

COVER SHEET

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(Company's Full Name)

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

|                              |
|------------------------------|
| Atty. Arsenio A. Alfiler Jr. |
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Contact Person

|                |
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| (632) 706-7888 |
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Contact Telephone No.

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Annual Meeting

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Secondary License Type, If Applicable

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Amended Articles Number/Section

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Total No. of Stockholders

Total Amount of Borrowings

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Domestic

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Foreign

To be accomplished by SEC Personnel concerned

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| 1 <sup>st</sup> Quarter Report: FPI |
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SECURITIES AND EXCHANGE COMMISSION  
SEC FORM 17-Q AS AMENDED

QUARTERLY REPORT PURSUANT TO SECTION 11  
OF THE SECURITIES REGULATION CODE AND SECTION 141  
OF THE CORPORATION CODE OF THE PHILIPPINES



1. For the Quarter Period ended March 31, 2014
2. SEC Identification Number AS 093000120 3. BIR Tax Identification No. 312-002-155-598
4. **FORUM PACIFIC, INC.**  
Exact name of registrant as specified in its charter
5. **Metro Manila, Philippines**  
(Province, country or other jurisdiction of incorporation or organization)
6. (SEC Use only)  
Industry Classification Code
7. **35/F One Corporate Center, Doña Julia Vargas Ave., Cor. Meralco Ave., Ortigas Center Pasig City**  
Address of principal office
8. **Telephone No. 706-7888**  
Registrant's telephone number, including area code
9. **AIR PHILS. INTERNATIONAL CORP. – 8F Rufino Plaza Bldg., Ayala Ave. Makati City**  
Former name, former address, and former fiscal year, if changed since last report.
10. Securities registered pursuant to Sections 4 and 8 of the RSA :

Title of Each Class

No. of Shares of Common Stock Outstanding:  
and Amount of Debt Outstanding

Common Shares – P1.00 par value

Issued - P 1,838,943,250  
(Partially paid Subscription – P 1,171,486,871)

11. Are any or all of these securities listed on the Philippine Stock Exchange?

Yes ☒ No. ☐

12. Check whether the registrant:

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

Yes ☒ No ☐

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

Yes ☒ No ☐

13. The aggregate market value of the voting stock held by non-affiliates: P193,021,150.36

14. Not Applicable

## PART I - FINANCIAL INFORMATION

### Item 1. Financial Statements

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

### Item 2. Managements Discussion and Analysis of Financial Condition and Results of Operations

☐ Unaudited Income Statements (Amounts in P '000)

|                           | January - March<br>2014 | January – March<br>2013 |
|---------------------------|-------------------------|-------------------------|
| Revenues                  | –                       | –                       |
| Less: Cost and Expenses   | (542)                   | (552)                   |
| Loss from Operation       | (542)                   | (552)                   |
| Add: Other Income         | –                       | –                       |
| Loss before Income Tax    | (542)                   | (552)                   |
| Net Income(Loss)          | (542)                   | (552)                   |
|                           |                         |                         |
| Earnings (Loss) Per Share | (P0.00029)              | (P0.00030)              |

☐ Unaudited Balance Sheet (Amounts in P '000)

|                                          | As of March 31<br>2014 | As of March 31<br>2013 |
|------------------------------------------|------------------------|------------------------|
| ASSETS                                   |                        |                        |
| Assets                                   | 384,893                | 401,854                |
|                                          |                        |                        |
| Liabilities                              | 3,803                  | 3,569                  |
| Stockholders' Equity                     | 381,090                | 398,285                |
| Total Liabilities & Stockholders' Equity | 384,893                | 401,854                |

### Interim Quarter ended March 31, 2014 Compared with quarter ended March 31, 2013

#### RESULTS OF OPERATION

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

- Since the company ceased to have control over Express Savings Bank, Inc. and still banking on new petroleum and gas service contracts, no revenues were recorded for the first quarter of 2014 and 2013.
- The earnings (loss) per share comparison for the 1st quarter of 2014 and 2013 are as follows: (P0.00029) and (P0.00030), respectively.

## Cost and Expenses

- Cost and expenses consisted primarily of professional fees, taxes and licenses, PSE annual maintenance fee, management fee and office rental. Cost and expenses recorded for the 1st quarter of 2014 and 2013 were P541,620 and P552,426 respectively. Decrease of P10,806 or 2% pertains to expenses incurred last year on training and development.

## FINANCIAL CONDITION

### Current Assets

- Current assets consist of Cash in Bank and Input Tax. Cash in Bank carries interest at respective bank deposit rate. On July 19, 2012, the Board of Directors approved the opening of a deposit account with Banco De Oro to facilitate the collection and disbursement processes of the company. Input tax is stated at face value less provision for impairment, if any. Allowance for unrecoverable input tax, if any, is maintained by the Company at a level considered adequate to provide potential uncollectible portion of the claims. The Company, on a continuing basis, makes a review of the status of the claims designed to identify those that may require provision for impairment losses. Balance of cash in bank as of March 31, 2014 and 2013 were P154,349 and P149,398, respectively. Input tax as of March 31, 2014 and 2013, net of allowance for impairment, amounted to P740,316 and P465,634, respectively.

### Available-For-Sale Financial Assets

Available-for-sale financial assets as at March 31 consist of:

|                                |   | 2014       |   | 2013       |
|--------------------------------|---|------------|---|------------|
| <b>Unquoted shares</b>         |   |            |   |            |
| Cost                           | P | 73,211,573 | P | 73,211,573 |
| Impairment loss                | ( | 9,320,935) | ( | 9,320,935) |
|                                |   | 63,890,638 |   | 63,890,638 |
| <b>Quoted shares</b>           |   |            |   |            |
| Cost                           |   | 7,529,480  |   | 7,529,480  |
| Net unrealized fair value gain |   | 10,792,262 |   | 25,098,279 |
|                                |   | 18,321,742 |   | 32,627,759 |
|                                | P | 82,212,380 | P | 96,518,397 |

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

Investment in unquoted shares of stock represents 33.33% ownership of the Company in Forum Exploration, Inc. (FEI) as at March 31, 2014 and 2013. This investment is classified as AFS financial assets as the Company does not participate in the financial and operating policy of the investee which manifests control or significant influence. These investments are stated at cost less impairment loss since there is no quoted price in an active market.

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

Investment in quoted shares of stock represents investment in Philippines Estates Corporation (PHES), a publicly listed Company. The Company owns 50,196,553 common shares and constitutes 3% ownership in PHES.

The fair value of these shares as of March 31, 2014 and 2013 has been determined directly by reference to published prices in the active market.

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

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

The Company's AFS financial assets as at March 31, 2014 and 2013 are not held as collateral for its financial liabilities.

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

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

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

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

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

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

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

#### Relationships, Transactions and Account Balances

| Related Parties         | Relationship          | Outstanding Balance |                |
|-------------------------|-----------------------|---------------------|----------------|
|                         |                       | March 31, 2014      | March 31, 2013 |
| The Wellex Group, Inc.  | Common key management | P 164,478,263       | P 167,457,772  |
| Forum Exploration, Inc. | Common key management | 137,188,958         | 137,188,958    |
| Forum Exploration, Ltd. | Common key management | ( 3,682,908)        | ( 3,415,733)   |
| Wellex Industries, Inc. | Common key management | –                   | ( 666)         |

#### Advances to TWGI

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

On December 15, 2012, to settle its outstanding obligations to the Company, TWGI issued a one-year promissory note to the Company amounting to P330,495,385 without interest.

In addition, the Company subleases an office space from TWGI starting April 2012. The lease is for a period of two (2) years but renewable thereafter upon mutual agreement of both parties. Total rental and utilities expense charged to operations amounted to P55,500 for both periods ended March 31, 2014 and 2013.

Also in April 2012, the Company has entered into a consultancy agreement with TWGI, whereby the latter will provide corporate planning and financial services on its various corporate functions and undertakings. Total management fee charged to operations amounted to P120,000 for both periods ended March 31, 2014 and 2013.

Total collections of advances from TWGI amounted to P808,865 and P783,903 for the 1st quarter of 2014 and 2013, respectively.

#### Advances to FEI

Advances to FEI pertain to the carrying value of exploration net assets transferred by the Company. No transaction in the account balance was recognized for the quarter ended March 31, 2014 and 2013.

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

The Company received cash advances from Forum (FEI), Ltd. to finance its acquisition of 60% stockholdings of Forum Coal Cebu Holdings, Inc. (FCCHI). The advances have no definite terms of payment. Outstanding balance as at March 31, 2014 and 2013 amounted to P3,682,909 and P3,415,733 respectively.

