





May 22, 2013

Dear Stockholder:

Please be advised that the annual meeting of the stockholders of the Corporation, as fixed by the Board of Directors of FORUM PACIFIC, INC. will be held on Monday, June 24, 2013 at 10:00 a.m. at 6<sup>th</sup> Floor One Corporate Center, Doña Julia Vargas Ave. cor. Meralco Ave., Ortigas Center, Pasig City for the purpose of transacting the following business:

1. Call to Order
2. Report on Attendance and Quorum
3. Approval of Minutes of Previous Stockholders' Meeting
4. Annual Report
5. Ratification of All Acts and Resolutions of the Board of Directors and Management Adopted During the Preceding Year
6. Election of Board of Directors for the Ensuing Term
7. Appointment of External Auditors
8. Appointment of External Counsels
9. Other Business as may properly come before the Meeting
10. Adjournment

As fixed by the Board of Directors, stockholders of record date as of June 4, 2013 shall be entitled to notice of, and vote at, said stockholders' meeting and for this purpose, the Board of Directors authorized the closing of the stock and transfer book of the Corporation from June 4 - 24, 2013.

If you are not attending, you may submit a proxy statement to the office of the Corporate Secretary of this Corporation at the address below not later than ten (10) days before the meeting. Corporate stockholders are requested to attach to the proxy instrument their respective Board Resolutions in support to their proxies.

On the day of the meeting, you or your proxy are hereby required to bring this Notice and any form of identification with picture and signature (e.g. driver's license, SSS ID, company ID, etc.) to facilitate registration.

  
**Atty. Arsenio A. Alfiler Jr**  
Corporate Secretary

Unit 3104, 31<sup>st</sup> Floor  
Antel Global Corporate Center  
#3 Doña Julia Vargas Avenue,  
Ortigas Center, Pasig City

**PROXY**

The undersigned stockholder of **FORUM PACIFIC, INC.** (the "Company") hereby appoints \_\_\_\_\_ or in his absence, the Chairman of the meeting, as *attorney* and *proxy*, with power of substitution, to present and vote all shares registered in his/her/its name as proxy of the undersigned stockholder, at the Annual Meeting of Stockholders of the Company on June 24, 2013 and at any of the adjournments thereof for the purpose of acting on the following matters:

- |   |   |
|---|---|
| <p>1. Approval of minutes of previous meeting held on July 16, 2012.<br/><input type="checkbox"/> Yes   <input type="checkbox"/> No   <input type="checkbox"/> Abstain</p> <p>2. Approval of annual report.<br/><input type="checkbox"/> Yes   <input type="checkbox"/> No   <input type="checkbox"/> Abstain</p> <p>3. Ratification of all acts and resolutions of the Board of Directors and Management adopted during the preceding year.<br/><input type="checkbox"/> Yes   <input type="checkbox"/> No   <input type="checkbox"/> Abstain</p> <p>4. Election of Directors<br/><input type="checkbox"/> Vote for all nominees listed below<br/>Geronimo F. Velasco, Jr.<br/>Peter S. Salud<br/>Elvira A. Ting<br/>Kenneth T. Gatchalian<br/>Federico E. Puno<br/>Byoung Hyun Suh (Independent)<br/>Lamberto B. Mercado, Jr.<br/>Rogelio D. Garcia<br/>Arthur R. Ponsaran<br/>Joaquin P. Obieta<br/>Sergio R. Ortiz-Luis, Jr. (Independent)</p> <p><input type="checkbox"/> Withhold authority for all nominees Listed above</p> <p><input type="checkbox"/> Withhold authority to vote for the nominees listed below:<br/>_____<br/>_____<br/>_____</p> | <p>5. Election of Diaz Murillo Dalupan and Co., CPAs, as independent auditors.<br/><input type="checkbox"/> Yes   <input type="checkbox"/> No   <input type="checkbox"/> Abstain</p> <p>6. Election of Corporate Counsels, Phils. as external legal counsels.<br/><input type="checkbox"/> Yes   <input type="checkbox"/> No   <input type="checkbox"/> Abstain</p> <p>7. At their discretion, the proxies named above are authorized to vote upon such other matters as may properly come before the meeting.<br/><input type="checkbox"/> Yes   <input type="checkbox"/> No   <input type="checkbox"/> Abstain</p> <p>_____<br/>PRINTED NAME OF STOCKHOLDER</p> <p>_____<br/>SIGNATURE OF STOCKHOLDER/<br/>AUTHORIZED SIGNATORY</p> <p>_____<br/>DATE</p> |
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THIS PROXY SHOULD BE RECEIVED BY THE CORPORATE SECRETARY ON OR BEFORE JUNE 14, 2013, THE DEADLINE FOR SUBMISSION OF PROXIES.

THIS PROXY IS NOT REQUIRED TO BE NOTARIZED, AND WHEN PROPERLY EXECUTED, WILL BE VOTED IN THE MANNER AS DIRECTED HEREIN BY THE STOCKHOLDER(S). IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED "FOR" THE ELECTION OF ALL NOMINEES AND FOR THE APPROVAL OF THE MATTERS STATED ABOVE AND FOR SUCH OTHER MATTERS AS MAY PROPERLY COME BEFORE THE MEETING IN THE MANNER DESCRIBED IN THE INFORMATION STATEMENT AND/OR AS RECOMMENDED BY MANAGEMENT OR THE BOARD OF DIRECTORS.

A STOCKHOLDER GIVING A PROXY HAS THE POWER TO REVOKE IT AT ANYTIME BEFORE THE RIGHT GRANTED IS EXERCISED. A PROXY IS ALSO CONSIDERED REVOKED IF THE STOCKHOLDER ATTENDS THE MEETING IN PERSON AND EXPRESSED HIS INTENTION TO VOTE IN PERSON.

**SECURITIES AND EXCHANGE COMMISSION  
SEC FORM 20-IS  
INFORMATION STATEMENT PURSUANT TO SECTION 20  
SECURITIES REGULATION CODE**



1. Check the appropriate box:  
     Preliminary Information Statement  
     X   Definitive Information Statement
  
2. Name of Registrant as specified in its charter :       **FORUM PACIFIC, INC.  
(the "Corporation")**
  
3. Province, country or other jurisdiction of incorporation or organization :       **Metro Manila, Philippines**
  
4. SEC Identification Number :       **SEC Registration No. AS 93000120**
  
5. BIR Tax Identification Code :       **TIN No. 312-002-155-598**
  
6. Address of Registrant's Principal Office :       **35<sup>th</sup> Floor One Corporate Center, Doña Julia Vargas Ave. cor. Meralco Ave., Ortigas Center, Pasig City**
  
7. Registrant's telephone number, including area code :       **(632) 706-7888**
  
8. Date, time and place of stockholders meeting :       **June 24, 2013 at 10:00 A.M.,  
6<sup>th</sup> Floor One Corporate Center  
Doña Julia Vargas Ave. cor. Meralco Ave.  
Ortigas Center, Pasig City**
  
9. Approximate date on which the Information Statement are first to be sent or given to security holders :       **June 4, 2013**
  
10. In case of Proxy Solicitation :       **Not applicable**

11. Securities registered pursuant to Sections 4 and 8 of the RSA (information on number of shares and amount of debt is applicable only to corporate registrants):

Title of Each Class	No. of Shares of Common Stock Outstanding or Amount of Debt Outstanding
<b>Common Shares- P1.00 par value</b>	<b>Issued and Outstanding – 1,838,943,246</b>

12. Are any or all of registrant's securities listed on the Philippine Stock Exchange?

Yes   X                        No     

The common shares of the Corporation are listed on the Philippine Stock Exchange.

**Date, Time and Place of Meeting of Security Holders.**

Date, Time, and Place of Meeting	:	<b>June 24, 2013 10:00 A.M., 6<sup>th</sup> Floor One Corporate Center Doña Julia Vargas Ave. cor. Meralco Ave. Ortigas Center, Pasig City</b>
Complete Registrant's Mailing Address	:	<b>35<sup>th</sup> Floor, One orporate Center DoñaJulia Vargas Ave. cor. Meralco Ave.,Ortigas Center, Pasig City</b>
The approximate date on which the Information Statement are first to be sent and given to the security holders shall be on	:	<b>June 4, 2013</b>

**Dissenters' Right of Appraisal**

Under Section 81 and 42 of the Corporation Code, stockholders who dissent to certain corporate actions are given the right of appraisal. Among others, appraisal rights are available to dissenters in case the corporation invests its funds in another corporation or business for any purpose other than its primary purpose. The appraisal right may be exercised by any stockholder who shall have voted against the proposed corporate action, by making a demand on the corporation within thirty (30) days after the date on which the vote was taken for the payment of the fair value of his shares.

There are no matters or proposed corporate actions to be taken up during the annual stockholders' meeting which may give rise to a possible exercise by security holders of their appraisal rights under Title X of the Corporation of the Philippines.

**THE STOCKHOLDER MUST VOTE AGAINST THE PROPOSED CORPORATE ACTION IN ORDER TO AVAIL HIMSELF OF THE APPRAISAL RIGHT**

**Interest of Certain Persons in or Opposition to Matters to be acted upon**

Each of the incumbent Directors or Officers of the Corporation since the beginning of the last fiscal year or any associate of any of the foregoing persons do not have any substantial interest, direct or indirect, by security holdings or otherwise, in any matter to be acted upon.

None of the incumbent Directors of the Corporation has issued any notice in writing of an intention to oppose any action to be taken by the registrant at the meeting.

**Voting Securities and Principal Holders Thereof**

- (a) The Company has 1,838,943,246 outstanding shares as of March 31, 2013. Every stockholder shall be entitled to one vote for each share of stock held as of the established record date.
- (b) All stockholders of record as of June 4, 2013 are entitled to notice and vote at the Corporation's Annual Meeting of the Stockholders.

(c) Manner of Voting

The election of directors shall be taken up at the meeting and pursuant to Section 24 of the Corporation Code. The holders of common stock (Class A) are entitled to one vote per share but in connection with the cumulative voting feature applicable to the election of directors, each stockholder is entitled to as many votes as shall equal the number of shares held by such person at the close of business on the record date, multiplied by the number of directors to be elected. A stockholder may cast all such votes for a single nominee or may apportion such votes among any two or more nominees. The shares shall be voted/cast by secret balloting and/or rising of hands. In all matters included in the agenda, except the election of directors, the counting of vote will be done through the regular method.

**The report attached to this SEC Form 20-IS is the management report to stockholders required under SRC Rule 20 to accompany the SEC Form 20-IS and is hereinafter referred to as the "Management Report".**

**Security Ownership of Certain Record and Beneficial Owners and Management**

(1.) Security Ownership of Certain Record and Beneficial Owners

As of March 31, 2013 the Corporation knows of no one who beneficially owns in excess of 5% of the Corporation's common stock except as set forth in the table below.

The percentage of shares held is based on the outstanding shares of 1,838,943,246 plus the treasury shares of 36,056,750.

Title of Class	Name, address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	% of total o/s shares
Common	International Polymer Corporation, T. Santiago St., Canumay, Valenzuela City (Stockholder)	same as record owner (see note 1)	Filipino	496,887,494	26.501
Common	PCD Nominee Corporation, 37/F Tower 1, The Enterprise Center, 6766 Ayala Ave. Cor. Paseo De Roxas, Makati City (Stockholder)	PCD Participants and their clients (see note 2)	Filipino	408,407,824	21.782
Common	The Wellex Group Inc., 35th Flr., One Corporate Center, Doña Julia Vargas ave., cor, Meralco ave., Ortigas Center, Pasig City (Stockholder)	same as record owner (see note 3)	Filipino	376,950,000	20.104

<sup>1</sup> International Polymer Corporation ("IPC") is a significant shareholder of the Company. As per By-laws and the Corporation Code, the Board of Directors of IPC has the power to decide how the IPC shares in Forum Pacific Inc. are to be voted.

<sup>2</sup>Schedule A. The clients of each company have the power to decide how their shares are to be voted.

<sup>3</sup>The Wellex Group, Inc. ("TWGI") is a significant shareholder of the Company. As per By-laws and the Corporation Code, the Board of Directors of TWGI has the power to decide how the TWGI shares in Forum Pacific Inc. are to be voted.

*Schedule A*

<b>PCD Nominee</b>	<b>No. of Shares Held</b>	<b>%</b>
Westlink Global Equities, Inc.	71,105,800	17.41
Ansald. Godinez & Co., Inc.	34,663,000	8.49
Abacus Securities Corporation	24,266,458	5.94
Tri-State Securities Inc.	13,710,000	3.36
Quality Investment & Securities Corporation	11,906,250	2.92
Globalinks Securities & Stocks, Inc.	10,720,754	2.63
Tower Securities, Inc.	9,787,000	2.40
Yao & Zialcita, Inc.	9,560,000	2.34
Angping & Associates Securities Inc.	9,141,000	2.24
Yu & Company, Inc.	8,130,000	1.99
A&A Securities, Inc.	7,950,880	1.95
Eastern Securities Development Corporation	7,905,000	1.94
Wealth Securities, Inc.	7,868,000	1.93
Belson Securities, Inc.	7,834,996	1.92
Intra-Invest Securities, Inc.	7,349,000	1.80
Others	166,509,686	40.77
<b>TOTAL</b>	<b>408,407,824</b>	<b>100.00</b>

(2.) *Security Ownership of Directors and Management (As of March 31, 2013)*

<b>Title of Class</b>	<b>Name of Beneficial Owner</b>	<b>Amount and Nature of Beneficial Ownership</b>	<b>Citizenship</b>	<b>Percent of Class</b>
Common	Geronimo F. Velasco	10,000 (direct)	Filipino	0.000
Common	Peter S. Salud	29,990 (direct)	Filipino	0.001
Common	Elvira A. Ting	400,001 (direct)	Filipino	0.021
Common	Federico E. Puno	2,500,000 (direct)	Filipino	0.133
Common	Joaquin P. Obieta	1 (direct)	Filipino	0.000
Common	Lamberto A. Mercado	100 (direct)	Filipino	0.000
Common	Rogelio D. Garcia	10 (direct)	Filipino	0.000
Common	Arthur R. Ponsaran	1 (direct)	Filipino	0.000
Common	Kenneth T. Gatchalian	100 (direct)	Filipino	0.000
Common	Byoung Hyun Suh	1,000 (direct)	Korean	0.000
	Atty. Arsenio A. Alfiler, Jr.	-	Filipino	0.000
<b>All directors and Officers as a group</b>		<b>2,941,203</b>		<b>0.155</b>

(3.) *Security Ownership of Foreigners (As of March 31, 2013)*

<b>Class of Security</b>	<b>Total Outstanding Shares</b>	<b>Shares Allowed to Foreigners</b>	<b>Shares Owned by Foreigners</b>	<b>% Owned by Foreigners</b>	<b>Shares Owned by Filipino</b>	<b>% Owned by Filipino</b>
"Common - A"	1,838,943,246	735,577,298	46,024,892	2.5028	1,792,918,354	97.4972

(4.) Voting Trust Holders of 5% or more

There are no voting trust holders of 5% or more.

(5.) Changes in Control

There is no change in control of the Corporation and there is no arrangement of which may result in change of control.

(d) No change in control of the corporation has occurred since the beginning of its last year.

### **Directors and Executive Officers**

**Information required hereunder is incorporated by reference to the section entitled “Directors and Executive Officers of the Registrant” on pages 33 to 36 of the Management Report.**

The incumbent directors of the Corporation and a nominee for new independent director are expected to be nominated by management for re-election this year.

The members of the Nomination Committee of the Corporation are the following:

1. Geronimo F. Velasco – Chairman of the Committee
2. Peter S. Salud – Member
3. Kenneth T. Gatchalian – Member

Information required by the SEC under SRC Rule 38 on the nomination and election of Independent Directors.

#### **A. Definition**

1. An independent director is a person who, apart from his fees and shareholdings, is independent of management and free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director in the corporation and includes, among others, any person who:
  - 1.1 Is not a director or officer or substantial stockholder of the corporation or of its related companies or any of its substantial shareholders except when the same shall be an independent director of any of the foregoing;
  - 1.2 Does not own more than two percent (2%) of the shares of the corporation and/or its related companies or any of its substantial shareholders;
  - 1.3 Is not a relative of any director, officer or substantial shareholder of the corporation, any of its related companies or any of its substantial shareholders. For this purpose, relatives include spouse, parent, child, brother, sister, and the spouse of such child, brother or sister;
  - 1.4 Is not acting as a nominee or representative of any director or substantial shareholder of the corporation, and/or any of its related companies and/or any of its substantial shareholders, pursuant to a Deed of Trust or under any contract or arrangement;
  - 1.5 Has not been employed in any executive capacity by the corporation, any of its related companies and/or by any of its substantial shareholders within the last two (2) years;
  - 1.6 Is not retained, either personally or through his firm or any similar entity, as professional adviser, by the corporation, any of its related companies and/or any of its substantial shareholders, within the last two (2) years; or
  - 1.7 Has not engaged and does not engage in any transaction with the corporation and/or with any of its

related

companies and/or with any of its substantial shareholders, whether by himself and/or with other persons and/or through a firm of which he is a partner and/or a company of which he is a director or substantial shareholder, other than transactions which are conducted at arm's length and are immaterial.

2. No person convicted by final judgment of an offense punishable by imprisonment for a period exceeding six (6) years, or a violation of this Code, committed within five (5) years prior to the date of his election, shall qualify as an independent director. This is without prejudice to other disqualifications which the corporation's Manual on Corporate Governance provides.
3. Any controversy or issue arising from the selection, nomination or election of independent directors shall be resolved by the Commission by appointing independent directors from the list of nominees submitted by the stockholders.
4. When used in relation to a company subject to the requirements above:
  - 4.1 Related company means another company which is: (a) its holding company, (b) its subsidiary, or (c) a subsidiary of its holding company; and
  - 4.2 Substantial shareholder means any person who is directly or indirectly the beneficial owner of more than ten percent (10%) of any class of its equity security.

## **B. Qualifications and Disqualifications of Independent Directors**

1. An independent director shall have the following qualifications:
  - 1.1 He shall have at least one (1) share of stock of the corporation;
  - 1.2 He shall be at least a college graduate or he has sufficient management experience to substitute for such formal education or he shall have been engaged or exposed to the business of the corporation for at least five (5) years;
  - 1.3 He shall be twenty one (21) years old up to seventy (70) years old, however, due consideration shall be given to qualified independent directors up to the age of eighty (80);
  - 1.4 He shall have been proven to possess integrity and probity; and
  - 1.5 He shall be assiduous.
2. No person enumerated under Section II (5) of the Code of Corporate Governance shall qualify as an independent director. He shall likewise be disqualified during his tenure under the following instances or causes:
  - 2.1 He becomes an officer or employee of the corporation where he is such member of the board of directors/trustees, or becomes any of the persons enumerated under letter (A) hereof;
  - 2.2 His beneficial security ownership exceeds two percent (2%) of the outstanding capital stock of the corporation where he is such director;
  - 2.3 Fails, without any justifiable cause, to attend at least 50% of the total number of Board meetings during his incumbency unless such absences are due to grave illness or death of an immediate family;
  - 2.4 Such other disqualifications that the Corporate Governance Manual provides.

### **C. Number of Independent Directors**

All companies are encouraged to have independent directors. However, issuers of registered securities and public companies are required to have at least two (2) independent directors or at least twenty percent (20%) of its board size.

### **D. Nomination and Election of Independent Directors**

1. The Nomination Committee (the "Committee") shall have at least three (3) members, one of whom is an independent director. It shall promulgate the guidelines or criteria to govern the conduct of the nomination. The same shall be properly disclosed in the corporation's information or proxy statement or such other reports required to be submitted to the Commission.
2. Nomination of independent director/s shall be conducted by the Committee prior to a stockholders' meeting. All recommendations shall be signed by the nominating stockholders together with the acceptance and conformity by the would-be nominees.
3. The Committee shall pre-screen the qualifications and prepare a final list of all candidates and put in place screening policies and parameters to enable it to effectively review the qualifications of the nominees for independent director/s.
4. After the nomination, the Committee shall prepare a Final List of Candidates which shall contain all the information about all the nominees for independent directors, as required under Part IV (A) and (C) of Annex "C" of SRC Rule 12, which list, shall be made available to the Commission and to all stockholders through the filing and distribution of the Information Statement, in accordance with SRC Rule 20, or in such other reports the Corporation is required to submit to the Commission. The name of the person or group of persons who recommended the nomination of the independent director shall be identified in such report including any relationship with the nominee.
5. Only nominees whose names appear on the Final List of Candidates shall be eligible for election as independent director/s. No other nomination shall be entertained after the Final List of Candidates shall have been prepared. No further nominations shall be entertained nor allowed on the floor during the actual annual stockholders' meeting.
6. Election of Independent Director/s
  - 6.1 Except as those required under this Rule and subject to pertinent existing laws, rules and regulations of the Commission, the conduct of the election of independent director/s shall be made in accordance with the standard election procedures of the company or its by-laws.
  - 6.2 It shall be the responsibility of the Chairman of the Meeting to inform all stockholders in attendance of the mandatory requirement of electing independent director/s. He shall ensure that independent director/s is elected during the stockholders' meeting.
  - 6.3 Specific slot/s for independent directors shall not be filled-up by unqualified nominees.
  - 6.4 In case of failure of election for independent director/s, the Chairman of the Meeting shall call a separate election during the same meeting to fill up the vacancy.

