PHILEX PETROLEUM CORPORATION

2013 ANNUAL REPORT

ABOUT THE COVER

pro•gres•sion

The process of development for business and economic growth involving the collective and harmonious movement of various stakeholders from the industry, the men and women of Philex, the community and the environment towards the goal of nation building.

The cover design illustrates the contribution of Philex Petroleum towards development. As a Philippine oil and gas exploration company, Philex Petroleum is involved in the complex and challenging business of searching for oil and gas resources deep beneath the earth's surface.

Committed to the development of indigenous hydrocarbon resources to fuel the country's drive towards development and energy security, Philex Petroleum stands for progression.

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CORPORATE PROFILE

Philex Petroleum Corporation (the "Company" or "PXP") is a Philippine corporation organized in December 2007 and listed in the Philippine Stock Exchange on September 12, 2011. The Company is a 64.78% owned subsidiary of Philex Mining Corporation, a leader in mining and a pioneer in oil and gas exploration in the Philippines.

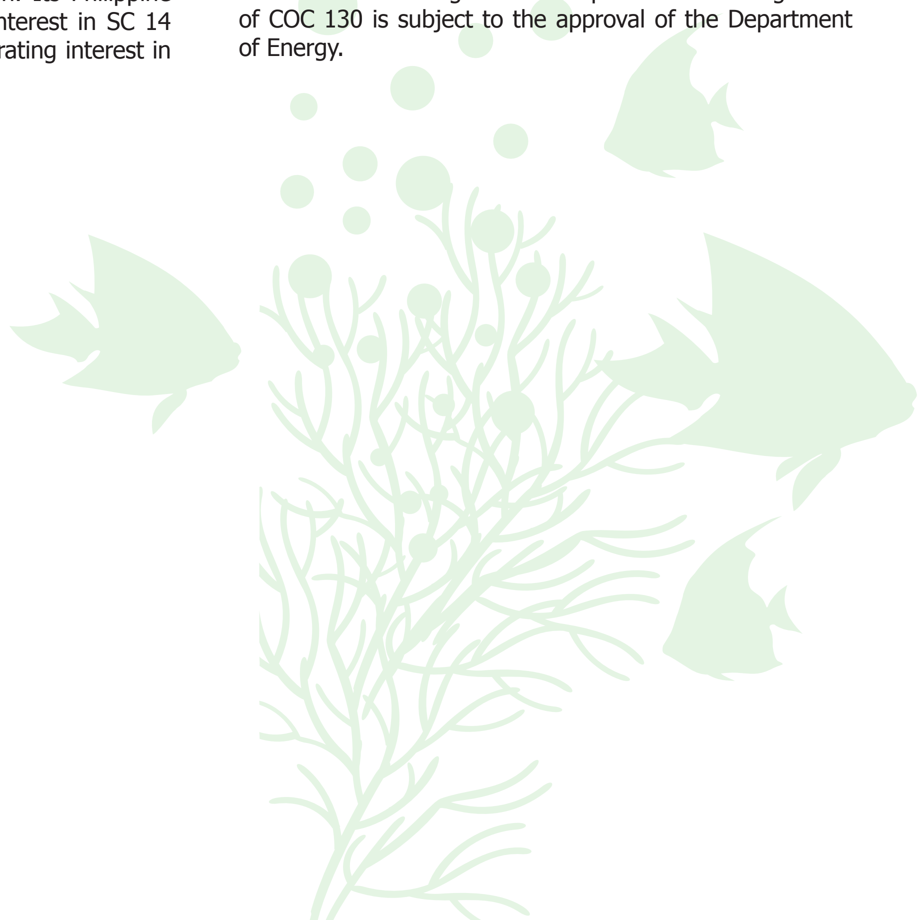
The Company has interests in various petroleum and coal contracts in the Philippines and Peru held directly and through its subsidiaries, Pitkin Petroleum plc ("Pitkin") and Forum Energy plc ("FEP").

The Company's direct interest in Philippine petroleum service contracts includes (1) a 50% operating interest in SC 75 NW Palawan, (2) an overriding royalty interest of 1.65% in SC 6 Cadlao and, (3) a minority interest in SC 6A Octon; all located in the NW Palawan Basin.

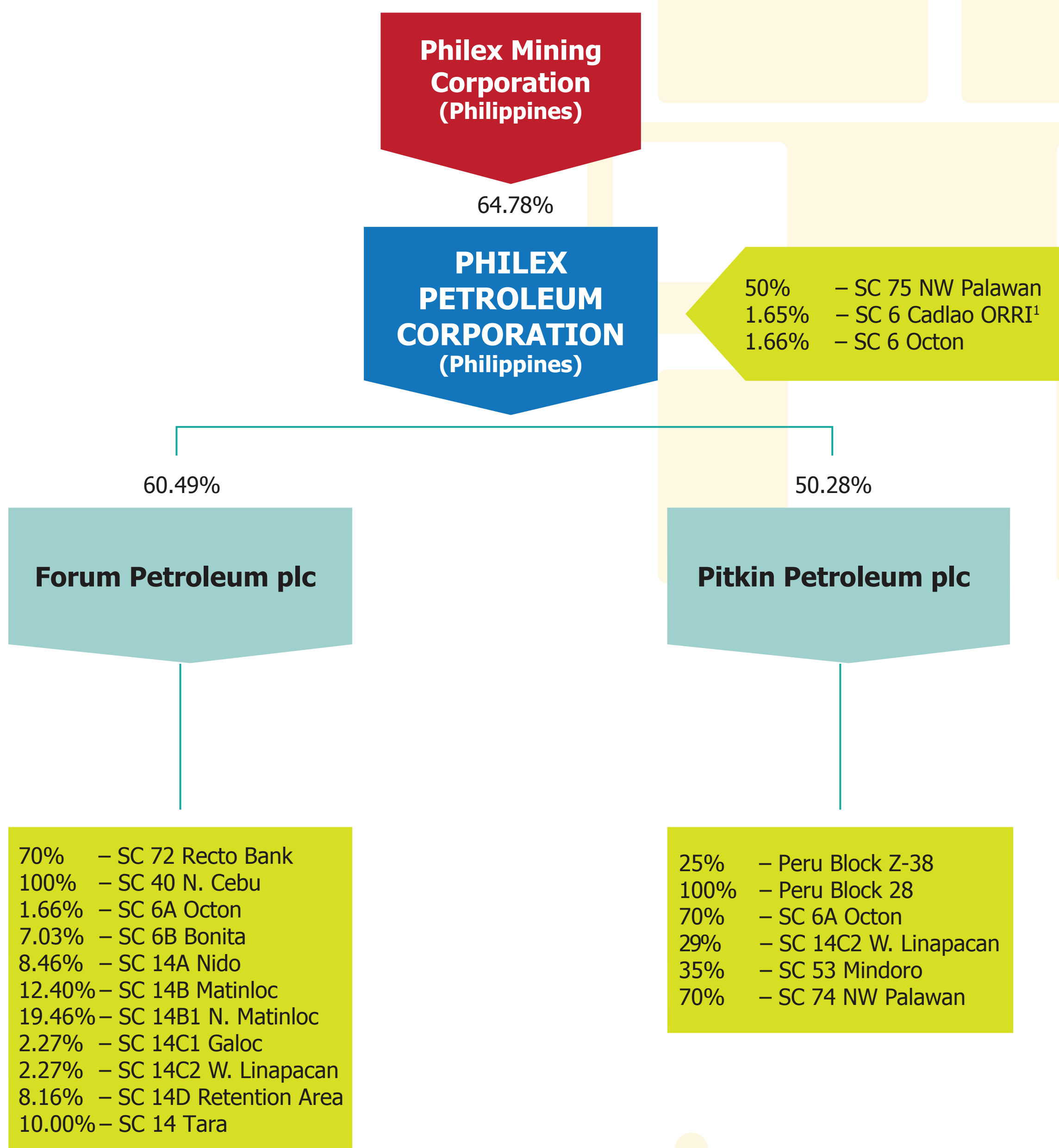
The Company holds a 50.28% controlling interest in Pitkin, an international upstream oil and gas company registered in the United Kingdom with operations in Peru and in the Philippines. The Pitkin assets in Peru include: (a) a 25% participating interest in Peru Block Z-38 located in offshore Tumbes Basin offshore and; (b) a 100% operating interest in Peru Block 28 located in Sechura Basin. Its Philippine assets include: (a) a 29% participating interest in SC 14 Block C2 West Linapacan; (b) a 70% operating interest in SC 6A Octon; (c) a 70% operating interest in SC 74 NW Palawan; and (d) a 35% participating interest in SC 53 Mindoro.

The Company also holds a 60.49% controlling interest in FEP, with 36.44% held directly and 24.05% held indirectly through a 51.24%-owned subsidiary, FEC Resources, Inc., a Canadian company listed in the U.S. Stock Exchange. FEP, a UK incorporated upstream oil and gas company with focus on the Philippines, has: (a) a 70% operating interest in SC 72 Reed Bank which covers the Sampaguita natural gas discovery in offshore west Palawan, held through Forum (GSEC 101) Limited, (b) a 100% operating interest in SC 40 North Cebu held through Forum Exploration, Inc., and (c) and minority interests in the SC 6 and SC 14 sub-blocks in offshore NW Palawan, including a 2.27% interest in the producing Galoc field, held through Forum Energy Philippines Corporation ("FEPC").

The Company owns 100% of Brixton Energy & Mining Corporation ("BEMC"), a coal mining company which operates Coal Operating Contract ("COC") 130 in Zamboanga Sibugay in Mindanao. On January 7, 2014, BEMC finalized agreements for the assignment of COC 130 to Grace Coal Mining and Development. The assignment of COC 130 is subject to the approval of the Department of Energy.



CORPORATE ORGANIZATION



[1] Overriding Royalty Interest
[2] Not shown is BEMC, a wholly-owned subsidiary that closed its coal mine in September 2013

PHILIPPINE PETROLEUM SERVICE CONTRACTS

PHILEX PETROLEUM CORPORATION

SC75		50%
SC6	Cadlao	1.65% ORRI
SC6A	Octon	1.66%

PITKIN PETROLEUM PLC

SC6A	Octon	70%
SC14C2	W. Lnapacan	29%
SC53	Mindoro	35%
SC74	NW Palawan	70%

FORUM ENERGY PLC

SC72	Recto Bank	70%
SC40	N. Cebu	100%
SC6A	Octon	1.66%
SC6B	Bonita	7.03%
SC14A	Nido	8.46%
SC14B	Matinloc	12.40%
SC14B1	N. Matinloc	19.46%
SC14C1	Galoc	2.27%
SC14C2	W. Linapacan	2.27%
SC14D	Retention Area	8.16%
SC14	Tara	10%

Talara

Sullana

Peru

Paita

Piura

PERU EXPLORATION BLOCKS

PITKIN PETROLEUM PLC

Block	Interest
Block Z-38	25%
Block 28	100%

MESSAGE FROM THE CHAIRMAN & CHIEF EXECUTIVE OFFICER

To My Fellow Shareholders,

In 2013, your Company continued to manage actively its asset portfolio based on a prudent assessment of the risks and upside potential of existing assets, and of potential acquisition opportunities.

Your Company successfully acquired two (2) new Service Contracts in the Northwest Palawan Basin from the Fourth Philippine Energy Contracting Round. The Department of Energy awarded Service Contract 74 to the consortium led by Pitkin on August 13, 2013, and Service Contract 75 to the consortium led by PXP on December 27, 2013. The acquisition of SC 74 and SC 75 strengthens the Group's position in the proven hydrocarbon basins in the West Philippine Sea.

In April 2013, the Company capitalized on an opportunity to acquire a controlling interest in Pitkin. The Company increased its shareholding in Pitkin from 18.46% to 50.28% through a subscription of 10 million new ordinary shares and the purchase of 36.4 million shares from existing shareholders for a total consideration of US$34.80 million.

On the divestment side, Pitkin sold all of its interests in Vietnam American Exploration Company LLC in July 2013 and in Lonsdale Inc in October 2013, for a total cash consideration of approximately P2.1 billion. As a result of these transactions, the Company recorded a gain on sale of P246.6 million. As at December 31, 2013, the Company had a consolidated cash balance of P2.6 billion which will enable funding of ongoing exploration activities and the selective acquisition of new opportunities.

BEMC, a wholly-owned subsidiary, proceeded with the closure of the coal mine in Diplahan, Zamboanga Sibugay in September 2013, after suspending mining operations at the start of the year due to the significant drop in regional coal prices. The decision to close the mine was based on a number of factors including expectations of continued low coal prices, geological issues, and substantial losses incurred during the implementation of the first 5-year development and production work program.

On January 8, 2014, BEMC finalized agreements for the assignment of Coal Operating Contract 130; which covers the coal mine in Zamboanga Sibugay, to Grace Coal Mining and Development. The assignment is subject to the approval of the Department of Energy.

The Company also sold its 28.2 million shares of PetroEnergy Resources Corporation for P168 million in February 2013.

Operational Highlights

Pitkin Petroleum plc

Block Z-38, Peru – 25% participating interest

The Environmental Impact Study to drill up to 10 exploration and 10 appraisal wells in Peru Block Z-38 was approved in June 2013. The Operator of Peru Block Z-38, Karoon Gas, has completed the prospect evaluation of the block and is finalizing the drill locations of at least two wells. The drilling program is currently expected to commence during the second half of 2014.

Service Contract 14 Block C2 West Linapacan (SC 14C2) – 29% participating interest

An independent resources assessment of the West Linapacan A oil field as of June 30, 2013 was completed by Gaffney Cline and Associates (GCA) on the behalf of the SC 14C2 consortium. Based on a two multi-lateral well development scenario, GCA estimates the Proved Undeveloped Reserves of the W. Linapacan A field to be 9.6 million barrels. The SC 14C2 Operator, RMA West Linapacan Pte Ltd, is finalizing the Front End Engineering and Design of the proposed re-development of the West Linapacan oil field, after which the SC 14C2 consortium will have to make the final investment decision on the project.

Service Contract 6A Octon (SC 6A) – 70% participating interest

Pitkin completed the acquisition of 508 square kilometers of 3D seismic data and 48.5 line kilometers of 2D seismic data in November 2013. Processing of the seismic data is currently being completed by Fairfield in its seismic processing center in Vietnam. After the processing and evaluation of the seismic data, Pitkin will decide on whether to proceed with the drilling of exploration wells.

Forum Energy plc

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

FEP secured all the required environmental and local government permits for the SC 72 exploration work, including the strategic environmental plan (SEP) clearance from the Palawan Council for Sustainable Development. FEP, however, was unable to commence the two-well drilling program due to the ongoing maritime dispute between the Philippine and Chinese Governments, and was granted an extension to August 2015 to complete the work commitment under the current Sub-Phase 2.

Service Contract 14 Block C1 Galoc (SC 14C1) – 2.27% participating interest

Oil production from the Galoc field reached 1.72 million barrels (gross) in 2013, from which FEP received $2.1 million net of operating costs from the sale of Galoc crude oil during the year. The Galoc Phase II development was completed in November 2013 adding two (2) additional production wells to the two (2) existing production wells. Total oil production from the four (4) wells is expected to be approximately 2.9 million barrels in 2014. Aside from increasing oil production from the Galoc field, the Galoc Phase II development is expected to extend the end-of-field life to beyond 2020.

Service Contract 40 North Cebu (SC 40) – 100% participating interest

FEP completed the acquisition, processing, and interpretation of land gravity data in SC 40 North Cebu in May 2013. In addition, reprocessing of approximately 500 line-kilometers of vintage 2D seismic data was completed by Fairfield in October 2013. A technical evaluation incorporating the results of previous studies will be undertaken in 2014, with the objective of identifying the area(s) to focus future exploration activities which could involve further geophysical surveys and/or exploration drilling.

Financial Results

The Company incurred an audited consolidated net loss of P101.2 million for the year ended December 31, 2013, compared with a consolidated net loss of P1,086.4 million in 2012. The lower net loss in 2013 was mainly due to a gain on sale of Pitkin assets of P246.6 million, partly offset by the increase in general and administrative expenses related to the consolidation of Pitkin. In 2012, there was a provision of P966.9 million for impairment of assets in BEMC and FEP.

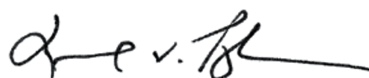
Outlook

The Company remains focused on enhancing the value of its asset portfolio by establishing the hydrocarbon potential of exploration assets, and by realizing the value of potential hydrocarbon resources through commercially robust developments. While the ongoing maritime dispute in the West Philippine Sea remains a significant challenge to exploration in SC 72 Recto Bank, the Company remains committed to fulfilling its work obligations and will continue discussions with the Government on how best to progress the exploration work in SC 72.

The Company will also continue with the selective acquisition and divestment of assets based on prudent assessment of risks and upside potential; as well as with ongoing initiatives to restructure the Group to rationalize administrative costs and optimize the use of resources within the Group.

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

Yours sincerely,



Manuel V Pangilinan
Chairman & Chief Executive Officer

CORPORATE GOVERNANCE

Governance Statement

Good governance is key to sustaining a genuine inclusive growth of any organization and improving shareholder wealth. We believe that a strong commitment to corporate governance principles and global best practices is essential in achieving long term goals, consistent with vision of becoming a highly respected, world-class natural resource company committed to deliver excellent value to its investors, employees and stakeholders.

PXP has adopted a Manual of Corporate Governance. The Company complies with the Code of Corporate Governance of the Securities and Exchange Commission (SEC) and Corporate Governance Guidelines and listing rules of the Philippine Stock Exchange (PSE), and endeavors to elevate its corporate governance practices in line with global best practices.

Vision, Mission and Values

Vision
Our vision is to be a highly respected world-class Philippine energy resource company committed to delivering excellent value to its investors, employees and other stakeholders.

Mission
We are a responsible Philippine energy resource company that explores and develops petroleum and coal resources for the benefit of society.

Our Values

Integrity
- Practices honesty and sincerity in word and deed
- Honors commitments
- Speaks up when situations warrant commendation or correction

Work Excellence
- Produces work results in a timely, accurate and safe manner
- Constantly learns, innovates, amends and improves services and processes
- Consistently delivers superior quality of work

Teamwork
- Listens to and considers ideas or points of view of others
- Extends help while respecting the roles of others in doing the job
- Acknowledges team effort in success and collective responsibility over failure

Corporate Responsibility
- Advocates PXP as a responsible oil and gas and coal, exploration and production company
- Manifests core values in both professional and personal circumstances
- Upholds the PXP Code of Conduct

Respect for Individuals
- Practices gender and cultural sensitivity
- Shows an authentic concern to promote individual welfare
- Examines own biases and behavior to avoid judgmental reactions

Social & Environment Responsibility
- Shows genuine concern toward its host communities to improve quality of life
- Supports and practices the environment, safety, and health guidelines of PXP
- Actively participates in the company’s community development and environment programs

The Company’s mission, vision and values is reviewed annually. Management initiates such review and recommends changes to the Board, as deemed necessary.

Shareholder Engagement

Shareholder's Rights

We respect the rights of all stockholders, in accordance with the Corporation Code, Articles of Incorporation, By-Laws, and the Manual of Corporate Governance. We likewise respect the rights of the minority shareholders, and develop policies towards ensuring that the Board will, in all cases, consider the corporate interest as a whole. Key guidelines include: (i) Emphasis on the fiduciary responsibilities of the Board and the officers to the Company and its shareholders and the duties of care and prudence; (ii) Emphasis on the avoidance of conflicts of interest and on prompt disclosure of potential conflict; (iii) Prompt, full and fair disclosure of material information; (iv) Adoption of policies on related party transactions; and (v) other policies towards avoidance of actions that will favor the controlling or major shareholder/s at the expense of the minority shareholder.

Where feasible or practicable, we respect the right of minority shareholders to propose the holding of meetings, and the items for discussion in the agenda that relate directly to the business of the Company.

