripping activity asset is accounted for as an addition to, or as an enhancement of, an existing asset. After initial recognition, the stripping activity asset is carried at its cost or revalued amount less depreciation or amortization and less impairment losses, in the same way as the existing asset of which it is a part.

  The Group expects that this interpretation will not have any impact on its financial position or performance. This interpretation becomes effective for annual periods beginning on or after January 1, 2013.

Effective in 2014

- PAS 32 *, Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities (Amendment)*
  The amendment clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendment affects presentation only and has no impact on the Group's financial position or performance. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014.

Effective in 2015

- PFRS 9 *, Financial Instruments*
  PFRS 9, as issued, reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39, *Financial Instruments: Recognition and Measurement*. Work on impairment of financial instruments and hedge accounting is still ongoing, with a view to replacing PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

  PFRS 9 is effective for annual periods beginning on or after January 1, 2015.

Improvements to PFRSs
Improvements to PFRSs, an omnibus of amendments to standards, deal primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard.

- PFRS 1, *First-time Adoption of PFRS - Borrowing Costs*
- PAS 1, *Presentation of Financial Statements - Clarification of the requirements for comparative information*
- PAS 16, *Property, Plant and Equipment - Classification of servicing equipment*
- PAS 32, *Financial Instruments: Presentation - Tax effect of distribution to holders of equity instruments*
- PAS 34, Interim Financial Reporting - *Interim financial reporting and segment information for total assets and liabilities*

The adoption of these amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group.

Summary of Significant Accounting Policies

Presentation of Financial Statements

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

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at December 31 of each year. The financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company using consistent accounting policies.

Subsidiaries are entities over which the Parent Company has the power to govern the financial and operating policies of the entities, or generally have an interest of more than one half of the voting rights of the entities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Parent Company controls another entity. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Parent Company or the Group obtains control, directly or through the holding companies, and continue to be consolidated until the date that such control ceases. Control is achieved where the Parent Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. They are deconsolidated from the date on which control ceases.

All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions, and dividends are eliminated in full.

Losses within a subsidiary that are attributed to the non-controlling interest are recognized even if that results in a deficit balance.

A change in the ownership interest in a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognizes the carrying amounts of the assets (including goodwill) and liabilities of the subsidiary, carrying amount of any non-controlling interest (including any attributable components of other comprehensive income recorded in equity), and recognizes the fair value of the consideration received, fair value of any investment retained, and any surplus or deficit recognized in the consolidated statement of income. The Group also reclassifies the Parent Company's share of components previously recognized in other comprehensive income to the consolidated statement of income or retained earnings, as appropriate.

The Parent Company's principal subsidiaries and their nature of business are as follows:

Subsidiary	Nature of Business
BEMC	Incorporated in the Philippines on July 19, 2005 to engage in exploration development and utilization of energy-related resources.
FEC	Incorporated on February 8, 1982 under the laws of Alberta, Canada primarily acts as an Investment Holding Company.

(Forward)

Subsidiary	Nature of Business
FEP	Incorporated on April 1, 2005 in England and Wales primarily to engage in the business of oil and gas exploration and production, with focus on the Philippines and whose shares are listed in the Alternative Investment Market of the London Stock Exchange.
Forum Energy Philippines Corporation (FEPCO)	FEPCO was incorporated in the Philippines on March 27, 1988 and is involved in oil and gas exploration in the Philippines.
Forum Exploration, Inc. (FEI)	FEI was incorporated in the Philippines on September 11, 1997 and is involved in oil and gas exploration in the Philippines.
Forum (GSEC101) Ltd. - Philippine Branch (GSEC)	GSEC was incorporated on October 17, 2005 and is involved in oil and gas exploration in the Philippines.

Also included as part of the Parent Company's subsidiaries are those intermediary entities which are basically Holding Companies established for the operating entities mentioned above. The following are the intermediary entities for the group: Forum Philippine Holdings Limited (FPHL), Forum Nido Matinloc Limited (FNML), Forum FEI Limited (FFEIL) and Forum GSEC101 Limited (FGSECL).

The ownership of the Parent Company over the foregoing companies as at December 31, 2012 and 2011 is summarized as follows:

	Percentages of Ownership			
	2012		2011	
	Direct	**Indirect**	Direct	Indirect
BEMC	**100.0**	**–**	100.0	–
FEC	**51.24**	**–**	51.24	–
FEP	**36.44**	**12.32**	38.82	13.13
FEP	**–**	**48.76**	–	51.95
FEPCO	**–**	**48.76**	–	51.95
FPHL	**–**	**48.76**	–	51.95
FNML	**–**	**48.76**	–	51.95
FFEIL	**–**	**48.76**	–	51.95
FEI	**–**	**32.51**	–	34.64
FGSECL	**–**	**48.76**	–	51.95
GSEC	**–**	**48.76**	–	51.95

In May 2012, certain directors and employees of FEP exercised their option over 2,185,000 ordinary shares. This resulted in the Group's effective economic interest in FEP decreasing from 51.95% as at December 31, 2011 to 48.76% as at December 31, 2012 to the effect of dilution of ownership interest from exercise of stock options. "Effect of transactions with non-controlling interests" amounting to ₱40,711 and an increase in non-controlling interests amounting to ₱85,333 were recognized as a result of the dilution of interest in FEP (see Note 18).

Non-controlling interest

Non-controlling interest represents interest in a subsidiary that is not owned, directly or indirectly, by the Parent Company. Profit or loss and each component of other comprehensive income (loss) are attributed to the equity holders of the Parent Company and to the non-controlling interest. Total comprehensive income (loss) is attributed to the equity holders of the Parent Company and to the non-controlling interest even if this results in the non-controlling interest having a deficit balance.

Non-controlling interest represents the portion of profit or loss and the net assets not held by the Group.

Investments in Associates

Associates are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% to 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognized at cost.

In a step-acquisition of an associate, the Group does not recognize any “catch-up” equity adjustment for the Group’s equity in net earnings or losses of the associate prior to holding significant influence.

The Group’s share of the associates’ post-acquisition profits or losses is recognized in the consolidated statement of income, and its share of post-acquisition changes in other comprehensive income is recognized in the consolidated statement of comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group’s share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate. The equity in net earnings or losses is shown in the consolidated statement of income. These earnings or losses attributable to the Group are based on the consolidated net income of the investee companies.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group’s interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on the Group’s investment in its associate. The Group determines at each financial reporting date whether there is any objective evidence that the investment in the associate is impaired. If any indication exists, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and recognizes the impairment loss in the “Equity in net earnings (losses) of associates” account in the consolidated statement of income.

The Group discontinues the use of the equity method from the date when it ceases to have significant influence over an associate and accounts for the investment in accordance with PAS 39 from that date, provided the associate does not become a subsidiary or a joint venture as defined in PAS 31, *Interests in Joint Ventures*. On the loss of significant influence, the Group measures at fair value any investment that the Group retains in the former associate. The Group recognizes in the consolidated statement of income any difference between:

a. the fair value of any retained investment and any proceeds from disposing of the part interest in the associate; and

b. the carrying amount of the investment at the date when significant influence is lost.

When an investment ceases to be an associate and is accounted for in accordance with PAS 39, the fair value of the investment at the date when it ceases to be an associate shall be regarded as its fair value on initial recognition as a financial asset in accordance with PAS 39.

Interest in Jointly Controlled Assets

The Group enters into agreement with third parties for the joint exploration, development and production activities under contractual arrangement. It clarifies these arrangements as jointly controlled assets for the purpose of PAS 31. The Group recognizes its share of the jointly controlled assets and liabilities it has incurred, its share of any liabilities jointly incurred with other venturers, income from the sale or use of its share of the joint venture's output, together with its share of the expenses incurred by the joint venture, and any expenses it incurs in relation to its interest in the joint venture and a share of production.

Related revenues and expenses are recognized in the consolidated statements of comprehensive income.

Business Combination and Goodwill

Acquisition method

Business combinations, except for business combination between entities under common control, are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs incurred are expensed and included in general and administrative expenses.

When the Group acquires a business, it assesses the financial assets and financial liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date and any gain or loss on remeasurement is recognized in the consolidated statement of income.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognized in accordance with PAS 39 either in the consolidated statement of income, or in the consolidated statement of comprehensive income. If the contingent consideration is classified as equity, it is not remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for NCI over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in the consolidated statement of income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (CGUs) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the CGU or group of CGUs to which the goodwill relates. Where the recoverable amount of the CGU or group of CGUs is less than the carrying amount of the CGU or group of CGUs to which goodwill has been allocated, an impairment loss is recognized in the consolidated statement of income. Impairment losses relating to goodwill cannot be reversed in future periods. The Group performs its impairment test of goodwill annually every December 31.

Pooling-of-interests method
Business combinations under common control are accounted for using the pooling-of-interests method. In applying the pooling-of-interests method, financial information prior to the business combination are not restated. The assets and liabilities of the entity acquired under common control are reflected at their carrying amounts reported in the consolidated financial statements of the ultimate parent and no new goodwill is recognized as a result of the business combination except for any existing goodwill relating to the entity acquired. The difference between the acquisition cost and the carrying amount of net assets acquired is recognized directly in equity under the "Equity reserve" account. The income and expenses of a subsidiary are included in the consolidated statement of income from the date of acquisition.

<u>Foreign Currency Translation of Foreign Operations</u>
The Group's consolidated financial statements are presented in Peso, which is also the Parent Company's functional currency. Each subsidiary in the Group determines its own functional currency and items included in the consolidated financial statements of each subsidiary are measured using that functional currency. The Group has elected to recognize the translation adjustment that arises from the direct method of consolidation, which is the method the Group uses to complete its consolidation. Transactions in foreign currencies are initially recorded in the functional currency rate on the date of the transaction. Outstanding monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at financial reporting date. All exchange differences are recognized in the consolidated statement of income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

For purposes of consolidation, the financial statements of FEP, which are expressed in United States (US) dollar amounts, and the financial statements of FEC, which are expressed in Canadian (Cdn) dollar amounts, have been translated to Peso amounts as follows:

a. assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of the consolidated statement of financial position;

b. income and expenses in the statement of income are translated at exchange rates at the average monthly prevailing rates for the year; and

c. all resulting exchange differences in other comprehensive income.

Financial Instruments

Date of recognition

The Group recognizes a financial asset or a financial liability in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the trade date.

Initial recognition and classification of financial instruments

Financial instruments are recognized initially at fair value. The initial measurement of financial instruments, except for those designated at fair value through profit or loss (FVPL), includes transaction cost.

On initial recognition, the Group classifies its financial assets in the following categories: financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments, and AFS financial assets. The classification depends on the purpose for which the investments are acquired and whether they are quoted in an active market. Financial liabilities, on the other hand, are classified into the following categories: financial liabilities at FVPL and other financial liabilities, as appropriate. Management determines the classification of its financial assets and financial liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at every financial reporting date.

Financial instruments are classified as liability 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 December 31, 2012 and 2011, the Group's financial assets and financial liabilities consist of loans and receivables, AFS financial assets and other financial liabilities.

Determination of fair value

The fair value of financial instruments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the financial reporting date. For investments and all other financial instruments where there is no active market, fair value is determined using generally acceptable valuation techniques. Such techniques include using arm's length market transactions; reference to the current market value of another instrument, which are substantially the same; discounted cash flow analysis and other valuation models.

Fair value measurements are disclosed by source of inputs using a three-level hierarchy for each class of financial instrument. Fair value measurement under Level 1 is based on quoted prices in active markets for identical financial assets or financial liabilities; Level 2 is based on inputs other than quoted prices included within Level 1 that are observable for the financial asset or financial liability, either directly or indirectly; and Level 3 is based on inputs for the financial asset or financial liability that are not based on observable market data.

Day 1 difference

Where the transaction price in a non-active market is different from the fair value based on other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a Day 1 difference) in the consolidated statement of income unless it qualifies for recognition as some other type of asset. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the consolidated statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the “Day 1” difference amount.

