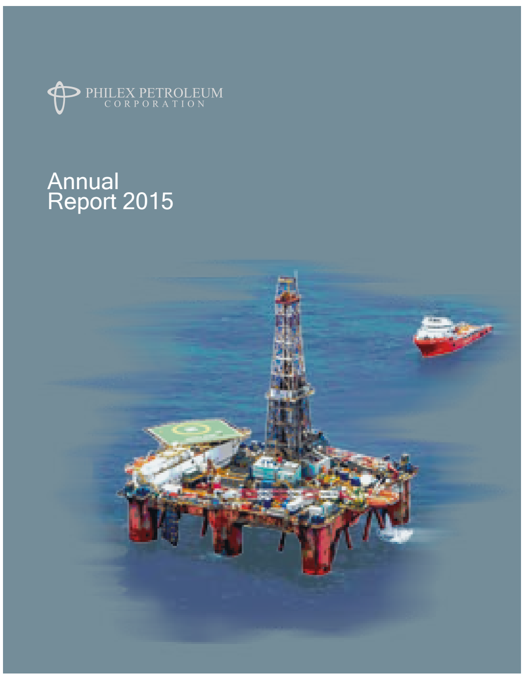
PHILEX PETROLEUM
CORPORATION

Annual Report 2015

ABOUT THE COVER



Philex Petroleum Corporation is a Philippine company involved in the complex and capital intensive business of exploring for oil and gas resources deep beneath the earth's surface.

The cover photo, the semi-submersible rig utilized during Galoc Oil Field's Phase 2 Development, symbolizes the company's unwavering commitment to explore, produce and develop existing petroleum assets -- whether frontier areas or well-established producing oil fields, amidst wild waves and strong currents driven by the petroleum energy downturn.

TABLE OF CONTENTS

CORPORATE PROFILE

Philex Petroleum Corporation ("PXP" or "the Company"), is a Philippine corporation organized in December 2007 and has been listed in the Philippine Stock Exchange since 2011.

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

The Company's direct interests in Philippine petroleum service contracts include: (1) a 50% operating interest in Service Contract ("SC") 75; (2) a 70% operating interest in SC 74; (3) a 1.65% interest in SC 6 Cadlao and, (4) a 5.56% interest SC 6A Octon; all located in the Northwest Palawan.

The Company holds a 53.43% controlling interest in Pitkin, an international upstream oil and gas company registered in the United Kingdom with operations in Peru. Pitkin's asset is a 25% participating interest in Peru Block Z-38 located in offshore Tumbes Basin.

The Company also holds a 67.19% controlling interest in Forum, with 48.77% held directly and 18.42% held indirectly through a 51.24%-owned subsidiary, FEC Resources, Inc., 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. Forum, a UK incorporated company with focus on the Philippines, has: (a) a 70% operating interest in SC 72 Recto 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) minority interests in the SC 6 and SC 14 sub-blocks in offshore Northwest Palawan, including a 2.27% interest in the producing Galoc field, held through Forum Energy Philippines Corporation.

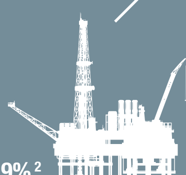
CORPORATE ORGANIZATION

PHILEX MINING CORPORATION

64.73%

SC 75 NW Palawan	- 50.00%
SC 74 Linapacan	- 70.00%
SC 6 Cadlao ORRI[1]	- 1.65%
SC 6A Octon	- 5.56%

PHILEX PETROLEUM CORPORATION



67.19%[2]

53.43%

Forum Energy Limited

SC 72 Recto Bank	- 70.00%
SC 40 N. Cebu	- 100.00%[3]
SC 6A Octon	- 5.56%
SC 6B Bonita	- 7.03%
SC 14A Nido	- 8.46%
SC 14B Matinloc	- 12.40%
SC 14B1 N. Matinloc	- 19.46%
SC 14C1 Galoc	- 2.27%
SC 14C2 W. Linapacan	- 9.10%
SC 14D Retention Area	- 8.16%
SC 14 Tara	-10.00%

Pitkin Petroleum Limited

Peru Block Z-38	-25.00%
SC 53 Mindoro	-70.00%

[1] Overriding Royalty Interest

[2] Economic interest of 58.21%

[3] Economic interest of 66.67%

PHILIPPINE PETROLEUM SERVICE CONTRACTS

PERU
EXPLORATION BLOCK

MESSAGE FROM THE CHAIRMAN

To My Fellow Shareholders

For 2015, Philex Petroleum Corporation ("PXP" or the "Company") remained firmly committed to advancing its exploration and production efforts in its existing assets amidst the prevailing challenges faced by the global petroleum energy sector – in particular, the downward spiral of oil prices over the last two (2) years.