Stockholders' Meeting

We recognize that all stockholders of the Company have the right to attend the stockholders meetings. Regular meetings of stockholders shall be held annually on a date fixed in the by-laws of the Company. The holding of the annual meeting is mandatory as it is during which the directors are elected, and during which the stockholders have the opportunity to know the condition of the Company, its plans and programs, and to ask questions and raise relevant issues or concerns. Special meetings, as needed, shall be held at any time and for any purpose.

As matter of practice, the members of the Board, the Chairman and Chief Executive Officer (CEO), the President and Chief Operating Officer (COO), Audit Committee Chairman, representatives of external auditor and other key officers and employees are present during scheduled meetings of stockholders and shall have the opportunity to make a statement should they desire to do so and will be available to respond to appropriate questions.

Notice and Procedures

We recognize that the notice of meeting to stockholders of record is mandatory. A written notice stating the date, time and place of the annual meeting shall be sent to all stockholders of record and, as matter of practice, at least fifteen (15) business days prior to the scheduled annual meeting. The notice of meeting shall specify the agenda and explanatory circulars as needed. The Board shall provide the rationale and explanation for each agenda item which requires shareholders' approval in the notice of meeting.

Stockholders shall have the right to vote at all stockholders' meetings in person or by proxy. The conduct of stockholders' meeting shall be in accordance with the provisions of the Company's by-laws.

Dividend Policy

We recognize the right of stockholders of record to receive dividends as inherent in the ownership of shares. Dividends shall be declared and paid out of unrestricted retained earnings which shall be payable in cash, property or stock to all subscribers on the basis of outstanding stock held by them as often and as such times as the Board may determine in accordance with law. Dividends not collected shall not earn interest and may be invested by the retirement trust fund under such conditions as the Board of Trustees thereof may deem beneficial.

The Board & Governance Structure

Directors

Each Director has a three-fold duty of obedience, diligence and loyalty to the corporation he serves. The Director shall: (a) act within the scope of power and authority of the Company and the Board as prescribed in the Articles of Incorporation, By- Laws, and in existing laws, rules and regulations; (b) exercise their best care skill and judgment, and observe utmost good faith in the conduct and management of the business and affairs of the Company; and (c) act in the best interest of the Company and for the common benefit of the Company's shareholders and other stakeholders.

The Directors are elected by the stockholders at the annual stockholders' meeting. Each director shall serve a one year term and until his successor is elected and qualified. Any vacancy in the Board before end of term shall be filled in accordance with applicable law and rules. As needed, the Board uses professional search firms to fill in the Board. The Board considers it appropriate that its structure comprises ethical and honest experts who are knowledgeable, experienced, and skillful in diverse fields relevant to the conduct of business, and that members are selected with non-discrimination of gender, race, religion, age, professional skill, or other qualifications.

Definition of Independence & Independent Directors

The Company adopts the common and ordinary meaning of the term "independence", and defines an independent director as a person independent of management and who, apart from his shareholdings, is free from any business or other relationship with the Company which could, or could reasonably be perceived to, materially interfere in the exercise of independent judgment in carrying out his duties and responsibilities to the Company.

The Board has two (2) independent non-executive directors in accordance with the Philippine laws and regulations (Section 38 of the Securities Regulations Code of the Philippines). An independent director is allowed to serve as such for five (5)

consecutive years, and shall be ineligible for election as such in the same company unless the independent director has undergone a "cooling-off" period of two (2) years. After serving as such for ten (10) years, the independent director shall be perpetually barred from being elected as such in the same company (SEC Memorandum Circular No. 9, Series of 2011, effective January 2, 2012).

Board of Directors
The Board of Directors is composed of nine (9) directors duly elected by stockholders entitled to vote in accordance with the By-laws, the Corporation Code and the Securities Regulation Code.

Faithful compliance with the principles of good corporate governance is the paramount responsibility of, and shall start with, the Board. Furthermore, the Board is required to exercise corporate powers, conduct the business, and control the properties of the Company in compliance with the corporate governance principles instituted in this Corporate Governance Manual, and shall be responsible for fostering the long-term success of the Company and securing its sustained competitiveness.

Decisions that require approval of the Board of Director pertain to ordinary business transactions of the Company and do not extend beyond the management of ordinary corporate affairs nor beyond the limits of its authority as provided by law.

Board Committees

Committee	Members
Corporate Governance Committee	Marilyn A. Victorio-Aquino (Chairman) Emerlinda R. Roman (Independent) Benjamin S. Austria (Independent)
Audit and Risk Committee	Emerlinda R. Roman (Chairman/Independent) Benjamin S. Austria (Independent) Robert C. Nicholson (Non-executive director)
Nomination Committee	Manuel V. Pangilinan (Chairman) Robert C. Nicholson (Non-executive director) Benjamin S. Austria (Independent)
Remuneration Committee	Manuel V. Pangilinan (Chairman) Carlo S. Pablo (Executive Director) Emerlinda R. Roman (Independent)
Resources Committee	Benjamin S. Austria (Chairman) Carlo S. Pablo (Executive Director) Marilyn A. Victorio-Aquino (Non-executive director)

Chairman and Chief Executive Officer's Role

The Chairman of the Board and CEO, Mr. Manuel V. Pangilinan, ensures that the Board functions effectively. He assists in ensuring compliance with and performance of corporate governance policies and practices. He provides leadership to the Board, ensures that Board works effectively and key issues are discussed in a timely manner, taking into account proposals and recommendations of the COO and management. He ensures that the lines of communication and flow of information between Management and the Board are maintained.

The President and Chief Operating Officer

The President and COO, Mr. Carlo S. Pablo, shall be responsible for the general care, management, and administration of the business of the Company. He ensures that the operations and financial affairs are managed in a sound and prudent manner, that financial and internal controls are adequate and effective to ensure reliability and integrity of financial and operational information, effectiveness and efficiency of operations, and safeguarding of assets and compliance with laws, rules and regulations. He provides leadership to management in developing and implementing business strategies, policies, processes and budgets to the extent approved by the Board. He takes lead in identifying and managing operational and other business risks.

The roles of the Chairman and the CEO shall, as much as practicable, be separate (Sec. 3.3.1, CG Manual). It is not practicable at this time for the Company to have different persons assume the positions of Chairman and CEO. To ensure that the Board gets the benefit of independent views, the President and COO and the other officers of the Company present comprehensive reports to the Board and respond to questions from the Board.

Board Attendance, Appraisal & Trainings

Board Attendance

The Board has a pre-determined schedule of the meetings at beginning of the calendar year. Discussions during meetings are open and independent views are given due consideration. As necessary, the Board likewise holds meetings through electronic medium or telecommunications.

Name	Attendance	Percentage
Manuel V. Pangilinan	5/6	83.33%
Carlo S. Pablo	6/6	100%
Eulalio B. Austin, Jr.	6/6	100%
Robert C. Nicholson	6/6	100%
Barbara Anne C. Migallos	6/6	100%
Renato N. Migriño	4/6	66.67%
Emerlinda R. Roman	5/6	83.33%
Benjamin S. Austria	6/6	100%
Marilyn A. Victorio-Aquino*	4/4	100%
Rogelio G. Laraya**	3/3	100%

*Marilyn A. Victorio-Aquino was elected Director on April 18, 2013 to fill the vacancy due to the resignation of Rogelio G. Laraya. The percentage reported above (100%) is based on the meetings held since Ms. Aquino was elected director.
**Rogelio G. Laraya resigned on March 14, 2013

Performance Appraisal
On yearly basis, the Board, each Director and the respective Committees conduct performance assessment to evaluate performance and overall compliance with laws, regulations and best practices. The Board holds quarterly and special meetings, as needed, with agenda that include discussion of business strategy and issues, updates by the Chairman of the Board and the Board committees, reports on financial performance by management and operational performance by the President and COO.

Director Trainings & Development
List of Seminars and Training Attended by the Board of Directors for 2013:

Name of Directors	Date of Training	Program	Name of Training Institution
Manuel V. Pangilinan	2 December 2013	Ensuring Effective Board Oversight of Ethics and Compliance: Emerging Trends and Lessons Learned	First Pacific Leadership Academy
Carlo S. Pablo	13 February 2013	Southeast Asia E&P Highlights and Fiscal Terms	Association of International Petroleum Negotiators
	12 March 2013	Philippines Investment Forum	Euromoney Conferences
	30 July 2013	Leading the Self	First Pacific Leadership Academy
Marilyn A. Victorio-Aquino	2 December 2013	Corporate Governance Enhancement Session	First Pacific Leadership Academy
Eulalio B. Austin, Jr.	8 March 2013	Lifting the hood: The Obama Engine and how it worked from day 1	First Pacific Leadership Academy
	September to October 2013	Advanced Management Program	Harvard Business School
Robert C. Nicholson	2 May 2013	Hongkong Corporate Law and Regulatory Update	Pacific Basin
	27 August 2013	Diversity on the Board and recent regulatory developments on corporate governance	First Pacific Company Limited
	5 December 2013	Synopsis on Legal and Regulatory Issues	First Pacific Company Limited
Barbara Anne C. Migallos	18 May 2013	SEC's Revised Code of Corporate Governance	Center for Global Best Practices
	21 - 23 August 2013	Corporate Governance for Directors and Institutional Investors	Truventus Kuala Lumpur, Malaysia
Emerlinda R. Roman	2 December 2013	Executive Talks: Corporate Governance Enhancement Session	First Pacific Leadership Academy
Benjamin S. Austria	14-15 February 2013	Cleaner Fossil Fuel Systems Knowledge Network Meeting, London	World Energy Council
	24-25 May 2013	6th Extractive Industries Transparency Initiative (EITI) Global Conference: Beyond Transparency, Sydney	Extractive Industries Transparency Initiative
	27 September 2013	Adoption of the 2013 EITI Standards, Quezon City	EITI Philippines
	02 December 2013	GEOCON 2013: Invest in Geology, Invest in the Future, Makati City	Geological Society of the Philippines
	10 October 2013	Comments on the Proposed Senate Bill on the Upstream Petroleum Industry, Quezon City	UP Law Center Institute of Maritime Affairs and the Law of the Sea

Management

Our Management is responsible for the Company's implementation of the strategy and direction as approved by the Board. Management is represented by a Management Committee (ManCom) composed of the corporate officers and executives headed by the President and COO. Monthly meetings are conducted by the ManCom to ensure implementation of major policies and directions governing the Company and its subsidiaries. It reports to the Board during regular Board meetings or during special meetings through the President and COO.

Key Partners

External Audit
The Company's external auditor is SyCip Gorres Velayo & Co ("SGV & Co") with office address at SGV Building, Ayala Avenue, Makati City. The external auditor is responsible for the proper audit and review of the Company's financial statements and is selected based on competence, performance, and independence and determined based on fair and transparent process. External audit reports to the Audit Committee, which has the direct responsibility for the appointment, setting of compensation, retention, removal and oversight of the work of the External Auditor in a manner consistent with applicable laws, regulations and valid corporate practices. Fees and scope of engagement for audit and non-audit services are periodically reviewed by the Audit Committee. External auditor, or its lead audit partner primarily responsible for the audit or review of the Company's financial accounts, is rotated at least once every five (5) years.

Internal Audit
The internal audit group is a separate and independent unit which directly reports to the Audit Committee. The head of internal audit is Ms. Geraldine B. Ateo-an. The internal auditor is appointed by Management in accordance with Company's employment requirements and policies, and functionally reports directly to the Audit Committee. The role of internal auditor is to provide independent, objective assurance and consulting services to management, designed to add value and improve the Company's operations. Roles also include ensuring the adequacy of network of risk management, control and governance processes. As provided in the Audit Committee Charter, the internal audit provides an annual report to the Audit Committee on the internal audit organization's activities, purposes, authorities, responsibilities and performance relative to the audit plans and strategies approved by the Audit Committee. Such annual report shall include significant risk exposures and operational, financial and compliance controls issues, corporate governance issues, evaluation of compliance with the code of conduct for Management and other matters requested by the Committee or the Board.

On February 20, 2014, upon review of the Company and its subsidiaries' internal controls systems for the year ended December 31, 2013, the Audit committee and the internal audit head of the Company have determined no major control issues and have determined that the internal controls of the Company are adequate and effective. Moreover, based on the evaluation of the Company's Enterprise Risk Management (ERM) process, the Audit committee assured that material risks have been identified, evaluated, managed and reported appropriately.

Employees
We conduct our business and activities fairly, honestly, and with due regard for the dignity and human rights of our employees, including the rights guaranteed by our labor laws. We promote safety, non-discrimination, environmental awareness, and commitment in the workplace, and we support programs that promote the development and potential of our employees. We encourage transparency, professionalism, and accountability among our employees.

Subsidiaries
We recognize that our subsidiaries contribute significantly in boosting shareholder value. As such, we continue to strengthen the good corporate governance practice of subsidiaries by strongly advocating the need for each subsidiary to adopt own corporate governance policies, manual of corporate governance, and code of business conduct and ethics. It is the intention of the Board that good corporate governance practices, policies and procedures shall be adopted and implemented by each of the Company's operating subsidiaries.

Pitkin is an international upstream oil and gas company registered in the United Kingdom with operations in Peru and in the Philippines. FEC Resources, Inc. is a Canadian public company registered with the US Securities and Exchange Commission, the Alberta Securities Commission, and the British Columbia Securities Commission and quoted in North America. FEP was incorporated and is listed in the UK.

Creditors
We uphold the rights of our creditors by publicly disclosing all material information relating to loan covenants.

Communities and Indigenous People
The Company interacts and addresses the concerns of its host community in its mine site in BEMC.

The Company, being part of Philex Group, commits itself to the environmental, social and economic progress of its partner communities and believes that their development is a means of contributing to national development.

The Company strives and continues to be a strategic partner for its host and its neighboring communities towards their development. To this end, the Company implements the following programs in its BEMC mine site:

Education
(a) Scholarship Program: College
(b) Provision of Educational Equipment and Materials

Social development
Brixton sponsors activities such as fiestas, celebration of Mass and partnering with local government and NGOs to achieve its successful activities.

Corporate Governance Manual, Report & Policies

The Company is committed to good corporate governance and the adoption of best corporate governance practices.

Corporate Governance Manual
In May 2011, the company filed with the Philippine Securities and Exchange Commission its Revised Manual on Corporate Governance.

Annual Corporate Governance Report (ACGR)
In June 2013, the Company submitted its Annual Corporate Governance Report (ACGR) to the Securities and Exchange Commission. A copy of the ACGR is available on the Company's website. The Company continues to review its corporate governance policies and practices to further enhance adherence to principles and practices of good corporate governance.

Constitution of a Corporate Governance Committee
On February 20, 2014, the Company constituted a Corporate Governance Committee composed of two independent directors, Dr. Emerlinda R. Roman and Dr. Benjamin S. Austria, and one regular director, Atty. Marilyn A. Victorio-Aquino. The Corporate Secretary, Atty. Barbara Anne C. Migallos, was designated Corporate Governance Officer. The Committee has oversight responsibility in ensuring that the Company adopts and complies with leading corporate governance practices.

The Committee has recommended the adoption of the following policies and it is anticipated that the formal adoption of these policies is forthcoming:

Code of Business Conduct and Ethics
PXP is dedicated to doing business in accordance with the highest standards of ethics. The Company, its directors, officers and employees endeavor to promote a culture of good corporate governance by observing and maintaining its core business principles of integrity, teamwork, work excellence, respect for individuals, corporate responsibility, social and environmental responsibility in their relationships among themselves and with the Company's customers, suppliers, competitors, business partners, other stakeholders, regulators and the public.

The policy covers the following areas: (1) Compliance; (2) Competition and Fair Dealings; (3) Confidentiality of Information and Proper Use of Property; (4) Conflicts of Interest and Corporate Opportunities; (5) Disclosures; (6) Risk Management; and (7) Relations with Shareholders and Investors.

All directors/commissioners, senior management and employees are required to comply with the code.

Implementation and monitoring
The Company takes compliance with the code of ethics and conduct very seriously. The honor system is therefore the primary means of ensuring compliance.

Whistle Blowing Policy
This policy is issued to provide a system and venue for the proper submission, handling or resolution of employees' complaints or disclosures regarding violations of corporate governance rules, questionable accounting or auditing matters, and offenses covered by the Company's existing Code of Discipline or equivalent policy. This policy likewise contains procedures to protect an employee/person who reveals illegal/unethical behavior from retaliation.

Conflict of Interest Policy
This policy ensures that all work-related decisions, actions or inactions of PXP directors, officers, employees and consultants are above-board and based on sound business principles and judgment and devoid of bias or partiality.

Policy on Gifts, Entertainment and Sponsored Travels
This policy provides the general guidelines for directors, employees and consultants on how to handle Gifts, Entertainment and Sponsored Travel offered by Third Parties. The following are the Company's Anti-corruption programmes and procedures have been adopted as part of the Philex group:

1. Supply Chain Management Conduct: Supply Chain professionals shall maintain a reputation that is beyond reproach and in accordance with the Institute of Supply Management (ISM) and Philippine Institute for Supply Management (PISM) Standards of Conduct aligned with Industry Best Practices. The Supply Chain Management Conduct Policy focuses on avoiding impropriety in the conduct of the profession pertaining to relationships, actions and communications; avoiding conflict or interest where an employee (of Philex) has an interest in another company dealing with Philex, among others.

2. Supplier Relations: The Procurement Department is the primary source of contact and channel of communications with all vendors. It is therefore our policy to maintain and practice the highest possible standard of business ethics, professional courtesy and competence in all our dealings with existing and potential vendors.

   Supplier Relations policy puts emphasis on the decorum required when dealing with suppliers.

3. Gifts & Gratuities: No company employee shall accept gifts, personal loans, entertainment or other special considerations from an individual, supplier or organization doing business with the Company.

   The Policy on Gift & Gratuities is specific on tokens, particularly during Christmas Season, where suppliers are discouraged to give lavish gifts and tokens. This is relayed to suppliers every November through an official letter from the Company.

Vendor Relations Policy
This policy seeks to uphold the highest professional standards of business practices, core values and ethics in its business dealings with its Suppliers in the procurement of products and services.

Basic policy on Supplier/contractor selection practice:
The Company shall deal only with committed, reliable, reputable, competent and qualified suppliers and service providers who have complied with and passed the accreditation process and obtained an Accreditation Certificate.

Policy on Dealings in Company Shares of Stock
The Company, as part of Philex Group, adopts the policy of its parent, Philex Mining in dealings in Company shares of stock. This policy provides guidelines and disclosure requirements on dealings of corporate insiders in shares of stock, and provides definition of material information. This policy complements practice of company to require directors to report their dealings in company shares within the prescribed reporting period counted from date of transaction.

Diversity Statement

We embrace and promote diversity at all levels, including the Board. We are committed to fostering, cultivating and preserving a culture of diversity and inclusion. Our human capital is our most valuable asset, and the collective sum of the diversity in terms of background, race, ethnicity, religions, life experiences, knowledge, inventiveness, innovation, self-expression, unique capabilities and talents represent a significant part of our Company's culture, reputation and achievements.

Environmental Policy

As a socially and environmentally responsible company, we are committed to the continuous improvement of operations, of any adverse environmental impacts, faithful compliance with all laws, legislations and other regulatory, and promotion of environmental awareness and commitment among workers at all levels.

Part of the Vendor Accreditation form is confirmation of any affiliation or involvement in any environmental organization.

The Environmental Awareness policy dwells on efficient, recyclable, and reusable materials related to Energy Efficiency, Shipping Materials, Content and Supplier Waste Management.

Other Policy Statements

Human Rights Policy
We value the dignity of every individual and the basic human rights as provided under the Philippine Constitution and the Universal Declaration of Human Rights. In all its endeavors, we are committed to respect human rights and to conduct its activities in a manner that is consistent with applicable laws and best practice in mineral exploration and development, environmental stewardship, health and safety, and community relations.