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 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 consolidated statement of 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 12 months from the financial reporting date. Otherwise, these are classified as noncurrent assets.

As at December 31, 2012 and 2011, included under loans and receivables are the Group’s cash and cash equivalents, accounts receivable and deposits recorded under “Other current assets”.

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

AFS financial assets
AFS financial assets are non-derivative financial assets that are designated as AFS or are not classified in any of the three other categories. The Group designates financial instruments as AFS financial assets 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 gains or losses being recognized in the consolidated statement of comprehensive income as “Unrealized gain (loss) on AFS financial assets”.

When the investment is disposed of, the cumulative gains or losses previously recorded in equity are recognized in the consolidated statement of income. Interest earned on the investment is reported as interest income using the effective interest method. Dividends earned on the investment are recognized in the consolidated statement of income as “Dividend income” when the right of payment has been established. The Group considers several factors in making a decision on the eventual disposal of the investment. The major factor of this decision is whether or not the Group will experience inevitable further losses on the investment. These financial assets are classified as noncurrent assets unless the intention is to dispose of such assets within 12 months from the financial reporting date.

Note 10 disclose the details of the Group’s AFS financial assets as at December 31, 2012 and 2011.

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

As at December 31, 2012 and 2011, included in other financial liabilities are the Group's short-term bank loans, accounts payable and accrued liabilities, advances from related parties and long-term loan.

Offsetting Financial Instruments

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

Impairment of Financial Assets

The Group assesses at each financial 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 have 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 are/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 Group 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 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 shall be reduced through the use of an allowance account. The amount of loss is recognized in the consolidated statement of income.

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

AFS financial assets
For AFS financial assets, the Group assesses at each financial reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. In case of equity investments classified as AFS financial assets, this would include a significant or prolonged decline in the fair value of the investments below its cost. The determination of what is "significant" or "prolonged" requires judgment. The Group treats "significant" generally as 30% or more and "prolonged" as greater than 12 months for quoted equity securities. When 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 the consolidated statement of income is removed from equity and recognized in the consolidated statement of income.

Impairment losses on equity investments are recognized in the consolidated statement of income. Increases in fair value after impairment are recognized directly in the consolidated statement of comprehensive income.

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

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset 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 Group 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 Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay. Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities
A financial liability is derecognized when the obligation under the liability is discharged, 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 consolidated statement of income.

Inventories
Coal inventory, oil inventory and materials and supplies are valued at the lower of cost and net realizable value (NRV). NRV for coal inventory and oil inventory is the selling price in the ordinary course of business, less the estimated costs of completion and estimated costs necessary to make the sale. In the case of materials and supplies, NRV is the estimated realizable value of the inventories when disposed of at their condition at the financial reporting date.

Cost of coal inventory includes all mining and mine-related costs, cost of purchased coal from small-scale miners and other costs incurred in bringing the inventories to their present location and condition. These costs are aggregated to come up with the total coal inventory cost. Unit cost is determined using the moving average method.

Cost of oil inventory includes productions costs consisting of costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Unit cost is determined using the weighted average method.

Cost of materials and supplies, which include purchase price and any directly attributable costs incurred in bringing the inventories to their present location and condition, are accounted for as purchase cost determined on a weighted average basis.

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

Input Value-added Tax (VAT)
Input VAT is stated at 12% of the applicable purchase cost of goods and services, net of output tax liabilities, which can be recovered from the taxation authority, except where the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable.

Property and Equipment
Property and equipment are stated at cost less accumulated depletion and depreciation and accumulated impairment in value.
The initial cost of Property and equipment, other than oil and gas and coal mining properties, consists of its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use and any estimated cost of dismantling and removing the property and equipment item and restoring the site on which it is located to the extent that the Group had recognized the obligation to that cost. Such cost includes the cost of replacing part of the Property and equipment if the recognition criteria are met. When significant parts of Property and equipment are required to be replaced in intervals, the Group recognizes such parts as

individual assets with specific useful lives and depreciation. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of "Property and equipment" as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the consolidated statement of income when incurred.

Oil and gas and coal mining properties pertain to those costs relating to exploration projects where commercial quantities are discovered and are subsequently reclassified to "Property and equipment" from "Deferred oil and gas exploration costs" account upon commercial production.

Construction in progress included in Property and equipment is stated at cost, which includes direct labor, materials and construction overhead. Construction in progress is not depreciated until the time the construction is complete, at which time the constructed asset will be transferred out from its present classification to the pertinent Property and equipment classification.

Property and equipment also include the estimated restoration costs of BEMC's coal mine and FEP's share in the estimated cost of rehabilitating the Galoc oil field, for which the Group is constructively liable. These costs are included under oil and gas, and coal mining properties.

Depletion of oil and gas, and coal mining properties is calculated using the units-of-production method based on estimated proved reserves. Depreciation of other items of Property and equipment is computed using the straight-line method over the estimated useful lives of the assets as follows:

	No. of Years
Machinery and equipment	2 to 20
Surface structures	10

Depletion of oil and gas properties commences upon commercial production. Depreciation of an item of Property and equipment begins when it becomes available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation ceases at the earlier of the date that the item is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, and the date the asset is derecognized.

When assets are sold or retired, the cost and related accumulated depletion and depreciation and accumulated impairment in value are removed from the accounts and any resulting gain or loss is recognized in the consolidated statement of income.
The estimated recoverable reserves, useful lives, and depletion and depreciation methods are reviewed periodically to ensure that the estimated recoverable reserves, periods and methods of depletion and depreciation are consistent with the expected pattern of economic benefits from the items of Property and equipment.

Deferred Oil and Gas Exploration Costs
The Group follows the full cost method of accounting for oil and gas exploration costs determined on the basis of each SC or Geophysical Survey and Exploration Contract (GSEC) area. Under this method, all oil and gas exploration costs relating to each SC or GSEC are deferred pending the determination of whether the contract area contains oil and gas reserves in commercial quantities. Capitalized expenditures include costs of license acquisition, technical services and studies, exploration drilling and testing, and appropriate technical and administrative expenses. General overhead or costs incurred prior to having obtained the legal rights to explore an area are recognized as expense in the consolidated statement of income when incurred.

At the completion of the exploration phase, if technical feasibility is demonstrated and commercial reserves are discovered, then, following the decision to continue into the development phase, the oil and gas exploration costs relating to the SC or GSEC area, where oil and gas in commercial quantities are discovered, are subsequently capitalized as “Oil and gas, and coal mining properties” shown under the “Property and equipment” account in the consolidated statement of financial position.

Deferred oil and gas exploration costs are assessed at each financial reporting date for possible indications of impairment. The recoverability of deferred oil and gas exploration costs is dependent upon the discovery of economically recoverable reserves, the ability of the Group to obtain necessary financing to complete the development of reserves and future profitable production or proceeds from the disposition of recoverable reserves. A valuation allowance is provided for unrecoverable deferred oil and gas exploration costs based on the Group’s assessment of the future prospects of the exploration project. Full provision is made for the impairment unless it is probable that such costs are expected to be recouped through successful exploration and development of the area of interest, or alternatively, by its sale. If the project does not prove to be viable and is considered to be of no further commercial value or when the project is abandoned, the deferred oil and gas exploration costs associated with the project and the related impairment provisions are written off. Exploration areas are considered permanently abandoned if the related permits or license of the exploration have expired and/or there are no definite plans for further exploration and/or development.

Borrowing Costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset is capitalized by the Group as part of the cost of that asset. The capitalization of borrowing costs: (i) commences when the activities to prepare the assets are in progress and expenditures and borrowing costs are being incurred; (ii) is suspended during the extended periods in which active development, improvement and construction of the assets are interrupted; and (iii) ceases when substantially all the activities necessary to prepare the assets are completed.

Other borrowing costs are recognized as an expense in the period in which they are incurred.

Impairment of Property and Equipment

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

An assessment is made at least on each financial reporting date as to whether there is indication that previously recognized impairment losses may no longer exist or may have decreased. If any indication exists, the recoverable amount is estimated and a previously recognized impairment loss is reversed only if there has been a change in the estimate in the assets or CGU’s recoverable amount since the last impairment loss was recognized. If so, the carrying amount of the item is increased to its new recoverable amount which cannot exceed the impairment loss recognized in prior years. Such reversal is recognized in the consolidated statement of income unless the asset or CGU is carried at its revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount on a systematic basis over its remaining estimated useful life.

Provision for Rehabilitation and Decommissioning Costs

The Group records the present value of estimated costs of legal and constructive obligations required to restore the coal mine site upon termination of its operations. The nature of these restoration activities includes dismantling and removing structures, rehabilitating settling ponds, dismantling operating facilities, closure of plant and waste sites, and restoration, reclamation and re-vegetation of affected areas. The obligation generally arises when the asset is constructed or the ground or environment at mine site is disturbed. When the liability is initially recognized, the present value of the estimated cost is capitalized as part of the carrying amount of the related coal mining properties.

Decommissioning costs on oil and gas fields are based on estimates made by the service contract operator. The timing and amount of future expenditures are reviewed annually. Liability and capitalized costs included in oil and gas properties is equal to the present value of the Group's proportionate share in the total decommissioning costs of the consortium on initial recognition. The amount of asset retirement obligation in the consolidated statement of financial position is increased by the accretion expense charged to operations using the effective interest method over the estimated remaining term of the obligation. The periodic unwinding of the discount is recognized in the consolidated statement of income as "interest expense". Additional costs or changes in rehabilitation and decommissioning costs are recognized as additions or charges to the corresponding assets and provision for rehabilitation and decommissioning costs when they occur.

For closed sites or areas, changes to estimated costs are recognized immediately in the consolidated statement of income. Decrease in rehabilitation and decommissioning costs that exceeds the carrying amount of the corresponding rehabilitation asset is recognized immediately in the consolidated statement of income.

Share-based Payment

When share options are awarded to officers and employees, the fair value of the options at the date of grant is charged to the consolidated statement of income over the vesting period.

Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each financial reporting date so that ultimately, the cumulative amount recognized over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the consolidated statement of income over the remaining vesting period.
Where equity instruments are granted to persons other than employees, the fair value of goods and services received is charged to the consolidated statement of income.

Capital Stock

Ordinary or common shares are classified as equity. The proceeds from the issuance of ordinary or common shares are presented in equity as capital stock to the extent of the par value issued shares and any excess of the proceeds over the par value or shares issued less any incremental costs directly attributable to the issuance, net of tax, is presented in equity as additional paid-in capital.

Equity Reserve
Equity reserve is the difference between the acquisition cost of an entity under common control and the Parent Company's proportionate share in the net assets of the entity acquired as a result of a business combination accounted for using the pooling-of-interests method. Equity reserve is derecognized when the subsidiary are deconsolidated, which is the date on which control ceases.

Retained Earnings (Deficit)
Retained earnings (deficit) represent the cumulative balance of periodic net income or loss, dividend contributions, prior period adjustments, effect of changes in accounting policy and other capital adjustments. When the retained earnings account has a debit balance, it is called "Deficit." A deficit is not an asset but a deduction from equity.

Revenue Recognition
Revenue is recognized upon delivery to the extent that it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of revenue can be reliably measured. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized:

Revenue from sale of petroleum products
Revenue is derived from sale of petroleum to third party customers. Sale of petroleum is recognized at the time of delivery of the product to the purchaser. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and other sales tax or duty.

Revenue from sale of coal
Revenue from sale of coal is recognized when the risks and rewards of ownership is transferred to the buyer, on the date of shipment to customers when the coal is loaded into BEMC's or the customers' loading facilities.

Dividend income
Dividend income is recognized when the right to receive the payment is established.

Interest income
Interest income is recognized as the interest accrues using the effective interest method.

Cost and Expense Recognition
Costs and expenses are recognized in the consolidated statement of income in the year they are incurred. The following specific cost and expense recognition criteria must also be met before costs and expenses are recognized:

Petroleum production costs
Petroleum production costs, which include all direct materials and labor costs, depletion of oil and gas properties, and other costs related to the oil and gas operations, are expensed when incurred.