In the Philippines, we completed the 2015 exploration work commitments in Service Contract ("SC") 72 Recto Bank Block and SC 75 NW Palawan Block, both located in the disputed portions of the West Philippine Sea, despite being placed under Force Majeure by the Department of Energy (DOE). The direction moving forward will be largely influenced by the resolution of the maritime dispute between the Philippines and China. We remain confident that an equitable decision on the Arbitral Tribunal Case being heard will eventually bring about positive developments in the area, and enable the Company to progress in establishing the commerciality of the potential hydrocarbon resources in these two (2) prospective blocks.

The year 2015 also saw the consolidation of all our petroleum assets and operations to further streamline the organization. Our subsidiary Forum Energy Philippines Corporation (FEPC) will continue its involvement in all the petroleum service contracts where it serves as a participant. These include the different production sub-blocks in SC 14, such as Galoc, Nido and Matinloc, as well as the two (2) retained blocks in SC 6. Another subsidiary, Forum Exploration, Inc., will also maintain the operatorship of the SC 40 Block in northern Cebu.

Outside the country, we have decided not to pursue further exploration in our onshore Peru Block XXVIII, which is still in the early stages of exploration, to enable us to focus our resources in the Philippines. With respect to our other block in Peru, Z-38, well preparation activities are already underway for possible drilling of the committed two (2) exploration wells in 2017. Both these assets, along with other SCs in the Philippines, are held by our subsidiary Pitkin Petroleum Limited ("Pitkin").

A welcome development for 2016 is the ongoing transfer of Pitkin's interest in SC 74 Linapacan Block to PXP. Amid the uncertainty in global commodities market, the Company and its joint venture partners are committed to pursue exploration activities in the area, starting with the acquisition of new 2D seismic data within the first half of 2016.

OPERATIONAL HIGHLIGHTS

Service Contract 72 Recto Bank (SC 72)

The SC 72 is located in the Recto Bank Basin which is approximately 80 nautical miles offshore to the west of Palawan Island. Forum, the operator of SC 72, has a 70% participating interest over the block while the remaining 30% participating interest is held by Monte Oro Resources & Energy Inc.

The block is currently under Sub-Phase 2 exploration work program, comprising the drilling of two (2) appraisal wells in the Sampaguita gas field, which has a potential to hold in-place contingent resources of 2.6 trillion cubic feet (TCF) of gas, and in-place prospective resources of 5.4 TCF as reported by Weatherford Petroleum Consultants (Weatherford), an independent qualified competent person, in 2012.

Due to the maritime dispute over the West Philippine Sea, the block has been placed by the DOE under Force Majeure since December 15, 2014. Although all exploration activities are currently suspended over the block, Forum completed in 2015 the interpretation of reprocessed 2D seismic data and the interpretation of gravity and magnetic data acquired by Forum in 2011. The seismic data interpretation confirmed and refined the North Bank Prospect, which was first mapped in 2012 by Weatherford. New 3D seismic data will be required in order to mature the prospect into drillable status.

On October 29, 2015, the United Nations Arbitral Tribunal unanimously decided that it has jurisdiction over the maritime dispute between China and the Philippines over the West Philippine Sea, and it was the proper body to decide on the case filed by the Philippines in January 2013. It also ruled that China's decision not to participate in these proceedings does not deprive the Tribunal of jurisdiction and that the Philippines' decision to commence arbitration unilaterally was not an abuse of the UNCLOS dispute settlement procedures. Further hearings were held during the fourth Quarter of 2015 and a definitive ruling is expected to be issued by the Tribunal in 2016.

Peru Block Z-38

Peru Block Z-38 is located in the offshore part of the Tumbes Basin approximately 10 kilometers from the coast of northwest Peru, South America. Water depth across the block ranges from 100 m to over 2,000 m. Pitkin holds a 25% working interest in Block Z-38, which is operated by Karoon Gas Australia Ltd (Karoon).