#### Advances from Wellex Industries, Inc. (WIN)

The Company received cash advances from Wellex Industries, Inc. for payment of expenses. Outstanding balance as at March 31, 2014 and 2013 amounted to nil and P666, respectively.

#### Remuneration to key management personnel

The Company did not provide remuneration to key management personnel for the period ended March 31, 2014 and 2013. The administrative function of the Company is performed by its related party, TWGI.

### **Current liabilities**

- This is primarily consists of Trade and Other Payable. Outstanding balance as at March 31, 2014 and 2013 amounted to P120,540 and P122,346, respectively. This includes payable for retainer fees of legal counsel and stock transfer agent of the Company and withholding taxes payable.

### **Non - Current liability**

- This is primarily consists of Deferred Tax Liability with outstanding balance of nil and P30,432 for the quarter ended March 31, 2014 and 2013, respectively.

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

1. Advances to Related Parties – currently, TWGI is funding all operational expenses of the Company.
2. Current Ratios – Current Assets against the Current Liabilities of the Company. It measures the company's ability to pay short-term obligations. Current Ratio for the 1st Quarter of 2014 and 2013 are 813% and 536%, respectively.
3. Cash Ratio – the most conservative liquidity ratio. It excludes all current assets except the most liquid: cash and cash equivalents. It measures the amount of cash and cash equivalents there are in the current assets to cover current liabilities. The cash ratio of the company for the 1st Quarter of 2014 and 2013 are 128% and 122%, respectively.
4. Debt ratio - It is one of the financial leverage ratios which measure the extent to which the firm is using long term debt. Formula is total debt divided by total assets. Debt ratio for the 1st Quarter of 2014 and 2013 are 0.99% and 0.89%, respectively.
5. Debt-to-equity ratio - The formula is total debt divided by total equity. It indicates what proportion of equity and debt that the company is using to finance its assets. The debt to equity ratio for the 1st Quarter of 2014 and 2013 are 1% and 0.89%, respectively.

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

**Forum Pacific, Incorporated**

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

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

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

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

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



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

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

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

### ***Business Plans***

To address the foregoing matters that may raise doubt on the Company's ability to continue as a going concern, the shareholders of the Company have committed in principle to provide full financial support to the Company to sustain its operations, meet the working capital requirements and settle obligations as they fall due. The management had submitted three applications to the Department of Energy (DOE) last April 2012. The proposals did not meet the minimum financial and technical qualifications set under DOE Department Circular No. DC2011-12-0010.

Due to the negative result of the bid, the Company will do the following for the next twelve months:

- Evaluate outstanding receivables and advances to affiliates and design collection program to improve the Company's financial status. The Board will also evaluate calling for the remaining stock subscription as source of fund.
- Evaluate existing mining companies on which the Company may acquire or invest. The Board is currently eyeing for one mining company with existing Mining Product sharing Agreement (MPSA) with the Department of Energy and National Resources (DENR) – Mines and Geosciences Bureau.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**(iii) Commitment For Capital Expenditures**

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

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

The Company is mainly exposed to liquidity risk through its maturing liabilities. The Company has a policy of regularly monitoring its cash position to ensure that maturing liabilities will be adequately met. Liquidity refers to the risk that the Company will not be able to meet its financial obligations as they fall due.

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

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

| March 31, 2014                |   | Total     | On demand | Less than three months | 3-12 months | 1-5 years   |
|-------------------------------|---|-----------|-----------|------------------------|-------------|-------------|
| Advances from related parties | P | 3,682,908 | P –       | P –                    | P –         | P 3,682,908 |
| Trade and other payables      |   | 120,540   | –         | –                      | 120,540     | –           |
|                               | P | 3,803,448 | P –       | P –                    | P 120,540   | P 3,682,908 |

| March 31, 2013                |   | Total     | On demand | Less than three months | 3-12 months | 1-5 years   |
|-------------------------------|---|-----------|-----------|------------------------|-------------|-------------|
| Advances from related parties | P | 3,416,398 | P –       | P –                    | P –         | P 3,416,398 |
| Trade and other payables      |   | 122,346   | –         | –                      | 122,346     | –           |
|                               | P | 3,538,744 | P –       | P –                    | P 122,346   | P 3,416,398 |

**(v) Significant Element of Income or Loss That Did Not Arise From Continuing Operation**

*PFRS 9 Financial instruments, effective January 1, 2015*, addresses the classification, measurement and recognition of financial assets and financial liabilities. PFRS 9 was issued in November 2009 and October 2010. It replaces the parts of PAS 39 that relate to the classification and measurement of financial instruments. PFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instruments. For financial liabilities, the standard retains most of the PAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the profit or loss, unless this creates an accounting mismatch.

The adoption of PFRS 9 is expected to have no significant impact on the Company's financial statements as most of the Company's financial instruments are not complex. The Company will also consider the impact of the remaining phases of PFRS 9 when completed by the IASB and adopted by the FRSC.

**(vi) Material Changes on Line Items in Financial Statements**

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

**(vii) Effect of Seasonal Changes in the Financial Condition or Results of Operations**

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

**PART II - OTHER INFORMATION**

**(1) Market Information**

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

| <b><u>" CLASS A "</u></b> |                |             |            |
|---------------------------|----------------|-------------|------------|
|                           |                | <u>High</u> | <u>Low</u> |
| 2014                      | First Quarter  | 0.180       | 0.180      |
| 2013                      | First Quarter  | 0.235       | 0.215      |
|                           | Second Quarter | 0.219       | 0.151      |
|                           | Third Quarter  | 0.209       | 0.165      |
| 2012                      | First Quarter  | 0.280       | 0.270      |
|                           | Second Quarter | 0.200       | 0.200      |
|                           | Third Quarter  | 0.230       | 0.216      |
|                           | Fourth Quarter | 0.230       | 0.200      |
| 2011                      | First Quarter  | -           | -          |
|                           | Second Quarter | 0.980       | 0.140      |
|                           | Third Quarter  | 0.240       | 0.200      |
|                           | Fourth Quarter | 0.280       | 0.150      |

The high, low and close market price is P0.180 per share as of March 26, 2014 (the latest practicable trading date). There were no stock price quotations for the 1<sup>st</sup> quarter of 2011 due to trading suspension imposed by PSE for non-compliance with various reports. On May 17, 2011, trading suspension has been lifted after the Company complied thereof. The Corporation has only one class of registered security, "Class A – Common Shares".

**Forum Pacific Inc.**  
**List of Top 20 Stockholders**  
**As of March 31, 2014**

|    | <b>Name</b>                                    | <b>Number of Shares Held<br/>Class A</b> | <b>Percentage to Total</b> |
|----|------------------------------------------------|------------------------------------------|----------------------------|
| 1  | International Polymer Corporation              | 496,887,494                              | 26.501                     |
| 2  | PCD Nominee Coporation                         | 409,439,154                              | 21.837                     |
| 3  | The Wellex Group, Inc.                         | 376,950,000                              | 20.104                     |
| 4  | E.F. Durkee & Associates, Inc.                 | 77,838,563                               | 4.151                      |
| 5  | Intra-Invest Sec., Inc.                        | 48,159,000                               | 2.568                      |
| 6  | Forum Pacific, Inc.                            | 36,056,750                               | 1.923                      |
| 7  | Metropolitan Management Corporation            | 30,000,000                               | 1.600                      |
| 8  | PCD Nominee Coporation (Non-Filipino)          | 23,869,670                               | 1.273                      |
| 9  | Juanito C. Uy                                  | 22,625,001                               | 1.207                      |
| 10 | Pacrim Energy N.L.                             | 21,000,000                               | 1.120                      |
| 11 | Sapphire Securities, Inc.                      | 19,433,500                               | 1.036                      |
| 12 | Benito Ong and/or Zita Y. Ong                  | 18,000,000                               | 0.960                      |
| 13 | Nestor S. Mangio                               | 12,500,000                               | 0.667                      |
| 14 | Li Chih-Hui                                    | 12,100,000                               | 0.645                      |
| 15 | A & A Securities, Inc.                         | 11,911,320                               | 0.635                      |
| 16 | Mark Securities Corporation                    | 10,772,800                               | 0.575                      |
| 17 | Globalinks Sec. & Stocks, Inc. (A/C# CWUSO001) | 9,400,000                                | 0.501                      |
| 18 | Belson Securities, Inc.                        | 9,200,000                                | 0.491                      |
| 19 | Wealth Securities, Inc.                        | 8,240,000                                | 0.439                      |
| 20 | Ruben M. Gan                                   | 7,610,000                                | 0.406                      |

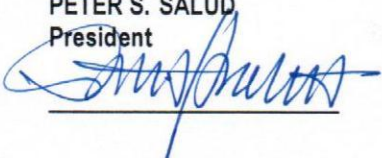
SIGNATURE

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

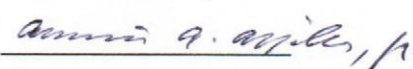
MAY 06 2014

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

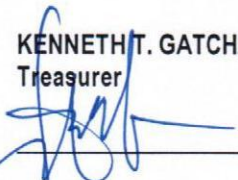
Registrant: PETER S. SALUD  
Title: President

Signature: 

Registrant: ATTY. ARSENIO A. ALFILER, JR.  
Title: Corporate Secretary

Signature: 

Registrant: KENNETH T. GATCHALIAN  
Title: Treasurer

Signature: 

Dated MAY 06 2014

SUBSCRIBED AND SWORN to before me this MAY 07 2014 day of \_\_\_\_\_, 2014 in PASIG affiant (s) exhibiting to me his/their Tax Identification No. as follows:

AFFIANTS

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

Tax Identification No.