Cost of coal sales
Cost of coal sales includes costs of purchased coal and all direct materials and labor costs and other costs related to the coal production. Cost of coal sales is recognized by the Group when sales are made to customers.

General and administrative expenses
General and administrative expenses constitute the costs of administering the business and are expensed when incurred.

Others-net
Others-net include other income and expenses which are incidental to the Group's business operations and are recognized in the consolidated statements of income.

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

Foreign Currency-denominated Transactions and Translations
Transactions denominated in foreign currencies are recorded using the exchange rate at the date of the transaction. Outstanding monetary assets and monetary liabilities denominated in foreign currencies are restated using the rate of exchange at the financial reporting date. Non-monetary items that are measured at fair value in a foreign currency shall be translated using the exchanges rates at the date when the fair value was determined. When a gain or loss on a non-monetary item is recognized in other comprehensive income, any foreign exchange component of that gain or loss shall be recognized in the consolidated statement of comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss shall be recognized in the consolidated statement of income.

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

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

Deferred income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences, carryforward benefits of the excess of minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT) [excess MCIT], and 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, excess MCIT and NOLCO can be utilized.

Deferred income tax liabilities are not provided on non-taxable temporary differences associated with investments in domestic subsidiaries, associates and interest in joint ventures. With respect to investments in other subsidiaries, associates and interests in joint ventures, deferred income tax liabilities are recognized except when the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

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

Provisions and Contingencies

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

Contingent liabilities are not recognized in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the consolidated 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 consolidated financial statements.

Basic Earnings (Loss) Per Share

Basic earnings (loss) per share is computed by dividing the net income (loss) attributable to equity holders of the Parent Company by the weighted average number of common shares outstanding during the year after giving retroactive effect to stock dividends declared during the year, if any.

Diluted Earnings (Loss) Per Share

Diluted earnings (loss) per share is calculated by dividing the net income (loss) attributable to equity holders of the Parent Company by the weighted average number of ordinary shares issued during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all potentially dilutive ordinary shares into ordinary shares. As at December 31, 2012 and 2011, there are no potentially dilutive ordinary shares.

Segment Reporting

The Group's operating businesses are organized and managed separately according to the nature of the products provided, with each segment representing a strategic business unit that offers different products to different markets.

Events After the End of Reporting Period

Events after the financial reporting date that provide additional information about the Group's position at the financial reporting date (adjusting events) are reflected in the consolidated financial statements. Events after the financial reporting date that are not adjusting events, if any, are disclosed when material to the consolidated financial statements.

3. **Summary of Significant Judgments, Estimates and Assumptions**

The preparation of the consolidated financial statements in accordance with PFRS requires the management of the Group to exercise judgments make accounting estimates and use assumptions that affect the reported amounts of assets, liabilities, income and expenses, and disclosure of any contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the accounting estimates to change. The effects of any change in accounting estimates are reflected in the consolidated financial statements as they become reasonably determinable.

Accounting assumptions, estimates and judgments 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.

Judgments

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

Determination of the functional currency

The Parent Company and BEMC, based on the relevant economic substance of the underlying circumstances, have determined their functional currency to be the Peso. It is the currency of the primary economic environment in which the Parent Company and BEMC primarily operates. FEC's and FEP's functional currencies are the Canadian dollar and the US dollar, respectively.

Classification of financial instruments

The Group exercises judgment in classifying financial instruments in accordance with PAS 39. The Group classifies a financial instrument, or its components, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definition of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the Group's consolidated statement of financial position.

The Group's financial instruments are discussed in more detail in Notes 21 and 22.

Loss of significant influence over certain associates

The Group assesses whether lack of significant influence over an associate is evident. Aside from the presumption that holding of less than 20% of the voting power does not give rise to significant influence, the management also considers other circumstances that may lead them to believe that the Group cannot exercise significant influence over its associates. Such circumstances include failure to obtain representations on the investee's BOD, inability to obtain timely financial information or cannot obtain more information than investors without significant influence, the Group's views and economic decisions are not considered in the operations of the investee, and the other investors are opposing the Group's attempt to exercise significant influence. In 2010, the ownership interest of the Group over its investment in PERC has decreased from 20.62% to 10.31% (see Note 10) and management assessed that the Group has lost its significant influence over its investment in PERC. In 2011, the ownership interest of the Group over its investment in Pitkin was reduced from 21.00% to 18.46% (see Note 10) which, together with other factors, caused the management to conclude that the Group has lost its significant influence over its investment in Pitkin. The Group therefore reclassified its investment in Pitkin and PERC as AFS financial assets in 2011 and 2010, respectively.

Recognition of deferred income tax assets
The Group reviews the carrying amounts at each financial reporting date and adjusts the balance of deferred income tax assets to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. However, there is no assurance that the Group will utilize all or part of the deferred income tax assets. The Group did not recognize deferred income tax assets on NOLCO in 2012. Carrying amount of deferred income tax assets amounted to ₱16,303 and ₱82,245 as at December 31, 2012 and 2011, respectively (see Note 19).

Accounting Estimates and Assumptions
The key estimates and assumptions concerning the future and other key sources of estimation uncertainty at the financial reporting date, 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:

Impairment of loans and receivables
The Group maintains an allowance for doubtful accounts at a level that management considers adequate to provide for potential uncollectibility of its loans and receivables. The Group evaluates specific balances where management has information that certain amounts may not be collectible. In these cases, the Group uses judgment, based on available facts and circumstances, and based on a review of the factors that affect the collectibility of the accounts. The review is made by management on a continuing basis to identify accounts to be provided with allowance.

The Group did not assess its loans and receivables for collective impairment due to the few counterparties that can be specifically identified. Any impairment loss is recognized in the consolidated statement of income with a corresponding reduction in the carrying value of the loans and receivables through an allowance account. Total carrying value of loans and receivables amounted to ₱386,018 and ₱292,658 as at December 31, 2012 and 2011, respectively (see Note 21). Provision for impairment on other receivables amounting to ₱417 and nil was recognized as at December 31, 2012 and 2011, respectively (see Note 6).

Impairment of property and equipment
The Group assesses whether there are indications of impairment on its property and equipment. If there are indications of impairment, impairment testing is performed. This requires an estimation of the value in use of the CGUs to which the assets belong. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

As at December 31, 2012 and 2011, the carrying value of property and equipment amounted to ₱124,205 and ₱408,719, respectively. Impairment loss on property and equipment amounting to ₱434,288 was recognized in 2012 (see Note 9).

Valuation of AFS financial assets
The Group carries its quoted and unquoted AFS financial assets at fair value and at cost, respectively. Fair value measurement requires the use of accounting estimates and judgment. At initial recognition, the fair value of quoted AFS financial assets is based on its quoted price in an active market while the fair value of unquoted AFS financial assets is based on the latest available transaction price. The amount of changes in fair value would differ if the Group utilized a different valuation methodology.

Any change in fair value of its AFS financial assets is recognized in the consolidated statement of comprehensive income. As at December 31, 2012, the Group has net cumulative unrealized gains (losses) on its AFS financial asset amounting to (₱30,485) and ₱7,057 as at December 31, 2012 and 2011, respectively. The carrying value of the Group's AFS financial assets amounted to ₱1,399,670 and ₱1,461,889 as at December 31, 2012 and 2011, respectively (see Note 10).

Impairment of AFS financial assets
The Group treats its AFS financial assets as impaired when there has been a significant or prolonged decline in fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgment. The Group treats "significant" generally as 30% or more and "prolonged" as greater than 12 months for quoted equity securities. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted securities. As at December 31, 2012 and 2011, the carrying values of the Group's AFS financial assets amounted to ₱1,399,670 and ₱1,461,889, respectively. No provision for impairment was recognized in 2012, 2011 and 2010 by the Group on its AFS financial assets (see Note 10).

Impairment of goodwill
The Group reviews the carrying values of goodwill for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs impairment test of goodwill annually every December 31. Impairment is determined for goodwill by assessing the recoverable amount of the CGU or group of CGUs to which the goodwill relates. Assessments require the use of estimates and assumptions such as long-term oil prices, discount rates, future capital requirements, exploration potential and operating performance. If the recoverable amount of the unit exceeds the carrying amount of the CGU, the CGU and the goodwill allocated to that CGU shall be regarded as not impaired. Where the recoverable amount of the CGU or group of CGUs is less than the carrying amount of the CGU or group of CGUs to which goodwill has been allocated, an impairment loss is recognized. No impairment losses were recognized for the years ended December 31, 2012 and 2011. The carrying value of goodwill as at December 31, 2012 and 2011 amounted to ₱258,593 (see Note 4).

Determination of the NRV of inventories
The NRV of coal inventory is computed based on estimated selling price less estimated costs to sell. The NRV of materials and supplies is computed based on their estimated sales value at their current condition. Based on these estimates, an inventory write-down is recognized for any excess of carrying value over the net realizable value of the inventory. The carrying values of the inventories of the Group amounted to ₱140,881 and ₱143,992 as at December 31, 2012 and 2011, respectively (see Note 7). Allowance for probable inventory losses amounted to ₱151,941 and ₱8,394 as at December 31, 2012 and 2011, respectively (see Note 7).

Estimation of coal resources

Estimates of coal resources are based on the computation parameters and the guidelines of the Department of Energy (DOE). A floor structure contour map of coal seams are prepared and information about their thickness and extent are tabulated as determined from outcrops, test pits, old mine workings and diamond drill data. The area is multiplied by the known thickness and the assumed specific gravity to get the tonnage in metric tons. The resources are computed by blocks which are delineated by fault boundaries and mined out areas. There had been no significant change in the estimated mineable coal reserves from December 31, 2011 to December 31, 2012.

Estimation of proved oil reserves

The Group assesses its estimate of proved reserves on an annual basis as provided by the lead operator of the Consortium. The estimated proved reserves of oil are subject to future revision. The Company estimates its reserves of oil in accordance with accepted volumetric methods, specifically the probabilistic method as performed by an expert. Probabilistic method uses known geological, engineering and economic data to generate a range of estimates and their associated probabilities.

Proven oil reserves are estimated with reference to available reservoir and well information, including production and pressure trends for nearby producing fields. Proven oil reserves estimates are attributed to future development projects only where there is a significant commitment to project funding and execution and for which applicable governmental and regulatory approvals have been secured or are reasonably certain to be secured. All proven reserve estimates are subject to revision, either upward or downward, based on new information, such as from development drilling and production activities or from changes in economic factors, including product prices, contract terms or development plans.

Estimates of oil or natural gas reserves for undeveloped or partially developed fields are subject to greater uncertainty over their future life than estimates of reserves for fields that are substantially developed and depleted.

Estimation of useful lives of property and equipment

The Group estimates the useful lives of property and equipment, except for oil and gas, and coal mining properties, based on the internal technical evaluation and experience. The estimated useful lives are reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical and commercial obsolescence and other limits on the use of the assets. For oil and gas, and coal mining properties, the Group estimates and periodically reviews the remaining recoverable reserves to ensure that the remaining reserves are reflective of the current condition of the oil and gas, and coal mining properties. The estimated useful lives of property and equipment are disclosed in Note 2.

Estimation of provision for rehabilitation and decommissioning costs

Significant estimates and assumptions are made in determining the provision for rehabilitation and decommissioning costs. Factors affecting the ultimate amount of liability include estimates of the extent and costs of rehabilitation activities, technological changes, regulatory changes, cost increases, and changes in discount rates. Those uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision at the financial reporting date represents management's best estimate of the present value of the future rehabilitation costs required. Changes to estimated future costs are recognized in the consolidated statement of financial position by adjusting the rehabilitation asset and liability. Assumptions used to compute for the provision for rehabilitation and decommissioning costs are reviewed and updated annually. Provision for rehabilitation and decommissioning costs amounted to ₱833 and ₱1,358 as at December 31, 2012 and 2011, respectively (see Note 9). In 2012 and 2011, the

Group recognized accretion of interest amounting to ₱105 and ₱92, respectively (see Note 9). The discount rate used by the Company to value the provision as at December 31, 2012 and 2011 is 14%.