Ethics Policy
We conduct our business fairly, honestly, responsibly, and with due regard to the dignity and human rights of every individual and consistent with all the governing and applicable laws, rules and regulations as embodied in our Code of Business Conduct and Ethics.

Intellectual Property Rights Policy
We conduct our business strictly in accordance with the Philippine and international laws, rules or regulations governing intellectual property and intellectual property rights which include trademarks, patents, and copyrights.

Site Safety Policy
We are committed to implement safety and health programs that will ensure stakeholders' safety and loss prevention as a way of life. We strive to maintain a sound and safe working place for the prevention of injury, illness, property damage, and loss to process, in compliance with all relevant legislations, and for the preservation of our environment.

The Company promotes safety, non-discrimination, environmental awareness, and commitment in the workplace, and we support programs that promote the development and potential of our employees. We encourage transparency, professionalism, and accountability among our employees.

In keeping with this policy, the Operations Report at every meeting of the Board of Directors provides for a health and safety report. Moreover, the company publishes such relevant information in its Top Five (5) Key Financial and Non-Financial Performance Indicators.

Risk Management Policy

We believe that effective management of risk is vital to the continued growth and success of the Group and with that it is committed to manage risk in a proactive and effective manner across the organization. This commitment is embodied in the PHILEX Group Risk Management Philosophy Statement, as follows:

> *"The PHILEX Group shall undertake a Risk Management Program that will mitigate or eliminate identified physical, socio-ecological and economic risks inherent in its mining business thereby ensuring a productive and profitable operation.*
>
> *Accordingly, the Philex Group employs a comprehensive, integrated risk management program, effected across all levels of the organization, with the goal of identifying, analyzing and managing the Group's risks to an acceptable level, so as to enhance opportunities, reduce threats, and thus sustain competitive advantage. The Group believes that an effective risk management program will contribute to the attainment of objectives of PHILEX and its subsidiaries, thereby creating value for the business and its stakeholders."*

We have adopted a Risk Management Policy Manual which encompasses the ERM framework for managing risk at an enterprise-wide level in Philex Mining Corporation and subsidiaries. Including the Company, it contains the guidelines governing the risk management process of the Group, including the roles and responsibilities for its implementation. The policy aims to help the organization integrate risk management into business and strategic planning by enabling operational units to identify significant risks and take appropriate decisions and actions to treat these risks.

Remuneration Policy

As matter of policy, the remuneration of directors and other officers must be competitive and at a level that will attract and retain talent and motivate them to continue their efforts in contributing to the long term success of the Company. The compensation is in accordance with the Corporation Code and the company By Laws or as approved by the shareholders.

Director
A director is entitled to receive reasonable per diem for attendance at Board meetings. Per diem fee is determined by the Board and is set at P30,000.

President and COO
The President and COO is entitled to receive a fixed remuneration which is in accordance with compensation plans approved by the Board.

Corporate Secretary

The Corporate Secretary of PXP is Atty. Barbara Anne C. Migallos, a Filipino and a resident of the Philippines. She brings with her many years of relevant experience in the corporate law and legal practice, and has sufficient understanding of the financial reporting rules, standards and practices.

Roles and duties of the corporate secretary, among others, include: responsible safekeeping and preservation of the integrity of the minutes of the meetings of the Board and its committees, as well as the other official records of the corporation; informing the members of the Board, in accordance with the by-laws, of the agenda of their meetings and ensuring that the members have before them accurate information that will enable them to arrive at intelligent decisions on matters that require their approval; ensuring that all Board procedures, rules and regulations are strictly followed by the members; assisting the Chairman in preparing the Board agenda, facilitating trainings of directors, and keeping directors updated regarding relevant statutory and regulatory changes, including new policies or rules of the SEC and the PSE.

Compliance Officer

The Corporate Governance Officer reports to the Chairman and the Corporate Governance Committee of the Board. Her duty is primarily to monitor compliance by the corporation with the Code of Corporate Governance and the rules and regulations of regulatory agencies. The corporate governance compliance officer of PXP is Atty. Barbara Anne C. Migallos.

Conformance to Corporate Governance Standards & Best Practices

As a publicly-listed Philippine corporation, PXP conforms to the corporate governance rules, requirements, and regulations of the SEC and the PSE.

PXP is likewise committed to the highest standards of corporate governance and continues to benchmark against recognized international best practices and monitor developments in corporate governance in order to elevate the Company's corporate governance structures, processes, and practices to global standards to promote ethical corporate culture guided by core values of Integrity, Teamwork, Respect for Individuals, Work Excellence, Corporate Responsibility, Social & Environment Responsibility.

BOARD OF DIRECTORS*

MANUEL V. PANGILINAN

67, Filipino citizen. Mr. Pangilinan has been Chairman of the Board since December 8, 2009 and was re-elected on May 21, 2013. He has been a Director of Philex Mining Corporation (Philex Mining) and Philex Gold Philippines, Inc. (PGPI) since November 2008, and was re-elected on June 26, 2013. He is also Managing Director and Chief Executive Officer of First Pacific, and Chairman of the Philippine Long Distance Telephone Company (PLDT) since 2004, after serving as its President and Chief Executive Officer since 1998. He is also Chairman of Smart Communications, Inc., PLDT Communications and Energy Ventures, Inc. (Digitel), Metro Pacific Investments Corporation, Landco Pacific Corporation, Medical Doctors Inc. (Makati Medical Center), Colinas Verdes Corporation (Cardinal Santos Medical Center), Asian Hospital, Inc., Davao Doctors, Inc., Riverside Medical Center Inc., Our Lady of Lourdes Hospital, Central Luzon Doctors' Hospital, Inc., Maynilad Water Services Corporation, Mediaquest, Inc., Associated Broadcasting Corporation (TV5) and Manila North Tollways Corporation. Mr. Pangilinan is also Chairman of the Manila Electric Company (MERALCO), after serving as its President and Chief Executive Officer from July 2010 to May 2012. In December 2013, Roxas Holdings, Incorporated, the largest sugar producer in the Philippines, announced the election of Mr. Pangilinan as Vice Chairman.

CARLO S. PABLO

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

*As of 31 December 2013

EULALIO B. AUSTIN, JR.

52, Filipino citizen. Mr. Austin has been a Director of the Company since May 17, 2012 and was re-elected on May 21, 2013. He is also a Director of Philex Mining and PGPI since June 29, 2011 and was re-elected on June 26, 2013. He became President and Chief Operating Officer of Philex Mining on January 1, 2012 and President and Chief Executive Officer on April 3, 2013. He previously served Philex Mining as its Senior Vice President for Operations and Padcal Resident Manager in 2011, Vice President and Resident Manager for Padcal Operations from 2004 to 2010, Mine Division Manager (Padcal) from 1999 to 2003, Engineering Group Manager in 1998 and Mine Engineering & Draw Control Department Manager from 1996 to 1998. Mr. Austin is Director of Silangan Mindanao Mining Co., Inc. He likewise sits on the Board of Directors of the Philippine Society of Mining Engineers (PSEM), and was Founding President of PSEM's Philex Chapter. In 2013, Mr. Austin attended the Advanced Management Program of Harvard University.

ROBERT C. NICHOLSON

58, British citizen. Mr. Nicholson was elected as Director of the Company on February 23, 2011 and was re-elected on May 21, 2013. He has been a Director of the Philex Mining and PGPI since November 28, 2008, and was re-elected on June 26, 2013. He is Executive Director of First Pacific, Executive Chairman of FEP, and Commissioner of PT Indofood Sukses Makmur Tbk. He is also a Director of Metro Pacific Investments Corporation and Silangan Mindanao Mining Co, Inc., Executive Director of Pitkin, and Independent Non-Executive Director of Pacific Basin Shipping Limited and Lifestyle Properties Development Limited. A qualified solicitor in England and Wales and in Hong Kong, Mr. Nicholson was Senior Partner of Reed Smith Richards Butler from 1985 to 2001, and Senior Advisor to the Board of Directors of PCCW Limited from 2001 to 2003.

RENATO N. MIGRIÑO

64, Filipino citizen. He has been a Director of the Company from December 27, 2007 to June 11, 2008, and from October 6, 2009 to present. He has been a Director of Mabuhay Vinyl Corporation since 2005. Mr. Migrino is a Trustee and Treasurer of Philex Group Foundation, Inc. He is currently a Consultant to Philex Mining and was formerly its Treasurer, Chief Financial Officer, Senior Vice President for Finance and Compliance Officer. He was also Senior Vice President and Controller of Benguet Corporation.

BARBARA ANNE C. MIGALLOS

59, Filipino citizen. Ms. Migallos has been a Director of the Company from December 27, 2007 to June 11, 2008, and from May 18, 2010 to the present. She was re-elected on May 21, 2013. Ms. Migallos was elected to the Board of Directors of Philex Mining and PGPI on June 26, 2013. She is also the Company's Corporate Secretary since Ms. Migallos is also Director and Corporate Secretary of Philex Mining and Corporate Secretary of Silangan Mindanao Mining Co., Inc. She is the Managing Partner of the Migallos & Luna Law Offices. Ms. Migallos has also been a Director of Mabuhay Vinyl Corporation since 2000 and Philippine Resins Industries since 2001, and Corporate Secretary of Eastern Telecommunications Philippines, Inc. since 2005 and Nickel Asia Corporation since 2010. She is a professorial lecturer in Insurance, Securities Regulation and Credit Transactions at the De La Salle University College of Law.

EMERLINDA R. ROMAN

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

MARILYN A. VICTORIO-AQUINO

57, Filipino citizen. Ms. Aquino was elected as Director of the Company on April 18, 2013. She has been a Director of Philex Mining and PGPI since December 7, 2009 and was re-elected on June 26, 2013. She is an Assistant Director of First Pacific Co. Ltd. since July 2012, following her 32-year law practice at SyCip Salazar Hernandez and Gatmaitan Law Offices, where she was Partner from 1989 to 2012. She is also a Director of Silangan Mindanao Mining Co., Inc., and Lepanto Consolidated Mining Company since October 2012, of Maynilad Water Services Corporation since December 2012 and a Non-Executive Director of Pitkin. since March 2013. Ms. Aquino graduated cum laude (class salutatorian) from the University of the Philippines, College of Law in 1980 and placed second in the Philippine Bar Examinations.

BENJAMIN S. AUSTRIA

68, Filipino citizen. He was elected Independent Director of the Company on August 4, 2011 and re-elected on May 21, 2013. He is Senior Adviser of Trans-Asia Petroleum Corporation, and Executive Director of the Petroleum Association of the Philippines. He also holds the positions of Chairman in the Committee on Energy of the Philippine Chamber of Commerce and Industry and Vice President (Earth Sciences & Geography) of the Philippine Association for the Advancement of Science & Technology. He is currently the Secretary/Treasurer and Director of the American Institute of Mining Engineers (Philippine Section).

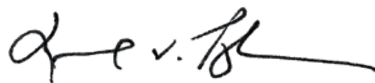
STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **PXP** is responsible for the preparation and fair presentation of the financial statements for the years ended **December 31, 2013 and 2012**, including the additional components attached therein, in accordance with the prescribed financial reporting framework indicated therein. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

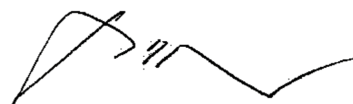
The Board of Directors reviews and approves the financial statements and submits the same to the stockholders.

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

CARLO S. PABLO
President & Chief Operating Officer



MANUEL V. PANGILINAN
Chairman & Chief Executive Officer



DANNY Y. YU
Treasurer

Signed this 19th day of February 2014

SGV
Building a better working world

SyCip Gorres Velayo & Co.
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1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

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

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Philex Petroleum Corporation

We have audited the accompanying consolidated financial statements of Philex Petroleum Corporation (a subsidiary of Philex Mining Corporation) and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2013 and 2012, and the consolidated statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years then ended December 31, 2013, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Philex Petroleum Corporation and its subsidiaries as at December 31, 2013 and 2012, and its financial performance and its cash flows for each of the three years then ended December 31, 2013 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Jose Pepito E. Zabat

Jose Pepito E. Zabat III
Partner
CPA Certificate No. 85501
SEC Accreditation No. 0328-AR-2 (Group A),
March 1, 2012, valid until March 1, 2015
Tax Identification No. 102-100-830
BIR Accreditation No. 08-001998-60-2012,
April 11, 2012, valid until April 10, 2015
PTR No. 4225235, January 2, 2014, Makati City

February 19, 2014

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FINANCIAL STATEMENTS

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

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

	December 31	
	2013	2012
ASSETS		
Current Assets		
Cash and cash equivalents (Note 5)	**₱2,621,474**	₱284,017
Accounts receivable (Note 6)	**112,947**	102,164
Inventories - net (Note 7)	**21,193**	140,881
Other current assets (Note 8)	**27,696**	26,769
Total Current Assets	**2,783,310**	553,831
Noncurrent Assets		
Available-for-sale (AFS) financial assets (Note 10)	**–**	1,399,670
Property and equipment - net (Note 9)	**360,018**	124,205
Goodwill (Notes 1 and 4)	**1,238,583**	258,593
Deferred oil and gas exploration costs - net (Note 11)	**4,978,483**	858,562
Deferred income tax assets - net (Note 19)	**28,313**	16,303
Other noncurrent assets (Note 12)	**32,224**	278
Total Noncurrent Assets	**6,637,621**	2,657,611
TOTAL ASSETS	**₱9,420,931**	₱3,211,442
LIABILITIES AND EQUITY		
Current Liabilities		
Current portion of long-term loan (Note 15)	**₱55,019**	₱–
Short-term bank loans (Note 13)	**–**	350,000
Accounts payable and accrued liabilities (Note 14)	**116,304**	87,026
Advances from related parties (Note 20)	**3,378,851**	1,636,888
Income tax payable	**253**	22,957
Total Current Liabilities	**3,550,427**	2,096,871
Noncurrent Liabilities		
Long-term loan - net of current portion (Note 15)	**55,014**	–
Deferred income tax liabilities - net (Note 19)	**1,111,894**	113,902
Other noncurrent liabilities (Notes 9, 21 and 27)	**198,208**	213,514
Total Noncurrent Liabilities	**1,365,116**	327,416
Total Liabilities	**4,915,543**	2,424,287
Equity Attributable to Equity Holders of the Parent Company		
Capital stock - ₱1 par value (Note 18)	**1,700,000**	1,700,000
Equity reserves (Notes 2 and 4)	**(123)**	(123)
Deficit	**(919,383)**	(819,162)
Unrealized loss on AFS financial assets (Note 10)	**–**	(30,485)
Cumulative translation adjustment on foreign subsidiaries	**(61,000)**	(163,617)
	719,494	686,613
Non-controlling interests (Note 18)	**3,785,894**	100,542
Total Equity	**4,505,388**	787,155
TOTAL LIABILITIES AND EQUITY	**₱9,420,931**	₱3,211,442

See accompanying Notes to Consolidated Financial Statements.

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

CONSOLIDATED STATEMENTS OF INCOME

(Amounts in Thousands, Except Earnings or Loss Per Share)

	Years Ended December 31		
	2013	2012	2011
REVENUE			
Petroleum (Note 26)	**₱191,243**	₱191,003	₱551,568
Coal (Note 26)	**17,530**	48,030	1,288
	208,773	239,033	552,856
COSTS AND EXPENSES			
Petroleum production costs (Note 16)	**87,895**	98,245	175,883
Cost of coal sales (Note 16)	**17,770**	35,238	1,210
General and administrative expenses (Note 16)	**337,342**	184,036	167,453
Handling, hauling and storage	**478**	2,734	22
Mine product royalties	**753**	1,441	2
	444,238	321,694	344,570
OTHER INCOME (CHARGES)			
Gain on sale of subsidiaries (Note 1)	**246,597**	–	–
Provision for impairment of assets (Notes 6, 7, 9 and 12)	**(137,269)**	(966,883)	(8,956)
Gain on reversal of impairment loss (Note 9)	**34,739**	–	–
Interest expense (Notes 9, 13, 15 and 20)	**(46,141)**	(37,739)	(28,167)
Gain on sale of AFS financial assets (Note 10)	**26,867**	–	–
Loss on sale of assets (Note 1)	**(24,164)**	–	–
Foreign exchange gains (losses) - net	**11,011**	23,778	(4,526)
Interest income (Note 5)	**7,220**	784	814
Dividend income	**–**	5,645	5,645
Gain on dilution of interest in associates (Note 10)	**–**	–	443,672
Equity in net losses of associates (Note 26)	**–**	–	(39,795)
Others - net (Note 17)	**534**	72,549	259
	119,394	(901,866)	368,946
INCOME (LOSS) BEFORE INCOME TAX	**(116,071)**	(984,527)	577,232
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 19)			
Current	**1,022**	23,925	19
Deferred	**(15,859)**	77,906	39,679
	(14,837)	101,831	39,698
NET INCOME (LOSS)	**(₱101,234)**	(₱1,086,358)	₱537,534
Net Income (Loss) Attributable to:			
Equity holders of the Parent Company	**(₱98,534)**	(₱876,168)	₱476,001
Non-controlling interests	**(2,700)**	(210,190)	61,533
	(₱101,234)	(₱1,086,358)	₱537,534
Basic/Diluted Earnings (Loss) Per Share (Note 25)	**(₱0.058)**	(₱0.515)	₱0.280

See accompanying Notes to Consolidated Financial Statements.

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in Thousands)

	Years Ended December 31		
	2013	2012	2011
NET INCOME (LOSS)	**(₱101,234)**	(₱1,086,358)	₱537,534
OTHER COMPREHENSIVE INCOME (LOSS)			
Items to be reclassified to profit or loss in subsequent periods:			
Gain (loss) on translation of foreign subsidiaries	**210,006**	(124,315)	(19,537)
Unrealized gain (loss) on AFS financial assets (Note 10)	**30,485**	(37,542)	(22,581)
	240,491	(161,857)	(42,118)
Items not to be reclassified to profit or loss in subsequent periods:			
Re-measurement losses on defined benefit plans - net of income tax effect (Note 21)	**(1,687)**	–	–
	(1,687)	–	–
	238,804	(161,857)	(42,118)
TOTAL COMPREHENSIVE INCOME (LOSS)	**₱137,570**	(₱1,248,215)	₱495,416
Total Comprehensive Income (Loss) Attributable to:			
Equity holders of the Parent Company	**₱32,881**	(₱996,523)	₱443,312
Non-controlling interests (Note 18)	**104,689**	(251,692)	52,104
	₱137,570	(₱1,248,215)	₱495,416

See accompanying Notes to Consolidated Financial Statements.