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

Doc. No.: 64  
Page No.: 1  
Book No.: 1  
Series of: 2014

ATTY. ADRIAN M. ABAIGAR  
COMMISSION NO. 117 (2014-2015)  
NOTARY PUBLIC FOR PASIG CITY  
UNTIL DECEMBER 31, 2015  
35TH FLR. ONE CORPORATE CENTER  
JULIA VARGAS CORNER MERALCO AVENUE  
ORTIGAS CENTER PASIG CITY  
ROLL NO. 49554  
PTR NO. 9847149: 1/13/14 PASIG CITY  
IRP NO. 956159: 1/13/14 PASIG CITY

**FORUM PACIFIC, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**AS OF MARCH 31, 2014**

**Annex A.1**

| ACCOUNT TITLES                                                    | Note | Unaudited<br>March 31, 2014 | Unaudited<br>March 31, 2013 | Audited<br>Dec. 31, 2013 |
|-------------------------------------------------------------------|------|-----------------------------|-----------------------------|--------------------------|
| <b>Current Assets</b>                                             |      |                             |                             |                          |
| Cash                                                              | 2    | 154,349                     | 149,398                     | 114,471                  |
| Prepayments and other current assets                              | 3    | 825,860                     | 506,471                     | 749,082                  |
|                                                                   |      | <b>980,209</b>              | <b>655,869</b>              | <b>863,553</b>           |
| <b>Non-current Assets</b>                                         |      |                             |                             |                          |
| Advances to related parties                                       | 8    | 301,667,219                 | 304,646,728                 | 302,476,084              |
| Available-for-sale financial assets –net                          | 4    | 82,212,380                  | 96,518,398                  | 82,212,380               |
| Other non-current assets                                          |      | 33,444                      | 33,444                      | 33,444                   |
|                                                                   |      | <b>383,913,043</b>          | <b>401,198,570</b>          | <b>384,721,908</b>       |
| <b>TOTAL ASSETS</b>                                               |      | <b>384,893,252</b>          | <b>401,854,439</b>          | <b>385,585,461</b>       |
| <b>Current liabilities</b>                                        |      |                             |                             |                          |
| Accounts payable and other current liabilities                    | 6    | 120,540                     | 103,940                     | 271,128                  |
| Income tax payable                                                |      | –                           | 18,406                      | –                        |
|                                                                   |      | <b>120,540</b>              | <b>122,346</b>              | <b>271,128</b>           |
| <b>Non-current Liabilities</b>                                    |      |                             |                             |                          |
| Advances from related parties                                     | 8    | 3,682,908                   | 3,416,398                   | 3,682,909                |
| Deferred tax liability                                            |      | –                           | 30,432                      | –                        |
|                                                                   |      | <b>3,682,908</b>            | <b>3,446,830</b>            | <b>3,682,909</b>         |
| <b>TOTAL LIABILITIES</b>                                          |      | <b>3,803,448</b>            | <b>3,569,176</b>            | <b>3,954,037</b>         |
| <b>EQUITY</b>                                                     |      |                             |                             |                          |
| Capital Stock                                                     | 7    |                             |                             |                          |
| Common stock, P1 par value Authorized 3,500,000,000 shares        |      |                             |                             |                          |
| Issued - 819,355,920 shares                                       |      | 819,355,920                 | 819,355,920                 | 819,355,920              |
| Subscribed - 1,055,644,080 shares ( on which subscription         |      |                             |                             |                          |
| receivables amounts to P667,456,379)                              |      | 388,187,701                 | 388,187,701                 | 388,187,701              |
| Total Equity                                                      |      | 1,207,543,621               | 1,207,543,621               | 1,207,543,621            |
| Treasury Shares, 36,056,750 shares, at cost                       |      | (36,056,750)                | (36,056,750)                | (36,056,750)             |
| Unrealized fair value loss on Available for sale financial assets |      | 10,792,262                  | 25,098,279                  | 10,792,262               |
| Deficits                                                          |      | (801,189,329)               | (798,299,887)               | (800,647,709)            |
| <b>TOTAL EQUITY</b>                                               |      | <b>381,089,804</b>          | <b>398,285,263</b>          | <b>381,631,424</b>       |
| <b>TOTAL LIABILITIES AND EQUITY</b>                               |      | <b>384,893,252</b>          | <b>401,854,439</b>          | <b>385,585,461</b>       |

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

## FORUM PACIFIC, INC.

## Annex A.2

## STATEMENTS OF COMPREHENSIVE INCOME

## FOR THE QUARTER ENDED MARCH 31, 2014 AND 2013

|                              | January - March<br>2014 | January – March<br>2013 |
|------------------------------|-------------------------|-------------------------|
| Revenue                      | –                       | –                       |
| Costs and Expenses (Note 9)  | (P 541,620)             | (P 552,426)             |
| Gross Income (Loss)          | ( 541,620)              | ( 552,426)              |
| Other Income                 | –                       | –                       |
| Income (Loss) for the period | (P 541,620)             | (P 552,426)             |
| Loss per share (Note 12)     | (P 0.00029)             | (P 0.00030)             |

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



**FORUM PACIFIC, INC. AND SUBSIDIARY**  
**STATEMENTS OF CASH FLOW**  
For the quarter ended March 31, 2014

**Annex A.3**

|                                                               | Unaudited<br>1st Qtr.<br>Jan.-Mar.<br>2014 | Unaudited<br>1st Qtr.<br>Jan.-Mar.<br>2013 | Audited<br>Dec. 31, 2013 |
|---------------------------------------------------------------|--------------------------------------------|--------------------------------------------|--------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                   |                                            |                                            |                          |
| Loss before tax                                               | (P 541,620)                                | (P 552,426)                                | (P 2,930,680)            |
| Adjustments for:                                              |                                            |                                            |                          |
| Unrealized foreign exchange loss (gain)                       | —                                          | —                                          | 267,176                  |
| Operating income (loss) before working capital changes        | ( 541,620)                                 | ( 552,426)                                 | ( 2,663,504)             |
| Decrease (Increase) in prepayments and other current assets   | ( 76,779)                                  | ( 109,239)                                 | ( 313,638)               |
| Increase (decrease) in accounts payable and other liabilities | ( 150,588)                                 | ( 302,845)                                 | ( 135,656)               |
| Income tax paid                                               | —                                          | —                                          | ( 18,406)                |
| Net cash used in operating activities                         | ( 768,987)                                 | ( 964,510)                                 | ( 3,131,204)             |
| <b>CASH FLOWS FROM INVESTING ACTIVITY</b>                     |                                            |                                            |                          |
| Collections from (payments of):                               |                                            |                                            |                          |
| Advances to related parties                                   | 808,865                                    | 783,902                                    | 2,954,548                |
| Net cash provided by investing activity                       | 808,865                                    | 783,902                                    | 2,954,548                |
| <b>CASH FLOW FROM FINANCING ACTIVITY</b>                      |                                            |                                            |                          |
| Collections from (payments of):                               |                                            |                                            |                          |
| Advances from related parties                                 | —                                          | —                                          | ( 666)                   |
| Net cash used in financing activity                           | —                                          | —                                          | ( 666)                   |
| <b>NET INCREASE (DECREASE) IN CASH</b>                        | <b>39,878</b>                              | <b>( 180,608)</b>                          | <b>( 177,322)</b>        |
| <b>CASH</b>                                                   |                                            |                                            |                          |
| At beginning of year                                          | 114,471                                    | 330,006                                    | 291,793                  |
| At end of year                                                | <b>P 154,349</b>                           | <b>P149,398</b>                            | <b>P 114,471</b>         |