### **E. Termination/Cessation of Independent Directorship**

In case of resignation, disqualification or cessation of independent directorship and only after notice has been made with the Commission within five (5) days from such resignation, disqualification or cessation, the vacancy shall be filled by the vote of at least a majority of the remaining directors, if still constituting a quorum, upon the nomination of the Committee otherwise, said vacancies shall be filled by the stockholders in a regular or special

meeting called for that purpose. An independent director so elected to fill a vacancy shall serve only for the unexpired term of his predecessor in office.

The procedures for the “Nomination and Election of Independent Directors pursuant to SRC Rule 38” are to be incorporated in the By-Laws of the Corporation. The Board of Directors approved the amendments to the Corporation’s By-Laws to adopt SRC Rule 38 on December 14, 2004.

The By-Laws of the corporation were amended after the Stockholders’ meeting on July 1, 2011 which includes the provisions of SRC Rule 38, as approved by the Board of Directors and Stockholders during the last Stockholders’ meeting dated December 14, 2004.

**F. Term Limits for Independent Directors**

Pursuant to its authority under Section 72, in relation to Section 38, of the Securities Regulation Code (Republic Act No. 8799), the Commission, in its meeting on December 2, 2011, and in order to enhance the effectiveness of independent directors, resolved to promulgate the following rules on the election of Independent Directors in listed, public and mutual fund companies:

1. There shall be no limit in the number of covered companies that a person may be elected as Independent Director (ID), except in business conglomerates where an ID can be elected to only five (5) companies of the conglomerate, i.e., parent company, subsidiary or affiliate;
2. IDs can serve as such for five (5) consecutive years, provided that service for a period of at least six (6) months shall be equivalent to one (1) year, regardless of the manner by which the IP position was relinquished or terminated;
3. After completion of the five-year service period, an ID shall be ineligible for election as such in the same company unless the ID has undergone a “cooling off” period of two (2) years, provided, that during such period, the ID concerned has not engaged in any activity that under existing rules disqualifies a person from being elected as ID in the same company;
4. An ID re-elected as such in the same company after the “cooling off” period can serve for another five (5) consecutive years under the conditions mentioned in paragraph 2 above;
5. After serving as ID for ten (10) years, the ID shall be perpetually barred from being elected as such in the same company, without prejudice to being elected as ID in other companies outside of the business conglomerate, where applicable, under the same conditions provided for in this Circular;

**Presented below is the Final List of Candidates for Directors:**

The following are expected to be nominated to the Board of Directors of the Corporation for the ensuing year:

1.	Geronimo F. Velasco, Jr.	7.	Lamberto B. Mercado, Jr.
2.	Peter S. Salud	8.	Rogelio D. Garcia
3.	Elvira A. Ting	9.	Arthur R. Ponsaran
4.	Kenneth T. Gatchalian	10.	Joaquin P. Obieta
5.	Federico E. Puno	11.	Sergio R. Ortiz-Luis, Jr. – <b>Independent Director</b>
6.	Byoung Hyun Suh - <b>Independent Director</b>		

The aforementioned nominees are all incumbent directors, except for Mr. Sergio R. Ortiz-Luis, Jr., pre-screened by the Committee and their qualifications are presented on pages 39 to 41 of Management Report. The two Independent Directors serves less than five (5) years pursuant to SEC Memorandum Circular No. 9 Series of 2011 (Term Limits for Independent Directors)

The Certifications of Independent Directors executed by the aforementioned independent directors of the Corporation are attached hereto. (Pls. refer to pages 18 to 19)

The name of the person who recommended the nomination of the foregoing candidates for independent directors

is Ms. Elvira A. Ting. He has no relationships with these nominees.

None of the candidates for independent directors of the Corporation are related to Forum Pacific Inc.

### **Significant Employees**

There are no other employees other than the officers mentioned in the preceding subsection who are expected to make significant contribution to the business.

### **Family Relationships**

Ms. Elvira A. Ting, the Vice Chairman/Director, is Mr. Kenneth T. Gatchalian's aunt, the Treasurer/Director.

There are no family relationships up to the fourth civil degree either by consanguinity or affinity among directors, executive officers, persons nominated or chosen by the corporation to become directors, or executive officers other than the above.

### **Involvement in Certain Legal Proceedings**

None of the directors and executive officers was involved in certain legal proceedings during the past five (5) years up to the latest date which is March 31, 2013. Neither have they been convicted by final judgment in any criminal proceedings, or been subject to any order, judgment or decree of competent jurisdiction, permanently or temporarily enjoining, barring, suspending, or otherwise limiting their involvement in any type of business, securities, commodities or banking activities, nor found in an action by any court or administrative bodies to have violated a securities and commodities law.

### **Certain Relationships and Related Transactions**

In previous years, Forum Pacific, Inc. extended/obtained advances to/from related parties to finance the exploration activities of the related parties and to fund the overhead expenses of the Company. These advances are, in general, do not have fixed repayment terms and do not carry interest. (See Note 10 of the Audited Financial Statements as of and for the year ended December 31, 2012).

### **Ownership Structure and the Company**

Forum Pacific Inc. previously owned 60% of the stockholdings of Forum Coal Cebu Holdings, Inc. (FCCHI), a domestic corporation registered with the Philippine 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. FCCHI has 60% ownership of Forum Cebu Coal Corporation (FCCC), a domestic corporation which holds 100% interest in one (1) Coal Operating Contract in Cebu-COC 131.

FCCHI sold all of its shareholdings of FCCC on September 23, 2009 and decided to liquidate its business through shortening of its corporate term until 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.

On July 19, 2012, FPI Board of Directors approved the write-off of the investment 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 need not present consolidated financial statements.

### **Resignation of Directors Due to Disagreement**

Aside from resignation of Mr. Weslie T. Gatchalian last October 1, 2012 due to election to public office as Representative of Alay-Buhay Partylist, there is no director who resigned or decline to stand for re-election because of disagreement.

## Compensation of Directors & Executive Officers

### Summary of Compensation Table

The following table lists the names of the Corporation's Directors and Executive Officers Annual Compensation for the two most recent years including the estimated compensation for year 2013.

Name & Position	Year	Salary (in Php)	Other Variable Pay (in Php)
Peter S. Salud President/CEO/Director	2013	-	100,000
	2012	-	100,000
	2011	-	100,000
Geronimo F. Velasco Chairman/Independent Director	2013	-	100,000
	2012	-	100,000
	2011	-	100,000
Elvira A. Ting Vice Chairman/Director	2013	-	50,000
	2012	-	50,000
	2011	-	50,000
Kenneth T. Gatchalian Treasurer/Director	2013	-	50,000
	2012	-	50,000
	2011	-	50,000
All other officers & directors as a Group Unnamed	2013	-	40,000
	2012	-	40,000
	2011	-	40,000

The Chairman, Vice-Chairman, President and Treasurer are the only key officers who will be compensated for 2013.

The members of the Compensation Committee are the following:

1. Peter S. Salud - Chairman/ Director
2. Federico E. Puno - member
3. Kenneth T. Gatchalian – member

### Standard Arrangement

Except for a nominal amount of per diem amounting to P10,000 during attendance in special meetings, there are no standard arrangements to which directors of the Corporation are compensated, or are to be compensated, directly or indirectly for any services provided as a director for the last completed calendar year and ensuing year.

## **Other Arrangements**

There are no other arrangements pursuant to which any director of the Corporation was compensated, or is to be compensated directly or indirectly for any services provided as a director for the last completed calendar year and ensuing year, for any service provided as a director.

## **Employment Contracts and Termination of Employment and Change-in-Control Arrangements**

There is no employment contract and termination of employees and change-in-control arrangement with directors and executive officers.

## **Warrants and Options Outstanding**

There are no warrants and options outstanding held by Forum Pacific Inc.'s CEO, executive officers and all officers and directors as a group.

## **Appointment of Independent Public Accountants**

- a. Diaz Murillo Dalupan and Company is the external auditor for the current year. The same external auditor will be recommended for re-appointment at the scheduled annual stockholders' meeting.
- b. Representatives of the said firm are expected to be present at the stockholders' meeting and they will have the opportunity to make statement if they desire to do so and are expected to be available to respond to appropriate questions.

Pursuant to SRC Rule 68.1 (Qualification and Reports of Independent Auditors), the Company has engaged Ms. Rosemary D. De Mesa as the current Partner In-charge. She has been in charge for less than five years.

- c. The members of the Audit Committee of the Corporation are the following:
  1. Geronimo F. Velasco - Chairman
  2. Federico E. Puno- member
  3. Elvira A. Ting –member

## **Changes in and disagreements with Accountants and Financial Disclosure**

There are no changes in and disagreements with accountants on accounting and financial disclosure.

## **Action with Respect to Reports**

- a. Approval of the Minutes of the 2004 Annual Meeting of the Stockholders held on December 16, 2004 covering the following matters:
  1. Annual Report of officers
  2. Ratification and approval of all acts and resolutions of the Board of Directors for the year ended 2004
  3. Appointment of External Auditor
  4. Election of Directors

5. Amendment of By Laws covering the following:
  - Fixing of Record Date
  - Board Committees/Election of Independent Director

b. Approval of the Annual Report of Management for the year ended December 31, 2012

### **Other Proposed Action**

The following are to be proposed for approval during the stockholders' meeting:

- (a) Election of the members of the Board of Directors, including the independent directors for the ensuing year
- (b) Appointment of Corporate Counsels, Philippines, Law Office as external counsels
- (c) Ratification of all acts of the Board of Directors and Management since the last annual meeting.

The summary of the matters approved and recorded in the Annual Meeting of the Stockholders last December 16, 2004 are as follows: a.) reading and approval of the minutes of the annual meeting of the stockholders held on December 12, 2003; b.) presentation of Annual Report and approval of Financial Statements for the preceding year; c.) election of Board of Directors; d.) election of external auditors; e) ratification of all acts of the Board of Directors and Management since the last annual meeting; and e.) amendment of By-Laws covering the fixing of record date, board committees and election of independent director.

Brief description of material matters approved by the Board of Directors and Management and disclosed to the SEC and PSE since the last annual meeting of the stockholders held on December 16, 2004 for ratification by the stockholders:

<b><u>Date of Board Approval</u></b>	<b><u>Description</u></b>
November 22, 2005	Approval for the Sale of PetroCorp Shares
January 18, 2006	Sale of Shares in ESB shares
June 01, 2009	Sale of additional shares in ESB
July 26, 2010	Appointment of Diaz, Murillo , Dalupan and Company as new Independent Auditor for taxable year 2009
March 17, 2011	Approval of the adoption of a revised Corporate Governance Manual in accordance with SEC Memorandum Circular No. 6 (Series of 2009) dated June 22, 2009
April 23, 2012	Authorization to bid for the project of Department of Energy (DOE), more particularly described as "PECR – Petroleum Service Contract"
July 19, 2012	Write-Off of 60% investment in Forum Coal Cebu Holdings, Inc. (FCCHI) due to formal dissolution of the Company as approved by SEC on July 6, 2012.

### **Voting Procedures**

- (A) An affirmative vote by the stockholders owning at least a majority of the outstanding capital stock shall be sufficient for the approval of 1) Minutes of the Previous Stockholders' Meeting 2) Financial Statements 3) Ratification of Corporate Acts of the Board of Directors and Officers of the corporation as reflected in the minutes 4) Appointment of External Counsels .

- (B) An affirmative vote by the stockholders owning at least a majority of the outstanding capital stock and majority of the Board of Directors shall be sufficient to amend the By-Laws and adopt new By-Laws. As stated:

*Article VII of the By-Laws also provides that the By-Laws may be amended or repealed by stockholders owning or representing a majority of the outstanding capital stock and by a majority of the Board of Directors at any regular meeting, or at any special meeting called for the purpose, or the Board of Directors may, in any regular or special meeting thereof amend or repeal these By-Laws or adopt new By-Laws, provided, however, that this power to amend, modify, repeal these By-Laws or adopt new By-Laws may be delegated to the Board of Directors by the affirmative vote of the stockholders representing not less than two-thirds of the outstanding capital stock, provided, however, that any such delegation of powers to the Board of Directors shall be considered as revoked whenever stockholders representing majority of the outstanding capital stock of the Corporation shall so vote at a regular or special meeting called for the purpose.*

**The method by which votes will be counted:**

- (C) The holders of the majority interest of all outstanding stocks of the Corporation entitled to vote at the meeting present in present or by proxy, shall constitute a quorum for the transaction of business.
- (D) The holders of common stock are entitled to one vote per share, but in connection with the cumulative voting feature applicable to the election of directors, each stockholders is entitled to as many votes as shall equal the number of shares held by such person at the close of business on record date, multiplied by the number of directors to be elected. A stockholder may cast all of such votes for a single nominee or may apportion such votes among any two or more nominees. The shares shall be voted/cast by secret balloting and/or raising of hands. In all matters included in the agenda. The stockholders are entitled to one vote per share. For the election of directors, the counting will be cumulative. The counting of votes will be done by the Corporate Secretary with the assistance of the representatives of the Corporation's independent auditor Diaz Murillo Dalupan and Company and Stock Transfer Agent, Banco De Oro Stock Transfer Agency. All votes attaching to the shares owned by stockholders whose proxies were received by the Corporation will be cast in accordance with the instructions given or authority granted under proxies.

The Corporate Secretary shall record all the votes and proceedings of the stockholders and of the Directors in a book kept for that purpose.

**Discussion on Compliance with Leading Practices on Corporate Governance**

The Corporation adheres to the principles and practices of good corporate governance, as embodied in its Corporate Governance Manual and related SEC Circulars. Continuous improvement and monitoring of governance and management policies have been undertaken to ensure that the Corporation observes good governance and management practices. This is to assure the shareholders that the Corporation conducts its business with the highest level of integrity, transparency and accountability. The Annual Corporate Governance Compliance Evaluation Form is submitted by the Corporation every year to the SEC and PSE.

The Corporation likewise consistently strives to raise its financial reporting standards by adopting and implementing prescribed Philippine Financial Reporting Standards.

## Undertaking

Forum Pacific Inc., as registrant, will provide the stockholders a copy of SEC Form 17- A free of charge. Any written request for a copy of SEC Form 17-A shall be addressed to the Office of the Corporate Secretary c/o FORUM PACIFIC, INC. 35<sup>th</sup> Floor, One Corporate Center Doña Julia Vargas Ave., cor Meralco Ave. Ortigas Center, Pasig City. Philippines.

## SIGNATURE PAGE

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 the City of Pasig on May 22, 2013.

Forum Pacific, Inc. By:

  
**Atty. Arsenio A. Alfiler Jr**  
Corporate Secretary

## CERTIFICATE OF INDEPENDENT DIRECTOR

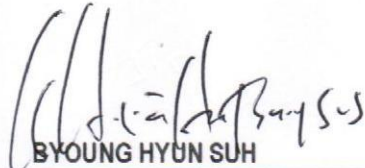
I, **Byoung Hyun Suh**, Korean, of legal age and resident of Unit 2006B The Salcedo Place, Tordesillas St., Salcedo Village, Makati City after having been duly sworn in accordance with law do hereby declare that:

1. I am an Independent Director of **FORUM PACIFIC, INC.**
2. I am affiliated with the following companies or organizations:

Company	Position	Period of Service
Pan Islands, Inc.	President	Feb. 1995 - present
National Unification Advisory Council Southeast Asia Chapter – R.O.K	President	July 2009 - present

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of **FORUM PACIFIC, INC.**, as provided for in Section 38 of the Securities Regulation Code and its implementing Rules and Regulations.
4. I shall faithfully and diligently comply with my duties and responsibilities as an independent director under the Securities Regulation Code.
5. I shall inform the corporate secretary of **FORUM PACIFIC, INC.** of any changes in the above mentioned information within five days from its occurrence.

Done this 02 of May, 2013 at 2013.




**BYOUNG HYUN SUH**

Affiant

SUBSCRIBED AND SWORN TO before me this 02 MAY 2013, affiant exhibiting his Community Tax no. 22017140 at Makati City, Metro Manila on January 8, 2013.

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 Book No. 11  
 Series of 2013



**ATTY. ADRIAN MANZANO ABAIGAR**  
 NOTARY PUBLIC  
 UNTIL DECEMBER 31, 2013  
 IBP NO. 921792 / 1-21-13  
 PTR NO. 893088 / 1-21-13  
 TIN NO. 2201520-116-000

## CERTIFICATE OF INDEPENDENT DIRECTOR

I, **SERGIO R. ORTIZ-LUIS, JR.**, Filipino, of legal age and resident of 151 cor. 3<sup>rd</sup> St., & 10<sup>th</sup> Ave., Riverside Village, Pasig City, after having been duly sworn in accordance with law do hereby declare that::

1. I am a nominee for the position of Independent Director of **FORUM PACIFIC, INC.**
2. I am affiliated with the following companies or organizations:

Company	Position	Period of Service
Alliance Global, Inc.	Vice Chair	Since 2007
Waterfront Phils., Inc.	Ind. Director	Since 2005
B. A. Securities	Ind. Director	Since 2012

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of **FORUM PACIFIC, INC.**, as provided for in Section 38 of the Securities Regulation Code and its implementing Rules and Regulations.
4. I shall faithfully and diligently comply with my duties and responsibilities as an independent director under the Securities Regulation Code.
5. I shall inform the corporate secretary of **FORUM PACIFIC, INC.** of any changes in the above mentioned information within five days from its occurrence.

Done this 22 MAY 2013 of \_\_\_\_\_, 2013 at Pasig City

  
**SERGIO R. ORTIZ-LUIS, JR.**

Affiant

SUBSCRIBED AND SWORN TO before me this 22 May 2013 at Pasig, affiant exhibiting his Community Tax Certificate No. 08148636 issued at Manila on Jan. 15, 2013.

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Page No. 32  
Book No. II  
Series of 2013

**ATTY. ADRIAN MANZANO ABAIGAR**  
NOTARY PUBLIC  
UNTIL DECEMBER 31, 2013  
IBP NO. 9122592 / 1-21-13  
PTR NO. 8430049 / 1-21-13  
TIN NO. 220-520-116-000

## Information Required by the SEC Pursuant to SRC Rule 20

### MANAGEMENT REPORT

#### BUSINESS AND GENERAL INFORMATION

##### 1.) **Brief Description of the General Nature and Scope of the Registrant's Business and its Subsidiaries**

Forum Pacific, Inc. is a company incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on January 8, 1993, with a principal office at the 35th Floor One Corporate Center, Doña Julia Vargas Ave. corner Meralco Ave., Ortigas Center, Pasig City.

The shares of FPI are listed and traded in the Philippine Stocks Exchange or PSE. Formerly known as Air Philippines International Corporation, FPI 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.

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. FCCHI owns 60% of Forum Cebu Coal Corporation (FCCC), a company holding one coal operating contract in Cebu. On September 23, 2009, FCCHI together with Forum (FEI) Ltd., entered into a Sale and Purchase Agreement (SPA) with CR Nichrome, Inc. for the sale of FCCC. As of September 30, 2009, FCCHI ceased to have control over FCCC. FCCHI then decided through its Board of Directors to liquidate its business through shortening of its corporate term until November 30, 2009.

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.

On July 19, 2012, FPI 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 need not present consolidated financial statements.**

In 2008, the Company ceased to have control over ESBI when it did not avail of its pre-emptive rights to subscribe for additional shares in ESBI's increase in capitalization which happened in 2007.

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 the 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.

### **Business Plans**

To address the foregoing matters that may raise doubt on the Company's ability to continue as a going concern, management is banking on new petroleum and gas and service contracts to increase profitability. The Company is also looking to explore areas adjacent to the Libertad Field in northern Cebu that is producing marginally.

The Company submitted three applications to the Department of Energy (DOE) last April 2012. FPI bids for the 640,000-hectare Area 10 in East Palawan, 600,000-hectare Area 11 in Cotabato and 482,000-hectare Area 15 in Sulu Sea, all applications were accepted by the DOE. If awarded with at least one area, FPI resources and time will be devoted to that particular area. With the help of potential partners, exploration might start next year. As at December 31, 2012, contracts for those areas mentioned were not yet awarded by the DOE to any qualified bidders.