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2013, 2012, and 2012
(Amounts in Thousands)

	Equity Attributable to Equity Holders of the Partner Company							
	Capital Stock	Equity Reserves (Note 4)	Retained Earnings (Deficit)	Unrealized Gains (Loss) on AFS Financial Assets (Note 10)	Cumulative Translation Adjustment on Foreign Subsidiaries	Subtotal	Non-controlling Interests (Note 18)	Total
BALANCES AT DECEMBER 31, 2010	**₱1,700,000**	**₱40,588**	**(₱418,995)**	**₱29,638**	**(₱70,696)**	**₱1,280,535**	**₱214,797**	**₱1,495,332**
Net loss for the year	–	–	476,001	–	–	476,001	61,533	537,534
Other comprehensive loss:								
Items to be reclassified to profit or loss in subsequent periods:								
Loss on translation of foreign subsidiaries	–	–	–	–	(10,108)	(10,108)	(9,429)	(19,537)
Unrealized gain on AFS financial asset - net of deferred income tax (Note 10)	–	–	–	(22,581)	–	(22,581)	–	(22,581)
Total comprehensive income (loss) for the year	–	–	476,001	(22,581)	(10,108)	443,312	52,104	495,416
BALANCES AT DECEMBER 31, 2011	**1,700,000**	**40,588**	**57,006**	**7,057**	**(80,804)**	**1,723,847**	**266,901**	**1,990,748**
Net income for the year	–	–	(876,168)	–	–	(876,168)	(210,190)	(1,086,358)
Other comprehensive loss:								
Items to be reclassified to profit or loss in subsequent periods:								
Loss on translation of foreign subsidiaries	–	–	–	–	(82,813)	(82,813)	(41,502)	(124,315)
Unrealized loss on AFS financial asset - net of deferred income tax (Note 10)	–	–	–	(37,542)	–	(37,542)	–	(37,542)
Total comprehensive income (loss) for the year	–	–	(876,168)	(37,542)	(82,813)	(996,523)	(251,692)	(1,248,215)
Effect of transactions with owners (Notes 2 and 4)	–	(40,711)	–	–	–	(40,711)	85,333	44,622
BALANCES AT DECEMBER 31, 2012	**1,700,000**	**(123)**	**(819,162)**	**(30,485)**	**(163,617)**	**686,613**	**100,542**	**787,155**

(Forward)

	Equity Attributable to Equity Holders of the Partner Company							
	Capital Stock	Equity Reserves (Note 4)	Retained Earnings (Deficit)	Unrealized Gains (Loss) on AFS Financial Assets (Note 10)	Cumulative Translation Adjustment on Foreign Subsidiaries	Subtotal	Non-controlling Interests (Note 18)	Total
BALANCES AT DECEMBER 31, 2012	**₱1,700,000**	**(₱123)**	**(₱819,162)**	**(₱30,485)**	**(₱163,617)**	**₱686,613**	**₱100,542**	**₱787,155**
Net loss for the year	–	–	(98,534)	–	–	(98,534)	(2,700)	(101,234)
Other comprehensive loss:								
Items to be reclassified to profit or loss in subsequent periods:								
Loss on translation of foreign subsidiaries	–	–	–	–	102,617	102,617	107,389	210,006
Unrealized gain on AFS financial asset - net of deferred income tax (Note 10)	–	–	–	30,485	–	30,485	–	30,485
Items not to be reclassified to profit or loss in subsequent periods:								
Re-measurements of net defined benefit losses, net of tax (Note 21)	–	–	(1,687)	–	–	(1,687)	–	(1,687)
Total comprehensive income (loss) for the year	–	–	(100,221)	30,485	102,617	32,881	104,689	137,570
Non-controlling interest arising on a business combination during the year (Note 4)	–	–	–	–	–	–	3,580,663	3,580,663
BALANCES AT DECEMBER 31, 2013	**₱1,700,000**	**(₱123)**	**(₱919,383)**	**₱–**	**(₱61,000)**	**₱719,494**	**₱3,785,894**	**₱4,505,388**

See accompanying Notes to Consolidated Financial Statements.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands)

	Years Ended December 31		
	2013	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES			
Income (loss) before income tax	**(₱116,071)**	(₱984,527)	₱577,232
Adjustments for:			
Depreciation and depletion (Note 9)	**14,616**	70,259	205,199
Interest expense (Notes 9, 13, 15 and 20)	**46,141**	37,739	28,167
Movement in retirement liability (Note 21)	**15,623**	–	–
Dividend income	–	(5,645)	(5,645)
Gain on sale of subsidiaries (Note 1)	**(246,597)**	–	–
Gain on reversal of impairment loss (Note 9)	**(34,739)**	–	–
Gain on sale of AFS financial assets (Note 10)	**(26,867)**	–	–
Provision for impairment of assets (Notes 6, 7 and 9)	**137,269**	966,883	8,956
Unrealized foreign exchange losses (gains) - net	**11,011**	(23,778)	4,526
Interest income (Note 5)	**(7,220)**	(784)	(814)
Equity in net losses of associates (Note 26)	–	–	39,795
Gain on dilution of interest in associates (Note 10)	–	–	(443,672)
Operating income (loss) before working capital changes	**(206,834)**	60,147	413,744
Decrease (increase) in:			
Accounts receivable	**17,648**	(21,455)	7,674
Inventories	**3,352**	(140,436)	(121,134)
Other current assets	**(57)**	(8,918)	593
Increase (decrease) in:			
Accounts payable and accrued liabilities	**(19,207)**	38,691	(7,001)
Provision for losses	**24,144**	(104,126)	(284,011)
Payments for provision for rehabilitation and decommissioning costs (Note 9)	–	(630)	(2,836)
Cash generated from (used in) operations	**(180,954)**	(176,727)	7,029
Interest paid	**(39,527)**	(20,230)	(21,925)
Interest received	**7,220**	784	981
Income taxes paid, including creditable withholding taxes	**(16,890)**	(292)	(19)
Net cash used in operating activities	**(230,151)**	(196,465)	(13,934)
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to:			
Property and equipment (Note 9)	**(45,806)**	(238,479)	(181,424)
Deferred oil and gas exploration costs, and other noncurrent assets (Notes 11 and 26)	**(501,995)**	(157,905)	(352,502)
Proceeds from sale of property and equipment	–	24,218	–
Proceeds from sale of AFS financial assets (Note 10)	**167,999**	–	–
Proceeds from sale of subsidiaries	**2,097,815**	–	–
Dividends received	**–**	5,645	5,645
Acquisition of subsidiary, net of cash acquired (Notes 1 and 4)	**(629,953)**	–	–
Net cash from (used in) investing activities	**1,088,060**	(366,521)	(528,281)

(Forward)

	Years Ended December 31		
	2013	2012	2011
CASH FLOWS FROM FINANCING ACTIVITIES			
Additional advances from related parties (Note 20)	**₱1,409,540**	₱216,129	₱51,511
Availment of:			
Long-term loan (Note 15)	**110,033**	369,450	263,040
Short-term bank loans (Note 13)	–	–	200,000
Proceeds from exercise of stock options	–	44,622	–
Settlement of obligation (Note 27)	**(41,050)**	–	–
Net cash from financing activities	**1,478,523**	630,201	514,551
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**1,025**	(1,029)	(4,511)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**2,337,457**	66,186	(32,175)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**284,017**	217,831	250,006
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	**₱2,621,474**	₱284,017	₱217,831

See accompanying Notes to Consolidated Financial Statements.

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

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

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

Corporate Information

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

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

PPC relies on PMC to fund its exploration and development activities and working capital requirements. On August 1, 2012, PMC voluntarily suspended its operations on its Padcal mine following an accidental discharge of water and sediment. On August 2, 2012, the Mines and Geosciences Bureau (MGB) ordered the Padcal Mine to stop operations. Likewise, on November 28, 2012, the Pollution Adjudication Board (PAB) issued cease and desist order to operate the Padcal Mine. On February 26, 2013, MGB lifted its suspension order and allowed the Padcal Mine to operate for a period of four (4) months. On March 7, 2013, the PAB resolved to temporarily lift the cease and desist order to resume operations for period of four (4) months from the date of order. On March 8, 2013, the Padcal Mine commenced its temporary resumption of operations pursuant to the order of the MGB and PAB. On July 5, 2013, the MGB authorized PMC to continue implementing remediation measures and on the same date, PAB resolved to extend the temporarily lifting of the issued cease and desist order to allow PMC to fill the void with fresh tailing as well as the reconstruction of the offset dike.

On April 5, 2013, PPC increased its shareholding in Pitkin Petroleum Plc (Pitkin) from 18.46% to 50.28% through subscription of 10,000,000 new ordinary shares and purchase of 36,405,000 shares from existing shareholders at US$0.75 per share. The transaction led to PPC obtaining control over Pitkin. Pitkin was incorporated and registered in the United Kingdom (UK) of Great Britain and Northern Ireland on April 6, 2005.

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

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

Business Operations

BEMC

In January 2013, BEMC decided to undertake a detailed review of the operations and prospects of its coal mining project. The management determined that it was prudent to suspend underground mining operations at that time. On September 1, 2013, BEMC announced the closure of its coal mine in Diplahan, Zamboanga Sibugay under Coal Operating Contract 130 (COC 130). On January 6, 2014, BEMC has finalized the agreements for the assignment of COC 130 to Grace Coal Mining and Development, Inc.

FEP and its subsidiaries

FEP's principal asset is a 70% interest in Service Contract (SC) 72 which covers an area of 8,800 square kilometres in the West Philippine Sea. FEP is scheduled to accomplish its second sub-phase of exploration activities from August 2011 to August 2013. However, due to maritime disputes between the Philippine and Chinese governments, exploration activities in the area are temporarily suspended. In addition, newly purchased casing heads to be used for its drilling activities which were scheduled during the year were sold to third parties at a price lower than its original purchase price to avoid a larger expense from further impairment of the assets. FEP incurred a loss amounting to ₱24,164 on sale of these assets recorded under 'Other income (charges)' in the consolidated statement of income.

FEP has been granted by the Department of Energy (DOE) an extension up to August 2015 to complete its obligation under SC 72 which requires two (2) wells to be drilled at a cost estimated at US$6,000 or ₱266,370 to FEP.

In addition, FEP's SC 14C Galoc has completed its development of Galoc Phase 2 which increased the capacity of the field to produce from 4,500 barrels of oil per day (BOPD) to 12,000 BOPD. On December 4, 2013, Galoc Phases 1 and 2 started to produce oil simultaneously.

Pitkin and its subsidiaries

Pitkin is an international upstream oil and gas group, engaged primarily in the acquisition, exploration and development of oil and gas properties and the production of hydrocarbon products with operations in the Philippines and Peru.

On July 16, 2013 and October 25, 2013, Pitkin completed the sale of all its interests in its wholly-owned subsidiaries, Vietnam American Exploration Company LLC (Vamex) with a 25% participating interest in Vietnam Block 07/03 and Lonsdale, Inc., respectively. The gain on sale of these subsidiaries amounted to ₱246,597. Accordingly, goodwill attributable to Vietnam Block 07/03 at time of acquisition of Pitkin by PPC was derecognized amounting to ₱554,178.

On September 5, 2013, SC 74 Area 5, located in the Northwest Palawan Basin, has been formally awarded to the consortium of Pitkin and the Philodrill Corporation (Philodrill) with operating interest of 70% and participating interest of 30%, respectively.

The Group's ability to realize its deferred oil and gas exploration costs amounting to ₱4,978,483 and ₱858,562 as at December 31, 2013 and 2012, respectively (see Note 11) depends on the success of its exploration and future development work in proving the viability of its oil and gas properties to produce oil and gas in commercial quantities, which cannot be determined at this time. The consolidated financial statements do not include any adjustment that might result from this uncertainty.

Authorization for Issuance of the Consolidated Financial Statements
The consolidated financial statements are authorized for issuance by the Parent Company's Board of Directors (BOD) on February 19, 2014.

2. Basis of Preparation, Statement of Compliance, Changes in Accounting Policies and Disclosures and Summary of Significant Accounting Policies and Financial Reporting Practices

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

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

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following new and amended PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations [based on the International Financial Reporting Interpretations Committee (IFRIC) interpretations] which became effective on January 1, 2013.

The nature and the impact of each new standard and amendment are described below:

- PFRS 7*, Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* (Amendments)
  These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format, unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:
  a) The gross amounts of those recognized financial assets and recognized financial liabilities;
  b) The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;
  c) The net amounts presented in the statement of financial position;

d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
   i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
   ii. Amounts related to financial collateral (including cash collateral); and
e) The net amount after deducting the amounts in (d) from the amounts in (c) above.

The amendments affect disclosures only and have no impact on the Group's financial position or performance. As the Group is not setting off financial instruments in accordance with PAS 32 and does not have relevant offsetting arrangements, the amendment does not have an impact on the Group.

- PFRS 10, *Consolidated Financial Statements*
  The Group adopted PFRS 10 in the current year. PFRS 10 replaced the portion of PAS 27, *Consolidated and Separate Financial Statements*, that addressed the accounting for consolidated financial statements. It also included the issues raised in Standards Interpretations Committee (SIC) 12, *Consolidation - Special Purpose Entities.* PFRS 10 established a single control model that applied to all entities including special purpose entities. The changes introduced by PFRS 10 require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27.

  The application of PFRS 10 did not affect the accounting for the Group's interests on all its subsidiaries.

- PFRS 11, *Joint Arrangements*
  PFRS 11 replaced PAS 31, *Interests in Joint Ventures*, and SIC 13, *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. PFRS 11 removed the option to account for jointly controlled entities using proportionate consolidation. Instead, jointly controlled entities that meet the definition of a joint venture must be accounted for using the equity method. The Group has no jointly controlled entities that meet the definition of a joint venture. The new standard has no impact on the Group's financial position or performance.

- PFRS 12, *Disclosure of Interests in Other Entities*
  PFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in PFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries (for example, where a subsidiary is controlled with less than a majority of voting rights). While the Group has subsidiaries with material noncontrolling interests, there are no unconsolidated structured entities. PFRS 12 disclosures are provided in Note 18.

- PFRS 13, *Fair Value Measurement*
  PFRS 13 establishes a single source of guidance under PFRSs for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS. PFRS 13 defines fair value as an exit price. PFRS 13 also requires additional disclosures.

As a result of the guidance in PFRS 13, the Group re-assessed its policies for measuring fair values. The Group has assessed that the application of PFRS 13 has not materially impacted the fair value measurements of the Group. Additional disclosures, where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in Note 22.

- PAS 1, *Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income or OCI* (Amendments)
  The amendments to PAS 1 introduced a grouping of items presented in OCI. Items that will be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) will be presented separately from items that will never be recycled. The amendments affect presentation only and have no impact on the Group's financial position or performance.

- PAS 19, *Employee Benefits* (Revised)
  On January 1, 2013, the Group adopted the Revised PAS 19, *Employee Benefits*.
  For defined benefit plans, the Revised PAS 19 requires all actuarial gains and losses to be recognized in OCI and unvested past service costs previously recognized over the average vesting period to be recognized immediately in profit or loss when incurred.

  The Revised PAS 19 replaced the interest cost and expected return on plan assets with the concept of net interest on defined benefit liability or asset which is calculated by multiplying the net balance sheet defined benefit liability or asset by the discount rate used to measure the employee benefit obligation, each as at the beginning of the annual period.

  The Revised PAS 19 also amended the definition of short-term employee benefits and requires employee benefits to be classified as short-term based on expected timing of settlement rather than the employee's entitlement to the benefits. In addition, the Revised PAS 19 modifies the timing of recognition for termination benefits. The modification requires the termination benefits to be recognized at the earlier of when the offer cannot be withdrawn or when the related restructuring costs are recognized.

  The amendment and the changes to definition of short-term employee benefits and timing of recognition for termination benefits do not have any impact to the Group's financial position and financial performance.

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

- PAS 28, *Investments in Associates and Joint Ventures* (as revised in 2011)
  As a consequence of the issuance of the new PFRS 11, *Joint Arrangements*, and PFRS 12, *Disclosure of Interests in Other Entities*, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. This amendment has no impact on the Group's financial position or performance as it currently accounts for its investments in associates, if any, using equity accounting method.

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

  This interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity. This new interpretation is not relevant to the Group.

- PFRS 1, First-time Adoption of International Financial Reporting Standards – *Government Loans* (Amendments)
  The amendments to PFRS 1 require first-time adopters to apply the requirements of PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, prospectively to government loans existing at the date of transition to PFRS. However, entities may choose to apply the requirements of PAS 39, *Financial Instruments: Recognition and Measurement*, and PAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for those loans. These amendments are not relevant to the Group.

<u>*Annual Improvements to PFRSs* (2009-2011 cycle)</u>
The *Annual Improvements to PFRSs* (2009-2011 cycle) contain non-urgent but necessary amendments to PFRSs. The Group adopted these amendments for the current year.

- PFRS 1, *First-time Adoption of PFRS - Borrowing Costs*
  The amendment clarifies that, upon adoption of PFRS, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles, may carry forward, without any adjustment, the amount previously capitalized in its opening statement of financial position at the date of transition. Subsequent to the adoption of PFRS, borrowing costs are recognized in accordance with PAS 23, *Borrowing Costs*. The amendment does not apply to the Group as it is not a first-time adopter of PFRS.

- PAS 1, *Presentation of Financial Statements - Clarification of the requirements for comparative information*
  These amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required. As a result, the Group has not included comparative information in respect of the opening statement

of financial position as at January 1, 2012. The amendments affect disclosures only and have no impact on the Group’s financial position or performance.

- PAS 16, *Property, Plant and Equipment - Classification of servicing equipment*
  The amendment clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory if otherwise. The amendment does not have any significant impact on the Group’s financial position or performance.

- PAS 32, *Financial Instruments: Presentation - Tax effect of distribution to holders of equity instruments*
  The amendment clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12, *Income Taxes*. The amendment does not have any significant impact on the Group’s financial position or performance.

- PAS 34, *Interim Financial Reporting - Interim financial reporting and segment information for total assets and liabilities*
  The amendment clarifies that the total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the entity’s previous annual financial statements for that reportable segment. The amendment affects disclosures only and has no impact on the Group’s financial position or performance.

Future Changes in Accounting Policies

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

Effective in 2014

- PAS 36, *Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets* (Amendments)
  These amendments remove the unintended consequences of PFRS 13 on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after January 1, 2014 with earlier application permitted, provided PFRS 13 is also applied. The amendments affect disclosures only and have no impact on the Group’s financial position or performance.

- Investment Entities (Amendments to PFRS 10, PFRS 12 and PAS 27)
  These amendments are effective for annual periods beginning on or after January 1, 2014. They provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Group.

- Philippine Interpretation IFRIC 21, *Levies* (IFRIC 21)
  IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014. The Group does not expect that IFRIC 21 will have material financial impact in future financial statements.

- PAS 39, *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting* (Amendments)
  These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after January 1, 2014. These amendments are not relevant to the Group.

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

- PAS 19, *Employee Benefits - Defined Benefit Plans: Employee Contributions* (Amendments)
  The amendments apply to contributions from employees or third parties to defined benefit plans. Contributions that are set out in the formal terms of the plan shall be accounted for as reductions to current service costs if they are linked to service or as part of the re-measurements of the net defined benefit asset or liability if they are not linked to service. Contributions that are discretionary shall be accounted for as reductions of current service cost upon payment of these contributions to the plans. The amendments to PAS 19 are to be retrospectively applied for annual periods beginning on or after July 1, 2014. The amendment is not relevant to the Group.

Improvements to PFRSs (2010-2012 cycle)
The Annual Improvements to PFRSs (2010-2012 cycle) contain non-urgent but necessary amendments to the following standards:

- PFRS 2, *Share-based Payment - Definition of Vesting Condition*
  The amendment revised the definitions of vesting condition and market condition and added the definitions of performance condition and service condition to clarify various issues. This amendment shall be prospectively applied to share-based payment transactions for which the grant date is on or after July 1, 2014. This amendment is not relevant to the Group.

- PFRS 3, *Business Combinations - Accounting for Contingent Consideration in a Business Combination*
  The amendment clarifies that a contingent consideration that meets the definition of a financial instrument should be classified as a financial liability or as equity in accordance with PAS 32. Contingent consideration that is not classified as equity is subsequently measured at FVPL whether or not it falls within the scope of PFRS 9 (or PAS 39, if PFRS 9 is not yet adopted). The amendment shall be prospectively applied to business combinations for which the

acquisition date is on or after July 1, 2014. The Group shall consider this amendment for future business combinations.

- PFRS 8, *Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*
  The amendments require entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments' assets to the entity's assets if such amounts are regularly provided to the chief operating decision maker. These amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

- PFRS 13, *Fair Value Measurement - Short-term receivables and payables*
  The amendment clarifies that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial.

- PAS 16, *Property, Plant and Equipment - Revaluation Method - Proportionate Restatement of Accumulated Depreciation*
  The amendment clarifies that, upon revaluation of an item of property, plant and equipment, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:
  a) The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
  b) The accumulated depreciation is eliminated against the gross carrying amount of the asset.