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

**FORUM PACIFIC, INC. AND SUBSIDIARY**  
**Statements of Changes in Equity**  
**For The Quarter Ended March 31, 2014 and 2013**

**Annex A.4**

|                                                                             | <b>1st Qtr.<br/>Jan. – Mar.<br/>2014</b> | <b>1st Qtr.<br/>Jan. – Mar.<br/>2013</b> | <b>Audited<br/>Dec. 31, 2013</b> |
|-----------------------------------------------------------------------------|------------------------------------------|------------------------------------------|----------------------------------|
| Capital Stock                                                               | <b>P1,207,543,621</b>                    | P1,207,543,621                           | P1,207,543,621                   |
| Treasury Shares                                                             | <b>(36,056,750)</b>                      | (36,056,750)                             | (36,056,750)                     |
| Unrealized Fair Value Gain (Loss) on Available-For-Sale<br>Financial Assets | <b>10,792,262</b>                        | 25,098,279                               | 10,792,262                       |
| Deficit - Beginning                                                         | <b>(800,647,709)</b>                     | (797,747,461)                            | (797,747,461)                    |
| Net Loss for the period                                                     | <b>( 541,620)</b>                        | ( 552,426)                               | (2,900,248)                      |
| Deficit - Ending                                                            | <b>(801,189,329)</b>                     | (798,299,887)                            | (800,647,709)                    |
| <b>TOTAL STOCKHOLDER'S EQUITY</b>                                           | <b>P 381,089,804</b>                     | P 398,285,263                            | P 381,631,424                    |

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

## NOTES TO INTERIM FINANCIAL STATEMENTS

March 31, 2014

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**Note 1 – Organizational Information**

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

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

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

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

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

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

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

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*Management’s Assessment of the Going Concern Assumption*

Management believes that the going concern assumption is appropriate despite the existence of material uncertainty caused by recurring substantial losses of the Company. The Company incurred losses amounting to ₱541,620 and ₱552,426 in March 31, 2014 and 2013, respectively. The Company had sustained a deficit of ₱801,189,329 and ₱798,299,887 as at March 31, 2014 and 2013 respectively.

*Business Plans*

To address the foregoing matters that may raise doubt on the Company’s ability to continue as a going concern, the shareholders of the Company have committed in principle to provide full financial support to the Company to sustain its operations, meet the working capital requirements and settle obligations as they fall due. The management had submitted three applications to the Department of Energy (DOE) last April 2012. The proposals did not meet the minimum financial and technical qualifications set under DOE Department Circular No. DC2011-12-0010.

Due to the negative result of the bid, the Company will do the following for the next twelve months:

- Evaluate outstanding receivables and advances to affiliates and design collection program to improve the Company's financial status. The Board will also evaluate calling for the remaining stock subscription as source of fund.
- Evaluate existing mining companies on which the Company may acquire or invest. The Board is currently eyeing for one mining company with existing Mining Product sharing Agreement (MPSA) with the Department of Energy and National Resources (DENR) – Mines and Geosciences Bureau.

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

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

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

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

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

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

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

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

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

#### **Basis of Preparation**

The financial statements have been prepared on a historical cost basis, except otherwise stated.

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

#### **Statement of Compliance**

The financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). The term PFRS in general includes all applicable PFRS, Philippine Accounting Standards

(PAS), interpretations of the Philippine Interpretations Committee (PIC), Standing Interpretations Committee (SIC) and International Financial Reporting Interpretations Committee (IFRIC) which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by the SEC.

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

The accounting policies adopted are consistent with those of previous financial year except for the following new and amended PFRS and Philippine Interpretations which were adopted as at January 1, 2014.

*PAS 1 (Amendment), Financial statement presentation regarding other comprehensive income*, effective July 1, 2012. The main change resulting from these amendments is a requirement for entities to group items presented in "other comprehensive income" (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI. The adoption has no significant impact on the Company's financial statement except on the presentation of other comprehensive income in the Statement of Comprehensive income.

*PAS 19 (Revised), Employee benefits*, effective January 1, 2013. The main changes resulting from the amendment of the standards includes the elimination of the options defer remeasurement gains and losses (formerly known as "actuarial gains and losses) and requires that remeasurement be recognised immediately in OCI. The amendment also requires additional disclosures to assist users in understanding the financial statement disclosures relating to employee benefits. This revision has no impact on the Company's financial statements.

*PAS 27 (Revised), Separate Financial Statements*, effective January 1, 2013. The revised standard includes the provisions on separate financial statements that are left after the control provisions of PAS 27 have been included in the new PFRS 10. This revision has no significant impact on the Company's financial statements.

*PAS 28 (Revised), Investments in Associates and Joint Ventures*, effective January 1, 2013. This revised standard includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of PFRS 11. This revision has no significant impact on the Company's financial statements.

*PFRS 1 (Amendment), Government Loans*, effective January 1, 2013. These amendments add an exception to the retrospective application of PFRSs. First-time adopters are required to apply for the requirements in PFRS 9, Financial Instruments (If PFRS 9 is not yet adopted, references to PFRS 9 in the amendments shall be read as references to PAS 39, Financial Instruments: Recognition and Measurement) and PAS 20, Accounting for Government Grants and Disclosure of Government Assistance prospectively to government loans existing at the date of transition to PFRSs. The adoption of the amendment has no significant impact on the Company's financial statements.

*PFRS 7 (Amendment), Disclosures-Offsetting Financial Assets and Financial Liabilities*, effective January 1, 2013. These amendments involve the revision of the required disclosures to include information that will enable users to evaluate the effect or potentially effect of netting arrangements on an entity's financial position. The amended standard shall be applied for annual periods beginning on or after January 1, 2013 and interim periods within those annual periods. The amendment has no significant impact on the Company's financial statements.

*PFRS 10 Consolidated financial statements*, effective January 1, 2013, builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent Company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The adoption of the new standards has no significant impact on the Company's financial statements.

*PFRS 11 Joint Arrangements*, effective January 1, 2013, focuses on the rights and obligations of joint arrangements, rather than the legal form (as is currently the case). It: (a) distinguishes joint arrangements between joint operations and joint ventures; and (b) requires the equity method for jointly controlled entities that are now called joint ventures; they are stripped of the free choice of using the equity method or proportionate consolidation. PFRS 11 supersedes PAS 31 and Philippine Interpretation SIC-13, Jointly Controlled Entities -

Non-Monetary Contributions by Venturers. The adoption of the new standards has no significant impact on the Company's financial statements.

*PFRS 12 Disclosures of interest in other entities, effective January 1, 2013*, includes the disclosures requirement for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The adoption of the new standards has no significant impact on the Company's financial statements.

*PFRS 13 Fair value measurement, effective January 1, 2013*, aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across PFRSs. The requirements, which are largely aligned between PFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within PFRSs or US GAAP. The adoption of the new standards has no significant impact on the Company's financial statements.

*IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine, effective January 1, 2013*. This interpretation applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine ('production stripping cost') and provides guidance on the recognition of production stripping costs as an asset and measurement of the stripping activity asset. The adoption of the new interpretation has no significant impact on the Company's financial statements.

#### **New Accounting Standards, Interpretations and Amendments to Existing Standards Effective Subsequent to January 1, 2013**

This listing of standards and interpretations issued are those that the Company reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Company intends to adopt these standards when they become effective.

*PAS 32 (Amendment), Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities, effective January 1, 2014*. These amendments to PAS 32 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 clearinghouse systems) which apply gross settlement mechanisms that are not simultaneous. The Company has yet to assess the full impact of the amendments and intends to adopt the amendment beginning January 1, 2014.

*PAS 36 (Amendment), Impairment of Assets - Recoverable Amount Disclosures for Non-financial Assets, effective January 1, 2014*. The amendment removed certain disclosures of the recoverable amount of cash-generating units (CGUs) which had been included in PAS 36 by the issue of PFRS 13. The amendment is not expected to have a significant impact on the Company's financial statements.

*PFRS 9 Financial instruments, effective January 1, 2015*, addresses the classification, measurement and recognition of financial assets and financial liabilities. PFRS 9 was issued in November 2009 and October 2010. It replaces the parts of PAS 39 that relate to the classification and measurement of financial instruments. PFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instruments. For financial liabilities, the standard retains most of the PAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the profit or loss, unless this creates an accounting mismatch. The adoption of PFRS 9 is expected to have no significant impact on the Company's financial statements as most of the Company's financial instruments are not complex. The Company will also consider the impact of the remaining phases of PFRS 9 when completed by the IASB and adopted by the FRSC.

## **Financial Instruments**

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

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

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

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

As at March 31, 2014 and 2013, the Company did not hold any financial assets at FVPL and HTMI, and financial liabilities at FVPL.