To date, the Company's main source of revenue came from its 33.33% capital stock investment in Forum Exploration, Inc.(FEI), a subsidiary of Pangilinan-led Forum Energy Plc. and the project operator for Libertad gas field or Service Contract (SC) 40. With around 72.5 million cubic feet of gas representing net revenue of \$88,000 as at December 31, 2012 after FEI commercial production commenced last February 6, 2012, the management of FPI is hoping for future realization of its return on investment. While waiting for the results, the Company will do the following for the next twelve (12) months:

- Look for other DOE opportunities where the Company can participate
- Continue to look for potential partners in coal and petroleum exploration
- If awarded with at least one (1) area, the Company will hire professionals that will help in the execution & implementation of the project.

## **2.) Properties and Other assets**

Forum Pacific Inc. carries financial assets at fair value. This account consists of:

<b>As of December 31, 2012</b>	<b>Forum Exploration, Inc. (FEI)</b>	<b>Express Savings Bank, Inc. (ESBI)</b>	<b>Philippine Estates Corporation (PHES)</b>	<b>Total</b>
<b>Net carrying amount, December 31, 2011</b>	P 63,890,638	-	P 11,695,797	P 75,586,435
Write-Off	-	-	-	-
Impairment loss	-	-	-	-
Unrealized fair value gain	-	-	20,931,962	20,931,962
<b>Net Carrying Amount, December 31, 2012</b>	<b>63,890,638</b>	<b>-</b>	<b>32,627,759</b>	<b>96,518,397</b>
<b>Acquisition cost</b>	P 73,211,573	-	P 7,529,480	P 80,741,053
Unrealized fair value gain (loss)	-	-	25,098,279	25,098,279
Accumulated impairment loss	(9,320,935)	-	-	( 9,320,935)
<b>Net carrying amount, as of December 31, 2012</b>	<b>P 63,890,638</b>	<b>-</b>	<b>P 32,627,759</b>	<b>P 96,518,397</b>

December 31, 2011		FEI		ESBI		PHES		Total
Net carrying amount, December 31, 2010	P	73,211,573	P	4,660,200	P	3,814,938	P	81,686,711
Write-Off		-		(4,660,000)		-		( 4,660,000)
Impairment loss		( 9,320,935)		-		-		( 9,320,935)
Unrealized fair value loss		-		-		7,880,859		7,880,859
Net carrying amount, December 31, 2011	P	63,890,638	P	-	P	11,695,797	P	75,586,435
Acquisition cost		P 73,211,573		P -		P 7,529,480		P 80,741,053
Unrealized fair value loss		-		-		4,166,317		4,166,317
Accumulated impairment loss		( 9,320,935)		-		-		( 9,320,935)
Net carrying amount, December 31, 2011	P	63,890,638	P	-	P	11,695,797	P	75,586,435

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

This investment is classified as available-for-sale financial assets as the Company does not participate in the financial and operating policy of the investee which manifests control or significant influence. As of December 31, 2012, FPI has 33.33% ownership in Forum Exploration, Inc.

Previously wholly-owned, FPI's 66.67% ownership, or 125 million shares in FEI was sold to Tracer Petroleum Corporation (TPC), now Forum Energy, Inc in 2003. Subsequent to sale, the Parent Company did not have any material transaction with FEI, which manifests that it has ceased to have significant influence on the financial and operating policy decisions of FEI. Thus, it is now classified as available-for-sale financial assets in compliance with PAS 39. Investment cost and post-acquisition charges are used to determine the carrying amount of this investment as of reclassification date. The fair value of available-for-sale financial assets approximates its carrying value.

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

### **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 preemptive 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 P122,592,758 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.

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

This pertains to the Company's investment in 50,196,553 common shares which are registered and traded in the PSE and constitutes 3% ownership.

The fair value of PHES investment as of December 31, 2012 has been determined directly by reference to published prices in the active market. Consequently, an unrealized fair value gain was recognized amounting to P20,931,962 and charged to "other comprehensive gain" account in the 2012 statement of comprehensive income and shown separately as "Unrealized fair value gain on available-for-sale financial assets" in equity.

### **3.) Risks**

The Company is exposed to a variety of financial risks, which result 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 by minimizing the exposure to financial markets.

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:

	<b>2012</b>	<b>2011</b>
Cash in bank	<b>P 291,793</b>	P 38,213
Advances to related parties	<b>305,430,631</b>	309,672,272
	<b>P 305,722,424</b>	P 309,710,485

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 December 31, 2012 and 2011, the Company classifies the credit quality of advances to related parties based on the following:

	<b>2012</b>	<b>2011</b>
Group 1	<b>P 168,241,675</b>	P 172,483,315
Group 2	<b>137,188,958</b>	137,188,958
Group 3	-	-
	<b>P 305,430,631</b>	P 309,672,273

- 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 December 31, 2012 and 2011 are as follows:

December 31, 2012	Total	Past due but not impaired								
		Neither past due nor impaired	< 30 days	31-90 days	91-180 days	181-360 days	1-3 years	> 3 years but not impaired	Impaired	
Cash in bank	P 291,793	P 291,793	P-	P-	P-	P-	P-	P	-	P -
Advances to related parties - note 10	502,126,460	-	-	-	-	-	-	330,495,385		171,631,075
	<b>P 502,418,253</b>	<b>P 291,793</b>	<b>P-</b>	<b>P-</b>	<b>P-</b>	<b>P-</b>	<b>-</b>	<b>P 330,495,385</b>		<b>P 171,631,075</b>
December 31, 2011										
Cash in bank	P 38,213	P 38,213	P-	P-	P-	P-	P-	P	-	P -
Advances to related parties - note 10	506,368,100	-	-	-	-	-	-	334,737,025		171,631,075
	<b>P 506,406,313</b>	<b>P 38,213</b>	<b>P-</b>	<b>P-</b>	<b>P-</b>	<b>P-</b>	<b>-</b>	<b>P 334,737,025</b>		<b>P 171,631,075</b>

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

### 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 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:

December 31, 2012	Total	On demand	Less than three months			1-5 years
			3-12 months	3-12 months	1-5 years	
Account payable and other liabilities	P 406,784	P -	P -	P 406,784	P -	
Advances from related parties	3,416,399	-	-	-	3,416,399	
	<b>P 3,823,183</b>	<b>P -</b>	<b>P -</b>	<b>P 1,326,840</b>	<b>P 3,416,399</b>	
December 31, 2011						
Accounts payable and other liabilities	P 2,689,373	P -	P -	P 2,689,373	P -	
Advances from related parties	3,643,770	-	-	-	3,643,770	
	<b>P 6,333,143</b>	<b>P -</b>	<b>P -</b>	<b>P 2,689,373</b>	<b>P 3,643,770</b>	

### **Interest rate risk and fair value interest rate risk**

As the Company has no significant interest bearing assets, the Company's income and operating cash flows are substantially independent of changes in market interest rates.

The Company's interest rate risk arises from bank deposits. The Company's cash in bank earns interest at current interest rate level; any variation in the interest is expected to have an insignificant impact on Company's operation.

### **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. If foreign exchange rates had been 10% higher/lower, the net loss before tax would decrease /increase by P364,261 and P364,377 in 2012 and 2011, respectively.

### **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 President has 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 December 31, 2012 and 2011 are 1.22% and 1.58%, 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 P397,936,039 and P379,170,941, as of December 31, 2012 and 2011, 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 2012, the Company's strategy, which was unchanged from 2011, was to keep the gearing ratio below 50% as proportion to net debt to capital. The gearing ratios as at December 31, 2012 and 2011 were as follows:

	2012	2011
Accounts payable and other liabilities	P 406,784	P 2,689,373
Advances from related parties	3,416,399	3,643,770
Less: Cash	( 291,793)	( 38,213)
Net debt	3,513,390	6,294,930
Total equity	398,837,689	379,170,941
Total capital	P 402,369,079	P 385,465,871
	0.87%	1.63%

### 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:

	2012		2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial Assets</b>				
Cash	P 291,793	P 291,793	P 38,213	P 38,213
Advances to related parties – net	305,430,631	305,430,631	309,672,272	309,672,272
AFS financial assets	96,518,397	96,518,397	75,586,435	75,586,435
	<b>P 402,709,710</b>	<b>P 402,709,710</b>	<b>P385,296,920</b>	<b>P385,296,920</b>
<b>Financial liabilities</b>				
Accounts payable and other liabilities	P 406,784	P 406,784	P 2,689,373	P 2,689,373
Advances from related parties	3,416,399	3,416,399	3,643,770	3,643,770
	<b>P 3,823,183</b>	<b>P 3,823,183</b>	<b>P 6,333,143</b>	<b>P 6,333,143</b>

### 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 and trade and other receivables - The carrying amounts of cash and trade and other receivables 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.

#### *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:

2012				
	Total	Level 1	Level 2	Level 3
<b>AFS financial assets</b>	<b>P 96,518,397</b>	<b>P 32,627,759</b>	<b>P 63,890,638</b>	<b>P –</b>
2011				
	Total	Level 1	Level 2	Level 3
<b>AFS financial assets</b>	<b>P 75,586,435</b>	<b>P 11,695,797</b>	<b>P 63,890,638</b>	<b>P –</b>

#### 4.) Legal Proceedings

A case of illegal dismissal and claims for unpaid salaries, back wages, separation pay and damages was filed by an employee (logistic coordinator), on February 1996. The respondents on the said case are James Dale Hood, Air Philippines International (Formerly), Cophil Exploration & Drilling Co., Air Philippines International, Inc. and Forum Exploration, Inc. The management is still coordinating with legal department of Forum Exploration, Inc. to handle the case since James Dale Hood was their former Assistant Drilling Manager. Having said that, the management believes that it is not liable for the claims.

#### 5.) Submission of Matters to a Vote of Security Holders

There was no matter submitted to a vote of security holders during 2012.

### **MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION**

#### **A. Full Calendar Year**

The following discussion and analysis should be read in conjunction with the accompanying financial statements and related notes as of December 31, 2012, 2011 and 2010, included elsewhere in this Annual Report. Our financial statements, and the financial information discussion below, have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Forum Pacific Inc, hereafter referred to as "Parent Company", suffered losses for the past years due to country's economic crisis that greatly affect the stock market. Also, for five years or so, PSE suspended the trading of the Company's shares due to non-compliance of regulatory requirements. However, the Company is optimistic that 2013 will be a better year than the past years. The Company is also aware that the road to recovery is a long process due to various risks such as exchange rates, crude oil prices, and natural disasters that pose challenges in the year ahead. Despite these, the Company will continue looking for opportunities for new businesses to recover from its losses and be active in the market. As a matter of fact, on Board Meeting held on April 23, 2012, a resolution was made to bid on the project of the Department of Energy (DOE) for possible oil exploration on East Palawan Basin and Sulu Sea Basin. The company submitted three applications for these areas: 640,000-hectare (Area 10) in East Palawan, 600,000-hectare (Area 11) in Cotabato and 482,000-hectare (Area 15) in Sulu Sea, all applications were accepted by the DOE. If awarded with at least one area, the Company's resources and time will be devoted to that particular area. With the help of potential partners, exploration might start this year 2013. As at December 31, 2012, contracts for those areas mentioned were not yet awarded by the DOE to any qualified bidders. While waiting for the results, the Company will do the following for the next twelve (12) months:

- Look for other DOE opportunities where the Company can participate
- Continue to look for potential partners in coal and petroleum exploration
- If awarded with at least one (1) area, the Company will hire professionals that will help in the execution & implementation of the project.

#### **Key Performance Indicators**

The company set performance measures to gauge its operating performance periodically and to assess its overall state of corporate health. Listed below are the major performance measures, which the company has identified as reliable performance indicators.

1. Advances to Related Parties - all payments made by the company were come from the account of the TWGI.
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 Y2012 is 171.04% and 9.01% for Y2011.
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 equivalent there are in the current assets to cover current liabilities. The cash ratio of the company for the Y2012 is 69.63% and 1.42% for Y2011.

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 Y2012 is 0.96% and 0.95% for Y2011.
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 Y2012 and Y2011 is 0.97%.

## Financial Highlights

The following table shows the comparative operating data and financial statements of the Company for the years ending December 31, 2012, 2011 and 2010.

	Years Ended December 31		
	2012	2011	2010
<b>REVENUES (net)</b>	P -	P -	P -
<b>COSTS AND EXPENSES – note 11</b>	<b>2,393,976</b>	1,746,713	5,596,284
<b>GROSS LOSS</b>	<b>( 2,393,976)</b>	( 1,746,713)	( 5,596,284)
<b>OTHER INCOME (EXPENSES) - net – note 12</b>	<b>1,147,168</b>	( 38,804,478)	( 59,780,950)
<b>LOSS BEFORE INCOME TAX</b>	<b>( 1,246,808)</b>	( 40,551,191)	( 65,377,234)
<b>BENEFIT FROM (PROVISION FOR)</b>			
<b>INCOME TAX – note 13</b>	<b>18,406</b>	-	( 30,432)
<b>NET LOSS FOR THE YEAR</b>	<b>( 1,265,214)</b>	( 40,551,191)	( 65,407,666)
<b>OTHER COMPREHENSIVE LOSS</b>			
Unrealized gain (loss) on available-for-sale on AFS financial assets – note 6	<b>20,931,962</b>	7,880,859	( 1,560,700)
<b>TOTAL COMPREHENSIVE LOSS FOR THE YEAR</b>	<b>P 19,666,748</b>	(P 32,670,332)	(P 66,968,366)
<b>TOAL COMPREHENSIVE LOSS FOR THE YEAR ATTRIBUTABLE TO:</b>			
Equity of the parent in:			
Net loss for the year	<b>(P 1,265,214)</b>	(P 40,551,191)	(P 65,407,666)
Other Comprehensive income (loss)	<b>20,931,962</b>	8,342,743	( 1,791,586)
	<b>P 19,666,748</b>	(P 32,208,448)	(P 67,199,252)
Minority interest:			
Net loss for the year	-	-	-
Other comprehensive loss	-	( 461,884)	230,886
	-	( 461,884)	230,886
<b>TOTAL COMPREHENSIVE LOSS FOR THE YEAR</b>	<b>P 19,666,748</b>	(P 32,703,332)	( 66,968,366)
<b>LOSS PER SHARE – notes 3 and 12</b>	<b>(P 0.001)</b>	(P 0.035)	(P 0.056)

## **Changes in the Results of Operations**

### ***Revenues and Earnings per share***

- Since the parent company ceased to have control over ESBI the company has no revenues recorded in the year 2010, 2011 and 2012.
- The company incurred loss of P1.2M in year 2012, P40.5M in year 2011 and losses in 2010 amounted to P65.4M. The loss per share for 2012 was (P0.001), 2011 was (P0.035) and (P0.056) in 2010.

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

- Cost and expenses consisted primarily of fines and penalties, professional fees, office supplies, communication, taxes and licenses, transportation & travel and other expenses. For the Y2012 and Y2011 amounts recorded were P2.4M and P1.7M respectively.
- See notes to the financial statements for the breakdown.

## **Changes in Financial Condition**

### **Assets**

#### ***Cash and Cash Equivalent***

For the year 2012 and 2011, the total cash and cash equivalents were P291,793 and P38,213, respectively. On July 19, 2012, the Board of Directors approved the opening of a deposit account with Banco De Oro-Meralco Ave. Branch to facilitate the collection and disbursement processes of the company.

#### ***Advances to Affiliates***

This account consists of advances mainly to The Wellex Group, Inc. (TWGI) and Forum Exploration, Inc. (FEI). Total amount recorded for the year 2012 and 2011, net of allowance for impairment loss, were P502.1M and P506.4M, respectively.

##### ***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 three-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 years but renewable thereafter upon mutual agreement of both parties. Total rental and utilities expense charged to operations amounted to P166,500 for the year ended December 31, 2012. Payment for rental and utilities are being offset against advances to TWGI outstanding balance.

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 P280,000 for the year ended December 31, 2012. Likewise, payments for management fee are being offset against advances to TWGI outstanding balance.

Total collections of advances to TWGI amounted to P4,241,640 and P5,762,946 in 2012 and 2011, respectively.

### **Advances to FEI**

Advances to FEI pertain to the carrying value of exploration net assets transferred by the Parent Company. No transaction in the account balance was recognized for the years ended December 31, 2012 and 2011. The Company did not recognize impairment loss for the year 2012 for it anticipates progress in its operations on succeeding years that eventually will generate income and will prove its capacity to pay its liabilities.

## **LIABILITIES**

### **Advances from Affiliate**

#### **Advances from Forum Exploration, Inc. Ltd. (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).

#### **Accounts Payable and other liabilities**

These accounts consist of Accounts Payable, Withholding tax Payable, Income Tax Payable and Accrued Expense accounts. Total amounted recorded for 2012 and 2011 were to P0.4M and P2.7M, respectively. See notes to the Notes to the Financial Statements.

### **Other Matters**

- a. There are no unusual items as to nature and amount affecting assets, liabilities, equity, net income or cash flows except those stated in Management's Discussion and Analysis of Financial Position and Performance.
- b. There were no material changes in estimates of amounts reported in prior interim periods of the current year or changes in estimates of amounts reported in prior financial year.
- c. Any known trends, demands, commitments, events or uncertainties that will have a material impact on the Company's liquidity.

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:

<b>December 31, 2012</b>		<b>Less than</b>			
	<b>Total</b>	<b>On demand</b>	<b>three months</b>	<b>3-12 months</b>	<b>1-5 years</b>
Advances from related parties	P 3,416,399	P –	P –	P –	P 3,416,399
Trade and other payables	455,622	–	–	455,622	–
	<b>P 3,872,021</b>	<b>P –</b>	<b>P –</b>	<b>P 455,622</b>	<b>P 3,416,399</b>

<b>December 31, 2011</b>		<b>Less than three</b>			
	<b>Total</b>	<b>On demand</b>	<b>months</b>	<b>3-12 months</b>	<b>1-5 years</b>
Advances from related parties	P 3,643,770	P –	P –	P –	P 3,643,770
Trade and other payables	2,719,805	–	–	2,719,805	–
	<b>P 6,363,575</b>	<b>P –</b>	<b>P –</b>	<b>P 2,719,805</b>	<b>P 3,643,770</b>

- d. Any known trends, demands, commitments, events or uncertainties that have had or that are reasonably expected to have a favorable or unfavorable impact on net sales or revenues or income from continuing operation.

*PFRS 9, Financial Instruments* (effective January 1, 2015). This standard 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 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 Company is yet to assess PFRS 9's full impact and will adopt PFRS 9 beginning January 1, 2015. The Company will also consider the impact of the remaining phase of PFRS 9 when completed by the IASB and adopted by the FRSC.**

- e. There were no known events that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation, other than those disclosed in the Management's Discussion and Analysis and the Audited Consolidated Financial Statements.
- f. There were no material off-statements of financial position transactions, arrangements, obligations (including contingent obligations), and other relationship of the Company with unconsolidated entities or other persons created during the reporting period.

## **B. Interim Period for the 1<sup>st</sup> Qtr. Ended March 31, 2013**

**The following are the discussions for the interim report covering the period for the 1<sup>st</sup> Qtr. Ended March 31, 2013.**

### **Key Performance Indicators:**

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 1<sup>st</sup> Quarter of 2013 is 536.08% and 12.17% for the 1<sup>st</sup> Quarter of 2012.
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 1<sup>st</sup> Quarter of Y2013 is 153.35% and 1.55% for 1<sup>st</sup> Quarter of 2012.
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 1<sup>st</sup> Quarter of 2013 is 0.91% and 1.59% for 1<sup>st</sup> Quarter of 2012.
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 1<sup>st</sup> Quarter of 2013 is 0.90% and 1.62% for the 1<sup>st</sup> Quarter of 2012.

## Financial Highlights

### □ Income Statements (Amounts in P '000)

	Jan – March 2013	Jan – March 2012
Revenues	-	-
Less: Cost and Expenses	(552)	(524)
Loss from Operation	(552)	(524)
Add: Other Income	-	-
Loss before Income Tax	(552)	(524)
Net Income(Loss)	(552)	(524)
Earnings (Loss) Per Share	(P0.00030)	(P0.00028)

### □ Balance Sheet (Amounts in P '000)

	Jan – March 2013	Jan – March 2012
ASSETS		
Assets	401,854	384,780
LIABILITIES & STOCKHOLDERS' EQUITY		
Liabilities	3,569	6,133
Stockholders' Equity	398,285	378,647
Total Liabilities & Stockholders' Equity	401,854	384,780

## 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 quarters of 2013 and 2012.
- The earnings per share comparison for the first quarters of 2013 and 2012 are as follows: (P0.00030) and (P0.00028) respectively.