  The amendment is effective for annual periods beginning on or after July 1, 2014. The amendment shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendment has no impact on the Group's financial position or performance.

- PAS 24, *Related Party Disclosures - Key Management Personnel*
  The amendments clarify that an entity is a related party of the reporting entity if the said entity, or any member of a group for which it is a part of, provides key management personnel services to the reporting entity or to the parent company of the reporting entity. The amendments also clarify that a reporting entity that obtains management personnel services from another entity (also referred to as management entity) is not required to disclose the compensation paid or payable by the management entity to its employees or directors. The reporting entity is required to disclose the amounts incurred for the key management personnel services provided by a separate management entity. The amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

- PAS 38, *Intangible Assets - Revaluation Method - Proportionate restatement of accumulated amortization*
  The amendments clarify that, upon revaluation of an intangible asset, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:
  a) The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
  b) The accumulated amortization is eliminated against the gross carrying amount of the asset.

  The amendments also clarify that the amount of the adjustment of the accumulated amortization should form part of the increase or decrease in the carrying amount accounted for in accordance with the standard.

  The amendments are effective for annual periods beginning on or after July 1, 2014. The amendments shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendments have no impact on the Group's financial position or performance.

Improvements to PFRSs (2011-2013 cycle)

- PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards - Meaning of 'Effective PFRSs'*
  The amendment clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but that permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first PFRS financial statements. This amendment is not applicable to the Group as it is not a first-time adopter of PFRS.

- PFRS 3, *Business Combinations - Scope Exceptions for Joint Arrangements*
  The amendment clarifies that PFRS 3 does not apply to the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself. The amendment is effective for annual periods beginning on or after July 1 2014 and is applied prospectively.

- PFRS 13, *Fair Value Measurement - Portfolio Exception*
  The amendment clarifies that the portfolio exception in PFRS 13 can be applied to financial assets, financial liabilities and other contracts. The amendment is effective for annual periods beginning on or after July 1 2014 and is applied prospectively. The amendment has no impact on the Group's financial position or performance.

- PAS 40, *Investment Property*
  The amendment clarifies the interrelationship between PFRS 3 and PAS 40 when classifying property as investment property or owner-occupied property. The amendment stated that judgment is needed when determining whether the acquisition of investment property is the acquisition of an asset or a group of assets or a business combination within the scope of PFRS 3. This judgment is based on the guidance of PFRS 3. This amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment has no significant impact on the Group's financial position or performance.

Effective in 2015

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

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

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*
  This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11 or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The Securities and Exchange Commission (SEC) and the Financial Reporting Standards Council (FRSC) have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. Adoption of the interpretation when it becomes effective will not have any impact on the financial statements of the Group.

Summary of Significant Accounting Policies and Financial Reporting Practices

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

Basis of Consolidation

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

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any non-controlling interests
- Derecognizes the cumulative translation differences recorded in equity
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities

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

Subsidiary	Nature of Business
BEMC	Incorporated in the Philippines on July 19, 2005 to engage in exploration development and utilization of energy-related resources.
FEC	Incorporated on February 8, 1982 under the laws of Alberta, Canada. Primarily acts as an investment holding company.
FEP	Incorporated on April 1, 2005 in England and Wales primarily to engage in the business of oil and gas exploration and production, with focus on the Philippines and whose shares are listed in the Alternative Investment Market of the London Stock Exchange.
Forum Energy Philippines Corporation (FEPCO)	FEPCO was incorporated in the Philippines on March 27, 1988 and is involved in oil and gas exploration in the Philippines.
Forum Exploration, Inc. (FEI)	FEI was incorporated in the Philippines on September 11, 1997 and is involved in oil and gas exploration in the Philippines.
Forum (GSEC101) Ltd. - Philippine Branch (GSEC)	GSEC was incorporated on October 17, 2005 and is involved in oil and gas exploration in the Philippines.
Pitkin Petroleum Plc	Pitkin was incorporated and registered in UK of Great Britain and Northern Ireland on April 6, 2005 and is engaged primarily in the acquisition, exploration and development of oil and gas properties and the production of hydrocarbon products. Pitkin registered its Philippine Branch, Pitkin Petroleum (Philippines) Plc, on March 19, 2008 and is presently engaged in the exploration of oil and gas assets in Philippine territories.
Pitkin Petroleum Peru Z-38 SRL (Z38)	Incorporated on October 5, 2006 and is presently engaged in exploration of oil and gas in Peru.
Pitkin Petroleum Peru XXVIII SAC (PXX)	Incorporated on November 25, 2010 primarily to engage in exploration of oil and gas in Peru.

Also included as part of the Parent Company's subsidiaries are those intermediary entities which are basically holding companies established for the operating entities mentioned above. The following are the intermediary entities of the Group: Forum Philippine Holdings Limited (FPHL), Forum Nido Matinloc Limited (FNML), Forum FEI Limited (FFEIL), Forum GSEC101 Limited (FGSECL), Pitkin Peru LLC (PPR), Pitkin Vamex LLC (PVX), Pitkin Petroleum Peru 2 LLC (PP2) and Pitkin Petroleum Peru 3 LLC (PP3).

The ownership of the Parent Company over the foregoing companies as at December 31, 2013 and 2012 is summarized as follows:

	Percentages of Ownership			
	2013		2012	
	Direct	**Indirect**	Direct	Indirect
BEMC	**100.0**	**–**	100.0	–
FEC	**51.24**	**–**	51.24	–
FEP	**36.44**	**12.32**	36.44	12.32
FEP	**–**	**48.76**	–	48.76
FEPCO	**–**	**48.76**	–	48.76

(Forward)

	Percentages of Ownership			
	2013		2012	
	Direct	**Indirect**	Direct	Indirect
FPHL	**–**	**48.76**	–	48.76
FNML	**–**	**48.76**	–	48.76
FFEIL	**–**	**48.76**	–	48.76
FEI	**–**	**32.51**	–	32.51
FGSECL	**–**	**48.76**	–	48.76
GSEC	**–**	**48.76**	–	48.76
Pitkin	**50.28**	**–**	–	–
PPR	**–**	**50.28**	–	–
Z38	**–**	**37.71**	–	–
PVX	**–**	**50.28**	–	–
Z38	**–**	**12.57**	–	–
PP2	**–**	**50.28**	–	–
PXX	**–**	**37.71**	–	–
PP3	**–**	**50.28**	–	–
PXX	**–**	**12.57**	–	–

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

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

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

Interest in Joint Arrangements
PFRS defines a joint arrangement as an arrangement over which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities (being those that significantly affect the returns of the arrangement) require unanimous consent of the parties sharing control.

Joint operations
A joint operation is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities, relating to the arrangement.

In relation to its interests in joint operations, the Group recognises its:
- Assets, including its share of any assets held jointly
- Liabilities, including its share of any liabilities incurred jointly
- Revenue from the sale of its share of the output arising from the joint operation

- Share of the revenue from the sale of the output by the joint operation
- Expenses, including its share of any expenses incurred jointly

Business Combination and Goodwill

Acquisition method

Business combinations are accounted f or using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs incurred are expensed and included in general and administrative expenses.

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

If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss. It is then considered in the determination of goodwill.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of PAS 39, *Financial Instruments: Recognition and Measurement*, is measured at fair value with changes in fair value recognized either in either profit or loss or as a change to OCI. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate PFRS. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for NCI, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in profit or loss.

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

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

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

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

Foreign Currency Translation of Foreign Operations

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

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

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

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

c. all resulting exchange differences in other comprehensive income.

Financial Instruments

Date of recognition

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

Initial recognition and classification of financial instruments

Financial instruments are recognized initially at fair value. The initial measurement of financial instruments, except for those designated at FVPL, includes transaction cost.

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

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

As at December 31, 2013 and 2012, the Group's financial assets and financial liabilities consist of loans and receivables, AFS financial assets and other financial liabilities.

Determination of fair value
The Group measures financial instruments, such as, derivatives, and non-financial assets such as investment properties, at fair value at each balance sheet date.

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

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

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

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

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

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

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

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

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

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

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest rate (EIR) 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 EIR. Gains and losses are recognized in the consolidated statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process. These financial assets are included in current assets if maturity is within 12 months from the end of the reporting period. Otherwise, these are classified as noncurrent assets.

As at December 31, 2013 and 2012, included under loans and receivables are the Group's cash and cash equivalents, accounts receivable, refundable deposits included under 'other current assets' and 'other noncurrent assets '.

AFS financial assets
AFS financial assets are non-derivative financial assets that are designated as AFS or are not classified in any of the three other categories. The Group designates financial instruments as AFS financial assets if they are purchased and held indefinitely and may be sold in response to liquidity requirements or changes in market conditions. After initial recognition, AFS financial assets are measured at fair value with unrealized gains or losses being recognized in the consolidated statement of comprehensive income as 'Unrealized gain (loss) on AFS financial assets'.

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

As at December 31, 2013 and 2012, the Group's AFS financial assets are composed of quoted and unquoted equity instruments (see Note 10).

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 EIR method. Amortized cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses are recognized in the

consolidated statement of income when the liabilities are derecognized as well as through the amortization process.

As at December 31, 2013 and 2012, included in other financial liabilities are the Group's short-term bank loans, accounts payable and accrued liabilities, advances from related parties, long-term loan and other noncurrent liabilities (see Note 22).

Offsetting Financial Instruments

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

Impairment of Financial Assets

The Group assesses at each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the contracted parties or a group of contracted parties are/is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Loans and receivables

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

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

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

AFS financial assets
For AFS financial assets, the Group assesses at each 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 the fair value of the investments below its cost. The determination of what is 'significant' or 'prolonged' requires judgment. The Group treats 'significant' generally as 30% or more and 'prolonged' as greater than 12 months for quoted equity securities. When there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statement of income is removed from equity and recognized in the consolidated statement of income.

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

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

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

Where the Group has transferred its rights to receive cash flows from an asset or has entered into a 'pass-through' arrangement and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay. Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

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

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

Inventories

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

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

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

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

Other Current Assets

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

Input Value-added Tax (VAT)

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

Property and Equipment

Property and equipment are stated at cost less accumulated depletion and depreciation and accumulated impairment in value.

The initial cost of property and equipment, other than oil and gas and coal mining properties, consists of its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use and any estimated cost of dismantling and removing the property and equipment item and restoring the site on which it is located to the extent that the Group had recognized the obligation to that cost. Such cost includes the cost of replacing part of the property and equipment if the recognition criteria are met. When significant parts of property and equipment are required to be replaced in intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciation. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of ‘Property and equipment’ as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the consolidated statement of income when incurred.

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

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

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

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

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

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

When assets are sold or retired, the cost and related accumulated depletion and depreciation and accumulated impairment in value are removed from the accounts and any resulting gain or loss is recognized in the consolidated statement of income.

The estimated recoverable reserves, useful lives, and depletion and depreciation methods are reviewed periodically to ensure that the estimated recoverable reserves, periods and methods of depletion and depreciation are consistent with the expected pattern of economic benefits from the items of property and equipment.

Deferred Oil and Gas Exploration Costs

Exploration and evaluation activity involves the search for hydrocarbon resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource. Once the legal right to explore has been acquired, costs directly associated with exploration are capitalized under 'Deferred oil and gas exploration costs' account. The Group's deferred oil and gas exploration costs are specifically identified of each SC area. All oil and gas exploration costs relating to each SC are deferred pending the determination of whether the contract area contains oil and gas reserves in commercial quantities. Capitalized expenditures include costs of license acquisition, technical services and studies, exploration drilling and testing, and appropriate technical and administrative expenses. General overhead or costs incurred prior to having obtained the legal rights to explore an area are recognized as expense in the consolidated statement of income when incurred.

If no potentially commercial hydrocarbons are discovered, the deferred oil and gas exploration asset is written off through the consolidated statement of income and OCI. If extractable hydrocarbons are found and, subject to further appraisal activity (e.g., the drilling of additional wells), it is probable that they can be commercially developed, the costs continue to be carried under deferred oil and gas exploration costs account while sufficient/continued progress is made in assessing the commerciality of the hydrocarbons. Costs directly associated with appraisal activity undertaken to determine the size, characteristics and commercial potential of a reservoir following the initial discovery of hydrocarbons, including the costs of appraisal wells where hydrocarbons were not found, are initially capitalised as deferred oil and gas exploration costs.

At the completion of the exploration phase, if technical feasibility is demonstrated and commercial reserves are discovered, then, following the decision to continue into the development phase, the oil and gas exploration costs relating to the SC, where oil and gas in commercial quantities are discovered, is first assessed for impairment and (if required) any impairment loss is recognised, then the remaining balance is transferred to 'Oil and gas, and coal mining properties' account shown under the 'Property and equipment' account in the statement of financial position.

Deferred oil and gas exploration costs are assessed at each reporting period for possible indications of impairment. This is to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case or is considered as areas permanently abandoned, the costs are written off through the consolidated statement of income and OCI. Exploration areas are considered permanently abandoned if the related permits of the exploration have expired and/or there are no definite plans for further exploration and/or development.

The recoverability of deferred oil and gas exploration costs is dependent upon the discovery of economically recoverable reserves, the ability of the Group to obtain necessary financing to complete the development of reserves and future profitable production or proceeds from the disposition of recoverable reserves. A valuation allowance is provided for unrecoverable deferred oil and gas exploration costs based on the Group's assessment of the future prospects of the exploration project.

Borrowing Costs

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

Impairment of Property and Equipment and Deferred Oil and Gas Exploration Costs

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

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

Retirement benefits liability

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

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method.

Re-measurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding net interest (not applicable to the Group) and the return on plan assets (excluding net interest), are recognized immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss on the earlier of:

- The date of the plan amendment or curtailment, and
- The date that the Group recognises restructuring-related costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under 'cost of sales', 'administration expenses' and 'selling and distribution expenses' in consolidated statement of profit or loss (by function):

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements
- Net interest expense or income

Provision for Rehabilitation and Decommissioning Costs

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

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

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

Capital Stock

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

Equity Reserve

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

Retained Earnings

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

Revenue Recognition

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

Revenue from sale of petroleum products

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

Revenue from sale of coal

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

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

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

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

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

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

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

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

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

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

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

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

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

Deferred income tax liabilities are not provided on non-taxable temporary differences associated with investments in domestic subsidiaries, associates and interest in joint ventures. With respect to investments in other subsidiaries, associates and interests in joint ventures, deferred income tax liabilities are recognized except when the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future. In business combinations, the identifiable assets acquired and liabilities assumed are recognized at their fair values at the acquisition date. Deferred income tax liabilities are provided on temporary differences that arise when the tax bases of the identifiable assets acquired and liabilities assumed are not affected by the business combination or are affected differently.

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

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

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

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

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

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

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

Diluted Earnings (Loss) Per Share
Diluted earnings (loss) per share is calculated by dividing the net income (loss) attributable to equity holders of the Parent Company by the weighted average number of ordinary shares issued during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all potentially dilutive ordinary shares into ordinary shares. As at December 31, 2013 and 2012, there are no potentially dilutive ordinary shares.

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

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

3. Summary of Significant Judgments, Estimates and Assumptions

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

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

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

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

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

The Group's financial instruments are discussed in more detail in Notes 22 and 23.

Recognition of deferred income tax assets
The Group reviews the carrying amounts at each reporting period and adjusts the balance of deferred income tax assets to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. However, there is no assurance that the Group will utilize all or part of the deferred income tax assets. The Group did not recognize deferred income tax assets on NOLCO in 2013 and 2012. Carrying amount of deferred income tax assets amounted to ₱28,313 and ₱16,303 as at December 31, 2013 and 2012, respectively (see Note 19).

Determining and classifying a joint arrangement
Judgment is required to determine when the Group has joint control over an arrangement, which requires an assessment of the relevant activities and when the decisions in relation to those activities require unanimous consent. The Group has determined that the relevant activities for its joint arrangements are those relating to the operating and capital decisions of the arrangement.

Judgment is also required to classify a joint arrangement. Classifying the arrangement requires the Group to assess their rights and obligations arising from the arrangement. Specifically, the Group considers:

- The structure of the joint arrangement - whether it is structured through a separate vehicle
- When the arrangement is structured through a separate vehicle, the Group also considers the rights and obligations arising from:
  a. The legal form of the separate vehicle
  b. The terms of the contractual arrangement
  c. Other facts and circumstances (when relevant)

This assessment often requires significant judgment, and a different conclusion on joint control and also whether the arrangement is a joint operation or a joint venture, may materially impact the accounting.

As at December 31, 2013 and 2012, the Group's joint arrangement is in the form of a joint operation.

Accounting Estimates and Assumptions

The key estimates and assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, 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:

Reserve and resource estimates

Hydrocarbon reserves are estimates of the amount of hydrocarbons that can be economically and legally extracted from the Group's oil and gas and coal mining properties. The Group estimates its commercial reserves and resources based on information compiled by appropriately qualified persons relating to the geological and technical data on the size, depth, shape and grade of the hydrocarbon body and suitable production techniques and recovery rates. Commercial reserves are determined using estimates of oil and gas in place, recovery factors and future commodity prices, the latter having an impact on the total amount of recoverable reserves and the proportion of the gross reserves which are attributable to the host government under the terms of the Production-Sharing Agreements. Future development costs are estimated using assumptions as to the number of wells required to produce the commercial reserves, the cost of such wells and associated production facilities, and other capital costs.

The Group estimates and reports hydrocarbon reserves in line with the principles contained in the Society of Petroleum Engineers (SPE) Petroleum Resources Management Reporting System (PRMS) framework. As the economic assumptions used may change and as additional geological information is obtained during the operation of a field, estimates of recoverable reserves may change. Such changes may impact the Group's reported financial position and results, which include:

- The carrying value of deferred oil and gas exploration costs; oil and gas and coal mining properties and property and equipment, may be affected due to changes in estimated future cash flows
- Depreciation and amortisation charges in the statement of comprehensive income may change where such charges are determined using the unit of production (UOP) method, or where the useful life of the related assets change
- Provisions for decommissioning may change - where changes to the reserve estimates affect expectations about when such activities will occur and the associated cost of these activities
- The recognition and carrying value of deferred tax assets may change due to changes in the judgments regarding the existence of such assets and in estimates of the likely recovery of such assets

Impairment of loans and receivables

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

The Group did not assess its loans and receivables for collective impairment due to the few counterparties that can be specifically identified. Any impairment loss is recognized in the consolidated statement of income with a corresponding reduction in the carrying value of the loans and receivables through an allowance account. Total carrying value of loans and receivables amounted to ₱2,768,189 and ₱386,018 as at December 31, 2013 and 2012, respectively

(see Note 22). Allowance for impairment loss on other receivables amounting to ₱866 and ₱417 was recognized as at December 31, 2013 and 2012, respectively (see Note 6).

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

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

As at December 31, 2013 and 2012, the carrying value of property and equipment amounted to ₱360,018 and ₱124,205, respectively. Impairment loss on property and equipment amounted to ₱19,449 and ₱434,288 in 2013 and 2012, respectively (see Note 9).

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

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

Any change in fair value of its AFS financial assets is recognized in the consolidated statement of comprehensive income. The Group has net cumulative unrealized losses on its AFS financial asset amounting to nil and ₱30,485 as at December 31, 2013 and 2012, respectively. The carrying values of the Group's AFS financial assets amounted to nil and ₱1,399,670 as at December 31, 2013 and 2012, respectively (see Note 10).

Impairment of AFS financial assets
The Group treats its AFS financial assets as impaired when there has been a significant or prolonged decline in fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. The Group treats 'significant' generally as 30% or more and 'prolonged' as greater than 12 months for quoted equity securities. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted securities. As at December 31, 2013 and 2012, the carrying values of the Group's AFS financial

assets amounted to nil and ₱1,399,670, respectively. No provision for impairment was recognized in 2013, 2012 and 2011 by the Group on its AFS financial assets (see Note 10).