Impairment of investment in an associate
The Group determines at each financial reporting date whether there is any objective evidence that the investment in an associate is impaired. If there is objective evidence of impairment, the Group calculates the amount of impairment as the difference between the recoverable amount of the investment in an associate and its carrying value, and recognizes the amount in the consolidated statement of income. In 2010, the Group recognized a loss on write-down of investment in Lascogon Mining Corporation (LMC) amounting to ₱44,652 as part of "Equity in net earnings (losses) of associates". Such write-down resulted from LMC's assessment that any further development of MPSA 148 would not provide an acceptable return on the investment. No impairment loss on the Group's investment in associate was recognized in 2012 and 2011. As at December 31, 2012 and 2011, the carrying values of the Group's investment in an associate amounted to nil (see Note 11).

Estimation of allowance for unrecoverable deferred oil and gas exploration costs
Oil and gas interests relate to projects that are currently on-going. The recovery of these costs depends upon the success of exploration activities and future development or the discovery of oil and gas producible in commercial quantities. Allowances have been provided for these oil and gas interests that are specifically identified to be unrecoverable.

The deferred oil and gas exploration costs have a carrying value amounting to ₱858,562 and ₱1,275,173 as at December 31, 2012 and 2011, respectively (see Note 12). Provision for impairment of oil and gas interests amounting to ₱388,631 was recognized in 2012, ₱562 in 2011 and nil in 2010 (see Note 12).

Provision for losses
The Group provides for present obligations (legal or constructive) where it is probable that there will be an outflow of resources embodying economic benefits that will be required to settle the said obligations. An estimate of the provision is based on known information at financial reporting date, net of any estimated amount that may be reimbursed to the Group. The amount of provision is re-assessed at least on an annual basis to consider new relevant information. As at December 31, 2012 and 2011, provision for losses recorded under current liabilities amounted to ₱41,050 and ₱144,556, respectively, while noncurrent liabilities amounted to ₱171,631 and ₱172,251, respectively (see Note 26).

4. Business Combinations under Common Control - Purchase of BEMC and FEC

On September 24, 2010, pursuant to an internal reorganization whereby all of the energy assets of PMC are to be held by the Parent Company, PMC transferred all of its investment in shares of stock representing 100% of BEMC at a purchase price of ₱45,000. PMC also transferred to PPC all of its investment in shares of stock representing 51.24% of FEC at a purchase price of ₱342,338. As a result of the acquisition of FEC, which holds 25.63% ownership interest in FEP, the number of shares owned and controlled by the Parent Company, directly and indirectly, totaled 21,503,704 shares representing 64.45% of FEP. This qualified as a business combination under common control. The investment in FEP was previously recognized as an investment in associate.

The business combinations under common control were accounted for using the pooling-of-interests method since PMC, the ultimate parent, controls the Parent Company, BEMC, FEC and FEP before and after the transactions. No restatement of financial information for periods prior to the transactions was made.

The following are the net identifiable assets and liabilities of the subsidiaries acquired by the Parent Company from PMC:

	FEP	FEC	BEMC	Total
Assets				
Cash and cash equivalents	₱150,392	₱98,158	₱4,311	₱252,861
Accounts receivables	62,786	57	5,665	68,508
Inventories	2,949	–	6,815	9,764
Other current assets	–	1,202	9,235	10,437
Property and equipment	134,641	173	177,749	312,563
Goodwill	155,319	103,274	–	258,593
Investments	–	202,222	–	202,222
Deferred oil and gas exploration costs and other noncurrent assets	944,027	–	63,228	1,007,255
	1,450,114	405,086	267,003	2,122,203
Liabilities				
Short-term bank loan	₱–	₱–	₱150,000	₱150,000
Accounts payables and accrued liabilities	66,519	2,823	2,444	71,786
Advances from related parties	–	13,034	67,968	81,002
Provisions for losses	458,581	–	–	458,581
Provision for mine rehabilitation and decommissioning costs	–	–	557	557
	525,100	15,857	220,969	761,926
Net Assets	₱925,014	₱389,229	₱46,034	₱1,360,277

The share of the Parent Company in the foregoing carrying amounts of net identifiable assets and liabilities amounted to ₱1,056,752 while the costs of business combinations amounted to ₱1,016,164 which consist of cash purchase price for BEMC and FEC, and the carrying amount of equity interest in FEP held by the Parent Company before the date of acquisition. The acquisitions resulted to an increase in equity reserves and non-controlling interests amounting ₱40,588 and ₱303,525, respectively, as at the date of business combinations.

Total cash and cash equivalents acquired from the business combinations under common control amounted to ₱252,861.

5. Cash and Cash Equivalents

	2012	2011
Cash on hand and in banks	**₱281,121**	₱206,032
Short-term investments	**2,896**	11,799
	₱284,017	₱217,831

Cash in banks earns interest at the respective bank deposit rates. Short-term investments are made for varying periods of up to three months depending on the cash requirements of the Group, and earn interest at the respective short-term investments rates. Interest income amounting to ₱784, ₱814 and ₱1,204 were recognized for the years ended December 31, 2012, 2011, and 2010, respectively. The Group has dollar accounts in various banks amounting to US$6,712 as at December 31, 2012.

6. Accounts Receivable

	2012	2011
Trade	**₱94,049**	₱67,776
Advances to officers and employees	**2,360**	1,809
Advances to suppliers	**1,264**	1,699
Accrued interest	**–**	67
Others	**4,908**	2,767
	102,581	74,118
Less allowance for doubtful accounts	**417**	–
	₱102,164	₱74,118

Trade receivables are non-interest-bearing and are currently due and demandable. The trade receivables include receivables from the sale of coal to various local customers and sale of petroleum products.

Accrued interest receivables arise from the Group's short-term deposits.

Provision for losses on other receivables amounting to ₱417 was recognized in 2012.

The Group has no related party balances included in the accounts receivable account as at December 31, 2012 and 2011.

7. Inventories

	2012	2011
Coal	**₱238,797**	₱137,640
Petroleum	**2,868**	–
Materials and supplies	**51,157**	14,746
	292,822	152,386
Less allowance for probable inventory losses	**151,941**	8,394
	₱140,881	₱143,992

The Group's coal inventory comes from its coal mine production and purchases from small-scale coal miners who are operating within its coal mine property. Coal inventory and materials and supplies are carried at their net realizable values.

The cost of inventories recognized as expense and included in "Cost of coal sales" amounted to ₱35,238 in 2012, ₱1,210 in 2011 and ₱10,861 in 2010 (see Note 15).

In 2012 and 2011, the Group recognized additional allowance for probable coal inventory losses amounting to ₱143,547 and ₱8,394, respectively. These are included in the "Provision for impairment of assets" account in the consolidated statements of income.

8. Other Current Assets

	2012	2011
Prepaid expenses	**₱17,866**	₱10,221
Input VAT	**5,749**	3,144
Creditable withholding tax	**2,098**	1,188
Prepaid income tax	**1,056**	1,387
Deposit	**–**	920
Others	**–**	591
	₱26,769	₱17,451

Prepaid expenses include prepaid rentals, insurance premium, advances for liquidations and other expenses paid in advance.

9. Property and Equipment

As at December 31, 2012:

	Oil and Gas, and Coal Mining Properties	**Machinery and Equipment**	**Surface Structures**	**Construction in Progress**	**Total**
Cost					
Balances at January 1	**₱414,116**	**₱222,192**	**₱28,495**	**₱5,284**	**₱670,087**
Additions	**122,393**	**106,435**	**3,970**	**5,681**	**238,479**
Reclassifications	**50,212**	**5,218**	**4,988**	**(10,206)**	**50,212**
Disposals	**–**	**(24,689)**	**–**	**–**	**(24,689)**
Cumulative translation adjustment	**(38,429)**	**(13,329)**	**–**	**–**	**(51,758)**
Balances at December 31	**548,292**	**295,827**	**37,453**	**759**	**882,331**
Accumulated Depletion and Depreciation					
Balances at January 1	**195,817**	**61,165**	**4,386**	**–**	**261,368**
Depletion and depreciation for the year (Notes 15 and 27)	**35,039**	**30,720**	**4,500**	**–**	**70,259**
Impairment	**204,088**	**200,874**	**28,567**	**759**	**434,288**
Disposals	**–**	**(471)**	**–**	**–**	**(471)**
Cumulative translation adjustment	**(6,141)**	**(1,177)**	**–**	**–**	**(7,318)**
Balances at December 31	**428,803**	**291,111**	**37,453**	**759**	**758,126**
Net Book Values	**₱119,489**	**₱4,716**	**₱–**	**₱–**	**₱124,205**

As at December 31, 2011:

	Oil and Gas, and Coal Mining Properties	Machinery and Equipment	Surface Structures	Construction in Progress	Total
Cost					
Balances at January 1	₱325,587	₱141,005	₱13,131	₱8,940	₱488,663
Additions	88,529	78,754	4,132	10,009	181,424
Reclassifications	–	2,433	11,232	(13,665)	–
Balances at December 31	414,116	222,192	28,495	5,284	670,087
Accumulated Depletion and Depreciation					
Balances at January 1	50,826	4,052	1,291	–	56,169
Depletion and depreciation for the year (Notes 15 and 27)	144,991	57,113	3,095	–	205,199
Balances at December 31	195,817	61,165	4,386	–	261,368
Net Book Values	₱218,299	₱161,027	₱24,109	₱5,284	₱408,719

In January 2013, BEMC decided to undertake a detailed review of the operations and prospects of the coal mining project. The Company anticipates that the detailed review could take six months to complete. The management determined that it would be prudent to suspend underground mining operations. Activities would be confined to maintenance and repair of the coal mine and processing and marketing of existing coal inventory.

In 2012, BEMC recognized an impairment loss on its mining properties, machinery and equipment, surface structures, and construction in progress related to the coal property in Zamboanga Sibugay amounting to ₱434,288 reducing the carrying value of BEMC's property and equipment to nil as at December 31, 2012.

Oil and gas, and coal mining properties include the present value of the BEMC's and FEP's estimated rehabilitation and decommissioning costs amounting to ₱833 and ₱1,358 as at December 31, 2012 and 2011, respectively. The details of the Group's provision for rehabilitation and decommissioning costs are as follows:

	2012	2011
Beginning balances	**₱1,358**	₱4,102
Payments for rehabilitation and decommissioning cost	**(630)**	(2,836)
Accretion of interest	**105**	92
Ending balances	**₱833**	₱1,358

As at December 31, 2012 and 2011, payments made by FEP for its share of the estimated rehabilitation and decommissioning costs to the operator of Galoc field amounted to ₱630 and ₱2,836, respectively.

Discount rate of 14% was used to compute the present value of mine rehabilitation costs as at December 31, 2012 and 2011.

10. AFS Financial Assets

	2012	2011
Pitkin - unquoted equity instrument	**₱1,231,440**	₱1,313,700
PERC - quoted equity instrument	**168,230**	148,189
	₱1,399,670	₱1,461,889

Investment in Pitkin

On September 24, 2010, the Parent Company purchased from PMC all of its investment in shares of stock of Pitkin, which consists of 18,000,000 shares at a purchase price of ₱766,346. The acquisition brought the total holdings of the Parent Company to 24,000,000 shares, or 21.00% ownership interest. The investment in Pitkin amounting to ₱125,304 was reclassified from AFS financial assets carried at cost less any impairment loss to investment in associate accounted for under the equity method.