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

The fair value of financial instruments traded in active markets at reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and asking price for short positions), without any deduction for transaction costs. When current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction. For financial instruments where there is no active market, except for investment in unquoted equity securities, fair value is determined by using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to current market value of another instrument, which is substantially the same; discounted cash flow analysis; and options pricing models. In the absence of a reliable basis for determining fair value, investments in unquoted equity securities are carried at cost, net of impairment.

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: other techniques for which all inputs which have significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Fair value measurement disclosures of AFS financial assets are presented in Note 16.

### **“Day 1” Difference**

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

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

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

### **Loans and Receivables**

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

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

The Company’s loans and receivables comprise of cash and advances to related parties (see Notes 5 and 11).

### **AFS Financial Assets**

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

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

Interest earned on the investments is reported as interest income using the effective interest rate method. Dividends earned on investments are recognized in the Company statement of comprehensive income when the right of payment has been established. These financial assets are classified as noncurrent assets unless the intention is to dispose of such assets within twelve (12) months from the end of reporting date.



## **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 rate 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 Company statement of comprehensive income when the liabilities are derecognized as well as through the amortization process.

As at March 31, 2014 and 2013, included in other financial liabilities are the Company's accounts payable and other liabilities (excluding government liabilities), and advances from related parties (see Notes 9 and 11).

## **Offsetting of Financial Instruments**

Financial assets and financial liabilities are offset and the net amount is reported in the Company statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

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

### *(a) Financial assets*

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

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

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

### *(b) Financial liabilities*

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

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

## **Impairment of Financial Assets**

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

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

(a) *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.

(b) *Loans and receivables*

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

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

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

(c) *AFS financial assets*

For AFS financial assets, the Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. In case of equity investments classified as AFS financial assets, this would include a significant or prolonged decline in fair value of the investments below its cost. The determination of what is "significant" or "prolonged" requires judgment. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in other comprehensive income is removed from equity and recognized in the Company statement of comprehensive income.

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

## **Cash**

The Company's cash represents cash in bank which carries interest at respective bank deposit rate.

## **Input Tax**

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

## **Other Non-Current Assets**

Other noncurrent assets are recognized when paid and are carried at cost.

## **Investment in a Subsidiary**

The Company's investment in a subsidiary is accounted for in these separate Company financial statements at cost, less any impairment loss. Impairment loss is provided when there is objective evidence that the investments in a subsidiary and associates will not be recovered. The impairment loss is measured as the difference between the carrying amount of the investment and the present value of the estimated cash flows discounted at the current market rate of return for similar financial asset. Such amount of the impairment loss is recognized in the statement of comprehensive income.

Subsidiaries are entities over which the Company has the power to govern the financial reporting policies generally accompanying a shareholding of more than one half of the voting rights. The Company obtains and exercises control through voting rights. The existence and effect of potential voting rights that are currently exercisable and convertible are considered when assessing whether the Company controls another entity.

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

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income.

## **Accounts Payable and Other Liabilities**

Accounts payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer) while non-trade payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Accounts payable and other liabilities are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

### **Retirement Benefits**

The Company does not provide any retirement benefits because it does not have any employees as at March 31, 2014 and 2013. The Company's administrative functions are performed by its related party, The Wellex Group, Inc. (TWGI).

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

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

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

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable income. Deferred income tax is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

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

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

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

### **Leases**

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

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

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

### **Equity**

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

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

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

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

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

### **Revenue Recognition**

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

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

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

Other comprehensive income comprises items of unrealized fair value loss on available-for-sale financial assets that are not recognized in the statement of comprehensive income for the year in accordance with PFRS.

### **Cost and Expense Recognition**

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

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

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

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

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

### *(b) Transactions and Balances*

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

## **Related Party Relationships and Transactions**

Related party relationship exists when the party has the ability to control or joint 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 or members of the same group 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.

A related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged.

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

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

## **Provisions and Contingencies**

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

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

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

## **Events After the Reporting Date**

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

### **1. SIGNIFICANT ACCOUNTING JUDGMENTS, AND ESTIMATES AND ASSUMPTIONS**

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

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

##### *a) Functional currency*

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

##### *b) Determination of fair value of AFS financial assets*

The Company carries AFS financial assets at fair value, which requires extensive use of accounting judgment. While significant components of fair value measurement were determined using verifiable objective evidence, the amount of changes in fair value would differ if the Company utilized different valuation methodologies and assumptions. Any changes in fair value of these AFS financial assets would affect the statements of changes in equity through other comprehensive income.

##### *c) Write-off of available-for-sale financial assets*

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

##### *d) Impairment of investment in a subsidiary and loss of control*

The determination whether or not the Company can recover its investment in a subsidiary requires significant judgment. The Company believes that it cannot recover its investment in Forum Coal Cebu Holdings, Inc. (subsidiary) since the subsidiary is deemed dissolved on July 6, 2012 upon approval by the SEC to shorten its corporate life. Moreover, the Company would not recover anything from the subsidiary since it is in the state of capital deficiency. Consequently, loss of control occurred at the time of approval by the SEC to shorten its corporate life since the subsidiary will become inexistent at that time.

##### *e) Operating lease commitments*

The Company has entered into contract of lease for the office space it occupies. The Company has determined that all significant risks and benefits of ownership on these properties will be retained by the lessor. In determining significant risks and benefits of ownership, the Company considered, among others, the significance

of the lease term as compared with the estimated useful life of the related asset. The Company accordingly accounted for these as operating leases.

*f) Provisions and contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provision and disclosure of contingencies are discussed in Note 3, subheadings *Provisions and Contingencies*.

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

As of March 31, 2014, the Company has no outstanding liabilities.

**Significant Accounting Estimates and Assumptions**

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

*a) Valuation of AFS financial assets*

The Company carries certain financial assets at fair value, which requires the extensive use of accounting judgment and estimates. In cases when active market quotes are not available, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net base of the instrument. The amount of changes in fair value would differ if the Company utilized different valuation methods and assumptions. Any change in fair value of these financial assets and liabilities would affect profit and loss and equity. The Company’s available-for-sale financial assets are recorded at fair value.

Unrealized fair value gain on available-for-sale financial assets of ₱10,792,262 and ₱25,098,279 in 2014 and 2013, respectively were reported in the equity section of the statements of financial position (see Note 7).

*b) Deferred tax assets*

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

The Company’s deferred tax assets with full valuation allowance are fully discussed in Note 14.

The Company considers that it is impracticable to disclose with significant reliability the possible effects of sensitivities surrounding the deferred tax assets.



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

Allowance for impairment of advances to related parties is maintained at a level considered adequate to provide for potentially uncollectible receivables. The level of allowance is based on the status of the advances to related parties, past collection experience and other factors that may affect collectibility. Allowance for impairment loss on advances to related parties amounted to ₱196,695,828 in 2014 and 2013 (see Note 11).

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

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, 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 statement of comprehensive income - is removed from equity and recognized in the statement of comprehensive income. Impairment losses recognized in profit or loss on equity instruments are not reversed in profit or loss. Subsequent increase in the fair value after impairment is recognized as other comprehensive income.

2. **CASH**

Cash represents cash in bank with outstanding balance of ₱154,349 and ₱149,398 as at March 31, 2014 and 2013, respectively.

3. **PREPAYMENTS AND OTHER CURRENT ASSETS**

Prepayments and other current assets as at March 31 consist of:

|                      | 2014             | 2013             |
|----------------------|------------------|------------------|
| Input tax            | ₱ 740,316        | ₱ 465,634        |
| Other current assets | 85,544           | 40,837           |
|                      | <b>₱ 825,860</b> | <b>₱ 506,471</b> |

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

Available-for-sale financial assets as at March 31 consist of:

|                                | 2014                | 2013                |
|--------------------------------|---------------------|---------------------|
| <b>Unquoted shares</b>         |                     |                     |
| Cost                           | ₱ 73,211,573        | ₱ 73,211,573        |
| Impairment loss                | ( 9,320,935)        | ( 9,320,935)        |
|                                | <b>63,890,638</b>   | <b>63,890,638</b>   |
| <b>Quoted shares</b>           |                     |                     |
| Cost                           | 7,529,480           | 7,529,480           |
| Net unrealized fair value gain | 10,792,262          | 25,098,279          |
|                                | <b>18,321,742</b>   | <b>32,627,759</b>   |
|                                | <b>₱ 82,212,380</b> | <b>₱ 96,518,397</b> |

Investment in unquoted shares of stock represents 33.33% ownership of the Company in Forum Exploration, Inc. (FEI) in 2014 and 2013. This investment is classified as AFS financial assets as the Company does not participate in the financial and operating policy of the investee which manifests control or significant influence. These investments are stated at cost less impairment loss since there is no quoted price in an active market.