Impairment of goodwill
The Group reviews the carrying values of goodwill for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs impairment test of goodwill annually every December 31. Impairment is determined for goodwill by assessing the recoverable amount of the CGU or group of CGUs to which the goodwill relates. Assessments require the use of estimates and assumptions such as long-term oil prices, discount rates, future capital requirements, exploration potential and operating performance. If the recoverable amount of the unit exceeds the carrying amount of the CGU, the CGU and the goodwill allocated to that CGU shall be regarded as not impaired. Where the recoverable amount of the CGU or group of CGUs is less than the carrying amount of the CGU or group of CGUs to which goodwill has been allocated, an impairment loss is recognized. No impairment losses were recognized for the years ended December 31, 2013 and 2012. The carrying value of goodwill as at December 31, 2013 and 2012 amounted to ₱1,238,583 and ₱258,593, respectively (see Note 4).

Determination of the NRV of inventories
The NRV of coal inventory is computed based on estimated selling price less estimated costs to sell. The NRV of materials and supplies is computed based on their estimated sales value at their current condition. Based on these estimates, an inventory write-down is recognized for any excess of carrying value over the NRV of the inventory. The carrying values of the inventories of the Group amounted to ₱21,193 and ₱140,881 as at December 31, 2013 and 2012, respectively (see Note 7). Allowance for probable inventory losses amounted to ₱269,300 and ₱151,941 as at December 31, 2013 and 2012, respectively (see Note 7).

Estimation of coal resources
Estimates of coal resources are based on the computation parameters and the guidelines of the DOE. A floor structure contour map of coal seams are prepared and information about their thickness and extent are tabulated as determined from outcrops, test pits, old mine workings and diamond drill data. The area is multiplied by the known thickness and the assumed specific gravity to get the tonnage in metric tons. The resources are computed by blocks which are delineated by fault boundaries and mined out areas. There had been no significant change in the estimated mineable coal reserves from December 31, 2011 to December 31, 2013.

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

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

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

Estimation of provision for rehabilitation and decommissioning costs
Significant estimates and assumptions are made in determining the provision for rehabilitation and decommissioning costs. Factors affecting the ultimate amount of liability include estimates of the extent and costs of rehabilitation activities, technological changes, regulatory changes, cost increases, and changes in discount rates. Those uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision at each reporting period represents management's best estimate of the present value of the future rehabilitation costs required. Changes to estimated future costs are recognized in the consolidated statement of financial position by adjusting the rehabilitation asset and liability. Assumptions used to compute for the provision for rehabilitation and decommissioning costs are reviewed and updated annually. Provision for rehabilitation and decommissioning costs amounted to ₱953 and ₱833 as at December 31, 2013 and 2012, respectively (see Note 9). In 2013 and 2012, the Group recognized accretion of interest amounting to ₱120 and ₱105, respectively (see Note 9). The discount rate used by the Group to value the provision as at December 31, 2013 and 2012 is 14%.

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

The deferred oil and gas exploration costs have a carrying value amounting to ₱4,978,483 and ₱858,562 as at December 31, 2013 and 2012, respectively (see Note 11). Allowance for unrecoverable portion of oil and gas interests amounted to ₱442,974 in both years (see Note 11).

Estimating Retirement Benefits Costs
The cost of defined benefit retirement as well as the present value of the retirement liability is determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future retirement increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit retirement liability are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting period. The net retirement benefits liability as at December 31, 2013 and 2012 amounted to ₱15,623 and nil, respectively. Further details are provided in Note 21.
In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit retirement liability.

Further details about the assumptions used are provided in Note 21.

Provision for losses
The Group provides for present obligations (legal or constructive) where it is probable that there will be an outflow of resources embodying economic benefits that will be required to settle the said obligations. An estimate of the provision is based on known information at each reporting period, net of any estimated amount that may be reimbursed to the Group. The amount of provision is re-assessed at least on an annual basis to consider new relevant information. As at December 31, 2013 and 2012, provision for losses recorded under current liabilities amounted to

nil and ₱41,050, respectively, while noncurrent liabilities amounted to ₱181,632 and ₱171,631, respectively (see Note 27).

4. Business Combination

Acquisition of Pitkin

On April 5, 2013, PPC increased its stake in Pitkin from 18.46% to 50.28% through acquisition of additional 46,405,000 shares at US$0.75 per share which resulted to PPC obtaining control over Pitkin. As a result of the acquisition, PPC gained control of Pitkin's key assets including participating interests in Peru Block Z-38, SC 14 Block C-2 (West Linapacan) and other Philippine blocks.

The goodwill of ₱1,534,168 arising from the acquisition pertains to the revenue potential the Group expects from Pitkin's Peru Block Z-38, SC 14 Block C-2 (West Linapacan) and other Philippine blocks. As at the acquisition date, the fair value of the net identifiable assets and liabilities of the Pitkin are as follows:

	Fair Value Recognized on Acquisition	Previous Carrying Value in the Subsidiary
Assets		
Cash and cash equivalents	₱803,379	₱803,379
Receivables	40,916	40,916
Inventories	1,035	1,035
Deferred exploration oil and gas exploration costs	5,521,113	407,219
Property and equipment	2,801	2,801
Other noncurrent assets	6,842	6,842
	6,376,086	1,262,192
Liabilities		
Accounts payable and accrued liabilities	48,391	48,391
Deferred tax liability	1,534,168	–
	1,582,559	48,391
Total identifiable net assets	₱4,793,527	₱1,213,801
Total consideration	6,327,695	
Goodwill arising from acquisition	₱1,534,168	

In business combinations, the identifiable assets acquired and liabilities assumed are recognized at their fair values at the acquisition date. Deferred income tax liabilities are provided on temporary differences that arise when the tax bases of the identifiable assets acquired and liabilities assumed are not affected by the business combination or are affected differently. The aggregate consideration follows:

	Amount
Fair value of previously held interest	₱1,313,700
Consideration transferred for additional interest acquired	1,433,332
Fair value of non-controlling interest	3,580,663
	₱6,327,695

The Group measured non-controlling interest using the fair value method.

	Amount
Consideration transferred for additional interest acquired	₱1,433,332
Less cash of acquired subsidiary	803,379
	₱629,953

Revenues and net income of the acquiree since the acquisition date amounted to ₱3,465 and ₱1,980,796, respectively. Consolidated revenue and net income of the Group had the business combination occurred on January 1, 2013 would be higher by ₱2,564 and lower by ₱34,650, respectively.

Acquisition of BEMC and FEC

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

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

The share of the Parent Company in the carrying amounts of net identifiable assets and liabilities amounted to ₱1,056,752 while the costs of business combinations amounted to ₱1,016,164 which consist of cash purchase price for BEMC and FEC, and the carrying amount of equity interest in FEP held by the Parent Company before the date of acquisition. The acquisitions resulted to an increase in equity reserves and non-controlling interests amounting ₱40,588 and ₱303,525, respectively, as at the date of business combinations. Goodwill arising from the business combination amounted to ₱258,593.

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

5. Cash and Cash Equivalents

	2013	2012
Cash on hand and in banks	**₱381,046**	₱281,121
Short-term investments	**2,240,428**	2,896
	₱2,621,474	₱284,017

Cash in banks earns interest at the respective bank deposit rates. Short-term investments are made for varying periods of up to three (3) months depending on the cash requirements of the Group, and earn interest at the respective short-term investments rates. Interest income amounting to ₱7,220, ₱784 and ₱814 were recognized for the years ended December 31, 2013, 2012 and 2011, respectively. The Group has US dollar accounts in various banks amounting to US$58,486 and US$6,712 as at December 31, 2013 and 2012, respectively (see Note 23).

6. **Accounts Receivable**

	2013	2012
Trade	**₱94,985**	₱94,049
Accrued interest	**7,732**	–
Advances to suppliers	**4,004**	1,264
Advances to officers and employees	**1,566**	2,360
Others	**5,526**	4,908
	113,813	102,581
Less allowance for impairment loss	**866**	417
	₱112,947	₱102,164

Trade receivables are noninterest-bearing and are currently due and demandable. These include receivables from sale of coal and petroleum products.

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

In 2013 and 2012, provision for impairment on other receivables was recognized amounting to ₱449 and ₱417, respectively.

The Group has no related party balances included in the accounts receivable account as at December 31, 2013 and 2012.

7. **Inventories -** net

	2013	2012
Coal	**₱223,242**	₱238,797
Petroleum	**21,193**	2,868
Materials and supplies	**46,058**	51,157
	290,493	292,822
Less allowance for probable inventory losses	**269,300**	151,941
	₱21,193	₱140,881

The cost of inventories recognized as expense and included in 'Cost of coal sales' amounted to ₱17,770, ₱35,238, and ₱1,210 in 2013, 2012, and 2011, respectively. The cost of petroleum recognized as expense and included in 'Petroleum production costs' amounted to ₱87,895, ₱98,245, and ₱175,883 in 2013, 2012, and 2011, respectively (see Note 16).

Movement in the allowance for probable inventory losses follows:

	2013	2012
Beginning Balance	**₱151,941**	₱8,394
Provisions	**117,371**	143,547
Write-off	**12**	–
Ending Balance	**₱269,300**	₱151,941

8. Other Current Assets

	2013	2012
Prepaid expenses	**₱16,255**	₱17,866
Input VAT	**5,687**	5,749
Creditable withholding tax	**2,865**	2,098
Deposit	**1,733**	–
Prepaid income tax	**189**	1,056
Others	**967**	–
	₱27,696	₱26,769

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

9. Property and Equipment - net

As at December 31, 2013:

	Oil and Gas, and Coal Mining Properties	**Machinery and Equipment**	**Surface Structures**	**Construction in-progress**	**Total**
Cost					
Balances at January 1	**₱548,292**	**₱295,827**	**₱37,453**	**₱759**	**₱882,331**
Acquisition of subsidiary (Note 4)	**–**	**35,161**	**–**	**–**	**35,161**
Additions	**42,787**	**2,813**	**206**	**–**	**45,806**
Reclassifications	**216,402**	**–**	**–**	**–**	**216,402**
Disposals	**–**	**(26,219)**	**–**	**–**	**(26,219)**
Cumulative translation adjustment	**(27,363)**	**(3,151)**	**–**	**–**	**(30,514)**
Balances at December 31	**780,118**	**304,431**	**37,659**	**759**	**1,122,967**
Accumulated depletion and depreciation					
Balances at January 1	**224,715**	**90,237**	**8,886**	**–**	**323,838**
Acquisition of subsidiary (Note 4)	**–**	**32,360**	**–**	**–**	**32,360**
Depletion and depreciation (Notes 16 and 26)	**12,963**	**1,653**	**–**	**–**	**14,616**
Disposals	**–**	**(6,477)**	**–**	**–**	**(6,477)**
Cumulative translation adjustment	**(17,548)**	**(2,838)**	**–**	**–**	**(20,386)**
Balances at December 31	**220,130**	**114,935**	**8,886**	**–**	**343,951**
Accumulated impairment					
Balances at January 1	**204,088**	**200,874**	**28,567**	**759**	**434,288**
Impairment during the year	**18,290**	**953**	**206**	**–**	**19,449**
Reversals of impairment	**–**	**(34,739)**	**–**	**–**	**(34,739)**
Balances at December 31	**222,378**	**167,088**	**28,773**	**759**	**418,998**
Net Book Values	**₱337,610**	**₱22,408**	**₱–**	**₱–**	**₱360,018**

As at December 31, 2012:

	Oil and Gas, and Coal Mining Properties	Machinery and Equipment	Surface Structures	Construction in-progress	Total
Cost					
Balances at January 1	₱414,116	₱222,192	₱28,495	₱5,284	₱670,087
Additions	122,393	106,435	3,970	5,681	238,479
Reclassifications	50,212	5,218	4,988	(10,206)	50,212
Disposals	–	(24,689)	–	–	(24,689)
Cumulative translation adjustment	(38,429)	(13,329)	–	–	(51,758)
Balances at December 31	548,292	295,827	37,453	759	882,331

(Forward)

	Oil and Gas, and Coal Mining Properties	Machinery and Equipment	Surface Structures	Construction in-progress	Total
Accumulated Depletion and Depreciation					
Balances at January 1	₱195,817	₱61,165	₱4,386	₱–	₱261,368
Depletion and depreciation					
(Notes 16 and 26)	35,039	30,720	4,500	–	70,259
Disposals	–	(471)	–	–	(471)
Cumulative translation adjustment	(6,141)	(1,177)	–	–	(7,318)
Balances at December 31	224,715	90,237	8,886	–	323,838
Accumulated impairment					
Balances at January 1	–	–	–	–	–
Impairment	204,088	200,874	28,567	759	434,288
Reversals of impairment	–	–	–	–	–
Balances at December 31	204,088	200,874	28,567	759	434,288
Net Book Values	₱119,489	₱4,716	₱–	₱–	₱124,205

In 2013, additional ₱3,309 impairment losses on property and equipment were recognized by the Group. In addition, BEMC made a reversal on its previously recorded impairment losses on its property and equipment amounting to ₱34,739 for property and equipment to be transferred to Silangan Mindanao Mining Company Incorporated (SMMCI) and PMC. As at December 31, 2013, the net book value of property and equipment amounting to ₱17,163 are still to be transferred to SMMCI and PMC.

In 2013, FEP has recognized impairment losses amounting to ₱16,140 related to its SC 40 Libertad Field due to decline in total estimated recoverable reserves of the field.

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

Oil and gas, and coal mining properties include the present value of the BEMC's and FEP's estimated rehabilitation and decommissioning costs amounting to ₱953 and ₱833 as at December 31, 2013 and 2012, respectively. The details of the Group's provision for rehabilitation and decommissioning costs are as follows:

	2013	2012
Beginning balances	**₱833**	₱1,358
Payments for rehabilitation and decommissioning costs	**–**	(630)
Accretion of interest	**120**	105
Ending balances	**₱953**	₱833

As at December 31, 2013 and 2012, payments made by FEP for its share of the estimated rehabilitation and decommissioning costs to the operator of Galoc field amounted to nil and ₱630, respectively. The provision for rehabilitation and decommissioning costs amounting to ₱953 and ₱833 as at December 31, 2013 and 2012, respectively, are recorded under 'Other noncurrent liabilities' in the consolidated statements of financial position.

Discount rate of 14% was used to compute the present value of provision for rehabilitation and decommissioning costs as at December 31, 2013 and 2012.

10. **AFS Financial Assets**

	2013	2012
Pitkin - unquoted equity instrument	**₱–**	₱1,231,440
PetroEnergy Resources Corporation (PERC) - quoted equity instrument	–	168,230
	₱–	₱1,399,670

Investment in Pitkin
On September 24, 2010, the Parent Company purchased from PMC all of its investment in shares of stock of Pitkin, which consists of 18,000,000 shares at a purchase price of ₱766,346. The acquisition brought the total holdings of the Parent Company to 24,000,000 shares, or 21.00% ownership interest.

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

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

On April 5, 2013, PPC subscribed 10,000,000 new ordinary shares of Pitkin and purchased 36,405,000 shares from existing shareholders at US$0.75 per share. As a result, PPC's shareholding increased from 18.46% to 50.28%, obtaining control over Pitkin. The investment in Pitkin was reclassified from AFS financial assets carried at cost less any impairment loss to investment in shares of stock.

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

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

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

On February 21, 2013, the Company sold all of its investment in PERC for ₱167,999. Gain on sale of PERC shares amounted to ₱26,867 which was recognized in the consolidated statement of income.

The table below shows the movement of the 'Unrealized gain (loss) on AFS financial asset' account:

	2013	2012
Beginning balance	**(₱30,485)**	₱7,057
Add: Unrealized gain (loss) on AFS financial assets during the year - net of deferred income tax	**15,638**	(37,542)
	(14,847)	(30,485)
Less: Unrealized loss on AFS financial assets transferred to profit or loss - net of deferred income tax	**(14,847)**	–
Ending balance	**₱–**	(₱30,485)

11. **Deferred Oil and Gas Exploration Costs** - net

	2013	2012
Peru exploration assets	**₱3,008,241**	₱–
Philippine exploration assets	**2,413,216**	1,301,536
Deferred oil and gas exploration costs	**5,421,457**	1,301,536
Less allowance for unrecoverable portion	**442,974**	442,974
	₱4,978,483	₱858,562

As at December 31, 2013 and 2012, provision for impairment loss deferred oil and gas exploration costs was recognized amounting to nil and ₱388,631, respectively.

Pitkin and FEP, through their subsidiaries, have various participating interests in petroleum service contracts as follows as at December 31, 2013:

	Participating Interest		
Service Contract	Pitkin	PPC	FEP
SC 6 (Cadlao Block)	–	1.65%	–
SC 6A (Octon Block)	70.00%	1.66%	1.67%
SC 6B (Bonita Block)	–	–	7.03%
SC 14 (Tara PA)	–	–	10.00%
SC 14 Block A (Nido)	–	–	8.47%
SC 14 Block B (Matinloc)	–	–	12.41%
SC 14 Block B-1 (North Matinloc)	–	–	19.46%
SC 14 Block C (Galoc)	–	–	2.28%
SC 14 Block C-2 (West Linapacan)	29.15%	–	2.28%
SC 14 Block D (Retention Block)	–	–	8.17%
SC 40 (North Cebu Block)	–	–	66.67%

Service Contract	Participating Interest Pitkin	PPC	FEP
SC 53 (Mindoro)	35.00%	–	–
SC 72 (Reed Bank)	–	–	70.00%
SC 74 Area 5 (Northwest Palawan)	70.00%	–	–
SC 75 Area 4 (Northwest Palawan)	–	50.00%	–
Peru Block XXVIII	100.00%	–	–
Peru Block Z-38	25.00%	–	–

SC 6A (Octon Block)
The SC covers an area of 1,080 square kilometres and was entered into by the DOE and the original second parties to the contract on September 1, 1973. In July 2011, Pitkin acquired 70% interest and operatorship of the block by carrying all costs of Phase 1 of the work program which involved acquisition, processing, and interpretation of 500-kilometer 3D seismic data. Pitkin shall also have the right but not the obligation to proceed and carry the costs of Phases 2 and 3 upon notification of the other farmors.

SC 14 Block C (Galoc)
On September 10, 2012, the Galoc JV approved the Final Investment Decision (FID) for Phase 2 development of the Galoc Field starting first half of 2013. On June 4, 2013, drilling of two additional production wells commenced and was completed on October 23, 2013. On December 4, 2013, Galoc Phase 2 started to produce oil and is expected to increase field production from the average 4,500 BOPD to around 12,000 BOPD.

The total project cost, including drilling and development, is approximately US$188,000, of which FEP's share is US$4,278 (2.27575%).

On December 21, 2012, FEP and Galoc Production Company (GPC) entered into a loan facility with BNP Paribas to provide a total of US$40 million project financing for the Galoc Field's Phase 2 development. Total amount drawn and still outstanding as at the end of the reporting period amounted to US$2,477 or ₱110,033 (see Note 15). The remaining balance will be funded from FEP's existing cash resources.

SC 14 Block C-2 (West Linapacan)
West Linapacan is located in 300 to 350 metres of water, approximately 60 kilometres offshore from Palawan Island in Service Contract 14 Block C2 in the Northwest Palawan Basin, Philippines. It comprises two main oil bearing structures - West Linapacan A and B - and several seismic leads. The Service Contract was entered into in December 17, 1975 between the Petroleum Board and the original second parties to the contract. Pitkin had a 58.30% interest in this SC pursuant to a Farm-In Agreement approved by the DOE on September 11, 2008. However, on February 7, 2011, Pitkin concluded a farm-out agreement whereby it transferred 29.15% participating interest to RMA (HK) Limited in exchange for being carried through the drilling and testing of the West Linapacan A appraisal/development well. The farm-out agreement was approved by the DOE on July 4, 2011. The viability of redeveloping the West Linapacan oil field is currently being evaluated.