On February 24, 2011, Pitkin issued 15,700,000 new ordinary shares to the public particularly to institutional investors and stockholders. The issuance caused the increase in its capitalization from 114,300,000 shares to 130,000,000 shares. The Parent Company did not avail of the share issuance, thus reducing its ownership interest from 21.00% to 18.46%. The management assessed that the Parent Company ceased to have significant influence over Pitkin. The investment in shares of stock of Pitkin with fair value of ₱1,313,700 as at date of loss of significant influence was reclassified from investment in associate to AFS financial asset. The fair value of the investment was determined using the latest available transaction price.

The difference between the fair value of the investment in shares of stock of Pitkin and its carrying value of ₱870,028 as at date of loss of significant influence was recognized in the consolidated statement of income as "Gain on dilution of interest in an associate" amounting to ₱443,672 in 2011 (see Note 11).

Investment in PERC
The Group's investment in shares of stock of PERC is carried at fair value with cumulative changes in fair value presented as part of "Unrealized gain on AFS financial asset" in the equity section of the consolidated statements of financial position.

Previously, the investment in shares of stock of PERC was recognized as investment in associate and was accounted for under the equity method. On June 2, 2010, PERC issued a 1:1 stock rights offer to its stockholders at an offer price of ₱5.00 per share. The offer period commenced on June 28, 2010 and ended on July 2, 2010. The Parent Company did not avail of the stock rights offering of PERC, thus reducing its ownership interest from 20.62% to 10.31% on July 2, 2010. The management assessed that the Parent Company ceased to have significant influence over PERC. The investment in shares of PERC with fair value of ₱141,133 as at the date of loss of significant influence was reclassified from investment in associate to AFS financial asset.

The difference between the fair value and the carrying amount of the investment in the shares of stock of PERC amounting to ₱119,804 as at the date of loss of significant influence was recognized as "Loss on dilution of interest in an associate" in the consolidated statement of income for the year ended December 31, 2010.

In February 2013, the Parent Company sold all of its investment in PERC for ₱168,042.

Investment in LMC
The Group's investment in LMC is previously accounted for under the equity method since management assessed that the Parent Company has significant influence over the investee. In 2012, LMC's authorized capital stock increased from 10 million to 260 million shares wherein FEC did not exercise its options and thus diluted its ownership interest from 40.0% to 1.08%. Management assessed that FEC has lost significant influence over the investee company, hence, the reclassification of the investment in associate to AFS financial instruments as at the date of loss of significant influence.

The table below shows the movement of the "Unrealized Gain (Loss) on AFS financial asset" account:

	2012	2011
Beginning balance	**₱7,057**	₱29,638
Unrealized loss on AFS financial asset - net of tax	**(37,542)**	(22,581)
Ending balance	**(₱30,485)**	₱7,057

11. Investment in Associates

The details of the investments in associates accounted for under the equity method are as follows:

	2012	2011
Acquisition Costs		
Beginning balance	**₱–**	₱891,649
Deemed disposal of investments in associates (Note 10)	**–**	(891,649)
Ending balance	**–**	–
Accumulated Equity in Net Earnings (Losses)		
Beginning balance	**₱–**	₱18,174
Equity in net earnings (losses) during the year	**–**	(39,795)
Deemed disposal of investments in associates (Note 10)	**–**	21,621
Ending balance	**–**	–
	₱–	₱–

Investment in associates pertains to investment in Pitkin which was reclassified to AFS financial assets on February 24, 2011 (see Note 10). Equity in net losses of associates amounted to nil, ₱39,795 and ₱25,529 as at December 31, 2012, 2011 and 2010, respectively.

12. Deferred Oil and Gas Exploration Costs and Other Noncurrent Assets

Deferred oil and gas exploration costs and other noncurrent assets consist of:

	2012	2011
SC 72 (Reed Bank)	**₱690,080**	₱525,360
SC 40 (North Cebu Block)	**522,043**	745,227
SC 6 (Cadlao Block)	**45,166**	49,608
SC 14 C-1 (Galoc Block)	**31,535**	–
SC 6A (Octon Block)	**9,296**	9,321
PECR 4	**3,416**	–
Deferred oil and gas exploration costs	**1,301,536**	1,329,516
Less allowance for unrecoverable portion	**442,974**	54,343
	858,562	1,275,173
Others	**278**	328
	₱858,840	₱1,275,501

FEP, through its subsidiaries, has various participating interests in petroleum service contracts as follows as at December 31, 2012:

Service Contract	Participating Interest
SC 6A (Octon Block)	1.67%
SC 6B (Bonita Block)	2.11%
SC 14 (Tara PA)	10.00%
SC 14 Block A (Nido)	8.47%
SC 14 Block B (Matinloc)	12.41%
SC 14 Block B-1 (North Matinloc)	19.46%
SC 14 Block C-1 (Galoc)	2.28%

(Forward)

Service Contract	Participating Interest
SC 14 Block C-2 (West Linapacan)	2.28%
SC 14 Block D (Retention Block)	8.17%
SC 40 (North Cebu Block)	66.67%
SC 72 (Reed Bank)	70.00%

In 2011, the Parent Company recognized provision for impairment loss amounting to ₱562 on its SC 6 Cadlao Block oil and gas assets.

SC 72 (Reed Bank)
The SC72 license was awarded on February 15, 2010. It covers an area of 8,800 Km2 and contains the Sampaguita Gas Discovery which has the potential to contain In-Place Contingent Resources of 2.6 trillion cubic feet (TCF).

In the early part of 2012, FEP received encouraging results from the analysis of the 2011 seismic work following the acquisition of 2,002 line-km of 2D and 565 km^2 of 3D seismic data over the SC72 license area between January 15 and March 12, 2011. The resource assessment study was conducted by Weatherford Petroleum Consultants (Weatherford), an independent consulting group, in the first half of 2012 and supported the case to proceed with the drilling programme. Based on the study, In-Place Prospective Resources totalling 5.4 TCF is expected to be drilled in the area. The results of the study were used to define the location of two wells, to be named Sampaguita-4 and Sampaguita-5, which if successfully drilled, would be expected to increase the amount of potentially recoverable resources. The drilling of two wells is part of the work programme of FEP for the second-sub-phase of SC72.

FEP was unable to commence the drilling programme because of territorial disputes between the Philippine and Chinese governments. However, the DOE has granted FEP an extension up to August 2015 to allow the completion of obligations under the service contract.

In the meantime, FEP recognizes its ongoing commitment to the project by planning a seismic reprocessing program in 2013 to further assess the prospectivity of other areas outside the Sampaguita field within SC72. The programme will concentrate on mapping other prospects and leads outside the Sampaguita discovery.

SC 40 (North Cebu)
In 2012, FEP commissioned a resource assessment study to be undertaken by PGS Reservoir Consultants, an independent competent person. The results of the study, which was received in 2013, downgraded previously identified leads and prospects within SC 40. An important factor in this assessment was that third parties had experienced a dry hole in drilling efforts within the Central Tañon Straits which significantly reduced the likelihood of the existence of a commercially viable hydrocarbon deposit in this region. In light of this report and applying appropriate caution, the carrying value of the investment in SC40 has been impaired by ₱388,631 which is included in "Provision for impairment of assets" in the consolidated statements of income. Carrying value as at December 31, 2012 reflects the potential of a number of smaller onshore locations within SC 40.

Award of Service Contract for Area 4
On February 14, 2013, the Parent Company received a letter from the DOE stating the joint bid of PPC (Operator), PNOC Exploration Corporation and PERC has won the bidding for Area 4 Northwest Palawan Basin that was offered in the Fourth Philippine Energy Contracting Round for Petroleum.

13. **Short-term Bank Loans**

On June 29, 2010, BEMC obtained from the Bank of the Philippine Islands (BPI) a six-month, interest-bearing promissory note amounting to ₱150,000. The proceeds of the note were used to partially pay the advances from the Parent Company to BEMC. The interest rate of the note was initially stated at 5% per annum but it is subject to repricing every 30 days, based on the prevailing interest rate at the date of repricing. The related interest is payable every 30 days. The note's original maturity date was on December 26, 2010 but was renewed in a series of periods which extended the maturity date of the loan to January 14, 2013.

On January 14, 2013, BEMC paid the ₱150,000 loan to BPI through advances made by PMC.

On March 7, 2011, BEMC obtained an additional six-month, interest-bearing promissory note of ₱100,000 from BPI for working capital purposes. The proceeds of the note were also used to partially pay the advances of the Parent Company to BEMC. The note bears an interest rate initially stated at 4.75% per annum, subject to repricing every 30 days, based on the prevailing interest rate at the date of repricing. The note's original maturity date was on September 9, 2011 but was renewed for six month periods subject to the same terms at each subsequent maturity dates. The latest renewal of the loan further extended the maturity date for an additional six-month period up to February 18, 2013.

On February 18, 2013, BEMC paid the ₱100,000 loan to BPI through advances from PMC.

On April 12, 2011, BEMC obtained a six-month, interest-bearing promissory note of ₱100,000 from Philippine National Bank (PNB) for working capital purposes. The proceeds of the note were also used to partially pay the advances of the Parent Company to BEMC. The note's original maturity is on October 10, 2011 and bears an interest rate initially stated at 4.60% per annum, subject to repricing every 30 days, based on the prevailing interest rate at the date of repricing. The note with PNB was settled fully on October 10, 2011.

The Company obtained a new promissory note from Banco de Oro amounting to ₱100,000 on October 7, 2011. The note has an initial interest rate of 4.25% per annum subject to repricing and will originally mature on April 4, 2012. On April 4, 2012, BEMC renewed the note for another 180 days with a stated interest rate of 4.00% subject to repricing. The note matured on August 3, 2012 and renewed for another 59 days subject to the same terms. After a series of renewal during the year, the maturity date of the loan was extended to March 25, 2013.

The promissory notes are unsecured and BEMC is not required to meet any loan covenants. Interest expense on these short-term bank loans charged to the consolidated statements of income amounted to ₱14,361, ₱13,918 and ₱1,845 in 2012, 2011 and 2010, respectively.

14. **Accounts Payable and Accrued Liabilities**

	2012	2011
Trade	**₱38,990**	₱21,064
Accrued interest	**24,484**	5,802
Accrued expenses	**12,799**	13,521
Withholding taxes	**1,431**	951
Other nontrade liabilities	**9,322**	5,408
	₱87,026	₱46,746

The Group's accounts payable and accrued liabilities are non-interest-bearing and are currently due and demandable. Accrued expenses primarily include the accruals for light and water, payroll and security fees. Other non-trade liabilities include accrued royalties payable to DOE and payroll-related liabilities such as payable to SSS, Philhealth and Home Development Mutual Fund (HDMF). Related party balances included in accounts payable and accrued liabilities amounted to ₱19,785 and ₱1,831 as at December 31, 2012 and 2011, respectively. These relates to accrued interest payable to PMC from FPHL and FEC (see Note 20).

15. **Costs and Expenses**

	2012	2011	2010
Petroleum production costs:			
Production costs	**₱67,728**	₱96,975	₱10,978
Depletion and depreciation (Note 9)	**30,517**	78,908	50,424
	₱98,245	₱175,883	₱61,402
Cost of coal sales:			
Personnel costs	**₱11,900**	₱449	₱2,917
Depletion and depreciation (Note 9)	**8,542**	233	1,198
Materials and supplies	**5,810**	241	404
Communication, light and water	**4,033**	115	3,269
Outside services	**2,170**	57	210
Purchase cost of coal	**66**	14	2,614
Others	**2,717**	101	249
	₱35,238	₱1,210	₱10,861
General and administrative expenses:			
Professional fees	**₱54,470**	₱62,716	₱19,592
Personnel costs	**34,177**	26,535	6,837
Directors' fees	**29,794**	24,709	15,854
Travel and transportation	**14,680**	5,995	3,019
Office supplies	**4,986**	8,089	703
Rental	**3,865**	3,444	1,462
Depreciation (Note 9)	**3,489**	2,505	1,496
Taxes and licenses	**3,036**	13,800	592
Communications, light and water	**2,852**	2,384	904
Security services	**1,207**	1,139	871
Fuel, oil and lubricants	**1,144**	1,318	671
Repairs and maintenance	**575**	770	349
Others	**29,761**	14,049	5,821
	₱184,036	₱167,453	₱58,171

16. **Others - net**

	2012	2011	2010
Settlement of legal claims	**₱76,185**	₱–	₱–
Others	**(3,636)**	259	87
	₱72,549	₱259	₱87

17. **Equity**

Capital Stock

Beginning September 12, 2011, the 1,700,000,000 common shares of the Parent Company were listed and traded on the PSE at an initial offer price of ₱1.20 per share. After the said initial listing, there were no subsequent listings of shares made by the Parent Company. Details of the Parent Company's capital stock follow:

	Number of Shares	
Common stock - ₱1 par value	**2012**	2011
Authorized	**6,800,000**	6,800,000
Issued, outstanding and fully paid		
January 1	**1,700,000**	1,700,000
Issuance during the year	**–**	–
December 31	**1,700,000**	1,700,000

Non-controlling Interest

Non-controlling interests consist of the following:

	Percentage of Ownership	**2012**	2011
Non-controlling interests in the net assets of:			
FEC	48.76%	**₱99,459**	₱108,518
FEP and its subsidiaries	51.24%	**1,083**	158,383
		₱100,542	₱266,901

As at December 31, 2012 and 2011, the Parent Company's total stockholders is 35,948 and 36,735 respectively.