### **Cost and Expenses**

- Cost and expenses consisted primarily of professional fees, taxes and licenses, PSE annual listing maintenance fee, and office rental.
- Cost and expenses recorded for the first quarter of 2013 and 2012 were P552,426 and P523,851 respectively.

## 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, 2013 and 2012 were P187,612 and P38,213, respectively. Input tax as of March 31, 2013 and 2012, net of allowance for impairment, amounted to P465,634 and P260,942, respectively.

### **Available-For-Sale Financial Assets**

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

	<b>March 31, 2013</b>		<b>March 31, 2012</b>	
<b>Unquoted shares</b>				
Cost	P	73,211,573	P	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		25,098,279		4,166,317
		<b>32,627,759</b>		<b>11,695,797</b>
	<b>P</b>	<b>96,518,397</b>	<b>P</b>	<b>75,586,435</b>

#### *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, 2013. Previously 100% owned, the Company sold its 66.67% ownership, or 125 million shares to Tracer Petroleum Corporation (TPC), now Forum Energy, Inc. in 2003. Subsequent to sale, the Company did not have any material transaction with FEI, which manifests that it has ceased to have significant influence on the financial and operating policy decisions of FEI. Thus, it is now classified as available-for-sale financial assets in compliance with PAS 39. Investment cost and post-acquisition charges are used to determine the carrying amount of this investment as of reclassification date. The fair value of available-for-sale financial assets approximates its carrying value.

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

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

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

On June 3, 2009, the Parent 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 P122,592,758 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 Parent 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 Parent 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.

#### *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 PHES investment as of March 31, 2013 has been determined directly by reference to published prices in the active market. Consequently, an unrealized fair value gain was recognized amounting to P25,098,279 and P4,166,317 for the period ended March 31, 2013 and 2012, respectively. "Unrealized fair value gain on AFS" account is presented under Statement of Comprehensive Income and shown separately in Equity.

#### **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.

#### Relationships, Transactions and Account Balances

Related Parties	Relationship	Outstanding Balance	
		March 31, 2013	March 31, 2012
The Wellex Group, Inc.	Common key management	P 167,457,772	P 171,671,953
Forum Exploration, Inc.	Common key management	137,188,958	137,188,958
Forum Exploration, Ltd.	Common key management	( 3,415,733)	( 3,642,607)
Wellex Industries, Inc.	Common key management	( 666)	( 1,612)

#### *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 and nil, for the period ended March 31, 2013 and March 31, 2012, respectively.

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 and nil, for the period ended March 31, 2013 and March 31, 2012, respectively.

Total collections of advances from TWGI amounted to P783,903, P4,241,640 and P5,762,946 in the 1<sup>st</sup> quarter of 2013, Y2012 and Y2011, 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 period ended March 31, 2013 and March 31, 2012.

#### *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). Outstanding balance as at March 31, 2013 and March 31, 2012 amounted to P3,415,733 and P3,642,609, 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, 2013 and March 31, 2012 amounted to P666 and P1,162, respectively.

#### *Remuneration to key management personnel*

The Company did not provide remuneration to key management personnel for the period ended March 31, 2013 and March 31, 2012. 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, 2013 and March 31, 2012 amounted to P103,940 and P2,458,653, 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 P30,432 for the quarter ended March 31, 2013 and March 31, 2012.

## Undertaking

A copy of 1<sup>st</sup> Quarter Report for the period ended March 31, 2013 or SEC Form 17-Q will be made available during the Annual Stockholders' Meeting.

### **CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS AND FINANCIAL DISCLOSURE**

There are no changes in and disagreements with accountants on accounting and financial disclosure.

### **EXTERNAL AUDIT FEES AND SERVICES**

Fees approved in connection with the audit and audit-related services rendered by Diaz Murillo and Company pursuant to the regulatory and statutory requirements for the years ended December 31, 2012 and 2011 amounted to Php 323,400 and Php 294,00.00, respectively exclusive of 12% VAT and 10% out-of-pocket expenses.

No other service such as tax and assurance audit was provided by external auditors to the Company for the calendar year 2012 and 2011.

### **The Audit Committee's approval policies and procedures for the services rendered by the external auditors**

The Corporate Governance Manual of the company provides that the audit committee shall, among others:

- 1.) Evaluate all significant issues reported by the external auditors relating to the adequacy, efficiency and effectiveness of policies, controls, processes and activities of the Company.
- 2.) Ensure that other non-audit work provided by the external auditors is not in conflict with their functions as external auditors.
- 3.) Ensure the compliance of the Company with acceptable audit and accounting standards and regulations.

### **MARKET INFORMATION**

The principal market where the Company's common equity is traded is the Philippine Stock Exchange. The quarterly high and low market prices for calendar years 2010, 2011 and 2012 are as follows:

	<b><u>"CLASS A"</u></b>	
	<u>High</u>	<u>Low</u>
2013		
First Quarter	0.235	0.215
2012	High	Low
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	High	Low
First Quarter	-	-
Second Quarter	0.980	0.140
Third Quarter	0.240	0.200
Fourth Quarter	0.280	0.150
2010	High	Low
First Quarter	-	-
Second Quarter	-	-
Third Quarter	-	-
Fourth Quarter	-	-

The high, low and close market price is P0.022 per share as of the latest trading date at May 8, 2013.

There were no stock price quotations for years 2010 and 1st quarter of 2011 because PSE suspended the trading of Forum Pacific Inc. shares during the period covered due to non-compliance of various reports. After compliance, the trading suspension on the shares of Forum Pacific Inc. has been lifted last May 17, 2011.

The Corporation has only one class of registered security, "Class A – Common Shares".

## **HOLDERS**

The total number of shareholders of record as of March 31, 2013 was 924. Total shares outstanding as of March 31, 2013 were 1,838,943,246 shares with a par value of P 1.00.

**The top 20 stockholders as of March 31, 2013 are as follows:**

	NAME	CLASS A - Common NO. OF SHARES HELD	% to TOTAL
1	International Polymer Corp	496,887,494	26.501
2	PCD Nominee Corp.	408,407,824	21.782
3	The Wellex Group, Inc.	376,950,000	20.104
4	E.F. Durkee & Associates, Inc.	77,838,563	4.151
5	Intra-Invest Sec., Inc.	48,159,000	2.568
6	Forum Pacific, Inc.	36,056,750	1.923
7	Metropolitan Management Corporation	30,000,000	1.600
8	Juanito C. Uy	22,625,001	1.207
9	Pacrim Energy N.L.	21,000,000	1.120
10	Sapphire Securities, Inc.	19,433,500	1.036
11	Benito Ong and/or Zita Y. Ong	18,000,000	0.960
12	Renato Chua	16,740,000	0.893
13	PCD Nominee Corp. (non-Filipino)	15,980,000	0.852
14	Nestor S. Mangio	12,500,000	0.667
15	A & A Securities, Inc.	11,911,320	0.635
16	Mark Securities Corporation	10,772,800	0.575
17	Globalinks Sec. & Stock, 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

## **CASH AND STOCK DIVIDEND DECLARED**

No cash or stock dividend has been declared in 2012, 2011 and 2010.

## **RESTRICTION THAT LIMITS THE PAYMENT OF DIVIDENDS ON COMMON SHARES**

None.

## **RECENT SALES OF UNREGISTERED SECURITIES**

Not Applicable.

## Directors and Executive Officers of the Registrants

### Directors and Executive Officers

Names, ages, citizenship and position and office of all directors and executive officers:

Name	Age	Citizenship	Position and Office
Geronimo F. Velasco	53	Filipino	Chairman of the Board
Peter S. Salud	58	Filipino	President / Director
Elvira A.Ting	53	Filipino	Director / Vice Chairman
Federico E. Puno	66	Filipino	Director
Atty. Lamberto B. Mercado, Jr.	50	Filipino	Director
Byoung Hyun Suh	56	Filipino	Independent Director
Rogelio D. Garcia	73	Filipino	Director
Kenneth T. Gatchalian	37	Filipino	Director/Treasurer
Atty. Arthur Ponsaran	68	Filipino	Director
Joaquin Obieta	77	Filipino	Director
Sergio R. Ortiz-Luis, Jr.	70	Filipino	Independent Director
Atty. Arsenio A. Alfiler Jr.	67	Filipino	Corporate Secretary

A brief description of the directors' and executive officers' business experience and other directorships held in other reporting companies are provided as follows:

Name	Corporation	Position
<b>Geronimo F. Velasco</b> Chairman of the Board and Filipino 53 years old B.S. in Commerce and Master of Business Administration University of Sta Clara and The Wharton School University, Pennsylvania	<b>Present:</b> Forum Pacific Inc. Gervel Inc. Metropolitan Management Cello Realty Cabildo Holdings, Inc. Avenger Holdings, Inc. RGC Maritime Transport Corporation RGC Mining & Mineral Corporation RGC Investment Corporation Republic Glass Holding Corporation Goshen Development Corporation Stradcom Corporation D.S. Realty, Incorporated Cyberdrive Solutions, Incorporated	Director since 1995 President/ Director since 1988 President/ Director since 1988 President/ Director since 1988 President/ Director since 1988 President/ Director since 1988 President/ Director since 1991 President/ Director since 1991 President/ Director since 1991 President/ Vice Chairman since 1991 President/Chairman since 2005 Vice Chairman since 2008 Director since 1995 Director since 2009

Name	Corporation	Position
<b>Peter S. Salud</b> President/ Director Filipino 58 years old	<b>Present:</b> Forum Pacific Inc.	President/ Director since 1996
	<b>Previous:</b> Air Philippines New Phil. China Corp. Metrobank	President 1995-1996 President 1990 -1997 Senior Manager 1978-89



Name	Corporation	Position
<b>Rogelio D. Garcia</b> Director Filipino 73 years old Bachelor of Laws (LLB) University of the Philippines	<b>Present:</b> Forum Pacific, Inc. Wellex Industries, Inc. Wellex Industries, Inc. Metro Alliance & Holdings Equities Corp.  <b>Previous:</b> ConyBio Philippines, Inc. NIR Placement Center, Inc.	Director since 2004 Chairman since 2005 Director up to 2004 Director since 2003  CEO 1997-2000 Executive Consultant 1998-2000

Name	Corporation	Position
<b>Byoung Hyun Suh</b> Independent Director Korean 56 years old B.S. in Business Administration Korea University, Seoul	<b>Present:</b> Forum Pacific, Inc. Pan Islands, Inc. Three Seven Foods & Products, Inc. Golden Jin Shan Farm Overseas Korean Traders  <b>Previous:</b> KIA Inter-trade Asia Regional Office Samsung Corporation Philippines Samsung Corporation Seoul Korea	Independent Director since June 2011  President since 1995 President since 1995 President since 1995 President since 2004  President 1995-1997 Resident Manager 1988-1995 Manager – Chemical Division

Name	Corporation	Position
<b>Atty. Lamberto A. Mercado Jr.</b> Director Filipino 50 years old Bachelor of Laws (L.L.B.) Ateneo de Manila University School of Laws Lawyer - 1991	<b>Present:</b> Forum Pacific, Inc. MAHEC and CPDSI AHI, FEZ and ZDI Wellex Industries, Inc. Waterfront Phil., Inc.  <b>Previous:</b> Subic Bay Metropolitan Authority	Director since 1998 Director since 2003 Director since 2004 Director since 2005 Director since 1999  Deputy Administrator for Administration 1997-98

Name	Corporation	Position
<b>Atty. Arthur Ponsaran</b> Director Filipino 68 years old CPA Lawyer University of the East Business Administration Major in Accounting University of the Philippines Bachelor of Laws	<b>Present:</b> Forum Pacific, Inc. Wellex Industries, Inc. Wellex Industries, Inc. Philippine Estate Corporation Corporate Counsels, Phil. Law Offices  <b>Previous:</b> Forum Pacific, Inc.	Director since 2000 Corp. Sec. up to 2003 Director since 2000 Director Managing Partner  Corporate Secretary up to 2007

Name	Corporation	Position
<b>Joaquin P. Obieta</b> Director Filipino 77 years old Bachelor of Laws Ateneo de Manila Chemical Engineering De La Salle University Bachelor of Theology University of Sto. Tomas	<b>Present:</b> Forum Pacific, Inc. Corporate Counsels, Philippines Law Office Ateneo de Manila University	Director since 2001 Managing Partner  Law Professor

Name	Corporation	Position
<b>Sergio R. Ortiz-Luis, Jr.</b> Independent Director Filipino 68 years old De La Salle University Bachelor of Arts Bachelor of Science in Business Administration Masters of Business Administration Central Luzon University PhD Humanities EARIST PhD Business Technology	<b>Present:</b> Forum Pacific, Inc. Philippine Exporters Confederation Inc. (PHILEXPORT) Alliance Global, Inc. Waterfront Philippines, Inc. BA Securities	nominee – June 2013 President  Vice Chairman since 2007 Independent Director since 2005 Independent Director since 2012

Name	Corporation	Position
<b>Atty. Arsenio A. Alfiler, Jr.</b> Corporate Secretary Filipino 67 years old Bachelor of Laws University of the Philippines B.A. in Public Administration University of the Philippines	<b>Present:</b> Forum Pacific, Inc. Acesite (Phils.) Hotel Corporation Waterfront Philippines, Inc. Iloilo City Development Bank	Since 2007 Assistant Corporate Secretary Assistant Corporate Secretary Assistant Corporate Secretary

## **CORPORATE GOVERNANCE**

The Corporation adheres to the principles and practices of good corporate governance, as embodied in its Corporate Governance Manual and related SEC Circulars. Continuous improvement and monitoring of governance and management policies have been undertaken to ensure that the Corporation observes good governance and management practices. This is to assure the shareholders that the Corporation conducts its business with the highest level of integrity, transparency and accountability.

The board of Directors has approved its Corporate Governance Compliance Evaluation System in order to check and assess the level of compliance of the Company with leading practices on good corporate governance as specified in its Corporate Governance Manual and pertinent SEC Circulars. The System likewise highlights areas for compliance improvement and action to be taken. One of the systems's output is the Annual Corporate Governance Compliance Evaluation Form submitted by the Corporation every year to the SEC and PSE.

Forum Pacific, Inc. has consistently strives to raise its financial reporting standards by adopting and implementing prescribed Philippine Financial Reporting Standards.

Financial Statements for the Years  
Ended December 31, 2012 and 2011  
And Independent Auditors' Report

**FORUM PACIFIC, INC.**  
**INDEX TO FINANCIAL STATEMENTS, APPENDICES AND**  
**SUPPLEMENTARY SCHEDULES**

FORM 17-A, ITEM 7

**Consolidated Financial Statements**

Statement of Management's Responsibility for Financial Statements  
Report of Independent Public Accountants  
Statements of Financial Position as of December 31, 2012 and 2011  
Statements of Comprehensive Income for each of the three years ended December 31, 2012, 2011 and 2010  
Statements of Changes in Equity for each of the three years ended December 31, 2012, 2011 and 2010  
Statements of Cash Flows for each of the three years ended December 31, 2012, 2011 and 2010  
Notes to Financial Statements

**Appendices**

Appendix A. Financial soundness

Appendix B. Standards and interpretations effective for annual periods beginning January 1, 2011

**Supplementary Schedules**

- A. Financial Assets
- B. Amounts Receivables from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Affiliates)
- C. Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements
- D. Intangible Assets – Other Assets
- E. Long – Term Debt
- F. Indebtedness to Related Parties (Long Term Loans from Related Parties)
- G. Guarantees of Securities of Other Issuers
- H. Capital Stock





STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of FORUM PACIFIC, INC. is responsible for the preparation and fair presentation of the financial statements for the years ended December 31, 2012 and 2011, including the additional components attached therein, in accordance with Philippine Financial Reporting Standards (PFRSs). This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

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

Diaz Murillo Dalupan and Company, the independent auditors, appointed by the stockholders has examined the financial statements of the Company in accordance with Philippine Standards on Auditing, and in its report to the members or has expressed its opinion on the fairness of presentation upon completion of such examination.

GERONIMO F. VELASCO
Chairman of the Board

PETER S. SALUD
President

KENNETH T. GATCHALIAN
Corporate Treasurer



QUEZON CITY

SUBSCRIBED AND SWORN to before me in City/Province, Philippines of affiants personally appeared before me and exhibited to me their

Table with 2 columns: Name, Tax Identification Number. Rows for GERONIMO F. VELASCO, PETER S. SALUD, and KENNETH T. GATCHALIAN.

WITNESS MY HAND AND SEAL on the date and at the place above written.

ATTY. TOMAS F. DULAY, JR.
NOTARY PUBLIC

DOC NO:
PAGE NO:
BOOK NO:
SERIES OF

NOTARY PUBLIC FOR
Notarial Commission No.
Commission expires on December 31,
Roll of Attorney Number
PTR No.
IBP No.
Office Address:

**Diaz Murillo Dalupan  
and Company**  
Certified Public Accountants

**Independent Auditor's Report**

To the Board of Directors and Stockholders of  
**FORUM PACIFIC, INC.**  
35<sup>th</sup> Floor, One Corporate Center  
Doña Julia Vargas Avenue  
corner Meralco Avenue, Ortigas Center  
Pasig City, Philippines

**Report on the Financial Statements**

We have audited the accompanying financial statements of **Forum Pacific, Inc.**, which comprise the statements of financial position as at December 31, 2012 and 2011, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2012, and a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Financial Statements*

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

*Auditor's Responsibility*

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

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

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



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Cebu Branch Office: Unit 504 Cebu Holdings Building, Cebu Business Park, Mabolo, Cebu City 6000 Phone: +63(32) 415 8108 to 10 Fax: +63(32) 232 8029  
Davao Branch Office: 3<sup>rd</sup> Floor Building B Plaza De Luisa, Ramon Magsaysay Ave., Davao City 8000 Phone/Fax: +63(82) 222 6636

Independent member of **HLB** International. A worldwide organization of accounting firms and business advisers.

*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of **Forum Pacific, Inc.**, as at December 31, 2012 and 2011, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

*Emphasis of Matter*

We draw attention to Note 1 to the financial statements which indicate that the Company had been incurring losses in current and prior years and had accumulated a deficit of about P798 million and P796 million as at December 31, 2012 and 2011, respectively. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern, therefore, it may be unable to realize its assets and settle its liabilities in the normal course of the business. The management and stockholders of the Company have committed in principle to provide full financial support to sustain its operations, meet the working capital requirements and settle obligations as they fall due in order for the Company to continue as a going concern. Additionally, as discussed in Note 1 to the financial statements, the Company's management is banking on new petroleum and gas service contracts to increase the Company's profitability. We have performed audit procedures to evaluate management's plan for future action as to their likelihood to improve the situation under circumstances. Our opinion is not qualified with respect to the matter emphasized.