SC 40 (North Cebu)
In 2012, FEP commissioned a resource assessment study to be undertaken by Petroleum Geo-Services (PGS) Reservoir Consultants, an independent competent person. The results of the study, which was received in 2013, downgraded previously identified leads and prospects within SC 40. An important factor in this assessment was that third parties had experienced a dry hole in drilling efforts within the Central Tañon Straits which significantly reduced the likelihood of the existence

of a commercially viable hydrocarbon deposit in this region. In light of this report and applying appropriate caution, the carrying value of the investment in SC40 has been impaired by ₱388,631 which is included in 'Provision for impairment of assets' in the consolidated statement of income in 2012. Carrying value as at December 31, 2012 reflects the potential of a number of smaller onshore locations within SC 40.

SC 53 (Mindoro)
SC53 measures 6,600 square kilometres and is mostly located in onshore Mindoro Island. It is adjacent to the petroliferous North Palawan Basin where almost all of the producing oil and gas wells in the Philippines are found. The Service Contract was entered into in July 8, 2005 between Government of the Republic of the Philippines through the DOE and Laxmi Organic Industries Ltd. On September 5, 2007, Pitkin executed a farm-in agreement with the existing partners of SC 53. The agreement was subsequently approved by the DOE on June 11, 2008. On April 4, 2011, Pitkin executed a farm-out agreement whereby it transferred 35% of its participating interest to the farmee in exchange for being carried through the drilling, testing and completing of the Progreso-2 well and the acquisition, processing and interpretation of 2D onshore and offshore seismic data. The farm-out agreement was approved by the DOE on July 4, 2011.

SC 72 (Reed Bank)
SC 72 was awarded on February 15, 2010. It covers an area of 8,800 square kilometers and contains the Sampaguita Gas Discovery which has the potential to contain In-Place Contingent Resources of 2.6 trillion cubic feet (TCF) as reported by Weatherford Petroleum Consultants (Weatherford) in 2012.

Based on the study, In-Place Prospective Resources totalling 5.4 TCF is expected to be drilled in the area. The results of the study were used to define the location of two wells, to be named Sampaguita-4 and Sampaguita-5, which if successfully drilled, would be expected to increase the amount of potentially recoverable resources. The drilling of two wells is part of the work programme of FEP for the second-sub-phase of SC72 which was supposed to be accomplished by August 2013. However, FEP was unable to commence the drilling programme because of maritime disputes between the Philippine and Chinese governments. The DOE has granted FEP an extension from August 2014 up to August 2015 on the grounds of force majeure to allow the completion of obligations under the SC.

In the meantime, FEP recognizes its ongoing commitment to the project by continuously undertaking studies to discover the field's potential. In October 2013, CGG Mumbai (CGG) completed the reprocessing of 700 line-km of vintage 2D seismic data in Reed Bank. CGG earlier completed the reprocessing of the 2011-acquired 2D data totaling 2,200 line-km.

SC 74 Area 5 (Northwest Palawan)
In September 2013, Pitkin, in consortium with Philodrill, acquired acreage covering Area 5 North West (NW) Palawan Basin in a competitive bid under the Fourth Philippine Energy Contracting Round (PECR4), with operating interest of 70% and participating interest of 30%, respectively. It covers an area of 4,240 square kilometers and is located in shallow waters of the NW Palawan area.

SC 75 Area 4 (Northwest Palawan)
On January 3, 2014, the duly executed copy of Petroleum SC 75 was granted to the bid group comprising PPC, Philippine National Oil Company Exploration Corporation and PERC with operating interest of 50%, participating interests of 35% and 15%, respectively. It covers an area of 6,160 square kilometers in the NW Palawan Basin which was referred to as Area 4 in PECR4.

Peru Block XXVIII

Block XXVIII was awarded to Pitkin in October 2010. It covers an area of 3,143 square kilometres located in the eastern portion of the productive Sechura Basin. As at December 31, 2013, the project is in its 2nd phase of exploration which involves several geological and geophysical studies such as gradiometry and magnetometry.

Peru Block Z-38

In April 2007, Block Z-38 was awarded to Pitkin. Farm-out agreement has been made by Pitkin in which it resulted to Karoon Gas Australia Ltd. obtaining operating interest of seventy-five percent (75%). It covers an area of 4,875 square kilometers and is located in the Tumbes Basin offshore NW Peru.

12. **Other Noncurrent Assets**

	2013	2012
Deposits	**₱25,307**	₱–
Guarantee deposits	**5,150**	–
Refundable deposits	**1,767**	–
Others	–	278
	₱32,224	₱278

Pitkin has deposits to guarantee satisfactory completion of projects by its various contractors.

The guarantee deposits pertains to BEMCs deposits in Land Bank of the Philippines in accordance to the Memorandum of Agreement on the Creation of the Multi-Partite Monitoring Team.

Refundable deposits pertain to deposits made in connection with lease agreements entered into by Pitkin. These will be refunded after all valid claims, based on joint assessment, have been cleared at the expiration of the lease contract.

13. **Short-term Bank Loans**

On June 29, 2010, BEMC obtained from the Bank of the Philippine Islands (BPI) a six-month, interest-bearing promissory note amounting to ₱150,000. The proceeds of the note were used to partially pay the advances from PMC to BEMC. Originally, the note matured on December 26, 2010 but it was renewed for another six months. The interest rate of the note was initially stated at 5% per annum but it is subject to repricing every 30 days, based on the prevailing interest rate at the date of repricing. The related interest is payable every 30 days. On January 14, 2013, the loan was transferred to and assumed by PMC, the Ultimate Parent Company, and the corresponding interest was settled fully on the same date.

On March 7, 2011, BEMC obtained an additional six-month, interest-bearing promissory note of ₱100,000 from BPI for working capital purposes. The note will mature on September 2, 2011 and bears an interest rate initially stated at 4.75% per annum, subject to repricing every 30 days, based on the prevailing interest rate at the date of repricing. The proceeds of the note were also used to partially pay the advances of PMC to BEMC. The latest renewal of the loan further extended the maturity date for another six months. The related interest is payable every 30 days. On February 18, 2013, the loan was transferred to and assumed by PMC and the corresponding interest was settled fully on the same date.

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

Interest expense on these short term bank loans charged to the statements of comprehensive income amounted to ₱1,993, ₱14,361 and ₱1,845 in 2013, 2012 and 2011, respectively.

14. Accounts Payable and Accrued Liabilities

	2013	2012
Trade	**₱1,597**	₱38,990
Accrued interest	**34,484**	24,484
Accrued expenses	**43,252**	12,799
Withholding taxes	**24,995**	1,431
Other nontrade liabilities	**11,976**	9,322
	₱116,304	₱87,026

The Group's accounts payable and accrued liabilities are noninterest-bearing and are currently due and demandable.

Accrued expenses primarily include the accruals for light and water, payroll and security fees.

Other non-trade liabilities include accrued royalties payable to DOE and payroll-related liabilities such as payable to SSS, Philhealth and Home Development Mutual Fund.

Related party balances included in accounts payable and accrued liabilities amounted to ₱30,340 and ₱19,785 as at December 31, 2013 and 2012, respectively. These relates to accrued interest payable to PMC from FPHL (see Note 20).

15. Long-term Loan

On December 21, 2012, FEP, together with GPC, entered into a $40,000 loan facility with BNP Paribas for the purpose of financing the development activities of SC 14C's Galoc Phase 2. Total amount drawn and still outstanding as at the end of the period amounted to US$2,477 or ₱110,033. A proceeds account was set-up between the parties to which all drawdowns and petroleum sales proceeds shall be deposited and from which all disbursements for the purposes in which the loan was entered into, and all repayments of the loan principal, interests, and other incidental costs shall come from.

Interest on the loan is set at 6% plus London Interbank Offered Rate (LIBOR) rate per annum as at December 31, 2013. It shall decrease to 5.5% plus LIBOR rate per annum once all stipulations in the loan facility agreement have been met. Interest expense capitalized as part of property and equipment relating to the loan amounted to ₱1,095 as at December 31, 2013. In the same year, facility fees and finance charges amounted to ₱7,100 and ₱7,890, respectively. The facility fees and finance charges are recorded under 'Interest expense' in the consolidated statements of comprehensive income.

The loan is secured by 500,000,006 shares of FEP representing 100% capital stock of the company.

As at December 31, 2013, current and noncurrent portions of the loan amounted to ₱55,019 and ₱55,014, respectively.

16. **Costs and Expenses**

	2013	2012	2011
Petroleum production costs:			
Production costs	**₱48,346**	₱67,728	₱96,975
Depletion and depreciation (Note 9)	**39,549**	30,517	78,908
	₱87,895	₱98,245	₱175,883
Cost of coal sales:			
Personnel costs	**₱5,983**	₱11,900	₱449
Materials and supplies	**2,697**	5,810	241
Depletion and depreciation (Note 9)	**4,452**	8,542	233
Communication, light and water	**2,588**	4,033	115
Outside services	**1,146**	2,170	57
Purchase cost of coal	**29**	66	14
Others	**875**	2,717	101
	₱17,770	₱35,238	₱1,210
General and administrative expenses:			
Personnel costs	**₱130,059**	₱34,177	₱26,535
Professional fees	**88,310**	54,470	62,716
Directors' fees	**47,562**	29,794	24,709
Travel and transportation	**14,806**	14,680	5,995
Communications, light and water	**12,773**	2,852	2,384
Rental	**9,056**	3,865	3,444
Security services	**5,172**	1,207	1,139
Depreciation (Note 9)	**4,478**	3,489	2,505
Taxes and licenses	**3,485**	3,036	13,800
Fuel, oil and lubricants	**2,219**	1,144	1,318
Repairs and maintenance	**1,906**	575	770
Office supplies	**1,554**	4,986	8,089
Others	**15,962**	29,761	14,049
	₱337,342	₱184,036	₱167,453

17. **Others -** net

	2013	2012	2011
Settlement of legal claims	**₱–**	₱76,185	₱–
Others	**534**	(3,636)	259
	₱534	₱72,549	₱259

18. **Equity**

Capital Stock

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

	Number of Shares	
Common stock - ₱1 par value	**2013**	2012
Authorized	**6,800,000**	6,800,000
Issued, outstanding and fully paid		
January 1	**1,700,000**	1,700,000
Issuance during the year	**–**	–
December 31	**1,700,000**	1,700,000

As at December 31, 2013 and 2012, the Parent Company's total stockholders is 35,626 and 35,948 respectively.

Non-controlling Interest

Non-controlling interests consist of the following:

	Percentage of Ownership	Country of incorporation and operation	**2013**	2012
Non-controlling interests in the net assets of:				
Pitkin and its subsidiaries	49.72%	UK/Philippines	**₱3,702,578**	₱–
FEC	48.76%	Canada	**90,563**	99,459
FEP and its subsidiaries	51.24%	UK/Philippines	**(7,247)**	1,083
			₱3,785,894	₱100,542

Financial information of subsidiaries that have material non-controlling interests are provided below:

Income (loss) allocated to material non-controlling interest:

	2013	2012
Pitkin and its subsidiaries	**₱55,738**	₱–
FEC	**(7,174)**	(7,570)
FEP and its subsidiaries	**(51,264)**	(202,620)

Other comprehensive income (loss) allocated to material non-controlling interest:

	2013	2012
Pitkin and its subsidiaries	**₱66,178**	₱–
FEC	**(1,722)**	(1,489)
FEP and its subsidiaries	**42,934**	(40,013)

The summarized financial information of these subsidiaries are provided below:

Statements of comprehensive income as of December 31, 2013:

	Pitkin and its subsidiaries	FEC	FEP and its subsidiaries
Revenue	₱3,465	₱15	₱187,778
Cost of sales	(2,494)	–	(85,401)
General and administrative expenses	(143,061)	(14,727)	(102,406)
Other income (charges)	2,122,886	(181,084)	(29,889)
Interest expense	–	–	(47,534)
Income (loss) before tax	1,980,796	(195,796)	(77,452)
Provision for income tax	–	–	7,047
Net income (loss)	1,980,796	(195,796)	(70,405)
Other comprehensive income (loss)	(1,686)	7,707	73,004
Total comprehensive income (loss)	₱1,979,110	(₱188,089)	₱2,599
Attributable to non-controlling interests	₱984,013	(₱91,712)	(₱5,731)

Statements of comprehensive income as of December 31, 2012:

	Pitkin and its subsidiaries	FEC	FEP and its subsidiaries
Revenue	₱–	₱27	₱191,003
Cost of sales	–	–	(98,245)
General and administrative expenses	–	(15,102)	(111,546)
Other charges	–	(24,610)	(1,020,477)
Interest expense	–	(450)	(22,823)
Loss before tax	–	(40,135)	(1,062,088)
Provision for income tax	–	–	(23,633)
Net loss	–	(40,135)	(1,085,721)
Other comprehensive loss	–	(8,606)	(201,343)
Total comprehensive loss	₱–	(₱48,741)	(₱1,287,064)
Attributable to non-controlling interests	₱–	(₱23,766)	(₱1,529,696)

Statements of financial position as at December 31, 2013:

	Pitkin and its subsidiaries	FEC	FEP and its subsidiaries
Current assets	₱2,581,170	₱22,210	₱138,399
Noncurrent assets	790,023	77	1,479,309
Current liabilities	(54,327)	(4,507)	(104,499)
Noncurrent liabilities	(15,623)	–	(913,435)
Total equity	3,301,243	17,780	599,774
Attributable to:			
Equity holders of the Parent Company	1,659,865	9,111	582,373
Non-controlling interests	1,641,378	8,669	17,401

Statements of financial position as at December 31, 2012:

	Pitkin and its subsidiaries	FEC	FEP and its subsidiaries
Current assets	₱–	₱40,705	₱335,868
Noncurrent assets	–	169,958	1,158,020
Current liabilities	–	(4,792)	(109,332)
Noncurrent liabilities	–	–	(787,381)
Total equity	₱–	205,871	597,175
Attributable to:			
Equity holders of the Parent Company	–	105,489	550,893
Non-controlling interests	–	100,382	46,282

Statements of cash flows as of December 31, 2013:

Activities	Pitkin and its subsidiaries	FEC	FEP and its subsidiaries
Operating	(₱194,886)	(₱14,686)	(₱76,892)
Investing	1,824,363	(3,497)	(236,004)
Financing	332,985	–	67,924
Net increase (decrease) in cash and cash equivalents	1,962,462	(18,183)	(244,972)

Statements of cash flows as of December 31, 2012:

Activities	Pitkin and its subsidiaries	FEC	FEP and its subsidiaries
Operating	₱–	(₱17,830)	₱79,924
Investing	–		(361,240)
Financing	–	(13,196)	412,799
Net increase (decrease) in cash and cash equivalents	–	(31,026)	131,483

19. Income Taxes

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

b. The components of the Group's net deferred income tax liabilities as at December 31, 2013 and 2012 are as follows:

	2013	2012
Deferred income tax assets		
Impairment loss on deferred exploration costs	**₱16,303**	₱16,303
Unrealized foreign exchange loss	**3,158**	–
NOLCO	**8,695**	
MCIT	**157**	
	28,313	16,303

(Forward)

	2013	2012
Deferred income tax liabilities		
Unrealized gain on dilution of interest	**(₱126,615)**	(₱101,937)
Unrealized foreign exchange gain	**(5,289)**	(11,965)
Fair value adjustment as a result of business combination	**(979,990)**	–
	(₱1,111,894)	(₱113,902)

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

	2013	2012	2011
Provision for (benefit from) income tax computed at the statutory income tax rate	**(₱58,587)**	(₱295,358)	₱173,170
Additions to (reductions in) income tax resulting from:			
Nondeductible expenses and non-taxable income:			
Provision for impairment of assets	**60,510**	290,065	–
Nondeductible petroleum production costs and depletion	**33,128**	30,281	52,765
Equity in net losses (earnings) of associates	–	–	11,938
Interest income subjected to final tax	**(100)**	(49)	(356)
Dividend income exempt from tax	–	(1,694)	(1,694)
Nontaxable petroleum revenue	**(53,949)**	(53,342)	(165,470)
Gain on reversal of AFS financial assets	**(8,060)**		
Deductible temporary differences, NOLCO and excess MCIT for which no deferred income tax assets were recognized in the current year	**31,437**	65,810	–
Deductible temporary difference for which deferred income tax asset was recognized in prior years but derecognized in the current year	**(14,897)**	₱65,833	
Deductible temporary difference for which no deferred income tax asset was recognized in prior years but realized in the current year	**(4,434)**	–	–
Deductible temporary differences and NOLCO for which deferred income tax assets were recognized in the current year	**–**	–	(68,355)
Others	**115**	285	37,700
Provision for income tax	**(₱14,837)**	₱101,831	₱39,698

d. As at December 31, 2013, the Group's NOLCO that can be claimed as deduction from future taxable income and excess MCIT that can be deducted against income tax due are as follows:

Year Incurred	Available Until	NOLCO	Excess MCIT
2011	2014	105,222	2
2012	2015	76,440	292
2013	2016	109,821	1,022
		₱291,483	₱1,316

The following are the movements of the Group's NOLCO and excess MCIT for the years ended December 31, 2013 and 2012:

	NOLCO		Excess MCIT	
	2013	2012	**2013**	2012
Beginning balance	**₱264,422**	₱207,999	**₱533**	₱241
Additions	**109,821**	76,440	**1,022**	292
Applications	**(14,781)**	–	**–**	–
Expirations	**(67,979)**	(20,017)	**(239)**	–
Ending balance	**₱291,483**	₱264,422	**₱1,316**	₱533

e. The Group did not recognize deferred income tax assets on the following deductible temporary differences as at December 31, 2013 and 2012:

	2013	2012
NOLCO	**₱109,821**	₱76,440
Excess MCIT	**1,022**	292
Unrealized foreign exchange losses	**–**	21,112
	₱110,843	₱97,844

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

f. On July 7, 2008, RA 9504, which amended the provisions of the 1997 Tax Code, became effective. It includes provisions relating to the availment of the optional standard deduction (OSD). Corporations, except for nonresident foreign corporations, may now elect to claim standard deduction in an amount not exceeding 40% of their gross income. A corporation must signify in its returns its intention to avail of the OSD. If no indication is made, it shall be considered as having availed of the itemized deductions. The availment of the OSD shall be irrevocable for the taxable year for which the return is made. The Group did not avail of the OSD in 2013 and 2012.

20. Related Party Transactions

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

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

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

	2013			
	Amount/ Volume	**Outstanding Balance**	**Terms**	**Conditions**
Ultimate parent - PMC				
Advances: increase (decrease)				
PPC	**₱177,148**	**₱1,923,757**	On demand; non-interest bearing	Unsecured, no impairment
BEMC	**424,295**	**799,690**	On demand; non-interest bearing	Unsecured, no impairment
Loans from: increase (decrease)				
PPC	**665,925**	**655,200**	On demand; non-interest bearing	Unsecured, no impairment
FPHL	–	–	Payable in 3 years at interest rate of prevailing US LIBOR on the interest date plus 4.5% spread	Unsecured, no impairment
Subsidiaries				
PGPI	**17**	**204**	On demand; non-interest bearing	Unsecured, no impairment
Total	**₱1,267,385**	**₱3,378,851**		

	2012			
	Amount/ Volume	**Outstanding Balance**	**Terms**	**Conditions**
Ultimate parent - PMC				
Advances: increase (decrease)				
PPC	(₱25,451)	₱620,977	On demand; non-interest bearing	Unsecured, no impairment
FEC	(13,224)	–	On demand; at interest rate of prevailing LIBOR on the interest date plus 3.0% spread	Unsecured, no impairment
BEMC	214,784	399,974	On demand; non-interest bearing	Unsecured, no impairment
Loans from: increase (decrease)				
FPHL	352,710	615,750	Payable in 3 years at interest rate of prevailing US LIBOR on the interest date plus 4.5% spread	Unsecured, no impairment
Subsidiaries				
PGPI	4	187	On demand; non-interest bearing	Unsecured, no impairment
Total	₱528,823	₱1,636,888		

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

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

On November 21, 2013, PMC assigned its rights and obligations under the facility agreement to the Parent Company. On the same date, the loan facility was increased to US$18,000 and has been extended for an additional three (3) years. Total draw down on the loan as at December 31, 2013 and 2012 amounted to US$15,200 and US$15,000, respectively. The loans receivable from FPHL and loan payable to PMC recorded in the Parent Company amounted to ₱674,804 and ₱655,200, respectively.