18. **Share-based Payment**

On August 1, 2005, FEP implemented a Share Option Plan ("the Plan") with three sub-plans ("the sub-plan"). Under the terms of the Plan, FEP can issue up to 16% of its issued stocks.

The following share options outstanding in respect of FEP's ordinary shares with their corresponding weighted average exercise prices for the years ended December 31, 2012 and 2011 are as follows:

	Number of Options		Weighted Average Exercise Price	
	2012	2011	**2012 (1 year)**	2011 (1 year)
Beginning	**2,195,000**	2,195,000	**£0.31 ($0.50)**	£0.31 ($0.50)
Exercised	**(2,185,000)**	–	**£0.31 ($0.50)**	£0.31 ($0.50)
Cancelled/Forfeited	**(10,000)**	–	**£0.31 ($0.50)**	£0.31 ($0.50)
Ending	**–**	2,195,000	**–**	£0.31 ($0.50)

The options issued represent 41% of the total permissible options per terms of the Plan and are exercisable at a price lower that its market value.

The fair values of awards granted under the Plan has been calculated using the Black Scholes model that takes into account factors specific to share incentive plans such as the vesting periods of the Plan, the expected dividend yield on FEP's shares and expected early exercise of share options.

Grant Date	December 19, 2008
Share price at grant date	£0.25 ($0.38)
Exercise price	£0.31 ($0.46)
Fair value of options	£0.13 ($0.20)
Volatility*	40%
Option life	10 years
Risk-free investment risk	4%

** Volatility has been based on the annualized volatility of FEP's shares since its flotation on the AIM market.*

19. **Income Taxes**

a. The Group's current provision for income tax in pertains to BEMC's MCIT and FEP's RCIT in 2012. In 2011, current provision for income tax pertains to BEMC'S MCIT.

b. The components of the Group's net deferred income tax liabilities as at December 31, 2012 and 2011 are as follows:

	2012	2011
Deferred income tax assets		
Impairment loss on deferred exploration costs	**₱16,303**	₱19,845
NOLCO	**–**	62,400
	16,303	82,245
Deferred income tax liabilities		
Unrealized gain in AFS financial assets	**(101,937)**	(126,615)
Unrealized foreign exchange gain	**(11,965)**	–
	(113,902)	(126,615)
Net deferred income tax liabilities	**(₱97,599)**	(₱44,370)

As at December 31, 2012 and 2011, the Parent Company has net deferred income tax liabilities amounting to ₱97,599 and ₱57,125, respectively. As at December 31, 2012 and 2011, BEMC has net deferred income tax assets amounting to nil and ₱12,755, respectively.

c. A reconciliation of the Group's provision for (benefit from) income tax computed at the statutory income tax rate based on income (loss) before income tax to the provision for income tax follows:

	2012	2011	2010
Provision for (benefit from) income tax computed at the statutory income tax rate	**(₱295,358)**	₱173,170	(₱55,774)
Additions to (reductions in) income tax resulting from:			
Nondeductible expenses and non-taxable income:			

(Forward)

	2012	2011	2010
Provision for impairment of assets	**₱290,065**	₱–	₱13,396
Nondeductible petroleum production costs and depletion	**30,281**	52,765	–
Equity in net losses (earnings) of associates	**–**	11,938	(5,737)
Loss on dilution of interest in an associate	**–**	–	35,941
Others	**285**	37,700	2,355
Interest income subjected to final tax	**(49)**	(356)	(361)
Dividend income exempt from tax	**(1,694)**	(1,694)	(847)
Nontaxable petroleum revenue	**(53,342)**	(165,470)	–
Deductible temporary differences, NOLCO and excess MCIT for which no deferred income tax assets were recognized in the current year	**65,810**	–	25,067
Deductible temporary difference for which deferred income tax asset was recognized in prior years but derecognized in the current year	**65,833**	–	–
Deductible temporary difference for which no deferred income tax asset was recognized in prior years but realized in the current year	**–**	–	(9,280)
Deductible temporary differences and NOLCO for which deferred income tax assets were recognized in the current year	**–**	(68,355)	–
Provision for income tax	**₱101,831**	₱39,698	₱4,760

d. As at December 31, 2012, the Group's NOLCO that can be claimed as deduction from future taxable income and excess MCIT that can be deducted against income tax due are as follows:

Year Incurred	Available Until	NOLCO	Excess MCIT
2010	2013	₱82,760	₱239
2011	2014	105,222	2
2012	2015	76,440	292
		₱264,422	₱533

The following are the movements of the Group's NOLCO and excess MCIT for the years ended December 31, 2012 and 2011:

	NOLCO		Excess MCIT	
	2012	2011	**2012**	2011
Beginning balance	**₱207,999**	₱155,090	**₱241**	₱239
Additions	**76,440**	105,222	**292**	2
Expirations	**(20,017)**	(52,513)	**–**	–
Ending balance	**₱264,422**	₱207,799	**₱533**	₱241

e. As at December 31, 2012, the Group did not recognize deferred income tax assets arising from NOLCO, Excess MCIT and unrealized foreign exchange losses amounting to ₱76,440, ₱292 and ₱21,112, respectively, since management believes that the Group may not have sufficient future taxable income available to allow all or part of the deferred income tax assets to be utilized.

As at December 31, 2011, BEMC and PPC recognized deferred income tax assets on NOLCO amounting to ₱9,809 and ₱52,591, respectively. FEP did not recognize deferred income tax assets arising from NOLCO.

f. On July 7, 2008, RA 9504, which amended the provisions of the 1997 Tax Code, became effective. It includes provisions relating to the availment of the optional standard deduction (OSD). Corporations, except for nonresident foreign corporations, may now elect to claim standard deduction in an amount not exceeding 40% of their gross income. A corporation must signify in its returns its intention to avail of the OSD. If no indication is made, it shall be considered as having availed of the itemized deductions. The availment of the OSD shall be irrevocable for the taxable year for which the return is made. The Group did not avail of the OSD in 2012 and 2011.

20. Related Party Transactions

Related party relationships exist 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.

Companies within the Group in the regular conduct of business, enters into transactions with related parties which consists of advances, loans, reimbursement of expenses, regular banking transactions, leases and management and administrative service agreements.

Intercompany transactions are eliminated in the consolidated financial statements. The Group's significant related party transactions, which are under terms that are no less favorable than those arranged with third parties, are as follows:

	2012			
	Amount/ Volume	**Outstanding Balance**	**Terms**	**Conditions**
Ultimate parent - PMC				
Advances: increase (decrease)				
PPC	(₱25,451)	**₱620,977**	On demand; non-interest bearing	Unsecured, no impairment
FEC	(13,224)	–	On demand; at interest rate of prevailing LIBOR on the interest date plus 3.0% spread	Unsecured, no impairment
BEMC	214,784	**399,974**	On demand; non-interest bearing	Unsecured, no impairment
Loans from: increase (decrease)				
FPHL	352,710	**617,750**	Payable in 3 years at interest rate of prevailing US LIBOR on the interest date plus 4.5% spread	Unsecured, no impairment
Subsidiaries				
PGPI	4	**187**	On demand; non-interest bearing	Unsecured, no impairment

	2011			
	Amount/ Volume	Outstanding Balance	Terms	Conditions
Ultimate parent - PMC				
Advances: increase (decrease)				
PPC	₱10,499	₱646,428	On demand; non-interest bearing	Unsecured, no impairment
FEC	190	13,224	On demand; at interest rate of prevailing LIBOR on the interest date plus 3.0% spread	Unsecured, no impairment
BEMC	45,948	185,190	On demand; non-interest bearing	Unsecured, no impairment
Loans from: increase (decrease)				
PMC	263,040	263,040	Payable in 3 years at interest rate of prevailing US LIBOR on the interest date plus 4.5% spread	Unsecured, no impairment
Subsidiaries				
PGPI	20	183	On demand; non-interest bearing	Unsecured, no impairment

a. On November 24, 2010, Forum Philippine Holdings Ltd. [FPHL, a wholly-owned subsidiary of FEP, an affiliate of Forum (GSEC 101)], entered into a US$10,000 loan facility agreement with PMC. The facility agreement will be available for a three-year period and funds can be borrowed at an annual interest rate of US LIBOR + 4.5% for the drawn portion and a commitment fee of 1% for the undrawn portion. The facility agreement will enable FPHL to fund its 70% share of a first sub-phase work program over SC 72. Obligations arising from funds drawn under this facility agreement are not convertible into FEP's or FPHL's ordinary shares.

   In June 2012, an amendment to the original loan agreement has been made to extend the loan facility to US$15,000.

   The first drawdown of the facility occurred in April 2011 in the amount of US$4,000. Total drawdown as at December 31, 2012 and 2011 amounted to US$15,000 (or ₱615,750) and US$6,000 (or ₱263,040), respectively.

   Interest expense amounted to ₱22,823, ₱8,505, and nil for the years ended December 31, 2012, 2011 and 2010, respectively. In the same years, commitment fees amounted to ₱1,206, ₱2,793 and nil, respectively. Accrued interest payable amounted to ₱19,785 and ₱1,831 as at December 31, 2012 and 2011, respectively (see Note 14).

b. PMC made cash advances to be used as additional working capital of the Parent Company and for the acquisition of the Parent Company's investments in shares of stock in 2010. These advances are non-interest-bearing, unguaranteed and payable on demand through cash. As at December 31, 2012, the advances from PMC consist of US dollar-denominated advances and Peso-denominated advances amounting to US$14,374 (or ₱590,074) and ₱30,903, respectively. As at December 31, 2011, the outstanding balance of US dollar-denominated advances and Peso-denominated advances from PMC amounted to US$14,274 (or ₱625,795) and ₱20,633, respectively.

c. PMC provides technical, accounting, statutory reporting and compliance, and administrative services at no cost to the Parent Company. PMC also allows the Parent Company to use, without charge, its office premises and equipment. PMC is also extending to BEMC the services of some of its senior management and head office personnel at no cost to BEMC.

d. BEMC has significant transactions with related parties involving advances to provide funding on BEMC's exploration and development activities. As at December 31, 2012, the non-interest-bearing advances from PMC and PGPI, an entity under common control, amounted to ₱399,974 and ₱187, respectively. The advances are payable on demand. As at December 31, 2011, the advances from PMC and PGPI amounted to ₱185,190 and ₱183, respectively.

e. FEC availed of unsecured, interest-bearing advances from PMC for additional working capital. The advances bear an interest at LIBOR + 3% per annum. Advances from PMC amounted to nil and US$302 (₱13,224) as at December 31, 2012 and 2011, respectively. As at December 31, 2012, 2011 and 2010, interest expense related to these advances amounted to ₱450, ₱447 and nil, respectively. Accrued interest expense on the advances from PMC amounted to nil and ₱1,189 as at December 31, 2012 and 2011, respectively.

f. The compensation of key management personnel pertaining to short-term employees and retirement benefits amounted to ₱5,739, ₱5,203 and ₱3,105 for the years ended December 31, 2012, 2011 and 2010, respectively.