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

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

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

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

|                                               | March 31, 2014 | March 31, 2013 |
|-----------------------------------------------|----------------|----------------|
| At beginning of year                          | ₱ 25,098,279   | ₱ 4,166,317    |
| Fair value changes during the year            | ( 14,306,017 ) | 20,931,962     |
| Reclassification adjustment due to impairment | —              | —              |
|                                               | ₱ 10,792,262   | ₱ 25,098,279   |

## 5. INVESTMENTS IN A SUBSIDIARY

The Company owns 60% of the stockholdings amounted to ₱4,320,000 of Forum Coal Cebu Holdings, Inc. (FCCHI), a domestic corporation registered with the SEC on February 3, 2006. Its primary purpose is to acquire, hold and dispose of bonds, debentures, promissory notes, shares of capital and the likes, without engaging as a dealer or broker of securities. Its registered office is located at 14<sup>th</sup> Floor, Pearlbank Centre, 146 Valero Street, Salcedo Village, Makati City.

On November 30, 2009, FCCHI was formally dissolved. Consequently, the BOD of the Company has decided to provide full valuation allowance on the Company's investment in subsidiary. The related impairment loss was included as part of the other income (expenses) in 2011 and 2010.

On July 6, 2012 the dissolution was approved by the SEC. On July 19, 2012, the BOD approved the write-off of the investments in a subsidiary. As per Corporation Code of the Philippines, upon approval by the SEC of the amended Articles of Incorporation to shorten the corporate term, the corporation shall be deemed dissolved without any further proceedings. Hence, starting 2012, the Company did not present consolidated financial statements.

## 6. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities as at March 31 consist of:

|                  | 2014      | 2013      |
|------------------|-----------|-----------|
| Accrued expenses | ₱ 90,000  | ₱ 73,400  |
| Accounts payable | 24,915    | 24,915    |
| Taxes payable    | 5,625     | 24,031    |
|                  | ₱ 120,540 | ₱ 122,346 |

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

## 7. **CAPITAL STOCK**

Details of the Company's capital stock as at March 31, 2014 and 2013 are as follows:

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

### *Track record of registration of securities*

The Company was originally registered as Cophil Exploration, Inc. with the SEC on January 8, 1993. The Company was listed with the PSE on December 19, 1994 with an initial registered 50 billion shares at ₱.01 par value per share.

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

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

The Company's capital stock fair values as at March 31, 2014 and 2013 amounted to ₱0.180 and ₱0.235 per share, respectively.

## 8. **RELATED PARTY TRANSACTIONS**

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

### **Relationship, Transactions and Account Balances**

| Category                             | Relationship          | Amount/volume of<br>transactions |           | Outstanding receivable (payable) |               |     |
|--------------------------------------|-----------------------|----------------------------------|-----------|----------------------------------|---------------|-----|
|                                      |                       | 2014                             | 2013      | 2014                             | 2013          |     |
| <u>The Wellex Group, Inc.(TWGI)</u>  | Common key management |                                  |           | ₱ 326,731,972                    | ₱ 329,711,481 | (b) |
| Management fee                       |                       | ₱ 120,000                        | ₱ 120,000 |                                  |               |     |
| Rent expense                         |                       | 37,500                           | 37,500    |                                  |               |     |
| Cash advance                         |                       | 651,365                          | 626,403   |                                  |               |     |
| <u>Forum Exploration, Inc. (FEI)</u> | Common key management | -                                | -         | 171,631,076                      | 171,631,076   | (a) |
|                                      |                       | 808,865                          | 783,903   | 498,363,048                      | 501,342,557   |     |
| Allowance for impairment loss        |                       | -                                | -         | (196,695,828)                    | (196,695,828) |     |
|                                      |                       | 808,865                          | 783,903   | 301,667,220                      | 304,646,729   |     |
| <u>Forum Exploration, Ltd.(FEL)</u>  | Common key management | -                                | -         | ( 3,682,909)                     | ( 3,415,733)  | (c) |
| <u>Wellex Industries, Inc. (WIN)</u> | Common key management | -                                | -         | -                                | ( 666)        |     |
|                                      |                       |                                  |           | ( 3,682,909)                     | ( 3,416,399)  |     |

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

Advances to FEI pertain to the carrying value of exploration assets transferred by the Company. No transaction in the account balance was recognized for the quarters ended March 31, 2014 and 2013.

|                               | March 31, 2014        | March 31, 2013 |
|-------------------------------|-----------------------|----------------|
| Advances                      | <b>₱ 171,631,076</b>  | ₱ 171,631,076  |
| Allowance for impairment loss | <b>( 34,442,118 )</b> | ( 34,442,118 ) |
| Net carrying amount           | <b>₱ 137,188,958</b>  | ₱ 137,188,958  |

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

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

On December 15, 2012, to settle its outstanding obligations to the Company, TWGI issued a promissory note to the Company maturing on December 15, 2015 amounting to ₱330,495,385 without interest.

In addition, the Company subleases an office space from TWGI starting April 2012. The lease is for a period of two (2) years but renewable thereafter upon mutual agreement of both parties. Total rental and utilities expense charged to operations amounted to ₱55,500 for both quarters ended March 31, 2014 and 2013, respectively (see Note 12).

As at March 31, the Company has outstanding lease commitment for future minimum lease payments as follows:

|                                                   | 2014             | 2013      |
|---------------------------------------------------|------------------|-----------|
| Not later than one year                           | <b>₱ 180,000</b> | ₱ 180,000 |
| Later than one year but not later than five years | <b>60,000</b>    | —         |
|                                                   | <b>₱ 240,000</b> | ₱ 180,000 |

Also in April 2012, the Company has entered into a consultancy agreement with TWGI, whereby the latter will provide corporate planning and financial services on its various corporate functions and undertakings. Total management fee charged to operations amounted to ₱120,000 for both quarters ended March 31, 2014 and 2013, respectively (see Note 12).

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

|                               | March 31, 2014         | March 31, 2013  |
|-------------------------------|------------------------|-----------------|
| Advances                      | <b>₱ 326,731,973</b>   | ₱ 329,711,482   |
| Allowance for impairment loss | <b>( 162,253,710 )</b> | ( 162,253,710 ) |
| Net carrying amount           | <b>₱ 164,478,263</b>   | ₱ 167,457,772   |

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

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

|                                                   | March 31, 2014     | March 31, 2013 |
|---------------------------------------------------|--------------------|----------------|
| At beginning of year                              | <b>₱ 3,682,909</b> | ₱ 3,415,732    |
| Unrealized foreign exchange loss (gain) – note 13 | <b>—</b>           | —              |
| At end of year                                    | <b>₱ 3,682,909</b> | ₱ 3,415,732    |

*(d) Remuneration to key management personnel*

The Company did not provide remuneration to key management personnel for the quarter ended March 31, 2014 and 2013. The administrative function of the Company is performed by its related party, TWGI.

**9. COSTS AND EXPENSES**

Cost and expenses for the quarters ended **March 31** consists of :

|                              | 2014      | 2013      | 2012      |
|------------------------------|-----------|-----------|-----------|
| Professional fees            | ₱ 195,000 | ₱ 195,000 | ₱ 253,250 |
| Membership fees and dues     | 258,000   | 250,000   | 250,000   |
| Office supplies              | 2,961     | 3,981     | 5,207     |
| Rent and utilities – note 11 | 55,500    | 55,500    | –         |
| Representation               | 894       | –         | 75        |
| Taxes and licenses           | 17,275    | 16,496    | 14,549    |
| Miscellaneous                | 11,990    | 31,449    | 770       |
|                              | ₱ 541,620 | ₱ 552,426 | ₱ 523,851 |

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

Other income (expenses) for the quarters ended **March 31** consists of:

|                                         | 2014 | 2013 | 2012 |
|-----------------------------------------|------|------|------|
| Unrealized foreign exchange gain (loss) | ₱ –  | ₱ –  | ₱ –  |
| Impairment loss:                        |      |      |      |
| Advances from a related party           | –    | –    | –    |
| AFS financial assets                    | –    | –    | –    |
| Investments in a subsidiary – note 8    | –    | –    | –    |
| Others                                  | –    | –    | –    |
| Interest income from bank deposits      | –    | –    | –    |
|                                         | ₱ –  | ₱ –  | ₱ –  |

**11. INCOME TAXES**

***Current and deferred tax***

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

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

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

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

The Company did not avail of the OSD for purpose of income tax calculation in 2014 and 2013.