Interest expense amounted to ₱27,317, ₱22,823 and ₱8,505 for the years ended December 31, 2013, 2012 and 2011, respectively. In the same years, commitment fees amounted to ₱1,721, ₱1,206 and ₱2,793, respectively. The interest expense and commitment fees are recorded under 'Interest expense' in the consolidated statement of comprehensive income.

b. PMC made cash advances to be used as additional working capital of the Parent Company and acquisition of investments. These advances are non-interest-bearing, unguaranteed and payable on demand. In 2013, PMC and the Parent Company have agreed that the settlement of the outstanding US dollar-denominated advances amounting to US$45,375 or ₱1,858,594 will be settled in Peso. As at December 31, 2013, advances from PMC consisted of Peso-denominated advances amounting to ₱1,923,757. As at December 31, 2012, advances from PMC consisted of United States dollar-denominated advances and Peso-denominated advances amounting to US$14,374 or ₱590,074 and ₱30,903, respectively.

c. BEMC has significant transactions with related parties involving advances to provide funding on BEMC's exploration and development activities. As at December 31, 2013, the non-interest-bearing advances from PMC and PGPI amounted to ₱799,690 and ₱204, respectively. The advances are payable on demand. As at December 31, 2012, the advances from PMC and PGPI amounted to ₱399,974 and ₱187, respectively.

d. FEC availed of unsecured, interest-bearing advances from PMC for additional working capital. The advances bear an interest at LIBOR + 3% per annum. This was fully settled in 2012. The advances as at December 31, 2013 and 2012 amounted to nil. As at December 31, 2013, 2012 and 2011, interest expense related to these advances amounted to nil, ₱450 and ₱447, respectively. Accrued interest expense on the advances from PMC amounted to nil in both years.

e. The compensation of key management personnel pertaining to short-term employees and retirement benefits amounted to ₱3,625, ₱5,739 and ₱5,203 for the years ended December 31, 2013, 2012 and 2011, respectively.

21. Retirement Benefits Liability

Under the existing regulatory framework, Republic Act (R.A.) 7641 requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan. Pitkin has unfunded, noncontributory defined benefit retirement plan covering its regular and full-time employees.

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

	2013
Discount rates	**3.25%**
Future salary increases	**5.00%**

Present value of defined benefit obligation:

Net benefit cost in statement of comprehensive income	
January 1, 2013	₱11,373
Current service cost	2,023
Interest cost	540
Subtotal	13,936
Re-measurements in OCI	
Experience adjustments	494
Actuarial changes from changes in financial assumptions	1,193
Subtotal	1,687
December 31, 2013	15,623

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

	December 31, 2013	
	Increase (decrease)	Present Value of Obligation
Discount rates	1.00%	(₱14,815)
	(1.00%)	16,527
Future salary increases	1.00%	(16,502)
	(1.00%)	14,821
Turnover rate	1.25%	(14,739)
	(0.75%)	16,598

Shown below is the maturity analysis of the undiscounted benefit payments:

	December 31, 2013
Less than 1 year	₱–
More than 1 year to 5 years	18,586
More than 5 years to 10 years	10,135

The retirement benefits liability amounting to ₱15,623 and nil as at December 31, 2013 and 2012, respectively, are recorded under 'Other noncurrent liabilities' in the consolidated statements of financial position.

22. Financial Instruments

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

	December 31, 2013		December 31, 2012	
	Fair Values	**Carrying Values**	Fair Values	Carrying Values
Financial Assets				
Cash on hand	**₱189**	**₱189**	₱163	₱163
Loans and receivables:				
Cash and cash equivalents:				
Cash in banks	**380,857**	**380,857**	280,958	280,958
Short-term investments	**2,240,428**	**2,240,428**	2,896	2,896
Accounts receivable:				
Trade	**94,985**	**94,985**	94,049	94,049
Accrued interest	**7,732**	**7,732**	–	–
Others	**10,230**	**10,230**	8,115	8,115
Refundable deposits under 'other current assets'	**1,733**	**1,733**	–	–
Refundable deposits under 'other noncurrent assets'	**32,224**	**32,224**	–	–
	2,768,189	**2,768,189**	386,018	386,018
AFS financial assets:				
Quoted equity instrument	–	–	168,230	168,230
Unquoted equity instrument	–	–	1,231,440	1,231,440
	–	–	1,399,670	1,399,670
	₱2,768,378	**₱2,768,378**	₱1,785,851	₱1,785,851

	December 31, 2013		December 31, 2012	
	Fair Values	**Carrying Values**	Fair Values	Carrying Values
Financial Liabilities				
Other financial liabilities:				
Short-term bank loans	**₱–**	**₱–**	₱350,000	₱350,000
Accounts payable and accrued liabilities:				
Trade	**1,597**	**1,597**	38,990	38,990
Accrued expenses	**43,252**	**43,252**	12,799	12,799
Accrued interest	**34,484**	**34,484**	24,484	24,484
Other nontrade liabilities	**14,279**	**14,279**	9,322	9,322
Advances from related parties	**3,378,851**	**3,378,851**	1,636,888	1,636,888
Current portion of long-term loan	**55,019**	**55,019**	–	–
Noncurrent portion of long-term loan	**55,014**	**55,014**	–	–
Other noncurrent liabilities	**171,631**	**171,631**	212,861	212,861
	₱3,754,127	**₱3,754,127**	₱2,285,344	₱2,285,344

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

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

The carrying value of the long-term loan approximates its fair value as at the reporting period due to at-market interest rates that the loans bear.

The fair value of the quoted AFS financial asset as at December 31, 2012 is measured under Level 1, which is based on a quoted price in an active market. The fair value of the unquoted AFS financial asset as at December 31, 2012 is measured under Level 2, which is based on the latest available transaction price.

There were no transfers between Level 1 and 2 fair value measurements and no transfers into and out of Level 3 fair value measurement as at the years ended December 31, 2013 and 2012.

23. Financial Risk Management Objectives and Policies

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

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

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

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

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

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

	2013	2012
Cash in banks and cash equivalents	**₱2,621,285**	₱283,854
Accounts receivable	**112,947**	102,581
	₱2,734,232	₱386,435

The following tables show the credit quality of the Group's financial assets by class as at December 31, 2013 and 2012 based on the Group's credit evaluation process.

As at December 31, 2013:

	Neither Past Due nor Impaired		Past Due and Individually	
	High-Grade	**Standard**	**Impaired**	**Total**
Cash and cash equivalents, excluding cash on hand:				
Cash in banks	**₱380,857`**	**₱–**	**₱–**	**₱380,857**
Short-term investments	**2,240,428**	**–**	**–**	**2,240,428**
Accounts receivable:				
Trade	**94,119**	**–**	**866**	**94,985**
Accrued interest	**7,732**	**–**	**–**	**7,732**
Others	**10,230**	**–**	**–**	**10,230**
Refundable deposits under 'other current assets'	**1,733**	**–**	**–**	**1,733**
Refundable deposits under 'other noncurrent assets'	**32,224**			**32,224**
AFS financial assets:				
Quoted equity investment	**–**	**–**	**–**	**–**
Unquoted equity investment	**–**	**–**	**–**	**–**
Total	**₱2,767,323**	**₱–**	**₱866**	**₱2,768,189**

As at December 31, 2012:

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

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

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

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

The following tables summarize the maturity profile of the Group's financial assets that can be used by the Group to manage its liquidity risk and the maturity profile of the Group's financial liabilities, based on contractual undiscounted repayment obligations (including interest) as at December 31, 2013 and 2012, respectively:

As at December 31, 2013:

	On Demand	Less than 3 Months	3 to 12 Months	Over 12 Months	Total
Cash on hand	**₱189**	**₱–**	**₱–**	**₱–**	**₱189**
Loans and receivables:					
Cash in banks	**380,857**	**–**	**–**	**–**	**380,857**
Short-term investments	**2,240,428**	**–**	**–**	**–**	**2,240,428**
Accounts receivable	**11,405**	**101,542**	**–**	**–**	**112,947**
Refundable deposits under 'other current assets'	**–**	**–**	**1,733**	**–**	**1,733**
Refundable deposits under 'other noncurrent assets'	**–**	**–**	**–**	**32,224**	**32,224**
AFS financial assets:					
Quoted equity investment	**–**	**–**	**–**	**–**	**–**
Unquoted equity investment	**–**	**–**	**–**	**–**	**–**
Total undiscounted financial assets	**₱2,632,879**	**₱101,542**	**₱1,733**	**₱32,224**	**₱2,768,378**
Short-term bank loans	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**
Accounts payable and accrued liabilities:					
Trade	**–**	**1,597**	**–**	**–**	**1,597**
Accrued expenses	**–**	**43,252**	**–**	**–**	**43,252**
Accrued interest	**–**	**–**	**–**	**–**	**–**
Other nontrade liabilities	**1,150**	**13,129**	**–**	**–**	**14,279**
Advances from related parties	**3,378,851**	**–**	**–**	**–**	**3,378,851**
Current portion of long-term loan	**–**	**–**	**55,019**	**–**	**55,019**
Noncurrent portion of long-term loan	**–**	**–**	**–**	**55,014**	**55,014**
Other noncurrent liabilities	**–**	**–**	**–**	**171,631**	**171,631**
Total undiscounted financial liabilities	**₱3,380,001**	**₱57,978**	**₱55,019**	**₱226,645**	**₱3,719,643**

As at December 31, 2012:

	On Demand	Less than 3 Months	3 to 12 Months	Over 12 Months	Total
Cash on hand	₱163	₱–	₱–	₱–	₱163
Loans and receivables:					
Cash in banks	280,958	–	–	–	280,958
Short-term investments	–	2,896	–	–	2,896
Accounts receivable	–	102,164	–	–	102,164
Refundable deposis under 'other current assets'	–	–	–	–	–
Refundable deposis under 'other noncurrent assets'	–	–	–	–	–
AFS financial assets:					
Quoted equity investment	–	–	–	168,230	168,230
Unquoted equity investment	–	–	–	1,231,440	1,231,440
Total undiscounted financial assets	₱281,121	₱105,060	₱–	₱1,399,670	₱1,785,851

(Forward)

	On Demand	Less than 3 Months	3 to 12 Months	Over 12 Months	Total
Short-term bank loans	₱–	₱350,000	₱–	₱–	₱350,000
Accounts payable and accrued liabilities:			–		
Trade	–	38,990	–	–	38,990
Accrued expenses	–	12,799	–	–	12,799
	On Demand	Less than 3 Months	3 to 12 Months	Over 12 Months	Total
Accrued interest	–	24,484	–	–	24,484
Other nontrade liabilities	169	9,153	–	–	9,322
Advances from related parties	1,636,888	–	–	–	1,636,888
Current portion of long-term loan	–	–	–	–	–
Noncurrent portion of long-term loan	–	–	–	–	–
Other noncurrent liabilities	–	–	–	212,861	212,861
Total undiscounted financial liabilities	₱1,637,057	₱435,426	₱–	₱212,861	₱2,285,344

Market Risk

Foreign currency risk

Foreign currency risk is the risk where the value of the Group's financial instruments diminishes due to unfavorable changes in foreign exchange rates. The Parent Company's transactional currency exposures arise from both cash in banks and advances from PMC. The corresponding net foreign exchange gains (losses) amounting to ₱299, ₱23,778 and (₱4,526) arising from the translation of these foreign currency-denominated financial instruments were recognized by the Parent Company in the years ended December 31, 2013, 2012 and 2011, respectively. The exchange rates of the Peso to US dollar were ₱44.40, ₱41.05 and ₱43.84 to US$1 in the years ended December 31, 2013, 2012 and 2011, respectively.

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

	2013		2012	
	US$	**Peso Equivalent**	US$	Peso Equivalent
Assets				
Cash and cash equivalents	**$58,486**	**₱2,596,684**	$6,712	₱275,528
Liabilities				
Advances from related parties	–	–	(14,375)	(590,094)
Long-term loan	**(2,477)**	**(110,033)**	(15,000)	(615,750)
Net monetary assets (liabilities)	**$56,009**	**₱2,486,651**	($22,663)	(₱930,316)

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

US Dollar (Depreciates) Appreciates	Effect on Income (Loss) Before Income Tax
2013	
Appreciate by 9%	**(₱223,798)**
Depreciate by (9%)	**223,798**
2012	
Appreciate by 6%	(₱55,819)
Depreciate by (6%)	55,819

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

Equity price risk
Equity price risk is such risk that the fair value of investments in quoted shares of stock of PERC could decrease as a result of change in the level of equity index and in the value of the shares of stock. Management has opted not to disclose the equity price risk as AFS financial assets were disposed as at December 31, 2013.

Interest rate risk
Interest rate risk arises from the possibility that changes in interest rates would unfavorably affect future cash flows from financial instruments. The Group's exposure to the risk in changes in the market interest rates relates to loans payable in 2013.

The Group relies on budgeting and forecasting techniques to address cash flows concerns. The Group also keeps its interest rate risk at a minimum by not borrowing when cash is available or by prepaying, to the extent possible, interest-bearing debt using operating cash flows.

The following table illustrates the sensitivity to reasonably possible change in interest rate, with all other variables held constant, of the Group's 2013 income before income tax. The change in market interest rates is based on the annualized volatility of the 6-month benchmark rate:

Change in Market Rate of Interest	Effect on income before income tax
15%	(₱7,586)
15%	7,586

24. Capital Management

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

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

	2013	2012
Capital stock	**₱1,700,000**	₱1,700,000
Deficit	**(919,383)**	(819,162)
	₱780,617	₱880,838

25. **Basic/Diluted Earnings (Loss) Per Share**

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

	2013	2012	2011
Net income (loss) attributable to equity holders of the Parent Company	**(₱98,534)**	(₱876,168)	₱476,001
Divided by weighted average number of common shares issued during the year	**1,700,000**	1,700,000	1,700,000
Basic/diluted earnings (loss) per share	**(₱0.058)**	(₱0.515)	₱0.280

As at December 31, 2013, 2012, and 2011, the Parent Company does not have any potentially dilutive stocks.

26. **Segment Information**

The Group currently has two reportable segments namely oil and gas activities and coal mining activities. The change in the Group's segment reporting was effected retroactively.

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

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

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

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

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

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

Crude oil liftings from the Galoc field were sold to customers from nearby Asian countries, while all crude oil liftings from the Nido, Matinloc, North Matinloc and Libertad gas fields were sold to customers in the Philippines.

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

	2013	2012	2011
SC 14 Block C (Galoc)	**₱142,877**	₱154,803	₱509,787
SC 14 Block B (Matinloc)	**18,038**	16,150	17,474
SC 14 Block A (Nido)	**17,028**	11,771	14,780
SC 14 Block B-1 (North Matinloc)	**4,962**	4,572	9,527
SC 40 Libertad	**4,873**	3,707	–
White Castle	**3,465**	–	–
	₱191,243	₱191,003	₱551,568

Meanwhile for the Group's coal activities, all of BEMC's revenues from remaining coal inventories were sold to customers in the Philippines.
In January 2014, BEMC entered into an agreement, subject to the approval of the DOE, to assign all rights, title and obligations of its COC 130 to Grace Coal Mining and Development, Inc.

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

As at December 31, 2013:

	Oil and Gas	**Coal**	**Eliminations**	**Total**
Consolidated Revenue				
External customers	**₱191,243**	**₱17,530**	**₱–**	**₱208,773**
Results				
EBITDA	**₱1,761,761**	**(₱136,054)**	**(₱1,698,379)**	**(72,672)**
Depreciation and depletion	**(4,478)**	–	–	**(4,478)**
Income tax benefit (expense)	**14,901**	**(64)**	–	**14,837**
Interest expense - net	**(36,876)**	**(2,097)**	**52**	**(38,921)**
Consolidated net income (loss)	**₱1,735,308**	**(₱138,215)**	**(₱1,698,327)**	**(101,234)**
Core net income (loss)	**(₱95,136)**	**(₱52,186)**	**₱–**	**(₱147,322)**
Consolidated total assets	**₱9,348,542**	**₱43,383**	**₱694**	**₱9,392,619**
Consolidated total liabilities	**₱3,782,538**	**₱797,819**	**₱305,186**	**₱4,885,543**
Other Segment Information				
Capital expenditures	**₱4,185,121**	**₱3,309**	**₱–**	**₱4,188,430**
Non-cash expenses other than depletion and depreciation	**16,139**	**135,947**	**–**	**152,086**

As at December 31, 2012:

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

As at December 31, 2011:

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

The table below shows the Group's reconciliation of core net income (loss) to the consolidated net loss for the years ended December 31, 2013, 2012 and 2011.

	2013	2012	2011
Core net income (loss)	**(₱147,322)**	(₱128,485)	₱162,112
Non-recurring gains (losses)			
Foreign exchange gains (losses) - net	**5,328**	32,030	(4,526)
Gain (loss) on dilution of interest in an associate (Note 10)	–	–	443,672

(Forward)

	2013	2012	2011
Gain on disposal of AFS financial assets (Note 10)	**₱26,867**	₱–	₱–
Gain (loss) on disposal of subsidiaries (Note 9)	**124,013**	–	–
Gain on reversal of impairment loss on property and equipment (Note 9)	**34,739**	–	–
Loss on sale of assets	**(11,782)**	–	–
Provision for impairment of assets (Notes 6, 7, 9 and 11)	**(128,779)**	(767,748)	–
Net tax effect of aforementioned adjustments	**(1,598)**	(11,965)	(125,257)
Net income (loss) attributable to:			
Equity holders of the Parent Company	**(98,534)**	(876,168)	476,001
Non-controlling interests	**(2,700)**	(210,190)	61,533
	(₱101,234)	(₱1,086,358)	₱537,534

27. **Provisions and Contingencies**

The Group is currently involved in certain contractual matters that require the recognition of provisions for related probable claims against the Group. Management and its legal counsel on an annual basis reassess its estimates to consider new relevant information.

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

In June 2012, a compromise agreement was entered into between FEP and BEC which finalized the terms of payment and total consideration for the purchase amounting to US$12,000. As at December 31, 2013 and 2012, FEP made payments to BEC amounting to ₱41,050 and ₱451,550, respectively, which fully extinguished the liability.

Share Purchase Agreement (SPA) between FEP and Forum Pacific, Inc.
Under the SPA for FEI dated March 11, 2003, amount of up to ₱171,631 is due to the vendor out of the Group's share of future net revenues generated from license SC 40. The timing and extent of such payments is dependent upon future field production performance and cannot be accurately determined at this stage.

The disclosure of additional details beyond the present disclosures may seriously prejudice the Group's position and negotiation strategies with respect to these matters. Thus, as allowed by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, only a general description is provided. The provision for losses for the abovementioned transactions amounting to ₱171,631 and ₱212,681 as at December 31, 2013 and 2012, respectively, are recorded under 'Other noncurrent liabilities' in the consolidated statements of financial position.

28. **Notes to Consolidated Statements of Cash Flows**

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

Non-cash Investing Activities

a. In 2013 and 2012, total depletion and depreciation expense included in cost of coal inventories amounted to ₱42,246 and ₱27,711, respectively.

b. Deferred oil and gas exploration costs for the Galoc Phase II development amounting to ₱216,402 were capitalized as oil and gas mine properties in the last quarter of 2013.

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