The block has been placed by Perupetro S.A. under Force Majeure since September 1, 2013 due to rig unavailability. The license is currently in the third exploration period, with a work program comprising the drilling of two exploration wells. As a result, the term of the third exploration period will have approximately 22 months once the force majeure is lifted.

The 2016 Work Program and Budget amounting to US$8 million was approved by the Consortium in November 2015. It includes a budget for well preparation activities for possible drilling in 2017. Currently with no wells drilled within the acreage, the main candidates for drilling are the Marina and Bonito prospects, which have a gross unrisked prospective resource estimate of 875 million barrels and prognosed total depths of 4,200 m and 3,200 m, respectively. A rig market survey undertaken by Karoon in December 2015 indicates the availability of drilling rigs in 2017.

Service Contract 14 Block C1 Galoc (SC 14 C1)

The Galoc Oil Field is within the (SC 14C1) offshore license which is located in the Northwest Palawan Basin, approximately 38 nautical miles west of the municipality of Culion, Palawan. Forum has a 2.27% participating interest in SC 14C1.

The Galoc Oil Field produced a total of 2.3 million barrels of oil from January to December 2015, which is 22.6% lower than 2014's total production of 2.9 million barrels. Due to the decline in Galoc oil production and the recent drop in global oil prices, Forum's share of net revenues from Galoc crude sales decreased from US$4.6 million in 2014 to US$2.1 million in 2015. A total of five (5) liftings comprising 350,000 barrels per cargo is forecasted for 2016.

A third phase of Galoc Field development is under evaluation. In December 2015, Galoc Production Company (GPC), SC 14C1 operator, submitted to the DOE a proposed Operations budget for year 2016 and a proposed exploration program that includes preparations for the drilling of an appraisal well

MESSAGE FROM THE CHAIRMAN

over the Mid Galoc Prospect as part of a potential Galoc Phase III development. With the recent slump in the oil prices, the Consortium has decided to delay the decision to drill the Mid Galoc well, to be named Galoc-7, pending a re-assessment of the oil situation by 2Q 2016.

Service Contract 75 NW Palawan (SC 75)

The SC 75 is located offshore in the relatively underexplored area of the Northwest Palawan Basin, approximately 38 nautical miles of Palawan Island. PXP has a 50% participating interest and is the designated operator of SC 75.

The Sub-Phase 1 exploration work program which comprised the acquisition and interpretation of 2D seismic, marine gravity and magnetic data were completed in mid-2015. The geological and geophysical studies provided enticing results with the identification of prospective significant culminations that have been recommended for further evaluation using 3D seismic data.

On September 9, 2015, the block was placed under Force Majeure by the DOE effective from the end of Sub-Phase 1 on December 27, 2015 as it similarly lies within the disputed portion of the West Philippine Sea. In view of this, all exploration activities in the block have been suspended until such time that the DOE informs the Consortium of the lifting of the Force Majeure.

Service Contract 74 Linapacan (SC 74)

The SC 74 Linapacan offshore block is located in the shallow waters of the Northwest Palawan Basin, approximately 8 kilometers away from the municipality of Busuanga, Palawan. The acreage is bounded by several oil and gas fields and discoveries.

The contract area was offered as Area 5 during the fourth DOE Philippine Energy Contracting Round and was awarded to the consortium led by Pitkin on August 13, 2013. On February 24, 2016, Pitkin and PXP signed a Deed of Assignment transferring Pitkin's 70% participating interest in SC 74 to PXP.

Pitkin completed the Sub-Phase 1 exploration work commitments which include petrophysical interpretation & modeling study of Linapacan A-1A & Linapacan B-1, satellite gravity interpretation study, and 3D seismic reprocessing and interpretation. The Consortium then elected to enter the second Sub-Phase of SC 74 that will start in February 2016.

Encouraging results from the satellite gravity study identified eight significant structural closures which could be further resolved, evaluated and possibly mature into drillable prospect status by conducting a seismic survey over the block. Thus, for the Sub-Phase 2, the current plan of the Consortium is to acquire at least 1,500 line-km of 2D data in 2016. Discussions are underway with CGG on the Consortium's possible participation in the Multi-Client 2D Survey that CGG is promoting with the DOE.