**Report on Supplementary Information required under Revenue Regulations 15-2010 and 19-2011**

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 16 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of management. The information has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

**Diaz Murillo Dalupan and Company**

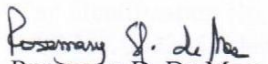
Tax Identification No. 003-294-822

BOA/PRC No. 0234, effective until December 31, 2014

SEC Accreditation No. 0192-FR-1, Group A, effective until March 24, 2016

BIR Accreditation No. 08-001911-0-2013, effective until April 1, 2016

by:

  
Rosemary D. De Mesa

Partner

CPA Certificate No. 29084

SEC Accreditation No. 1089-A, Group A, effective until February 23, 2014

Tax Identification No. 104-576-953

PTR No. 3682453, January 14, 2013, Makati City

BIR Accreditation No. 08-001911-7-2013, effective until April 1, 2016

April 11, 2013



**Diaz Murillo Dalupan  
and Company**  
Certified Public Accountants

**Audit Report on Additional Components  
of the Financial Statements**

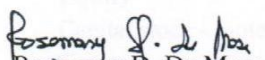
To the Board of Directors and Stockholders of  
**FORUM PACIFIC, INC.**  
35<sup>th</sup> Floor, One Corporate Center  
Doña Julia Vargas Avenue  
corner Meralco Avenue, Ortigas Center  
Pasig City, Philippines

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Appendices A and B and Schedules A to H, to the financial statements are presented for purposes of additional analyses and filing with the Securities and Exchange Commissions, respectively, and are not a required part of basic financial statements. Such information is the responsibility of management. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

**Diaz Murillo Dalupan and Company**

Tax Identification No. 003-294-822  
BOA/PRC No. 0234, effective until December 31, 2014  
SEC Accreditation No. 0192-FR-1, Group A, effective until March 24, 2016  
BIR Accreditation No. 08-001911-0-2013, effective until April 1, 2016

by:

  
Rosemary D. De Mesa

Partner  
CPA Certificate No. 29084  
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April 11, 2013

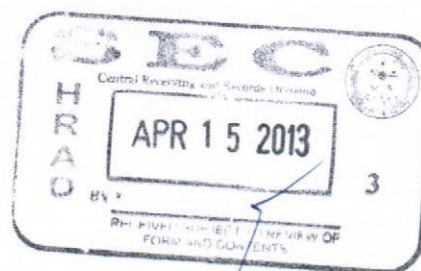


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Cebu Branch Office: Unit 504 Cebu Holdings Building, Cebu Business Park, Mabolo, Cebu City 6000 Phone: +63(32) 415 8108 to 10 Fax: +63(32) 232 8029  
Davao Branch Office: 3rd Floor Building B Plaza De Luisa, Ramon Magsaysay Ave., Davao City 8000 Phone/Fax: +63(82) 222 6636

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**FORUM PACIFIC, INC.**  
**Statements of Financial Position**



December 31

	2012	2011
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash - note 5	P 291,793	P 38,213
Input tax	435,444	204,152
	<u>727,237</u>	<u>242,365</u>
<b>Noncurrent Assets</b>		
Advances to related parties (net) - note 10	305,430,632	309,672,272
Available-for-sale financial assets (net) - note 6	96,518,397	75,586,435
Other noncurrent assets	33,444	33,444
	<u>401,982,473</u>	<u>385,292,151</u>
<b>TOTAL ASSETS</b>	<b>P 402,709,710</b>	<b>P 385,534,516</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and other liabilities - note 8	P 406,784	P 2,689,373
Income tax payable	18,406	-
	<u>425,190</u>	<u>2,689,373</u>
<b>Noncurrent Liabilities</b>		
Advances from related parties - note 10	3,416,399	3,643,770
Deferred tax liability - note 13	30,432	30,432
	<u>3,446,831</u>	<u>3,674,202</u>
<b>Equity</b>		
Capital stock - note 9	1,207,543,621	1,207,543,621
Treasury shares - note 9	( 36,056,750)	( 36,056,750)
Unrealized fair value gain on AFS financial assets - note 6	25,098,279	4,166,317
Deficit - note 1	( 797,747,461)	( 796,482,247)
	<u>398,837,689</u>	<u>379,170,941</u>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>P 402,709,710</b>	<b>P 385,534,516</b>

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



**FORUM PACIFIC, INC.**  
**Statements of Comprehensive Income**

	Years Ended December 31		
	2012	2011	2010
<b>COSTS AND EXPENSES</b> - note 11	<b>P 2,393,976</b>	P 1,746,713	P 5,596,284
<b>LOSS FROM OPERATIONS</b>	<b>( 2,393,976)</b>	( 1,746,713)	( 5,596,284)
<b>OTHER INCOME (EXPENSES)</b> - net - note 12	<b>1,147,168</b>	( 38,804,478)	( 59,780,950)
<b>LOSS BEFORE INCOME TAX</b>	<b>( 1,246,808)</b>	( 40,551,191)	( 65,377,234)
<b>PROVISION FOR (BENEFIT FROM) INCOME TAX</b> - note 13			
Current	<b>18,406</b>	-	-
Deferred	-	-	( 30,432)
	<b>18,406</b>	-	( 30,432)
<b>NET LOSS FOR THE YEAR</b>	<b>( 1,265,214)</b>	( 40,551,191)	( 65,407,666)
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>			
Unrealized fair value gain on AFS financial assets - note 6	<b>20,931,962</b>	7,880,859	( 1,560,700)
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>	<b>P 19,666,748</b>	(P 32,670,332)	(P 66,968,366)
<b>LOSS PER SHARE</b> - note 14	<b>(P 0.001)</b>	(P 0.035)	(P 0.056)

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



**FORUM PACIFIC, INC.**  
**Statements of Changes in Equity**

	Capital Stock (Note 10)	Treasury shares (Note 10)	Deficit (Note 1)	Unrealized Fair Value Gain (Loss) on AFS Financial Assets (Note 6)	Total
<b>Balance as at January 1, 2010</b>	P 1,207,543,621	(P 36,056,750)	(P 690,523,390)	(P 15,085,037)	P 465,878,444
<b>Reclassification adjustment - note 6</b>	-	-	-	9,220,278	9,220,278
<b>Comprehensive income</b>					
Net loss for the year	-	-	( 65,407,666)	-	( 65,407,666)
Other comprehensive loss	-	-	-	( 1,560,700)	( 1,560,700)
<b>Total comprehensive loss for the year</b>	-	-	(65,407,666)	( 1,560,700)	( 66,968,366)
<b>Balance as at December 31, 2010</b>	1,207,543,621	( 36,056,750)	( 755,931,056)	( 7,425,459)	408,130,356
<b>Reclassification adjustment - note 6</b>	-	-	-	3,710,917	3,710,917
<b>Comprehensive income</b>					
Net loss for the year	-	-	( 40,551,191)	-	( 40,551,191)
Other comprehensive income	-	-	-	7,880,859	7,880,859
<b>Total comprehensive loss for the year</b>	-	-	( 40,551,191)	11,591,776	( 28,959,415)
<b>Balance as at December 31, 2011</b>	1,207,543,621	(36,056,750)	( 796,482,247)	4,166,317	379,170,941
<b>Comprehensive income</b>					
Net loss for the year	-	-	( 1,265,214)	-	( 1,265,214)
Other comprehensive income	-	-	-	20,931,962	20,931,962
<b>Total comprehensive income for the year</b>	-	-	( 1,265,214)	20,931,962	19,666,748
<b>Balance as at December 31, 2012</b>	<b>P1,207,543,621</b>	<b>(P 36,056,750)</b>	<b>(P 797,747,461)</b>	<b>P25,098,279</b>	<b>P398,837,689</b>

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



**FORUM PACIFIC, INC.**  
**Statements of Cash Flows**

	Years Ended December 31		
	2012	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Loss before income tax	(P 1,246,808)	(P 40,551,191)	(P 65,377,234)
Adjustments for:			
Impairment loss on:			
Advances to related parties - note 12	-	17,221,059	50,135,183
AFS financial assets - note 12	-	17,692,052	9,220,278
Investment in a subsidiary - note 12	-	3,888,000	432,000
Unrealized foreign exchange loss (gain) - note 12	( 226,876)	3,565	( 101,440)
Operating loss before working capital changes	( 1,473,684)	( 1,746,515)	( 5,691,213)
Increase in input tax	( 231,292)	( 204,152)	-
Increase in other non-current assets	-	-	( 33,444)
Decrease in accounts payable and other liabilities	( 2,282,588)	( 3,877,310)	4,384,702
Net cash used in operating activities	( 3,987,564)	( 5,827,977)	( 1,339,955)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds (payments) of:			
Advances to related parties	4,241,641	5,762,946	( 10,340,614)
Advances from related parties	( 497)	1,162	-
Proceeds from sale of AFS financial assets	-	-	11,578,900
Net cash provided by investing activities	4,241,144	5,764,108	1,238,286
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>253,580</b>	<b>( 63,869)</b>	<b>( 101,669)</b>
<b>CASH</b>			
At beginning of year	38,213	102,082	203,751
At end of year	P 291,793	P 38,213	P 102,082

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

**FORUM PACIFIC, INC.**

**Notes to Company Financial Statements**

As at and for the years ended December 31, 2012, 2011 and 2010

**1. CORPORATE INFORMATION**

**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 substance and 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 AirPhilippines International Corporation (APIC). In 2000, the Company changed back its name to Forum Pacific, Inc.

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

The accompanying financial statements of the Company were approved and authorized for issue by its Board of Directors (BOD) on March 21, 2013

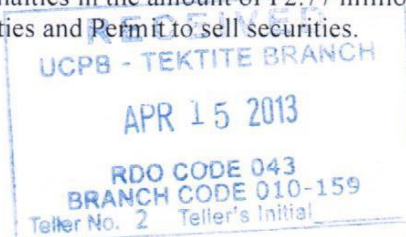
**2. MANAGEMENT ASSESSMENT OF THE GOING CONCERN ASSUMPTION AND BUSINESS PLANS**

*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 had incurred losses amounting to P1,265,214, P40,551,191 and P65,407,666 in 2012, 2011 and 2010, respectively. The Company had sustained a deficit of P797,747,461, P796,482,247 and P755,931,056 as at December 31, 2012, 2011 and 2010, respectively.

On August 31, 2010, the Company received an order of revocation from the SEC on the registration and the permit to sell of 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 the 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.

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. Upon payment, PSE lifted the Company's revocation of Registration of Securities and Permit to sell.

### *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 is banking on new petroleum and gas service contracts to increase the Company's profitability. The Company is also looking to explore areas adjacent to the Libertad Field in Northern Cebu that is producing marginally.

The Company submitted three applications to the Department of Energy (DOE) last April 2012. The Company bids for the 640,000-hectare (Area 10) in East Palawan, 600,000 hectare (Area 11) in Cotabato and 482,000 hectare (Area 15) in Sulu Sea, all applications were accepted by the DOE. If awarded with at least one are, the Company's resources and time will be devoted to the particular area. With the help of potential partners, exploration might start next year. As at December 31, 2012, contracts for those areas mentioned were not yet awarded by the DOE to any qualified bidders.

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.

### 3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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 the 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, 2012.

*PAS 12, Income Taxes (Amendment) - Recovery of Underlying Assets*, effective January 1, 2012, clarifies the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in PAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirements that deferred tax on nondepreciable assets that are measured using the revaluation model in PAS 16 always be measured on a sale basis of the asset. This amendment is currently not applicable to the Company's financial statements.

*PFRS 1 (Amendment), First-time Adoption of PFRS - Fixed Dates and Hyperinflation*, effective July 1, 2011. The amendment includes two changes to PFRS 1, First-time adoption of PFRS. The first replaces references to a fixed date of January 1, 2004 with 'the date of transition to PFRS', thus eliminating the need for entities adopting PFRS for the first time to restate derecognition transactions that occurred before the date of transition to PFRS. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with PFRS after a period when the entity was unable to comply with PFRS because its functional currency was subject to severe hyperinflation. This amendment is currently not applicable to the Company's financial statements.

*PFRS 7 (Amendment), Financial Instruments: Disclosures - Enhanced Derecognition Disclosure Requirements*, effective July 1, 2011, requires additional disclosures about financial assets that have been transferred but not derecognized to enable the user of the Company's financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendment affects the disclosure only and has no impact on the Company's financial position or performance.

## **New Accounting Standards, Interpretations and Amendments to Existing Standards Effective Subsequent to January 1, 2012**

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

*PAS 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 Company will apply the standard beginning January 1, 2013 and the adoption is not expected to have a significant impact on the Company's financial statement except on the presentation of other comprehensive income.

*PAS 19 (Amendment), Employee benefits*, effective January 1, 2013. The impact on the Company will be as follows: to immediately recognize all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset). This amendment will not have an 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 amendment will not have an 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 amendment will not have an impact on the Company's financial statements.

*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 amendment and intends to adopt the amendment beginning January 1, 2014.

*PFRS 1 (Amendment), Government Loans*, effective January 1, 2013. These amendments add an exception to the retrospective application of PFRS. First-time adopters are required to apply 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 PFRS. This new standard will not have an impact on the Company's financial statements.

*PFRS 7 (Amendment), Disclosures-Offsetting Financial Assets and Financial Liabilities*, effective January 1, 2013. These amendments involves 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 Company has yet to assess the full impact of the amendments and intends to adopt the amendment beginning January 1, 2013.

*PFRS 9, Financial instruments*, effective January 1, 2015. This standard 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 Company is yet to assess PFRS 9's full impact and will adopt PFRS 9 beginning January

1, 2015. The Company will also consider the impact of the remaining phases of PFRS 9 when completed by the IASB and adopted by the FRSC.

*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 Company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. This amendment will not have an 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) always 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. This standard will not have an impact in the Company's financial statements.

*PFRS 12, Disclosures of interest in other entities*, effective January 1, 2013, includes the disclosures requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Company is yet to assess PFRS 12's full impact and will adopt PFRS 12 beginning January 1, 2013.

*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 PFRS. The requirements, which are largely aligned between PFRS 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 PFRS or US GAAP. The Company is yet to assess PFRS 13's full impact and will adopt PFRS 13 beginning January 1, 2013.

*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. This new standard will not have an impact on the Company's financial statements.

## **Financial Instruments**

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

The Company recognizes financial assets and financial liabilities in the Company 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 December 31, 2012 and 2011, 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 15.

### **“Day 1” Difference**

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

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

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

### **Loans and Receivables**

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

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

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

### **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. 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 December 31, 2012 and 2011, included in other financial liabilities are the Company's accounts payable and other liabilities, and advances from related parties (see Notes 8 and 10).

### **Offsetting of Financial Instruments**

Financial assets and financial liabilities are offset and the net amount is reported in the 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 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 are 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 December 31, 2012 and 2011. 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 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 Company 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.

*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 Company 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 Company 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 Company 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 Company financial statements. Post year-end events that are not adjusting events are disclosed in the Company financial statements when material.

## 4. **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) Classification of financial instruments*

The Company classifies a financial instrument, or its component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual agreement and the guidelines set by PAS 39 on the definitions of a financial asset, a financial liability or equity instrument. In addition, the Company also determines and evaluates its intention and ability to keep the investments until its maturity date.

The substance of a financial instrument, rather than its legal form and the management's intention and ability to hold the financial instrument to maturity generally governs its classification in the statements of financial position.

#### *c) 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.

#### *d) 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.

*e) 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 as of July 6, 2012, 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.

*f) 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.

*g) 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*.

**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 P25,098,279 and P4,166,317 in 2012 and 2011, respectively were reported in the equity section of the statements of financial position (see Note 6).

*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 13.

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 P196,695,828 in 2012 and 2011 (see Note 10).

5. **CASH**

Cash represents cash in bank with outstanding balance of P291,793 and P38,213 as at December 31, 2012 and 2011, respectively.

6. **AVAILABLE-FOR-SALE FINANCIAL ASSETS**

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

	2012	2011
<b>Unquoted shares</b>		
Cost	P 73,211,573	P 73,211,573
Impairment loss	( 9,320,935)	( 9,320,935)
	<b>63,890,638</b>	63,890,638
<b>Quoted shares</b>		
Cost	7,529,480	7,529,480
Net unrealized fair value gain	25,098,279	4,166,317
	<b>32,627,759</b>	11,695,797
	<b>P 96,518,397</b>	P 75,586,435

Investment in unquoted shares of stock represents 33.33% ownership of the Company in Forum Exploration, Inc. (FEI) in 2012 and 2011, and Express Savings Bank, Inc. (ESBI) in 2010 and 2009, respectively. These investments are classified as available-for-sale 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 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 P3,710,917 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 loss on available-for-sale financial assets are as follows:

	<b>2012</b>	2011	2011
At beginning of year	<b>P 4,166,317</b>	(P 7,425,459)	P 15,085,037
Fair value changes during the year	<b>20,931,962</b>	7,880,859	1,560,700
Reclassification adjustment due to impairment	-	3,710,917	(9,220,278)
	<b>P 25,098,279</b>	P 4,166,317	P 7,425,459

## 7. INVESTMENTS IN A 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 Centre, 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.

Financial information as at September 30, 2009, with regards to FCCHI is shown below:

Total assets	<b>P 269,476,896</b>
Total liabilities	<b>276,197,181</b>
Equity	<b>(P 6,720,285)</b>

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 need not present consolidated financial statements.

## 8. **ACCOUNTS PAYABLE AND OTHER LIABILITIES**

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

	<b>2012</b>	2011
Accrued expenses	<b>P 233,471</b>	P 1,193,334
Accounts payable	<b>167,688</b>	1,495,039
Withholding tax payable	<b>5,625</b>	1,000
	<b>P 406,784</b>	P 2,689,373

Accounts payable and other liabilities are carried at cost as these are short-term in nature.

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

## 9. **CAPITAL STOCK**

Details of the Company's capital stock as at December 31, 2012 and 2011 are as follows:

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

The cost of the Company's treasury shares amounted to P36,056,750 as at December 31, 2012 and 2011. Such treasury shares restrict the Company from declaring an equivalent amount from the unappropriated retained earnings as dividends.

### *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 P.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 P0.01 to P1.00, removing the pre-emptive rights of shareholders and increasing authorized capital stock from P500 million divided by 50 billion shares to P2 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 P2 billion to P3.5 billion divided into 3.5 billion shares with a par value of P1 per share. On March 11, 1998, SEC approved the Company's increased in authorized capital stock.

10. **RELATED PARTY TRANSACTIONS**

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

**Relationship, Transactions and Account Balances**

Related parties	Relationship	Transactions during the year		Outstanding balance	
		2012	2011	2012	2011
The Wellex Group, Inc.	Common key management	<b>P4,241,640</b>	P5,762,946	<b>P168,241,674</b>	P172,483,314
Forum Exploration, Inc	Common key management	-	-	<b>137,188,958</b>	137,188,958
Forum Exploration, Ltd.	Common key management	-	-	( <b>3,415,733</b> )	( 3,642,608)
Wellex Industries, Inc.	Common key management	-	1,162	( <b>666</b> )	( 1,162)

*(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 years ended December 31, 2012 and 2011.

	2012	2011
At beginning and end of year	<b>P 171,631,076</b>	P 171,631,076
Allowance for impairment loss	( <b>34,442,118</b> )	( 34,442,118)
Net carrying amount	<b>P 137,188,958</b>	P 137,188,958

The movement of allowance for impairment loss is as follows:

	2012	2011
At beginning of year	<b>P 34,442,118</b>	P 17,221,059
Provisions during the year – note 11	-	17,221,059
	<b>P 34,442,118</b>	P 34,442,118

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

The Company's advances from TWGI consist of advances granted to finance their 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 P166,500 for the year ended December 31, 2012 (see Note 11).

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 P280,000 for the year ended December 31, 2012 (see Note 11).

	2012	2011
At beginning of year	P 334,737,024	P 340,499,970
Collection	( 4,241,640)	( 5,762,946)
	<b>330,495,384</b>	334,737,024
Less allowance for impairment loss	( 162,253,710)	( 162,253,710)
	<b>P 168,241,674</b>	P 172,483,314

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

	2012	2011
At beginning of year	P 3,642,608	P 3,639,042
Unrealized foreign exchange loss (gain) – note 11	( 266,875)	3,566
	<b>P 3,415,733</b>	P 3,642,608

*(d) Advances from Wellex Industries, Inc.*

The Company received cash advances from Wellex Industries, Inc. for payment of expenses. Outstanding balance as at December 31, 2012 and 2011 amounted to P666 and P1,162, respectively.

*(e) Remuneration to key management personnel*

The Company did not provide remuneration to key management personnel for the years ended December 31, 2012 and 2011. The administrative function of the Company is performed by its related party, TWGL.

## 11. COSTS AND EXPENSES

Cost and expenses for the years ended December consists of :

	2012	2011	2010
Professional fees	P 1,341,122	P 539,219	P 2,422,384
Taxes and licenses	320,404	31,715	10,000
Office supplies	250,313	187,361	95,078
Membership fees and dues	250,000	250,000	250,000
Rent and utilities – note 9	166,500	–	–
Communication	34,423	67,002	34,981
Representation	16,437	8,656	–
Fines and penalties	–	760,500	2,771,200
Miscellaneous	14,777	152,260	12,641
	<b>P 2,393,976</b>	P 1,746,713	P 5,596,284

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

Other income (expenses) for the years ended December 31 consists of:

	<b>2012</b>	2011	2010
Unrealized foreign exchange gain (loss)	<b>P 226,876</b>	(P 3,565)	P 101,440
Impairment loss:	-		
Advances from a related party	-	( 17,221,059)	( 50,165,615)
AFS financial assets	-	( 17,692,052)	( 9,220,278)
Investments in a subsidiary	-	( 3,888,000)	( 432,000)
Others	<b>920,292</b>	198	( 64,497)
	<b>P 1,147,168</b>	(P 38,804,478)	(P 59,780,985)

Other income mainly represents the reversal of long outstanding accruals and payables.

13. **INCOME TAXES**

*Current and deferred tax*

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

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

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

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

The Company did not avail of the OSD for purpose of income tax calculation in 2012 and 2011.