The composition of deferred tax assets is as follows:

|                                   | March 31, 2014   | March 31, 2013   |
|-----------------------------------|------------------|------------------|
| NOLCO                             | ₱ 1,537,019      | ₱ 4,351,577      |
| Impairment loss on AFS Securities | 2,796,281        | 2,796,281        |
| Unrealized foreign exchange loss  | 445,393          | 365,240          |
| MCIT                              | 61,353           | 229,823          |
|                                   | <b>4,840,046</b> | <b>7,742,921</b> |
| Valuation allowance               | ( 4,840,046)     | ( 7,742,921)     |
|                                   | <b>₱ —</b>       | <b>₱ —</b>       |

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

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

As at March 31, 2014 and 2013, the composition of deferred tax liability on the unrealized foreign exchange gain on advances from related parties amounted to nil and ₱30,432, respectively.

As at March 31, 2014, the Company has NOLCO and MCIT that can be claimed as deduction from future income tax payable and taxable income, respectively, as follows:

| Year Incurred | Expiration Date | Beginning balance  | Additions          | Expired  | Claimed    | Ending balance     |
|---------------|-----------------|--------------------|--------------------|----------|------------|--------------------|
| <b>NOLCO</b>  |                 |                    |                    |          |            |                    |
| 2013          | 2016            | ₱ —                | ₱ 2,663,503        | ₱ —      | ₱ —        | ₱ 2,663,503        |
| 2012          | 2015            | 1,473,683          | —                  | —        | —          | 1,473,683          |
| 2011          | 2014            | 986,213            | —                  | —        | —          | 986,213            |
|               |                 | <b>₱ 2,459,896</b> | <b>₱ 2,663,503</b> | <b>—</b> | <b>₱ —</b> | <b>₱ 5,123,399</b> |

| Year Incurred | Expiration Date | Beginning balance | Additions  | Expired    | Claimed    | Ending balance  |
|---------------|-----------------|-------------------|------------|------------|------------|-----------------|
| <b>MCIT</b>   |                 |                   |            |            |            |                 |
| 2012          | 2015            | ₱ 61,353          | ₱ —        | ₱ —        | ₱ —        | ₱ 61,353        |
|               |                 | <b>₱ 61,353</b>   | <b>₱ —</b> | <b>₱ —</b> | <b>₱ —</b> | <b>₱ 61,353</b> |

### Reconciliation of tax expense

The reconciliation of pretax income computed at the regular corporate tax rate to the income tax expense as shown in the statement of comprehensive income as of **March 31** is as follows:

|                                        | 2014        | 2013        | 2012        |
|----------------------------------------|-------------|-------------|-------------|
| Loss before income tax                 | (₱ 541,620) | (₱ 552,426) | (₱ 523,851) |
| Income tax benefit at statutory rate : | (₱ 162,486) | (₱ 165,728) | (₱ 157,155) |
| Income tax effect on:                  |             |             |             |
| Non taxable income                     | —           | —           | —           |
| Nondeductible expenses                 | —           | —           | —           |
| Expired NOLCO                          | 162,486     | 165,728     | 157,155     |
| Expired MCIT                           | —           | —           | —           |
| Change in valuation allowance          | —           | —           | —           |
|                                        | <b>₱ —</b>  | <b>₱ —</b>  | <b>₱ —</b>  |

## 12. LOSS PER SHARE

The following table presents information necessary to calculate the loss per share as of **March 31**:

|                                                                         | 2014          | 2013          | 2012          |
|-------------------------------------------------------------------------|---------------|---------------|---------------|
| Net loss for the year                                                   | (P 541,620)   | (P 552,426)   | (P 523,851)   |
| Weighted average number of common shares outstanding during the quarter | 1,171,486,871 | 1,171,486,871 | 1,171,486,871 |
|                                                                         | (P 0.00029)   | (P 0.00030)   | (P 0.00028)   |

## 13. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

### ***Credit risk***

Credit risk arises from cash and advances to related parties.

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

|                                                 | March 31, 2014 | March 31, 2013 |
|-------------------------------------------------|----------------|----------------|
| Cash in bank                                    | P 154,349      | P 149,398      |
| Advances to related parties, gross of allowance | 498,363,048    | 501,342,557    |
|                                                 | P 498,517,397  | P 501,491,955  |

The credit quality of financial assets is discussed below:

### ***Cash in bank***

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

### ***Advances to related parties***

As at March 31, 2014 and 2013, the Company classifies the credit quality of advances to related parties based on the following:

|         | 2014          | 2013          |
|---------|---------------|---------------|
| Group 1 | P 164,478,263 | P 167,457,772 |
| Group 2 | 137,188,957   | 137,188,957   |
| Group 3 | —             | —             |
|         | P 301,667,220 | P 304,646,730 |

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

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

The details of the Company's aging analysis of financial assets as at March 31, 2014 and 2013 are as follows:

| March 31, 2014                        | Total         | Past due but not impaired     |           |            |             |              |               | Impaired      |
|---------------------------------------|---------------|-------------------------------|-----------|------------|-------------|--------------|---------------|---------------|
|                                       |               | Neither past due nor impaired | < 30 days | 31-90 days | 91-180 days | 181-360 days | 1-3 years     |               |
| Cash in bank                          | P 154,349     | P 154,349                     | P-        | P-         | P-          | P-           | P -           | P -           |
| Advances to related parties - note 11 | 498,363,048   | -                             | -         | -          | -           | -            | 326,731,973   | 171,631,075   |
|                                       | P 498,517,397 | P 154,349                     | P-        | P-         | P-          | P-           | P 326,731,973 | P 171,631,075 |
| March 31, 2013                        |               |                               |           |            |             |              |               |               |
| Cash in bank                          | P 149,398     | P 149,398                     | P-        | P-         | P-          | P-           | P -           | P -           |
| Advances to related parties - note 11 | 501,342,557   | -                             | -         | -          | -           | -            | 329,711,482   | 171,631,075   |
|                                       | P 501,491,955 | P 149,398                     | P-        | P-         | P-          | P-           | P 329,711,482 | P 171,631,075 |

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

As at March 31, 2014 and 2013, the Company has entered into an agreement with its related party to settle the advances (See Note 11).

### Liquidity risk

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

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

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

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

| March 31, 2014                        | Total       | On demand | Less than three months | 3-12 months | 1-5 years   |
|---------------------------------------|-------------|-----------|------------------------|-------------|-------------|
| Account payable and other liabilities | P 120,540   | P -       | P -                    | P 120,540   | P -         |
| Advances from related parties         | 3,682,908   | -         | -                      | -           | 3,682,908   |
|                                       | P 3,803,448 | P -       | P -                    | P 120,540   | P 3,682,908 |



| March 31, 2013                         | Total       | On demand | Less than three months | 3-12 months | 1-5 years   |
|----------------------------------------|-------------|-----------|------------------------|-------------|-------------|
| Accounts payable and other liabilities | ₱ 152,778   | ₱ –       | ₱ –                    | ₱ 152,778   | ₱ –         |
| Advances from related parties          | 3,416,399   | –         | –                      | –           | 3,416,399   |
|                                        | ₱ 3,569,177 | ₱ –       | ₱ –                    | ₱ 152,778   | ₱ 3,416,399 |

### **Foreign currency risk**

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

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

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

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

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

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

The Company monitors capital on the basis of the debt-to-equity ratio which is calculated as total debt divided by total equity. Debt-to-equity ratios as of March 31, 2014 and 2013 are 1.00% and 0.90%, respectively. Total debt is equivalent to debt shown in the Company statements of financial position. Total equity comprises all components of equity as shown in the Company statements of financial position. Total equity amounts to ₱381,089,804 and ₱398,285,263, as at March 31, 2014 and 2013, respectively.