21. Financial Instruments

The table below shows the classifications, fair values and carrying values of the Group's financial instruments:

	December 31, 2012		December 31, 2011	
	Fair Values	**Carrying Values**	Fair Values	Carrying Values
Financial Assets				
Cash on hand	**₱163**	**₱163**	₱211	₱211
Loans and receivables:				
Cash and cash equivalents:				
Cash in banks	**280,958**	**280,958**	205,821	205,821
Short-term investments	**2,896**	**2,896**	11,799	11,799
Accounts receivable:				
Trade	**94,049**	**94,049**	67,776	67,776
Accrued interest	**–**	**–**	67	67
Others	**8,115**	**8,115**	6,275	6,275
Other current assets - deposit	**–**	**–**	920	920
	386,018	**386,018**	292,658	292,658
AFS financial assets:				
Quoted equity instrument	**168,230**	**168,230**	148,189	148,189
Unquoted equity instrument	**1,231,440**	**1,231,440**	1,313,700	1,313,700
	1,399,670	**1,399,670**	1,461,889	1,461,889
	₱1,785,851	**₱1,785,851**	₱1,754,758	₱1,754,758
Financial Liabilities				
Other financial liabilities:				
Short-term bank loans	**₱350,000**	**₱350,000**	₱350,000	₱350,000
Accounts payable and accrued liabilities:				
Trade	**38,990**	**38,990**	21,064	21,064

(Forward)

	December 31, 2012		December 31, 2011	
	Fair Values	**Carrying Values**	Fair Values	Carrying Values
Accrued expenses	**₱12,799**	**₱12,799**	₱13,521	₱13,521
Accrued interest	**24,484**	**24,484**	5,802	5,802
Other nontrade liabilities	**9,322**	**9,322**	5,408	5,408
Advances from related parties	**1,021,138**	**1,021,138**	845,025	845,025
Current portion of long-term loan	**615,750**	**615,750**	–	–
Long-term loan	**–**	**–**	263,040	263,040
	₱2,072,483	**₱2,072,483**	₱1,503,860	₱1,503,860

Due to the short-term nature of cash and cash equivalents, accounts receivable, deposit, short-term bank loans, accounts payable and accrued liabilities, and advances from related parties, the carrying amounts of these financial instruments approximate their fair values as at the financial reporting dates.

AFS financial assets are measured at fair value with the unrealized gains or losses being recognized in the consolidated statement of comprehensive income.

The carrying value of the long-term loan approximates its fair value as at the financial reporting date due to at-market interest rates that the loans bear.
The fair value of the quoted AFS financial asset as at December 31, 2012 and 2011 is measured under Level 1, which is based on a quoted price in an active market. The fair value of the unquoted AFS financial asset as at December 31, 2012 and 2011 is measured under Level 2, which is based on the latest available transaction price.

There were no transfers between Level 1 and 2 fair value measurements and no transfers into and out of Level 3 fair value measurement as at the years ended December 31, 2012 and 2011.

22. Financial Risk Management Objectives and Policies

The Group's financial instruments consist of cash and cash equivalents, accounts receivable, deposit, AFS financial assets, short-term bank loans, accounts payable and accrued liabilities, long-term loan and advances from related parties. The main purpose of these financial instruments is to provide financing for the Group's operations.

Risk Management Structure
The BOD is mainly responsible for the overall risk management and approval of the risk strategies and principles of the Group. In June 29, 2011, the BOD approved its formalized hedging policy in relation to entering into commodity derivatives in order to manage its financial performance.

Financial Risks
The main risks arising from the Group's financial instruments are credit risk, liquidity risk and market risk. The market risk exposure of the Group can be further be classified to foreign currency risk and equity price risk. The BOD reviews and approves policies for managing these risks.

Credit risk
Credit risk is such risk where the Group could incur a loss if its counterparties fail to discharge their contractual obligations. The Group manages credit risk by doing business mostly with affiliates and recognized creditworthy third parties.

With respect to credit risk arising from the financial assets of the Group, which comprise of cash in banks and cash equivalents, receivables, and deposit, the Group's exposure to credit risk could arise from the default of the counterparty, having a maximum exposure equal to the carrying amount of the instrument.

The table below summarizes the Group's maximum exposure to credit risk for the Group's financial assets:

	2012	2011
Cash in banks and cash equivalents	**₱283,854**	₱217,620
Accounts receivable	**102,581**	74,118
Other current assets - deposit	**–**	920
	₱386,435	₱292,658

The following tables show the credit quality of the Group's financial assets by class as at December 31, 2012 and 2011 based on the Group's credit evaluation process.

As at December 31, 2012:

	Neither Past Due nor Impaired		**Past Due and Individually**	
	High-Grade	**Standard**	**Impaired**	**Total**
Cash and cash equivalents, excluding cash on hand:				
Cash in banks	**₱280,958**	**₱–**	**₱–**	**₱280,958**
Short-term investments	**2,896**	**–**	**–**	**2,896**
Accounts receivable:				
Trade	**94,049**	**–**	**417**	**94,466**
Accrued interest	**–**	**–**	**–**	**–**
Others	**8,115**	**–**	**–**	**8,115**
Deposit	**–**	**–**	**–**	**–**
AFS financial assets:				
Quoted equity investment	**–**	**168,230**	**–**	**168,230**
Unquoted equity investment	**–**	**1,231,440**	**–**	**1,231,440**
Total	**₱386,018**	**₱1,399,670**	**₱417**	**₱1,786,105**

As at December 31, 2011:

	Neither Past Due nor Impaired		Past Due and Individually	
	High-Grade	Standard	Impaired	Total
Cash and cash equivalents, excluding cash on hand:				
Cash in banks	₱205,821	₱–	₱–	₱205,821
Short-term investments	11,799	–	–	11,799

(Forward)

	Neither Past Due nor Impaired		Past Due and Individually	
	High-Grade	Standard	Impaired	Total
Accounts receivable:				
Trade	67,776	–	–	67,776
Accrued interest	67	–	–	67
Others	6,275	–	–	6,275
Deposit	–	920	–	920
AFS financial assets				
Quoted equity investment	–	148,189	–	148,189
Unquoted equity investment	–	1,313,700	–	1,313,700
Total	₱291,738	₱1,462,809	₱–	₱1,754,547

Credit quality of cash and cash equivalents is based on the nature of the counterparty and the Group's evaluation process.

High-grade credit quality financial assets pertain to financial assets with insignificant risk of default based on historical experience. Standard-grade credit quality financial assets include quoted and unquoted equity investments that can be readily sold to a third party.

Liquidity risk
Liquidity risk is such risk where the Group is unable to meet its payment obligations when they fall due under normal and stress circumstances. The Group's objective is to maintain a balance between continuity of funding and flexibility, and addresses its liquidity concerns through advances from PMC, the ultimate parent.

The following tables summarize the maturity profile of the Group's financial assets that can be used by the Group to manage its liquidity risk and the maturity profile of the Group's financial liabilities, based on contractual undiscounted repayment obligations (including interest) as at December 31, 2012 and 2011, respectively:

As at December 31, 2012:

	On Demand	Less than 3 Months	3 to12 Months	Over 12 Months	Total
Cash on hand	₱163	₱–	₱–	₱–	₱163
Loans and receivables:					
Cash in banks	280,958	–	–	–	280,958
Short-term investments	–	2,896	–	–	2,896
Accounts receivable	–	102,164	–	–	102,164
Deposit	–	–	–	–	–
AFS financial assets:					
Quoted equity investment	–	–	–	168,230	168,230
Unquoted equity investment	–	–	–	1,231,440	1,231,440
Total undiscounted financial assets	₱281,121	₱105,060	₱–	₱1,399,670	₱1,785,851
Short-term bank loans	₱–	₱350,000	₱–	₱–	₱350,000
Accounts payable and accrued liabilities:			–		
Trade	–	38,990	–	–	38,990
Accrued expenses	–	12,799	–	–	12,799
Accrued interest	–	24,484	–	–	24,484
Other nontrade liabilities	169	9,153	–	–	9,322

(Forward)

	On Demand	**Less than 3 Months**	**3 to12 Months**	**Over 12 Months**	**Total**
Advances from related parties	**₱1,021,138**	**₱–**	**₱–**	**₱–**	**₱1,021,138**
Current portion of short-term loan	**–**	**–**	**–**	**615,750**	**615,750**
Total undiscounted financial liabilities	**₱1,021,307**	**₱435,246**	**₱–**	**₱615,750**	**₱2,072,483**

As at December 31, 2011:

	On Demand	Less than 3 Months	3 to12 Months	Over 12 Months	Total
Cash on hand	₱211	₱–	₱–	₱–	₱211
Loans and receivables:					
Cash in banks	205,821	–	–	–	205,821
Short-term investments	–	11,799	–	–	11,799
Accounts receivable	–	74,118	–	–	74,118
Deposit	–	920	–	–	920
AFS financial assets:					
Quoted equity investment	–	–	–	148,189	148,189
Unquoted equity investment	–	–	–	1,313,700	1,313,700
Total undiscounted financial assets	₱206,032	₱86,837	₱–	₱1,461,889	₱1,754,758
Short-term bank loans	₱–	₱350,000	₱–	₱–	₱350,000
Accounts payable and accrued liabilities:					
Trade	–	21,064	–	–	21,064
Accrued expenses	–	13,521	–	–	13,521
Accrued interest	–	5,802	–	–	5,802
Other nontrade liabilities	10	5,398	–	–	5,408
Advances from related parties	845,025	–	–	–	845,025
Long-term loan	–	–	–	263,040	263,040
Total undiscounted financial liabilities	₱845,035	₱395,785	₱–	₱263,040	₱1,503,860

Market Risk

Foreign currency risk

Foreign currency risk is the risk where the value of the Group's financial instruments diminishes due to unfavorable changes in foreign exchange rates. The Parent Company's transactional currency exposures arise from both cash in banks and advances from PMC. The corresponding net foreign exchange gains (losses) amounting to ₱23,778, (₱4,526), and (₱23,620) arising from the translation of these foreign currency-denominated financial instruments were recognized by the Parent Company in the years ended December 31, 2012, 2011 and 2010, respectively. As at December 31, 2012, the exchange rate is ₱41.05 to US$1. As at December 31, 2011 and 2010, the exchange rates of the Peso to US dollar were ₱43.84 to US$1 in both years.

The Group's foreign currency-denominated monetary assets and monetary liabilities as at December 31 follow:

	2012		2011	
	US$	**Peso Equivalent**	US$	Peso Equivalent
Assets				
Cash and cash equivalents	**$6,712**	**₱275,528**	$4,376	₱191,854
Liabilities				
Advances from related parties	**(14,375)**	**(590,094)**	(14,576)	(639,019)
Long-term loan	**(15,000)**	**(615,750)**	(6,000)	(263,040)
Net monetary assets (liabilities)	**($22,663)**	**(₱930,316)**	($16,200)	(₱710,205)

The table below summarizes the impact on income (loss) before income tax of reasonably possible changes in the exchange rates of US dollar against the Peso:

US Dollar (Depreciates) Appreciates	Effect on Income (Loss) Before Income Tax
2012	
Appreciate by 6%	**(₱55,819)**
Depreciate by (6%)	**55,819**
2011	
Appreciate by 6%	(₱42,612)
Depreciate by (6%)	42,612

There is no other impact on the Parent Company's equity other than those already affecting profit or loss.

Equity price risk

Equity price risk is such risk that the fair value of investments in quoted shares of stock of PERC could decrease as a result of change in the level of equity index and in the value of the shares of stock. Management monitors the movement of the share prices pertaining to its investment. As at December 31, 2012 and 2011, investment in PERC totaling ₱168,230 and ₱148,189, respectively, represents 5.3% and 3.8% of the total assets of the Group.