The composition of deferred tax assets is as follows:

	<b>2012</b>	2011
Impairment loss on advances to related parties	<b>P 59,008,748</b>	P 59,008,748
NOLCO	<b>4,351,577</b>	3,909,473
Impairment loss on AFS Securities	<b>2,796,281</b>	2,796,281
Unrealized foreign exchange loss	<b>365,240</b>	433,303
MCIT	<b>68,950</b>	50,541
Impairment loss on investment in subsidiary – note 6	-	1,296,000
	<b>66,590,796</b>	67,494,346
Valuation allowance	<b>( 66,590,796)</b>	( 67,494,346)
	<b>P -</b>	P -

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 carryforward benefits will not be realized in the future

As at December 31, 2012 and 2011, the composition of deferred tax liability on the unrealized foreign exchange gain on advances from/to related parties amounted to P30,432.

As at December 31, 2012, 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>						
2012	2015	P –	P 1,473,683	P –	P –	P 1,473,683
2011	2014	986,213	–	–	–	986,213
2010	2013	12,045,362	–	–	–	12,045,362
		<b>P13,031,575</b>	<b>P 1,473,683</b>	<b>P –</b>	<b>P –</b>	<b>P 14,505,258</b>

Year Incurred	Expiration Date	Beginning balance	Additions	Expired	Claimed	Ending balance
<b>MCIT</b>						
2012	2015	P –	P 18,409	P –	P –	P 18,409
2010	2013	50,541	–	–	–	50,541
		<b>P 50,541</b>	<b>P 18,409</b>	<b>P –</b>	<b>P –</b>	<b>P 68,950</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 is as follows:

	2012	2011	2010
Loss before income tax	(P 1,246,808)	(P 40,551,191)	(P 65,377,294)
Income tax benefit at statutory rate :	(P 374,042)	(P 12,165,357)	(P 19,613,188)
Income tax effect on:			
Non taxable income	68,135	–	–
Reversal of unrealized foreign exchange loss	68,062	–	–
Nondeductible expenses	–	228,090	831,340
Expired NOLCO	–	150,135	–
Expired MCIT	–	–	20,079
Change in valuation allowance	237,845	11,787,132	18,731,337
	<b>P –</b>	<b>P –</b>	<b>P –</b>

14. **LOSS PER SHARE**

The following table presents information necessary to calculate the earnings (loss) per share:

	2012	2011	2010
Net loss for the year	(P 1,228,402)	(P 40,551,191)	(P 65,407,666)
Weighted average number of common shares outstanding during the year	1,840,394,404	1,840,394,404	1,171,486,871
	(P 0.001)	(P 0.035)	(P 0.056)

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

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

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:

	2012	2011
Cash in bank	P 291,793	P 38,213
Advances to related parties	305,430,631	309,672,272
	P 305,722,424	P 309,710,485

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 December 31, 2012 and 2011, the Company classifies the credit quality of advances to related parties based on the following:

	2012	2011
Group 1	P 168,241,675	P 172,483,315
Group 2	137,188,958	137,188,958
Group 3	-	-
	P 305,430,631	P 309,672,273

- 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 December 31, 2012 and 2011 are as follows:

December 31, 2012	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	> 3 years but not impaired			
Cash in bank	P 291,793	P 291,793	P-	P-	P-	P-	P-	P	-	P	-
Advances to related parties - note 10	502,126,460	-	-	-	-	-	-	-	330,495,385		171,631,075
	<b>P 502,418,253</b>	<b>P 291,793</b>	<b>P-</b>	<b>P-</b>	<b>P-</b>	<b>P-</b>	<b>-</b>	<b>P 330,495,385</b>		<b>P 171,631,075</b>	
December 31, 2011											
Cash in bank	P 38,213	P 38,213	P-	P-	P-	P-	P-	P	-	P	-
Advances to related parties - note 10	506,368,100	-	-	-	-	-	-	-	334,737,025		171,631,075
	<b>P 506,406,313</b>	<b>P 38,213</b>	<b>P-</b>	<b>P-</b>	<b>P-</b>	<b>P-</b>	<b>-</b>	<b>P 334,737,025</b>		<b>P 171,631,075</b>	

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

### *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 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:

December 31, 2012	Total	On demand	Less than three months	3-12 months	1-5 years
Account payable and other liabilities	P 406,784	P -	P -	P 406,784	P -
Advances from related parties	3,416,399	-	-	-	3,416,399
	<b>P 3,823,183</b>	<b>P -</b>	<b>P -</b>	<b>P 1,326,840</b>	<b>P 3,416,399</b>

December 31, 2011	Total	On demand	Less than three months	3-12 months	1-5 years
Accounts payable and other liabilities	P 2,689,373	P –	P –	P 2,689,373	P –
Advances from related parties	3,643,770	–	–	–	3,643,770
	P 6,333,143	P –	P –	P 2,689,373	P 3,643,770

#### ***Interest rate risk and fair value interest rate risk***

As the Company has no significant interest bearing assets, the Company's income and operating cash flows are substantially independent of changes in market interest rates.

The Company's interest rate risk arises from bank deposits. The Company's cash in bank earns interest at current interest rate level; any variation in the interest is expected to have an insignificant impact on Company's operation.

#### ***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. If foreign exchange rates had been 10% higher/lower, the net loss before tax would decrease /increase by P364,261 and P364,377 in 2012 and 2011, respectively.

#### ***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 President has 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 December 31, 2012 and 2011 are 1.22% and 1.58%, 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 P397,936,039 and P379,170,941, as of December 31, 2012 and 2011, 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 2012, the Company's strategy, which was unchanged from 2011, was to keep the gearing ratio below 50% as proportion to net debt to capital. The gearing ratios as at December 31, 2012 and 2011 were as follows:

	2012	2011
<b>Accounts payable and other liabilities</b>	<b>P 406,784</b>	P 2,689,373
<b>Advances from related parties</b>	<b>3,416,399</b>	3,643,770
<b>Less: Cash</b>	<b>( 291,793)</b>	( 38,213)
<b>Net debt</b>	<b>3,513,390</b>	6,294,930
<b>Total equity</b>	<b>398,837,689</b>	379,170,941
<b>Total capital</b>	<b>P 402,369,079</b>	P 385,465,871
	<b>0.87%</b>	1.63%

#### *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:

	2012		2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial Assets</b>				
Cash	P 291,793	P 291,793	P 38,213	P 38,213
Advances to related parties – net	305,430,631	305,430,631	309,672,272	309,672,272
AFS financial assets	96,518,397	96,518,397	75,586,435	75,586,435
	<b>P 402,709,710</b>	<b>P 402,709,710</b>	P385,296,920	P385,296,920
<b>Financial liabilities</b>				
Accounts payable and other liabilities	P 406,784	P 406,784	P 2,689,373	P 2,689,373
Advances from related parties	3,416,399	3,416,399	3,643,770	3,643,770
	<b>P 3,823,183</b>	<b>P 3,823,183</b>	P 6,333,143	P 6,333,143

#### 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 and trade and other receivables - The carrying amounts of cash and trade and other receivables 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.

*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>2012</b>				
	<b>Total</b>	<b>Level 1</b>	Level 2	<b>Level 3</b>
<b>AFS financial assets</b>	<b>P 96,518,397</b>	<b>P 32,627,759</b>	<b>P 63,890,638</b>	<b>P -</b>
<b>2011</b>				
	Total	Level 1	<b>Level 2</b>	Level 3
<b>AFS financial assets</b>	<b>P 75,586,435</b>	<b>P 11,695,797</b>	<b>P 63,890,638</b>	<b>P -</b>

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

*Supplementary information required by Revenue Regulations 15-2010*

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

a) *Output value-added tax*

The Company has no output VAT since it does not have any income subject to VAT for the years ended December 31, 2012 and 2011.

b) *Input value-added tax*

	<b>2012</b>	2011
At beginning of year	<b>P 204,152</b>	P 64,563
Current purchases and payments for:		
Goods for resale/ manufacture	-	-
Goods other than for resale or manufacture	<b>1,769</b>	-
Capital goods subject to amortization	-	-
Capital goods not subject to amortization	-	-
Services lodged under cost of goods sold	<b>229,524</b>	139,589
Services lodged under other accounts	-	-
	<b>P 435,445</b>	P 204,152

c) *Taxes on importation*

The Company has no import transactions for the years ended December 31, 2012 and 2011.

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*

Documentary stamp tax paid by the Company amounted to P804 and nil in 2012 and 2011, respectively.

f) *Taxes and licenses*

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

	<b>2012</b>	2011
BOE permits and licenses	<b>P 300,000</b>	P –
Business permits	<b>13,540</b>	28,215
SEC filing fee	<b>5,050</b>	–
Corporate Community tax	<b>510</b>	500
BIR Annual registration	<b>500</b>	–
Annual VAT registration	–	3,000
	<b>P 319,600</b>	P 31,715

g) *Withholding taxes*

The details of total withholding taxes for the years ended December 31, 2012 and 2011, are shown below:

	<b>2012</b>	2011
Withholding tax on compensation	<b>P –</b>	P –
Expanded withholding tax	<b>57,625</b>	32,000
Final withholding tax	–	–
	<b>P 57,625</b>	P 32,000

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 years ended December 31, 2012 and 2011 are as follows:

a) *Sales/Taxable Income*

	2012		2011	
	Special rate	Regular rate	Special rate	Regular rate
Sale of goods	P –	P –	P –	P –
Sale of services	–	–	–	–
Sale of properties	–	–	–	–
	<b>P –</b>	<b>P –</b>	<b>P –</b>	<b>P –</b>

b) *Other non-operating and taxable income*

The Company has non-operating and taxable income of P920,293 for the years ended December 31, 2012 representing reversal of long outstanding accounts payable and other liabilities.

c) *Itemized deductions*

	2012		2011	
	Special rate	Regular rate	Special rate	Regular rate
Professional fees	P –	P 1,341,122	P –	P 539,219
Office supplies	–	250,313	–	187,361
Rent and utilities	–	166,500	–	–
Communication	–	34,423	–	67,002
Taxes and licenses	–	20,404	–	31,715
Representation	–	16,437	–	8,656
Training and development	–	10,357	–	–
Travel and transportation	–	985	–	7,416
Miscellaneous	–	553,435	–	144,845
<b>Sub-total</b>	–	<b>2,393,976</b>	–	<b>986,214</b>
Allowance of NOLCO	–	–	–	–
<b>Total expenses</b>	<b>P –</b>	<b>P 2,393,976</b>	<b>P –</b>	<b>P 986,214</b>

d) *Taxes and licenses*

The details of the Company's taxes and licenses are presented in section I.F of this note.

e) *Other information*

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

\* \* \*

**FORUM PACIFIC, INC.**  
**APPENDIX A – STANDARDS AND INTERPRETATIONS EFFECTIVE**  
**AS OF DECEMBER 31, 2012**

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b> Effective as of December 31, 2012		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>Framework for the Preparation and Presentation of Financial Statements</b> Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
<b>PFRSs Practice Statement Management Commentary</b>				✓
<b>Philippine Financial Reporting Standards</b>				
<b>PFRS 1 (Revised)</b>	First-time Adoption of Philippine Financial Reporting Standards	✓		
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	✓		
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans (effective January 1, 2013)			✓
<b>PFRS 2</b>	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
<b>PFRS 3 (Revised)</b>	Business Combinations			✓
<b>PFRS 4</b>	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b> <b>Effective as of December 31, 2012</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>PFRS 5</b>	Non-current Assets Held for Sale and Discontinued Operations			✓
<b>PFRS 6</b>	Exploration for and Evaluation of Mineral Resources			✓
<b>PFRS 7</b>	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Transition	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities (effective January 1, 2014)		✓ *	
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures (effective January 1, 2015)		✓ *	
<b>PFRS 8</b>	Operating Segments			✓
<b>PFRS 9</b>	Financial Instruments (Effective January 1, 2015)		✓ *	
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures (effective January 1, 2015)		✓ *	
<b>PFRS 10</b>	Consolidated Financial Statements (effective January 1, 2013)			✓
<b>PFRS 11</b>	Joint Arrangements (effective January 1, 2013)			✓
<b>PFRS 12</b>	Disclosure of Interests in Other Entities (effective January 1, 2013)			✓
<b>PFRS 13</b>	Fair Value Measurement (effective January 1, 2013)		✓ *	

\* Not early adopted

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b> Effective as of December 31, 2012		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>Philippine Accounting Standards</b>				
<b>PAS 1 (Revised)</b>	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	<b>Amendments to PAS 1: Presentation of Items of Other Comprehensive Income (effective January 1, 2013)</b>		✓ *	
<b>PAS 2</b>	Inventories			✓
<b>PAS 7</b>	Statement of Cash Flows	✓		
<b>PAS 8</b>	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
<b>PAS 10</b>	Events after the Balance Sheet Date	✓		
<b>PAS 11</b>	Construction Contracts			✓
<b>PAS 12</b>	Income Taxes	✓		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✓		
<b>PAS 16</b>	Property, Plant and Equipment	✓		
<b>PAS 17</b>	Leases	✓		
<b>PAS 18</b>	Revenue	✓		
<b>PAS 19</b>	Employee Benefits			✓
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures			✓
<b>PAS 19 (Amended)</b>	Employee Benefits (effective January 1, 2013)			✓
<b>PAS 20</b>	Accounting for Government Grants and Disclosure of Government Assistance			✓
<b>PAS 21</b>	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation	✓		
<b>PAS 23 (Revised)</b>	Borrowing Costs			✓

\* Not early adopted

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b> <b>Effective as of December 31, 2012</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>PAS 24 (Revised)</b>	Related Party Disclosures	✓		
<b>PAS 26</b>	Accounting and Reporting by Retirement Benefit Plans			✓
<b>PAS 27 (Amended)</b>	Separate Financial Statements	✓		
<b>PAS 28 (Amended)</b>	Investments in Associates and Joint Ventures	✓		
<b>PAS 29</b>	Financial Reporting in Hyperinflationary Economies			✓
<b>PAS 31</b>	Interests in Joint Ventures			✓
<b>PAS 32</b>	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 32: Classification of Rights Issues			✓
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities (effective January 1, 2014)		✓ *	
<b>PAS 33</b>	Earnings per Share	✓		
<b>PAS 34</b>	Interim Financial Reporting	✓		
<b>PAS 36</b>	Impairment of Assets	✓		
<b>PAS 37</b>	Provisions, Contingent Liabilities and Contingent Assets	✓		
<b>PAS 38</b>	Intangible Assets			✓
<b>PAS 39</b>	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓

\* Not early adopted

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b> <b>Effective as of December 31, 2012</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>PAS 39</b>	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition	✓		
	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives			✓
	Amendment to PAS 39: Eligible Hedged Items			✓
<b>PAS 40</b>	Investment Property			✓
<b>PAS 41</b>	Agriculture			✓
<b>Philippine Interpretations</b>				
<b>IFRIC 1</b>	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
<b>IFRIC 2</b>	Members' Share in Co-operative Entities and Similar Instruments			✓
<b>IFRIC 4</b>	<i>Determining Whether an Arrangement Contains a Lease</i>			✓
<b>IFRIC 5</b>	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
<b>IFRIC 6</b>	<i>Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment</i>			✓
<b>IFRIC 7</b>	<i>Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies</i>			✓
<b>IFRIC 8</b>	<i>Scope of PFRS 2</i>			✓
<b>IFRIC 9</b>	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives			✓
<b>IFRIC 10</b>	<i>Interim Financial Reporting and Impairment</i>			✓
<b>IFRIC 11</b>	PFRS 2- Group and Treasury Share Transactions			✓
<b>IFRIC 12</b>	Service Concession Arrangements			✓
<b>IFRIC 13</b>	Customer Loyalty Programmes			✓
<b>IFRIC 14</b>	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement			✓
<b>IFRIC 16</b>	Hedges of a Net Investment in a Foreign Operation			✓
<b>IFRIC 17</b>	Distributions of Non-cash Assets to Owners			✓
<b>IFRIC 18</b>	Transfers of Assets from Customers			✓

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b> <b>Effective as of December 31, 2012</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>IFRIC 19</b>	Extinguishing Financial Liabilities with Equity Instruments			✓
<b>IFRIC 20</b>	Stripping Costs in the Production Phase of a Surface Mine (effective January 1, 2013)			✓
<b>SIC-7</b>	Introduction of the Euro			✓
<b>SIC-10</b>	Government Assistance - No Specific Relation to Operating Activities			✓
<b>SIC-12</b>	Consolidation - Special Purpose Entities			✓
	Amendment to SIC - 12: Scope of SIC 12			✓
<b>SIC-13</b>	Jointly Controlled Entities - Non-Monetary Contributions by Venturers			✓
<b>SIC-15</b>	Operating Leases - Incentives			✓
<b>SIC-21</b>	Income Taxes - Recovery of Revalued Non-Depreciable Assets			✓
<b>SIC-25</b>	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
<b>SIC-27</b>	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			✓
<b>SIC-29</b>	Service Concession Arrangements: Disclosures.			✓
<b>SIC-31</b>	Revenue - Barter Transactions Involving Advertising Services			✓
<b>SIC-32</b>	Intangible Assets - Web Site Costs			✓

**FORUM PACIFIC, INC.**  
**APPENDIX B – FINANCIAL SOUNDNESS**  
**PURSUANT TO SRC RULE 68, AS AMENDED**  
**DECEMBER 31, 2012**

	<b>2012</b>	2011
<b>Profitability ratios:</b>		
Return on assets	<b>N/A</b>	N/A
Return on equity	<b>N/A</b>	N/A
Net profit margin	<b>N/A</b>	N/A
<b>Solvency and liquidity ratios:</b>		
Current ratio	<b>1.71:1</b>	0.09:1
Debt to equity ratio	<b>0.01:1</b>	0.02:1 0.01:1
<b>Financial leverage ratio:</b>		
Asset to equity ratio	<b>1.01:1</b>	1.02:1
Debt to asset ratio	<b>0.01:1</b>	0.02:1
Interest rate coverage ratio	<b>N/A</b>	N/A

**FORUM PACIFIC, INC.**  
**SCHEDULE A – MARKETABLE SECURITIES – (Current Marketable Equity Securities**  
**and Other Short –term Cash Investments**  
DECEMBER 31, 2012

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Name of Issuing entity and description of Investment	Number of shares or principal amount of bonds and notes	Amount shown in the statement of financial position	Value based on market quotation at end of reporting period	Income received and accrued
None				

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**FORUM PACIFIC, INC.**  
**SCHEDULE B – AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES,**  
**RELATED PARTIES AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)**  
DECEMBER 31, 2012

Name and designation of debtor	Balance at beginning of period	Amounts collected	Amounts written-off	Current	Non-Current	Balance at end of period
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**None**

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**FORUM PACIFIC, INC.**

**Schedule C. Non-Current Marketable Equity Securities, Other Long-Term Investments in Stock, and Other Investments  
December 31, 2012**

Name of Issuing entity and description of Investment (1)	Number of shares or principal amount of bonds and notes	Amount in Pesos	Equity in earnings (losses) of investees for the period	Other	Distribution of earnings by investees	Amount in Pesos	Dividends received from investments not accounted for by the equity method
Philippine Estates Corporation	50,196,553	P32,627,759	Not applicable	-	-	P32,627,759	-
Forum Exploration, Inc.	62,500,000	73,211,573	Not applicable	-	-	73,211,573	-

**FORUM PACIFIC, INC.**  
**Schedule D. Indebtedness of Unconsolidated Subsidiaries and Affiliates**  
**December 31, 2012**

Name of Affiliates	Balance at beginning of period	Balance at end of period
<i>a. Other affiliates</i>		
Forum Exploration, Inc.	P 171,631,076	P 171,631,076
The Wellex Group, Inc.	334,737,025	330,495,385
	506,368,100	502,126,461
Allowance for impairment loss	(196,695,828)	(196,695,829)
	P309,672,272	P305,430,632

**FORUM PACIFIC, INC.**  
**Schedule E. Intangible Assets - Other Assets**  
**December 31, 2012**

Description	Beginning balance	Additions at cost	Charged to cost and expenses	Charged to other accounts	Other changes additions (deductions)	Ending balance
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None

**FORUM PACIFIC, INC.**  
**Schedule F. Long Term Debt**  
**December 31, 2012**

Title of Issue and type of obligation	Amount authorized by indenture	Amount shown under caption "Current portion of long-term debt" in related balance sheet	Amount shown under caption "Long-Term Debt" in related balance sheet
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None

**FORUM PACIFIC, INC.**  
**Schedule G. Indebtedness to Affiliates and Related Parties (Long-Term Loans**  
**from Related Companies)**  
**December 31, 2012**

Name of affiliate	Balance at beginning of year	Balance at end of year
<i>a. Other affiliates</i>		
Forum Exploration, Inc., Ltd.	P 3,642,608	P 3,415,733
Wellex Industries, Incorporated	1,162	666
	P 3,643,770	P 3,416,399