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

During 2013, the Company's strategy, which was unchanged from 2012, was to keep the gearing ratio below 50% as proportion to net debt to capital. The gearing ratios as at March 31, 2014 and 2013 were as follows:

|                                        | March 31, 2014 | March 31, 2013 |
|----------------------------------------|----------------|----------------|
| Accounts payable and other liabilities | ₱ 120,540      | ₱ 103,940      |
| Advances from related parties          | 3,682,908      | 3,416,399      |
| Less: Cash                             | ( 154,349)     | ( 187,612)     |
| Net debt                               | 3,649,099      | 3,332,727      |
| Total equity                           | 381,089,804    | 398,285,263    |
| Total capital                          | ₱ 384,738,903  | ₱ 401,617,990  |
|                                        | 0.96%          | 0.84%          |

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

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

|                                        | March 31, 2014 |              | March 31, 2013 |              |
|----------------------------------------|----------------|--------------|----------------|--------------|
|                                        | Carrying Value | Fair Value   | Carrying Value | Fair Value   |
| <b>Financial Assets</b>                |                |              |                |              |
| Cash                                   | ₱ 154,349      | ₱ 154,349    | ₱ 149,398      | ₱ 149,398    |
| Advances to related parties – net      | 301,667,219    | 301,667,219  | 304,646,728    | 304,646,728  |
| AFS financial assets                   | 82,212,380     | 82,212,380   | 96,518,397     | 96,518,397   |
|                                        | ₱384,033,948   | ₱384,033,948 | ₱401,314,523   | ₱401,314,523 |
| <b>Financial liabilities</b>           |                |              |                |              |
| Accounts payable and other liabilities | ₱ 120,540      | ₱ 120,540    | ₱ 152,778      | ₱ 152,778    |
| Advances from related parties          | 3,682,908      | 3,682,908    | 3,416,399      | 3,416,399    |
|                                        | ₱ 3,803,448    | ₱ 3,803,448  | ₱ 3,569,177    | ₱ 3,569,177  |

### **Fair value estimation**

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

#### *Financial assets*

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

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

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

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

#### *Financial liabilities*

Accounts payable and other liabilities - The carrying amounts of accounts payable and other liabilities

approximate fair values due to relatively short-term maturities.

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

### **Fair value hierarchy**

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

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

| <b>March 31, 2014</b> |                     |                     |                |                |
|-----------------------|---------------------|---------------------|----------------|----------------|
|                       | <b>Total</b>        | <b>Level 1</b>      | <b>Level 2</b> | <b>Level 3</b> |
| AFS financial assets  | <b>₱ 82,212,380</b> | <b>₱ 18,321,742</b> | <b>₱ –</b>     | <b>₱ –</b>     |

| <b>March 31, 2013</b> |                     |                     |                     |                |
|-----------------------|---------------------|---------------------|---------------------|----------------|
|                       | <b>Total</b>        | <b>Level 1</b>      | <b>Level 2</b>      | <b>Level 3</b> |
| AFS financial assets  | <b>₱ 96,518,397</b> | <b>₱ 32,627,759</b> | <b>₱ 63,890,638</b> | <b>₱ –</b>     |

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

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

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

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

The Company has no output VAT since it does not have any income subject to VAT for the quarter ended March 31, 2014 and 2013.

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

|                                            | <b>March 31, 2014</b> | <b>March 31, 2013</b> |
|--------------------------------------------|-----------------------|-----------------------|
| At beginning of year                       | <b>₱ 666,907</b>      | <b>₱ 394,608</b>      |
| Current purchases and payments for:        |                       |                       |
| Goods for resale/ manufacture              | –                     | –                     |
| Goods other than for resale or manufacture | <b>29</b>             | –                     |
| Capital goods subject to amortization      | –                     | –                     |
| Capital goods not subject to amortization  | –                     | –                     |
| Services lodged under cost of goods sold   | –                     | –                     |
| Services lodged under other accounts       | <b>73,380</b>         | 71,026                |
|                                            | <b>₱ 740,316</b>      | <b>₱ 465,634</b>      |

#### ***c) Taxes on importation***

The Company has no import transactions for the quarters ended March 31, 2014 and 2013.

d) *Excise Tax*

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

e) *Documentary stamp tax*

There are no documentary stamp tax paid by the Company for the quarter ended March 31, 2014 and 2013.

f) *Taxes and licenses*

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

|                         | 2014     | 2013     |
|-------------------------|----------|----------|
| Business permits        | ₱ 16,195 | ₱ 15,486 |
| Corporate Community tax | 580      | 510      |
| BIR Annual registration | 500      | 500      |
|                         | ₱ 17,275 | ₱ 16,496 |

g) *Withholding taxes*

The details of total withholding taxes for the quarter ended **March 31** are shown below:

|                                 | 2014     | 2013     |
|---------------------------------|----------|----------|
| Withholding tax on compensation | ₱ —      | ₱ —      |
| Expanded withholding tax        | 16,875   | 16,875   |
| Final withholding tax           | —        | —        |
|                                 | ₱ 16,875 | ₱ 16,875 |

h) *Deficiency tax assessment and tax cases*

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

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

RR No. 19-2011 prescribes the new BIR forms that should be used for income tax filing covering and starting with the calendar year 2011 and modifies Revenue Memorandum Circular No. 57-2011. In the Guidelines and Instructions Section of the new BIR Form 1702 (version November 2011), a required attachment to the income tax returns is an Account Information Form and/or Financial Statements that include in the Notes to Financial Statements schedules of sales/receipts/fees, cost of sales/services, non-operating and taxable other income, itemized deductions (if the taxpayer did not avail of the Optional Standard Deduction or OSD), taxes and licenses and other information prescribed to be disclosed in the Notes to the Financial statements.

The schedule and information of taxable income and deductions taken for the quarter ended March 31, 2014 and 2013 are as follows:

a) *Sales/Taxable Income*

|                    | March 31, 2014 |              | March 31, 2013 |              |
|--------------------|----------------|--------------|----------------|--------------|
|                    | Special rate   | Regular rate | Special rate   | Regular rate |
| Sale of goods      | ₱ —            | ₱ —          | ₱ —            | ₱ —          |
| Sale of services   | —              | —            | —              | —            |
| Sale of properties | —              | —            | —              | —            |
|                    | ₱ —            | ₱ —          | ₱ —            | ₱ —          |

c) *Itemized deductions*

|                           | March 31, 2014 |                  | March 31, 2013 |                  |
|---------------------------|----------------|------------------|----------------|------------------|
|                           | Special rate   | Regular rate     | Special rate   | Regular rate     |
| Professional fees         | ₱ —            | ₱ 195,000        | ₱ —            | ₱ 195,000        |
| Rent and utilities        | —              | 55,500           | —              | 55,500           |
| Office supplies           | —              | 2,961            | —              | 3,980            |
| Dues and subscription     | —              | 258,000          | —              | 250,000          |
| Representation            | —              | 893              | —              | —                |
| Taxes and licenses        | —              | 17,275           | —              | 16,496           |
| Training and development  | —              | —                | —              | 4,500            |
| Travel and transportation | —              | 320              | —              | 500              |
| Miscellaneous             | —              | 11,671           | —              | 26,450           |
| <b>Sub-total</b>          | —              | <b>541,620</b>   | —              | <b>552,426</b>   |
| <b>Allowance of NOLCO</b> | —              | —                | —              | —                |
| <b>Total expenses</b>     | <b>₱ —</b>     | <b>₱ 541,620</b> | <b>₱ —</b>     | <b>₱ 552,426</b> |

d) *Taxes and licenses*

The details of the Company's taxes and licenses for the quarter ended **March 31** are presented below:

|                         | 2014            | 2013            |
|-------------------------|-----------------|-----------------|
| Business permits        | ₱ 16,195        | ₱ 15,486        |
| Corporate Community tax | 580             | 510             |
| BIR Annual registration | 500             | 500             |
|                         | <b>₱ 17,275</b> | <b>₱ 16,496</b> |

e) *Other information*

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

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**FORUM PACIFIC, INC. AND SUBSIDIARY**  
**APPENDIX A – FINANCIAL SOUNDNESS**  
MARCH 31, 2014

|                                       | <b>March 31<br/>2014</b> | March 31<br>2013 | December 31<br>2013 |
|---------------------------------------|--------------------------|------------------|---------------------|
| <b>Profitability ratios:</b>          |                          |                  |                     |
| Return on assets                      | <b>Nil</b>               | Nil              | Nil                 |
| Return on equity                      | <b>Nil</b>               | Nil              | Nil                 |
| Net profit margin                     | <b>Nil</b>               | Nil              | Nil                 |
| <b>Solvency and liquidity ratios:</b> |                          |                  |                     |
| Current ratio                         | <b>8.13:1</b>            | 5.36:1           | 3.19:1              |
| Debt to equity ratio                  | <b>0.01:1</b>            | 0.01:1           | 0.01:1              |
| Quick ratio                           | <b>1.28:1</b>            | 1.22:1           | 0.42:1              |
| Cash-flow liquidity ratio             | <b>N/A</b>               | N/A              | N/A                 |
| <b>Financial leverage ratio:</b>      |                          |                  |                     |
| Asset to equity ratio                 | <b>1.01:1</b>            | 1.01:1           | 1.01:1              |
| Debt to asset ratio                   | <b>0.01:1</b>            | 0.01:1           | 0.01:1              |
| Interest rate coverage ratio          | <b>Nil</b>               | Nil              | Nil                 |