Reasonably possible changes were based on technical stock analysis focusing on the support and resistance price levels of their underlying stock and evaluation of data statistics using 1-year historical price data.

The effects on equity, as a result of a possible change in the fair value of the investment in quoted shares of stock of PERC held as AFS financial asset as at December 31, 2012 and 2011, that could be brought by changes in equity indices with all other variables held constant are as follows:

As at December 31, 2012:

Change in Quoted Prices of Investments Carried at Fair Value	**Effect on Equity**
Increase by 44%	**₱74,021**
Decrease by 44%	**(74,021)**

As at December 31, 2011:

Change in Quoted Prices of Investments Carried at Fair Value	Effect on Equity
Increase by 20%	₱29,630
Increase by 40%	59,276
Decrease by 20%	(29,630)
Decrease by 40%	(59,276)

23. Capital Management

The Group maintains a capital base to cover risks inherent in the business. The primary objective of the Group's capital management is to optimize the use and earnings potential of the Group's resources, ensuring that the Group complies with externally imposed capital requirements, if any, and considering changes in economic conditions and the risk characteristics of the Group's activities. No significant changes have been made in the objectives, policies and processes of the Group from the previous year.

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

	2012	2011
Capital stock	**₱1,700,000**	₱1,700,000
Retained earnings (deficit)	**(819,162)**	57,006
	₱880,838	₱1,757,006

24. Basic/Diluted Earnings (Loss) Per Share

Basic/diluted earnings (loss) per share is computed as follows:

	2012	2011	2010
Net income (loss) attributable to equity holders of the Parent Company	**(₱876,168)**	₱476,001	(₱167,334)
Divided by weighted average number of common shares issued during the year	**1,700,000**	1,700,000	1,700,000
Basic/diluted earnings (loss) per share	**(₱0.515)**	₱0.280	(₱0.098)

As at December 31, 2012, 2011, and 2010, the Parent Company does not have any potentially dilutive stocks.

25. Segment Information

Prior to January 1, 2011, the Group has only one reportable segment – petroleum and coal – which is its only activity. In 2011, the management of the Group decided to split the reporting for these activities, such that the Group, currently has two reportable segments namely oil and gas activities and coal mining activities. The change in the Group's segment reporting was effected retroactively.

Operating results of the Group is regularly reviewed by the Group's chief operating decision maker for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on net income (loss) for the year, and earnings or losses before interest, taxes and depletion and depreciation (EBITDA).

Net income (loss) for the year is measured consistent with the consolidated net income (loss) in the consolidated statements of income. EBITDA is measured as net income (loss) excluding financing costs, interest income, provision for income tax, and depletion and depreciation of property and equipment.

EBITDA is not a uniform or legally defined financial measure. EBITDA is presented because the Group believes it is an important measure of its performance and liquidity. The Group relies primarily on the results in accordance with PFRS and uses EBITDA only as supplementary information.

Core income is the performance of the operating segment based on a measure of recurring profit. This measurement basis is determined as profit attributable to equity holders of the Parent Company excluding the effects of non-recurring items, net of their tax effects. Non-recurring items represent gains (losses) that, through occurrence or size, are not considered usual operating items, such as foreign exchange gains (losses), gains (losses) on disposal of investments, and other non-recurring gains (losses).

The Group's capital expenditures include acquisitions of property and equipment, and the incurrence of deferred oil and gas exploration costs.

The Group has only one geographical segment as the Group operates and derives all its revenue from domestic operations. The Group's assets are principally located in the Philippines. Thus, geographical business operation is not required.

Crude oil liftings from the Galoc field were sold to customers in Japan and South Korea, while all crude oil liftings from the Nido, Matinloc and North Matinloc fields were sold to a customer in the Philippines.

Revenues from oil and gas operations of the group are as follows:

	2012	2011	2010
SC 14C Galoc	**₱154,803**	₱509,787	₱84,035
SC 14B Matinloc	**16,150**	17,474	8,192
SC 14A Nido	**11,771**	14,780	4,595
SC 14B-1 North Matinloc	**4,572**	9,527	2,909
SC 40 Libertad	**3,707**	–	–
	₱191,003	₱551,568	₱99,731

Meanwhile for the Group's coal activities, all of BEMC's revenues from coal were sold to customers in the Philippines.

In January 2013, BEMC decided to undertake a detailed review of the operations and prospects of the coal mining project. The Company anticipates that the detailed review could take six months to complete. The management determined that it would be prudent to suspend underground mining operations. Activities would be confined to maintenance and repair of the coal mine and processing and marketing of existing coal inventory.

The following tables present revenue and profit, including the computation of EBITDA as derived from the consolidated net income, and certain asset and liability information regarding the Group's operating segments.

As at December 31, 2012:

	Oil and Gas	**Coal**	**Eliminations**	**Total**
Consolidated Revenue				
External customers	**₱191,003**	**₱48,030**	**₱–**	**₱239,033**
Results				
EBITDA	**(₱1,072,510)**	**(₱589,189)**	**₱757,291**	**(₱904,408)**
Depreciation and depletion	**(33,013)**	**(9,535)**	**–**	**(42,548)**
Income tax benefit (expense)	**(88,785)**	**(13,046)**	**–**	**(101,831)**
Interest expense – net	**(23,105)**	**(14,466)**	**–**	**(37,571)**
Consolidated net income (loss)	**(₱1,217,413)**	**(₱626,236)**	**₱757,291**	**(₱1,086,358)**
Core net income (loss)	**(₱80,501)**	**(₱47,984)**	**₱–**	**(₱128,485)**
Consolidated total assets	**₱4,020,027**	**₱169,103**	**(₱993,991)**	**₱3,195,139**
Consolidated total liabilities	**₱1,622,660**	**₱785,324**	**₱–**	**₱2,407,984**
Other Segment Information				
Capital expenditures	**₱287,690**	**₱108,694**	**₱–**	**₱396,384**
Non-cash expenses other than depletion and depreciation	**(189,496)**	**(578,252)**	**–**	**(767,748)**

As at December 31, 2011:

	Oil and Gas	Coal	Eliminations	Total
Consolidated Revenue				
External customers	₱551,568	₱1,288	₱–	₱552,856
Results				
EBITDA	₱643,346	(₱24,280)	₱67,165	₱686,231
Depreciation and depletion	(80,395)	(1,251)	–	(81,646)
Income tax benefit (expense)	(52,451)	12,753	–	(39,698)
Interest expense – net	(13,459)	(13,894)	–	(27,353)
Consolidated net income (loss)	₱497,041	(₱26,672)	₱67,165	₱537,534
Core net income	₱162,112	₱–	₱–	₱162,112
Consolidated total assets	₱5,028,663	₱557,841	(₱1,715,655)	₱3,870,849
Consolidated total liabilities	₱1,332,276	₱547,825	₱–	₱1,880,101
Other Segment Information				
Capital expenditures	₱571,259	₱49,103	₱–	₱620,362
Equity in net losses of associates	(39,795)	–	–	(39,795)
Non-cash expenses other than depletion and depreciation	–	92	–	92

As at December 31, 2010:

	Oil and Gas	Coal	Eliminations	Total
Consolidated Revenue				
External customers	₱99,731	₱12,181	₱–	₱111,912
Results				
EBITDA	(₱89,997)	(5,140)	(₱36,938)	(₱132,075)
Depreciation and depletion	(50,898)	(2,220)	–	(53,118)
Income tax expense	(4,692)	(68)	–	(4,760)
Interest expense - net	1,197	(1,918)	–	(721)
Consolidated net loss	(₱144,390)	(₱9,346)	(₱36,938)	(₱190,674)
Core net income	₱25,434	₱–	₱–	₱25,434
Consolidated total assets	₱4,560,871	₱334,616	(₱1,822,208)	₱3,073,279
Consolidated total liabilities	₱1,280,019	₱297,928	₱–	₱1,577,947
Other Segment Information				
Capital expenditures	₱231,376	₱–	₱–	₱231,376
Investments in associates	2,042,604	–	(1,132,781)	909,823
Equity in net losses of associates	19,123	–	–	19,123
Non-cash expenses other than depletion and depreciation	119,804	–	–	119,804

The table below shows the Group's reconciliation of core net income (loss) to the consolidated net loss for the years ended December 31, 2012, 2011 and 2010.

	2012	2011	2010
Core net income (loss)	**(₱128,485)**	₱162,112	₱25,434
Non-recurring gains (losses)			
Foreign exchange gains (losses) - net	**32,030**	(4,526)	(23,620)
Gain (loss) on dilution of interest in an associate (Note 10)	**–**	443,672	(119,804)
Loss on write-down of investment in LMC	**–**	–	(44,652)
Provision for impairment of assets (Notes 6, 7, 9 and 11)	**(767,748)**	–	–
Net tax effect of aforementioned adjustments	**(11,965)**	(125,257)	(4,692)
Net income (loss) attributable to equity holders of the Parent Company	**(876,168)**	476,001	(167,334)
Net income (loss) attributable to non-controlling interests	**(210,190)**	61,533	(23,340)
	(₱1,086,358)	₱537,534	(₱190,674)

26. Provisions and Contingencies

The Group is currently involved in certain contractual matters that require the recognition of provisions for related probable claims against the Group. Management and its legal counsel on an annual basis reassess its estimates to consider new relevant information. As at December 31, 2012, provisions for losses recorded under current and noncurrent liabilities amounted to ₱41,050 and ₱171,631, respectively. As at December 31, 2011, provision for losses recorded under current and noncurrent liabilities amounted to ₱144,556 and ₱172,251, respectively.

On May 10, 2011, FEP and Basic Energy Corporation (BEC) signed a settlement agreement in relation to disputes relating to BEC's share in the historical cost recoveries arising from certain service contracts in the NW Palawan area pursuant to the SPA executed by FEP and BEC on April 3, 2006. If the terms and conditions of the settlement agreement are met, FEP will make a cash payment to BEC of US$650 (₱28,204), and cause the conveyance of (a) 50% of FEPCO participating interests in certain service contracts; and (b) 50% of the related recoverable costs, subject to the approval of DOE. The settlement agreement will become executory upon the satisfaction of certain conditions present, such as the approval by the consortium participants and the DOE, and the final consent award from the Arbitration Tribunal.

In June 2012, a compromise agreement was entered into between FEP and BEC which finalized the terms of payment and total consideration for the purchase amounting to US$12,000. As at December 31, 2012 and 2011, FEP made payments to BASIC amounting to ₱451,550 and ₱210,342, respectively.

Under the SPA for FEI dated March 11, 2003, amounts up to US$4,181 (₱171,631) and US$3,915 (₱172,251) as at December 31, 2012 and December 31, 2011, respectively, are due to the vendor out of the Group's share of future net revenues generated from license SC 40. The timing and extent of such payments is dependent upon future field production performance and cannot be accurately determined at this stage.

The disclosure of additional details beyond the present disclosures may seriously prejudice the Group's position and negotiation strategies with respect to these matters. Thus, as allowed by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, only a general description is provided.

27. Notes to Consolidated Statements of Cash Flows

The principal non-cash investing and financing activities of the Group are as follows:

Non-cash Investing Activities

a. In 2012 and 2011, total depletion and depreciation expense included in cost of coal inventories amounted to ₱27,711 and ₱31,732, respectively.

b. Deferred oil and gas exploration costs for the Libertad gas field amounting to ₱50,212 was transferred in the first quarter of 2012 to oil and gas mine properties.

c. Total depreciation expense that was capitalized as part of deferred oil and gas exploration costs in 2010 amounted to ₱3,355.

Non-cash Financing Activity
On June 30, 2010, the deposit for the planned purchase of shares of stock of FEC amounting to ₱2,348 was refunded by Haywood to PMC. The Parent Company has offset in 2010 the deposit with Haywood against the advances from PMC.

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