**FORUM PACIFIC, INC.**  
**Schedule H. Guarantees of Securities of Other Issuers**  
**December 31, 2012**

Name of issuing entity of securities guaranteed by the company for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding	Amount owned by person for which statement is filed	Nature of guarantee
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None

**FORUM PACIFIC, INC.**

**Schedule I. Capital Stock**

**December 31, 2012**

Title of Issue	Number of Shares authorized	Number of shares issued and outstanding at shown under related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by affiliates	Directors, officers and employees	Others
Common Stock	3,500,000,000	1,171,486,871	-	200,000	2,940,503	1,168,346,368

**FORUM PACIFIC, INC.**

**Schedule J. List of Top 20 Stockholders of Record  
December 31, 2012**

Name of Stockholders	Citizenship	Amount Subscribed	Percentage to Total Outstanding
International Polymer Corporation	Filipino	P496,887,494	26.501
PCD Nominee Corporation	Filipino	406,186,824	21.663
The Wellex Group, Inc.	Filipino	376,950,000	20.104
E. F Durkee & Associates, Inc.	Filipino	77,838,563	4.151
Intra-Invest Sec., Inc.	Filipino	48,159,000	2.568
Forum Pacific, Inc.	Filipino	36,056,750	1,923
Metropolitan Management Corporation	Filipino	30,000,000	1.600
Juanito C. Uy	Filipino	22,625,001	1.207
Pacrim Energy N.L.	Others	21,000,000	1.120
Sapphire Securities	Filipino	19,433,500	1.036
Benito Ong and/or Zita Y. Ong	Filipino	18,000,000	0.960
Renato Chua	Filipino	16,740,000	0.893
Nestor S. Mangio	Filipino	12,500,000	0.667
A & A Securities, Inc.	Filipino	11,911,320	0.635
Mark Securities Corporation	Filipino	10,772,800	.0575
Globallinks Sec. and Stocks, Inc.	Filipino	9,400,000	0.501
Belson Securities, Inc.	Filipino	9,200,000	0.491
Wealth Securities, Inc.	Filipino	8,240,000	0.439
PCD Nominee Corp. (Non-Filipino)	Others	8,050,000	0.429
Ruben M. Gan	Filipino	7,610,000	0.406
		P1,647,561,252	

Interim Financial Statements for the Period Ended

March 31, 2013 and 2012

(Unaudited)



SECURITIES AND EXCHANGE COMMISSION  
SEC FORM 17-Q

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



1. For the Quarterly Period ended March 31, 2013
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

#### □ Income Statements (Amounts in P '000)

	Jan – March 2013	Jan – March 2012
Revenues	-	-
Less: Cost and Expenses	(552)	(524)
Loss from Operation	(552)	(524)
Add: Other Income	-	-
Loss before Income Tax	(552)	(524)
Net Income(Loss)	(552)	(524)
Earnings (Loss) Per Share	(P0.00030)	(P0.00028)

#### □ Balance Sheet (Amounts in P '000)

	Jan – March 2013	Jan – March 2012
<b>ASSETS</b>		
Assets	401,854	384,780
<b>LIABILITIES &amp; STOCKHOLDERS' EQUITY</b>		
Liabilities	3,569	6,133
Stockholders' Equity	398,285	378,647
Total Liabilities & Stockholders' Equity	401,854	384,780

### Interim Quarter ended March 31, 2013 Compared with quarter ended March 31, 2012

#### 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 quarters of 2013 and 2012.
- The earnings per share comparison for the first quarters of 2013 and 2012 are as follows: (P0.00030) and (P0.00028) respectively.

### **Cost and Expenses**

- Cost and expenses consisted primarily of professional fees, taxes and licenses, PSE annual listing maintenance fee, and office rental.
- Cost and expenses recorded for the first quarter of 2013 and 2012 were P552,426 and P523,851 respectively.

### **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, 2013 and 2012 were P187,612 and P38,213, respectively. Input tax as of March 31, 2013 and 2012, net of allowance for impairment, amounted to P465,634 and P260,942, respectively.

#### **Available-For-Sale Financial Assets**

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

	<b>March 31, 2013</b>		<b>March 31, 2012</b>	
<b>Unquoted shares</b>				
Cost	P	<b>73,211,573</b>	P	73,211,573
Impairment loss	(	<b>9,320,935)</b>	(	9,320,935)
		<b>63,890,638</b>		63,890,638
<b>Quoted shares</b>				
Cost		<b>7,529,480</b>		7,529,480
Net unrealized fair value gain		<b>25,098,279</b>		4,166,317
		<b>32,627,759</b>		11,695,797
	P	<b>96,518,397</b>	P	75,586,435

#### *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, 2013. Previously 100% owned, the Company sold its 66.67% ownership, or 125 million shares to Tracer Petroleum Corporation (TPC), now Forum Energy, Inc. in 2003. Subsequent to sale, the Company did not have any material transaction with FEI, which manifests that it has ceased to have significant influence on the financial and operating policy decisions of FEI. Thus, it is now classified as available-for-sale financial assets in compliance with PAS 39. Investment cost and post-acquisition charges are used to determine the carrying amount of this investment as of reclassification date. The fair value of available-for-sale financial assets approximates its carrying value.

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

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

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

On June 3, 2009, the Parent 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 P122,592,758 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 Parent 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 Parent 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.

### *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 PHES investment as of March 31, 2013 has been determined directly by reference to published prices in the active market. Consequently, an unrealized fair value gain was recognized amounting to P25,098,279 and P4,166,317 for the period ended March 31, 2013 and 2012, respectively. "Unrealized fair value gain on AFS" account is presented under Statement of Comprehensive Income and shown separately in Equity.

### ***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.

#### Relationships, Transactions and Account Balances

Related Parties	Relationship	Outstanding Balance	
		March 31, 2013	March 31, 2012
The Wellex Group, Inc.	Common key management	P 167,457,772	P 171,671,953
Forum Exploration, Inc.	Common key management	137,188,958	137,188,958
Forum Exploration, Ltd.	Common key management	( 3,415,733)	( 3,642,607)
Wellex Industries, Inc.	Common key management	( 666)	( 1,612)

#### *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 and nil, for the period ended March 31, 2013 and March 31, 2012, respectively.

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 and nil, for the period ended March 31, 2013 and March 31, 2012, respectively.

Total collections of advances from TWGI amounted to P783,903, P4,241,640 and P5,762,946 in the 1<sup>st</sup> quarter of 2013, Y2012 and Y2011, 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 period ended March 31, 2013 and March 31, 2012.

#### *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). Outstanding balance as at March 31, 2013 and March 31, 2012 amounted to P3,415,733 and P3,642,609, 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, 2013 and March 31, 2012 amounted to P666 and P1,162, respectively.

#### *Remuneration to key management personnel*

The Company did not provide remuneration to key management personnel for the period ended March 31, 2013 and March 31, 2012. 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, 2013 and March 31, 2012 amounted to P103,940 and P2,458,653, 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 P30,432 for the quarter ended March 31, 2013 and March 31, 2012.

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

6. Advances to Related Parties – currently, TWGI is funding all operational expenses of the Company.
7. 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 1<sup>st</sup> Quarter of 2013 is 536.08% and 12.17% for the 1<sup>st</sup> Quarter of 2012.
8. 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 1<sup>st</sup> Quarter of Y2013 is 153.35% and 1.55% for 1<sup>st</sup> Quarter of 2012.

9. 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 1<sup>st</sup> Quarter of 2013 is 0.91% and 1.59% for 1<sup>st</sup> Quarter of 2012.
10. 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 1<sup>st</sup> Quarter of 2013 is 0.90% and 1.62% for the 1<sup>st</sup> Quarter of 2012.

**(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, management is banking on new petroleum and gas service contracts to increase profitability. The Company is also looking to explore areas adjacent to the Libertad Field in northern Cebu that is producing marginally.

The Company submitted three applications to the Department of Energy (DOE) last April 2012. FBI bids for the 640,000-hectare Area 10 in East Palawan, 600,000-hectare Area 11 in Cotabato and 482,000-hectare Area 15 in Sulu Sea, all applications were accepted by the DOE. If awarded with at least one area, FPI resources and time will be devoted to that particular area. With the help of potential partners, exploration might start next year. As at December 31, 2012, contracts for those areas mentioned were not yet awarded by the DOE to any qualified bidders.

To date, the Company's main source of revenue came from its 33.33% capital stock investment in Forum Exploration, Inc. (FEI), a subsidiary of Pangilinan-led Forum Energy Plc. and the project operator for Libertad gas field or Service Contract (SC) 40. With around 72.5 million cubic feet of gas representing net revenue of \$88,000 as at December 31, 2012 after FEI commercial production commenced last February 6, 2012, the management of FPI is hoping for future realization of its return on investment.

The Company's management believes that the above management plans 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 Investment**

### 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, 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 3,416,399

March 31, 2012		Total	On demand	Less than three months	3-12 months	1-5 years
Advances from related parties	P	3,643,770	P –	P –	P –	P 3,643,770
Trade and other payables		2,458,653	–	–	2,458,653	–
	P	6,102,423	P –	P –	P 2,458,653	P 3,643,770

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

*PFRS 9, Financial Instruments* (effective January 1, 2015). This standard 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 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 Company is yet to assess PFRS 9's full impact and will adopt PFRS 9 beginning January 1, 2015. The Company will also consider the impact of the remaining phase 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. Here are list of the high and low sales price by quarter:

<u>“ CLASS A “</u>			
		<u>High</u>	<u>Low</u>
2013	First Quarter	0.235	0.2150
		<u>High</u>	<u>Low</u>
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
		<u>High</u>	<u>Low</u>
2011	First Quarter	-	-
	Second Quarter	0.980	0.140
	Third Quarter	0.240	0.200
	Fourth Quarter	0.280	0.150

The closing market price is P0.235 per share as of the latest trading date at March 22, 2013. The Corporation has only one class of registered security, “Class A – Common Shares”.

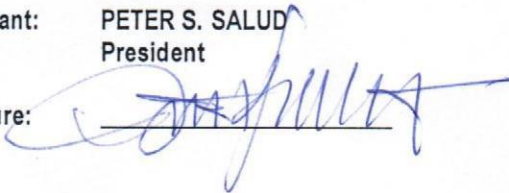
### Forum Pacific Inc. List of Top 20 Stockholders - Filipino As of March 31, 2013

	<b>NAME</b>	<b>CLASS A – NO. OF SHARES HELD</b>	<b>% to TOTAL</b>
1	International Polymer Corp	496,887,494	26.501
2	PCD Nominee Corp.	408,407,824	21.782
3	The Wellex Group, Inc.	376,950,000	20.104
4	E.F. Durkee & Associates, Inc.	77,838,563	4.151
5	Intra-Invest Sec., Inc.	48,159,000	2.568
6	Forum Pacific, Inc.	36,056,750	1.923
7	Metropolitan Management Corporation	30,000,000	1.600
8	Juanito C. Uy	22,625,001	1.207
9	Pacrim Energy N.L.	21,000,000	1.120
10	Sapphire Securities, Inc.	19,433,500	1.036
11	Benito Ong and/or Zita Y. Ong	18,000,000	0.960
12	Renato Chua	16,740,000	0.893
13	PCD Nominee Corp. (Non-Filipino)	15,980,000	0.852
14	Nestor S. Mangio	12,500,000	0.667
15	A & A Securities, Inc.	11,911,320	0.635
16	Mark Securities Corporation	10,772,800	0.575
17	Globalinks SEC & Stocks, Inc.	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 09, 2013

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. MARIEL L. FRANCISCO  
Title: Assistant Corporate Secretary  
Signature: 

Registrant: KENNETH T. GATCHALIAN  
Title: Treasurer  
Signature: 


Dated May 09, 2013

MAY 09 2013

SUBSCRIBED AND SWORN to before me this 09 day of MAY, 2013 in MANILA affiant (s) exhibiting to me his/their Tax Identification No. as follows:

AFFIANTS	Tax Identification No.
1. Peter S. Salud	107-777-803-000
2. Mariel L. Francisco	224-150-060-000
3. Kenneth T. Gatchalian	167-406-526-000

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Book No.: 37  
Series of: 2013

  
ATTY. DELEN R. ACCOLL JR.  
NOTARY PUBLIC  
UNTIL DECEMBER 31, 2013  
PTR NO. 0297334 / 2012-2013 MLA.  
IBP NO. 873632 / 2013 MLA.  
ROLL NO. 24056 / TIN - 144-519-088  
MCLE III - 0013521  
Com. No. 2013-023

FORUM PACIFIC, INC.  
STATEMENT OF FINANCIAL POSITION  
AS OF MARCH 31, 2013

Annex A.1

ACCOUNT TITLES	Note	Unaudited March 31, 2013	Unaudited March 31, 2012	Audited Dec. 31, 2012
<b>Current Assets</b>				
Cash	2,5	187,612	38,213	330,006
Input Tax	2	465,634	260,942	394,608
Advances to officers & employees		2,624	--	2,624
		<b>655,870</b>	<b>299,155</b>	<b>727,238</b>
<b>Non-current Assets</b>				
Advances to related parties	10	304,646,728	308,860,910	305,430,631
Available-for-sale financial assets –net	6	96,518,397	75,586,436	96,518,397
Other non-current assets		33,444	33,444	33,444
		<b>401,198,569</b>	<b>384,480,790</b>	<b>401,982,472</b>
<b>TOTAL ASSETS</b>		<b>401,854,439</b>	<b>384,779,945</b>	<b>402,709,710</b>
<b>Current liabilities</b>				
Accounts payable and other current liabilities	8	103,940	2,458,653	406,785
Income tax payable		18,406	--	18,406
		<b>122,346</b>	<b>2,458,653</b>	<b>425,191</b>
<b>Non-current Liabilities</b>				
Advances from related parties	10	3,416,398	3,643,770	3,416,398
Deferred tax liability		30,432	30,432	30,432
		<b>3,446,830</b>	<b>3,674,202</b>	<b>3,446,830</b>
<b>TOTAL LIABILITIES</b>		<b>3,569,176</b>	<b>6,132,855</b>	<b>3,872,021</b>
<b>EQUITY</b>				
Capital Stock				
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		25,098,279	4,166,317	25,098,279
Deficits		(798,299,887)	(797,006,098)	(797,747,461)
<b>TOTAL EQUITY</b>		<b>398,285,263</b>	<b>378,647,090</b>	<b>398,837,689</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>401,854,439</b>	<b>384,779,945</b>	<b>402,709,710</b>

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

FORUM PACIFIC, INC.  
STATEMENTS OF COMPREHENSIVE INCOME  
FOR THE PERIOD ENDED MARCH 31, 2013 AND 2012

Annex A.2

ACCOUNT TITLES	Jan - March 2013	Jan - March 2012
Revenue	-	-
Costs and Expenses	552,426	523,851
Gross Income	( 552,426)	( 523,851)
Other Income	-	-
Income ( Loss) for the quarter	<u>( 552,426)</u>	<u>( 523,851)</u>
Loss per Share	(P 0.00030)	(P 0.00028)

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

**FORUM PACIFIC, INC. AND SUBSIDIARY**  
**STATEMENTS OF CASH FLOW**  
For the period ended March 31, 2013

Annex A.3

	Unaudited 1st Qtr. Jan.-Mar. 2013	Unaudited 1st Qtr. Jan.-Mar. 2012	Audited Dec. 31, 2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Loss before tax	(P 552,426)	(P 523,851)	(P 1,246,808)
Adjustments for:			
Unrealized foreign exchange loss (gain)	-	-	(226,876)
Operating income (loss) before working capital changes	( 552,426)	( 523,851)	( 1,473,684)
Increase in input tax	( 71,026)	( 56,790)	( 193,079)
Decrease in advances to related parties	783,903	811,362	-
Increase (decrease) in accounts payable and other liabilities	( 302,845)	( 230,721)	( 2,282,588)
Net cash used in operating activities	( 142,394)	-	( 3,949,351)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from (payments of):			
Advances to related parties	-	-	4,241,641
Advances from related parties	-	-	( 497)
Sale of AFS financial assets	-	-	-
Net cash provided by investing activities	-	-	4,241,144
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>( 142,394)</b>	<b>-</b>	<b>291,793</b>
<b>CASH</b>			
At beginning of year	330,006	38,213	38,213
At end of year	<b>P 187,612</b>	<b>P 38,213</b>	<b>P 330,006</b>

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

**FORUM PACIFIC, INC. AND SUBSIDIARY**  
**Statements of Changes in Equity**  
**For The Period Ended March 31, 2013 and 2012**

**Annex A.4**

	<b>1st Qtr. Jan. - Mar. 2013</b>	<b>1st Qtr. Jan. - Mar. 2012</b>	<b>Audited Dec. 31, 2012</b>
Capital Stock	<b>1,207,543,621</b>	1,207,543,621	1,207,543,621
Treasury Shares	<b>(36,056,750)</b>	(36,056,750)	(36,056,750)
Unrealized Fair Value Gain (Loss) on Available-For-Sale Financial Assets	<b>25,098,279</b>	4,166,317	25,098,279
Deficit - Beginning	<b>(797,747,461)</b>	(796,482,248)	(796,482,248)
Net Loss for the period	<b>(552,426)</b>	(523,851)	(1,265,213)
Deficit - Ending	<b>(798,299,887)</b>	(797,006,099)	(797,747,461)
<b>TOTAL STOCKHOLDER'S EQUITY</b>	<b>398,285,263</b>	378,647,089	398,837,689

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

## FORUM PACIFIC, INC.

## NOTES TO INTERIM FINANCIAL STATEMENTS

March 31, 2013

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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.

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 believes that the going concern assumption is appropriate despite the existence of material uncertainty caused by recurring substantial losses of the Group. The Company had incurred losses from its operations amounting to P552,426, P523,851 and P1,265,213 for period as of March 31, 2013, March 31, 2012 and December 31, 2012, respectively. Due to prior period losses, the Company has sustained a deficit of P798,299,887, P797,006,099 and P797,747,461 as of March 31, 2013, March 31, 2012 and December 31, 2012, respectively.

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 Parent 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. Upon payment, PSE lifted the Company's revocation of Registration of Securities and Permit to sell.

### *Business Plans*

To address the foregoing matters that may raise doubt on the Company's ability to continue as a going concern, management is banking on new petroleum and gas service contracts to increase profitability. The Company is also looking to explore areas adjacent to the Libertad Field in northern Cebu that is producing marginally.

The Company submitted three applications to the Department of Energy (DOE) last April 2012. FBI bids for the 640,000-hectare Area 10 in East Palawan, 600,000-hectare Area 11 in Cotabato and 482,000-hectare Area 15 in Sulu Sea, all applications were accepted by the DOE. If awarded with at least one area, FPI resources and time will be devoted to that particular area. With the help of potential partners, exploration might start next year. As at December 31, 2012, contracts for those areas mentioned were not yet awarded by the DOE to any qualified bidders.

To date, the Company's main source of revenue came from its 33.33% capital stock investment in Forum Exploration, Inc. (FEI), a subsidiary of Pangilinan-led Forum Energy Plc. and the project operator for Libertad gas field or Service Contract (SC) 40. With around 72.5 million cubic feet of gas representing net revenue of \$88,000 as at December 31, 2012 after FEI commercial production commenced last February 6, 2012, the management of FPI is hoping for future realization of its return on investment.

The Company's management believes that the above management plans 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, 2012.

*PAS 12, Income Taxes (Amendment) - Recovery of Underlying Assets*, effective January 1, 2012, clarifies the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in PAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirements that deferred tax on nondepreciable assets that are measured using the revaluation model in PAS 16 always be measured on a sale basis of the asset. This amendment is currently not applicable to the Company's financial statements.

*PFRS 1 (Amendment), First-time Adoption of PFRS - Fixed Dates and Hyperinflation*, effective July 1, 2011. The amendment includes two changes to PFRS 1, First-time adoption of PFRS. The first replaces references to a fixed date of January 1, 2004 with 'the date of transition to PFRS', thus eliminating the need for entities adopting PFRS for the first time to restate derecognition transactions that occurred before the date of transition to PFRS. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with PFRS after a period when the entity was unable to comply with PFRS because its functional currency was subject to severe hyperinflation. This amendment is currently not applicable to the Company's financial statements.

*PFRS 7 (Amendment), Financial Instruments: Disclosures - Enhanced Derecognition Disclosure Requirements*, effective July 1, 2011, requires additional disclosures about financial assets that have been transferred but not derecognized to enable the user of the Company's financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendment affects the disclosure only and has no impact on the Company's financial position or performance.

## **New Accounting Standards, Interpretations and Amendments to Existing Standards Effective Subsequent to January 1, 2012**

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

*PAS 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 Company will apply the standard beginning January 1, 2013 and the adoption is not expected to have a significant impact on the Company's financial statement except on the presentation of other comprehensive income.

*PAS 19 (Amendment), Employee benefits*, effective January 1, 2013. The impact on the Company will be as follows: to immediately recognize all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset). This amendment will not have an 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 amendment will not have an 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 amendment will not have an impact on the Company's financial statements.

*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 amendment and intends to adopt the amendment beginning January 1, 2014.

*PFRS 1 (Amendment), Government Loans*, effective January 1, 2013. These amendments add an exception to the retrospective application of PFRS. First-time adopters are required to apply 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 PFRS. This new standard will not have an impact on the Company's financial statements.

*PFRS 7 (Amendment), Disclosures-Offsetting Financial Assets and Financial Liabilities*, effective January 1, 2013. These amendments involves 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 Company has yet to assess the full impact of the amendments and intends to adopt the amendment beginning January 1, 2013.

*PFRS 9, Financial instruments*, effective January 1, 2015. This standard 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 Company is yet to assess PFRS 9's full impact and will adopt PFRS 9 beginning January 1, 2015. The Company will also consider the impact of the remaining phases of PFRS 9 when completed by the IASB and adopted by the FRSC.

*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 Company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. This amendment will not have an 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) always 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. This standard will not have an impact in the Company's financial statements.

*PFRS 12, Disclosures of interest in other entities*, effective January 1, 2013, includes the disclosures requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Company is yet to assess PFRS 12's full impact and will adopt PFRS 12 beginning January 1, 2013.

*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 PFRS. The requirements, which are largely aligned between PFRS 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 PFRS or US GAAP. The Company is yet to assess PFRS 13's full impact and will adopt PFRS 13 beginning January 1, 2013.

*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. This new standard will not have an impact on the Company's financial statements.

## **Financial Instruments**

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

The Company recognizes financial assets and financial liabilities in the Company 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, 2013, December 31, 2012 and March 31, 2012, 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 15.

### **"Day 1" Difference**

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

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

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

## **Loans and Receivables**

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

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

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

## **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. 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, 2013, December 31, 2012 and March 31, 2012, included in other financial liabilities are the Company's accounts payable and other liabilities, and advances from related parties (see Notes 8 and 10).

### **Offsetting of Financial Instruments**

Financial assets and financial liabilities are offset and the net amount is reported in the 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**

#### *(c) 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.

#### *(d) 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.

#### *(d) 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.

(e) *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.

(f) *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 are 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, 2013, December 31, 2012 and March 31, 2012. 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 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 Company 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.

*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**

### *(c) 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.

(d) *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 Company 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 Company 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 Company 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 Company financial statements. Post year-end events that are not adjusting events are disclosed in the Company financial statements when material.

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#### **Note 4 - Significant Accounting Judgments, And Estimates And Assumptions**

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

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

*h) 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.

*i) Classification of financial instruments*

The Company classifies a financial instrument, or its component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual agreement and the guidelines set by PAS 39 on the definitions of a financial asset, a financial liability or equity instrument. In addition, the Company also determines and evaluates its intention and ability to keep the investments until its maturity date.

The substance of a financial instrument, rather than its legal form and the management's intention and ability to hold the financial instrument to maturity generally governs its classification in the statements of financial position.

*j) 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.

*k) 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.

*l) 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 as of July 6, 2012, 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.

*m) 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.

*n) 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*.

**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.

*c) 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 P25,098,279 and P4,166,317 in March 31, 2013 and March 31, 2012, respectively were reported in the equity section of the statements of financial position (see Note 6).

*d) 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 13.

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

*d) 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 P196,695,828 in March 31, 2013 and March 31, 2012 (see Note 10).

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**Note 5 - CASH**

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Cash represents cash in bank with outstanding balance of P187,612, P330,006 and P38,213 as at March 31, 2013, December 31, 2012 and March 31, 2012, respectively.

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**Note 6 - AVAILABLE-FOR-SALE FINANCIAL ASSETS**

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

	March 31, 2013	March 31, 2012
<b>Unquoted shares</b>		
Cost	P 73,211,573	P 73,211,573
Impairment loss	( 9,320,935)	( 9,320,935)
	<b>63,890,638</b>	63,890,638
<b>Quoted shares</b>		
Cost	7,529,480	7,529,480
Net unrealized fair value gain	25,098,279	4,166,317
	<b>32,627,759</b>	11,695,797
	<b>P 96,518,397</b>	P 75,586,435

Investment in unquoted shares of stock represents 33.33% ownership of the Company in Forum Exploration, Inc. (FEI) as at March 31, 2013 and March 31, 2012, and Express Savings Bank, Inc. (ESBI) in 2010 and 2009, respectively. These investments are classified as available-for-sale 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 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 P3,710,917 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 loss on available-for-sale financial assets are as follows:

	March 31, 2013	March 31, 2012
At beginning of year	P 4,166,317	(P 7,425,459)
Fair value changes during the year	20,931,962	7,880,859
Reclassification adjustment due to impairment	–	3,710,917
	<b>P 25,098,279</b>	P 4,166,317

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**Note 7 - INVESTMENTS IN A SUBSIDIARY**

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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 Centre, 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.

Financial information as at September 30, 2009, with regards to FCCHI is shown below:

Total assets	<b>P 269,476,896</b>
Total liabilities	<b>276,197,181</b>
Equity	<b>(P 6,720,285)</b>

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 need not present consolidated financial statements.

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#### **Note 8 - ACCOUNTS PAYABLE AND OTHER LIABILITIES**

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

	<b>March 31, 2013</b>	March 31, 2012
Accrued expenses	<b>P 73,400</b>	P 1,193,335
Accounts payable	<b>24,915</b>	1,264,318
Withholding tax payable	<b>5,625</b>	1,000
	<b>P 103,940</b>	P 2,458,653

Accounts payable and other liabilities are carried at cost as these are short-term in nature.

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

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#### **Note 9 - CAPITAL STOCK**

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Details of the Company's capital stock as at March 31, 2013 and March 31, 2012 are as follows:

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

The cost of the Company's treasury shares amounted to P36,056,750 as at December 31, 2012 and 2011. Such treasury shares restrict the Company from declaring an equivalent amount from the unappropriated retained earnings as dividends.

*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 P.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 P0.01 to P1.00, removing the pre-emptive rights of shareholders and increasing authorized capital stock from P500 million divided by 50 billion shares to P2 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 P2 billion to P3.5 billion divided into 3.5 billion shares with a par value of P1 per share. On March 11, 1998, SEC approved the Company's increased in authorized capital stock.

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**Note 10 - RELATED PARTY TRANSACTIONS**

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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**

Related parties	Relationship	Transactions during the period		Outstanding balance	
		March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012
The Wellex Group, Inc.	Common key management	P 783,903	P 4,241,640	P 167,457,772	P168,241,674
Forum Exploration, Inc	Common key management	-	-	137,188,958	137,188,958
Forum Exploration, Ltd.	Common key management	-	-	( 3,415,733)	( 3,415,733)
Wellex Industries, Inc.	Common key management	-	-	( 666)	( 666)

(b) *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 period ended March 31, 2013, December 31, 2012 and March 31, 2012.

	March 31, 2013	December 31, 2012	March 31, 2012
At beginning and end of the period	P 171,631,076	P 171,631,076	P 171,631,076
Allowance for impairment loss	( 34,442,118)	( 34,442,118)	( 34,442,118)
Net carrying amount	P 137,188,958	P 137,188,958	P 137,188,958

The movement of allowance for impairment loss is as follows:

	March 31, 2013	December 31, 2012	March 31, 2012
At beginning of the period	P 34,442,118	P 34,442,118	P 34,442,118
Provisions during the period – note 11	-	-	-
	P 34,442,118	P 34,442,118	P 34,442,118

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

The Company's advances from TWGI consist of advances granted to finance their 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 the quarter ended March 31, 2013 (see Note 11).

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 the quarter ended March 31, 2013 (see Note 11).

	<b>March 31, 2013</b>	December 31, 2012
At beginning of the period	<b>P 330,495,385</b>	P 334,737,025
Collection	<b>( 783,903)</b>	( 4,241,640)
	<b>329,711,482</b>	330,495,385
Less allowance for impairment loss	<b>( 162,253,710)</b>	( 162,253,710)
	<b>P 167,457,772</b>	P 168,241,674

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

	<b>March 31, 2013</b>	December 31, 2012
At beginning of the period	<b>P 3,642,608</b>	P 3,642,608
Unrealized foreign exchange loss (gain) – note 11	<b>( 266,875)</b>	( 266,875)
	<b>P 3,415,733</b>	P 3,415,733

(d) *Advances from Wellex Industries, Inc.*

The Company received cash advances from Wellex Industries, Inc. for payment of expenses. Outstanding balance as at March 31, 2013 and December 31, 2012 amounted to P666.

(e) *Remuneration to key management personnel*

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

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**Note 11 - COSTS AND EXPENSES**

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Cost and expenses for the period consists of :

	<b>March 31, 2013</b>	March 31, 2012	December 31, 2012
Professional fees	<b>P 195,000</b>	P 253,250	P 1,341,122
Taxes and licenses	<b>16,496</b>	14,549	320,404
Office supplies	<b>3,981</b>	5,207	250,313
Membership fees and dues	<b>250,000</b>	250,000	250,000
Rent and utilities – note 9	<b>55,500</b>	–	166,500
Communication	–	–	34,423
Representation	–	75	16,437
Miscellaneous	<b>31,449</b>	770	14,777
	<b>P 552,426</b>	P 523,851	P 2,393,976

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

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Other income (expenses) for the years ended December 31 consists of:

	<b>March 31, 2013</b>	March 31, 2012	December 31, 2012
Unrealized foreign exchange gain (loss)	<b>P –</b>	<b>P –</b>	<b>P 226,876</b>
Impairment loss:	–	–	–
Advances from a related party	–	–	–
AFS financial assets	–	–	–
Investments in a subsidiary	–	–	–
Others			<b>920,292</b>
	<b>P –</b>	<b>P –</b>	<b>P 1,147,168</b>

Other income mainly represents the reversal of long outstanding accruals and payables.

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**Note 13 - INCOME TAXES**

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***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 2012 and 2011.

The composition of deferred tax assets is as follows:

	<b>March 31, 2013</b>	March 31, 2012
Impairment loss on advances to related parties	<b>P 59,008,748</b>	P 59,008,748
NOLCO	<b>4,351,577</b>	3,909,473
Impairment loss on AFS Securities	<b>2,796,281</b>	2,796,281
Unrealized foreign exchange loss	<b>365,240</b>	433,303
MCIT	<b>68,950</b>	50,541
Impairment loss on investment in subsidiary – note 6	–	1,296,000
	<b>66,590,796</b>	67,494,346
Valuation allowance	<b>( 66,590,796)</b>	( 67,494,346)
	<b>P –</b>	P –

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 carryforward benefits will not be realized in the future

As at March 31, 2013 and 2012, the composition of deferred tax liability on the unrealized foreign exchange gain on advances from/to related parties amounted to P30,432.

As at March 31, 2013, 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>						
2012	2015	P –	P 1,473,683	P –	P –	P 1,473,683
2011	2014	986,213	–	–	–	986,213
2010	2013	12,045,362	–	–	–	12,045,362
		<b>P13,031,575</b>	<b>P 1,473,683</b>	<b>P –</b>	<b>P –</b>	<b>P 14,505,258</b>

Year Incurred	Expiration Date	Beginning balance	Additions	Expired	Claimed	Ending balance
<b>MCIT</b>						
2012	2015	P –	P 18,409	P –	P –	P 18,409
2010	2013	50,541	–	–	–	50,541
		<b>P 50,541</b>	<b>P 18,409</b>	<b>P –</b>	<b>P –</b>	<b>P 68,950</b>

#### **Note 14 - LOSS PER SHARE**

The following table presents information necessary to calculate the earnings (loss) per share:

	<b>March 31, 2013</b>	March 31, 2012	December 31, 2012
Net loss for the period	<b>(P 552,426)</b>	(P 523,851)	(P 1,228,402)
Weighted average number of common shares outstanding during the year	<b>1,840,394,404</b>	1,840,394,404	1,840,394,404
	<b>(P 0.00030)</b>	(P 0.00028)	(P 0.00100)

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**Note 15 - FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

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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 by minimizing the exposure to financial markets.

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:

	<b>March 31, 2013</b>	March 31, 2012
Cash in bank	<b>P 187,612</b>	P 38,213
Advances to related parties	<b>304,646,728</b>	308,860,910
	<b>P 304,834,340</b>	P 308,899,123

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, 2013 and 2012, the Company classifies the credit quality of advances to related parties based on the following:

	<b>March 31, 2013</b>	March 31, 2012
Group 1	<b>P 167,457,772</b>	P 171,671,952
Group 2	<b>137,188,958</b>	137,188,958
Group 3	—	—
	<b>P 304,646,730</b>	P 308,860,910

- 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, 2013 and 2012 are as follows:

March 31, 2013	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	> 3 years but not impaired		
Cash in bank	P 187,612	P 187,612	P-	P-	P-	P-	P-	P	-	P -
Advances to related parties - note 10	501,342,557	-	-	-	-	-	-	-	329,711,482	171,631,075
	<b>P 501,530,169</b>	<b>P 187,612</b>	<b>P-</b>	<b>P-</b>	<b>P-</b>	<b>P-</b>	<b>-</b>	<b>P 329,711,482</b>	<b>P 171,631,075</b>	
March 31, 2012										
Cash in bank	P 38,213	P 38,213	P-	P-	P-	P-	P-	P	-	P -
Advances to related parties - note 10	505,556,738	-	-	-	-	-	-	-	333,925,663	171,631,075
	<b>P 505,594,951</b>	<b>P 38,213</b>	<b>P-</b>	<b>P-</b>	<b>P-</b>	<b>P-</b>	<b>-</b>	<b>P 333,925,663</b>	<b>P 171,631,075</b>	

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

### 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 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, 2013	Total	On demand	Less than three months	3-12 months	1-5 years
Account payable and other liabilities	P 103,940	P -	P -	P 103,940	P -
Advances from related parties	3,416,399	-	-	-	3,416,399
	<b>P 3,520,339</b>	<b>P -</b>	<b>P -</b>	<b>P 103,940</b>	<b>P 3,416,399</b>
March 31, 2012					
Accounts payable and other liabilities	P 2,458,653	P -	P -	P 2,458,653	P -
Advances from related parties	3,643,770	-	-	-	3,643,770
	<b>P 6,102,423</b>	<b>P -</b>	<b>P -</b>	<b>P 2,458,653</b>	<b>P 3,643,770</b>

### ***Interest rate risk and fair value interest rate risk***

As the Company has no significant interest bearing assets, the Company's income and operating cash flows are substantially independent of changes in market interest rates.

The Company's interest rate risk arises from bank deposits. The Company's cash in bank earns interest at current interest rate level; any variation in the interest is expected to have an insignificant impact on Company's operation.

### ***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. If foreign exchange rates had been 10% higher/lower, the net loss before tax would decrease /increase by P364,261 and P364,377 in 2012 and 2011, respectively.

### ***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 President has 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, 2013 and 2012 are 0.90% and 1.62%, 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 P398,285,263 and P378,647,089, as of March 31, 2013 and 2012, 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 2012, the Company's strategy, which was unchanged from 2011, was to keep the gearing ratio below 50% as proportion to net debt to capital. The gearing ratios as at March 31, 2013 and 2012 were as follows:

	March 31, 2013	March 31, 2012
<b>Accounts payable and other liabilities</b>	P 103,940	P 2,458,653
<b>Advances from related parties</b>	3,416,399	3,643,770
<b>Less: Cash</b>	( 187,612)	( 38,213)
<b>Net debt</b>	3,332,727	6,064,210
<b>Total equity</b>	398,285,263	378,647,089
<b>Total capital</b>	P 401,617,990	P 384,711,299
	0.84%	1.60%

#### **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, 2013		March 31, 2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial Assets</b>				
Cash	P 187,612	P 187,612	P 38,213	P 38,213
Advances to related parties – net	304,646,728	304,646,728	308,860,910	308,860,910
AFS financial assets	96,518,397	96,518,397	75,586,435	75,586,435
	P 401,352,737	P 401,352,737	P384,485,558	P384,485,558
<b>Financial liabilities</b>				
Accounts payable and other liabilities	P 103,940	P 103,940	P 2,458,653	P 2,458,653
Advances from related parties	3,416,399	3,416,399	3,643,770	3,643,770
	P 3,520,339	P 3,520,339	P 6,102,423	P 6,102,423

#### **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 and trade and other receivables - The carrying amounts of cash and trade and other receivables 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.

### *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, 2013</b>				
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>AFS financial assets</b>	<b>P 96,518,397</b>	<b>P 32,627,759</b>	<b>P 63,890,638</b>	<b>P –</b>

<b>March 31, 2012</b>				
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>AFS financial assets</b>	<b>P 75,586,435</b>	<b>P 11,695,797</b>	<b>P 63,890,638</b>	<b>P –</b>

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

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#### ***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.

c) *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, 2013 and 2012.

d) *Input value-added tax*

	<b>March 31, 2013</b>	<b>March 31, 2012</b>
At beginning of year	<b>P 394,608</b>	<b>P 64,563</b>
Current purchases and payments for:		
Goods for resale/ manufacture	–	–
Goods other than for resale or manufacture	–	–
Capital goods subject to amortization	–	–
Capital goods not subject to amortization	–	–
Services lodged under cost of goods sold	<b>71,026</b>	<b>196,379</b>
Services lodged under other accounts	–	–
	<b>P 465,634</b>	<b>P 260,942</b>

- i) *Taxes on importation*  
The Company has no import transactions for the quarter ended March 31, 2013 and 2012.
- j) *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.
- k) *Documentary stamp tax*  
Documentary stamp tax paid by the Company amounted to nil and P804 in March 31, 2013 and 2012, respectively.
- l) *Taxes and licenses*  
Details of taxes and licenses account are broken down as follows:

	<b>March 31, 2013</b>		March 31, 2012	
Business permits	<b>P</b>	<b>15,486</b>	P	13,539
SEC filing fee		—		—
Corporate Community tax		<b>510</b>		510
BIR Annual registration		<b>500</b>		500
	<b>P</b>	<b>16,496</b>	P	14,549

- m) *Withholding taxes*  
The details of total withholding taxes for the quarter ended March 31, 2013 and 2012, are shown below:

	<b>March 31, 2013</b>		March 31, 2012	
Withholding tax on compensation	<b>P</b>	—	P	—
Expanded withholding tax		<b>16,875</b>		3,000
Final withholding tax		—		—
	<b>P</b>	<b>16,875</b>	P	3,000

- n) *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 years ended December 31, 2012 and 2011 are as follows:

b) *Sales/Taxable Income*

	March 31, 2013		March 31, 2012	
	Special rate	Regular rate	Special rate	Regular rate
Sale of goods	P –	P –	P –	P –
Sale of services	–	–	–	–
Sale of properties	–	–	–	–
	<b>P –</b>	<b>P –</b>	<b>P –</b>	<b>P –</b>

b) *Other non-operating and taxable income*

The Company has no taxable income for the quarter ended March 31, 2013 representing reversal of long outstanding accounts payable and other liabilities.

c) *Itemized deductions*

	March 31, 2013		March 31, 2012	
	Special rate	Regular rate	Special rate	Regular rate
Professional fees	P –	P 195,000	P –	P 253,250
Office supplies	–	3,981	–	5,207
Rent and utilities	–	55,500	–	–
Communication	–	–	–	–
Taxes and licenses	–	16,496	–	14,549
Representation	–	–	–	–
Training and development	–	–	–	–
Travel and transportation	–	–	–	–
Miscellaneous	–	281,449	–	250,845
<b>Sub-total</b>	–	<b>552,426</b>	–	<b>523,851</b>
Allowance of NOLCO	–	–	–	–
<b>Total expenses</b>	<b>P –</b>	<b>P 552,426</b>	<b>P –</b>	<b>P 523,851</b>

d) *Taxes and licenses*

The details of the Company's taxes and licenses are presented in section I.F of this note.

f) *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, 2013

	March 31 2013	March 31 2012	December 31 2012
<b>Profitability ratios:</b>			
Return on assets	Nil	Nil	Nil
Return on equity	Nil	Nil	Nil
Net profit margin	Nil	Nil	Nil
<b>Solvency and liquidity ratios:</b>			
Current ratio	<b>536.08%</b>	12.17%	171.04%
Debt to equity ratio	<b>0.90%</b>	1.62%	0.97%
<b>Financial leverage ratio:</b>			
Asset to equity ratio	<b>100.90%</b>	101.62%	100.97%
Debt to asset ratio	<b>0.89%</b>	1.59%	0.96%
Interest rate coverage ratio	Nil	Nil	Nil