FINANCIAL RESULTS

The Company incurred a net loss attributable to equity holders of the Parent Company of ₱87.5 million for the year ended December 31, 2015, compared with a corresponding loss of ₱225.6 million in 2014. Reported consolidated net loss amounted to ₱144.0 million, compared with a net loss of ₱448.7 million during the previous year. The net loss primarily resulted from lower petroleum revenues contributed by its subsidiary, FEPC, following a steep decline in crude oil prices and a lower production from SC 14C1 Galoc. Net loss decreased from ₱448.7 million in 2014 to ₱144.0 million in 2015. 2014's net loss included an impairment charge of ₱338 million booked by the Company's subsidiary, Pitkin, following the latter's decision to exit SC 6A Octon.

OUTLOOK

Looking ahead to 2016, the Company remains focused on its commitment to enhance the value of its current exploration blocks in search of new oil deposits in the Philippines, amid the uncontrollable factors that largely affect the industry. At the outset, the Company and its industry partners will take advantage of the temporary respite in the level of exploration activities globally to plan, pursue and implement projects that utilize lower cost technologies and services to get us through our contract work commitments with the Government.

With renewed optimism that crude prices will gradually improve to more economically-viable levels, we set our sights on the possible Phase III development in the Galoc Field, which continues to be our major petroleum revenue source. The positive outcome from this initiative will boost existing reserves that may be tapped by installing 1 or 2 additional Galoc production wells.

We also remain confident that the Arbitral Tribunal Case between the Philippines and China over West Philippine Sea will result into a speedy and impartial ruling that will create a positive business environment. This, in turn, will encourage activities in the area and enable the Company to proceed with the next stages towards the development of the potential hydrocarbon resources of SC 72 and SC 75 into commercial operations.

Whilst the conduct of geological and geophysical exploration operations, such as 2D seismic data acquisition, is relatively low-cost at the moment, PXP maximizes this opportunity to explore SC 74, a frontier area, in search of new drillable prospects for possible development.

In closing, we wish to convey once more our deep gratitude to our stakeholders for their continuing support and confidence, to our staff for their hard work, and to our directors for their counsel and guidance.

Yours sincerely,

Manuel V. Pangilinan
Chairman

FINANCIAL AND OPERATING PERFORMANCE

FINANCIAL PERFORMANCE

Consolidated operating revenues amounted to ₱172.3 million in 2015 (2013: ₱307.9 million; 2013: ₱208.8 million) consisting solely of revenues from petroleum (2014: petroleum ₱304.7 million and coal ₱3.2 million; 2013: petroleum ₱191.3 million and coal ₱17.5 million).

The lower petroleum revenue was mainly due to (1) the steep decline in average crude oil prices of $58.7 per barrel (2014: $105.8 per barrel; 2013: $110.7 per barrel) during the year in review and; (2) the normal decline in the oil production of Service Contract 14 C-1 Galoc, yielding a gross volume of 2.4 million barrels of oil (2014: 2.8 million barrels; 2013: 1.7 million barrels) equivalent to 7 liftings (2014: 9 liftings; 2013: 4 liftings). The higher petroleum revenue in 2014 vs 2013 was mainly due to the resumption and increase in oil production, following the commissioning of the Galoc Phase II development well starting December 2013. The revenues were contributed by Forum Energy Limited ("Forum"), a 67.19% directly and indirectly owned subsidiary, from its participating interests in the oil fields of Galoc, Nido, Matinloc and North Matinloc, and from its gas field in Libertad.

Production data from oil and gas and shipment of coal during 2013-2015 were as follows:

	2015	2014	2013
Revenues (In millions ₱)			
Oil and gas	₱172.3	₱304.7	₱191.3
Coal	–	3.2	17.5
	₱172.3	**₱307.9**	**₱208.8**
Sales Volume			
Oil (barrels)*	69,646	81,158	43,358
Gas (mmBTU)	15,549	41,503	76,560
Coal (metric tons)	–	3,655	39,102

**sale of petroleum, net to Forum*

Costs and expenses totaled ₱326.8 million (2014: ₱436.1 million; 2013: ₱444.2 million). Petroleum production costs was lower at ₱98.0 million (2014: ₱156.2 million; 2013: ₱105.7 million), resulting from lesser oil output. General and administrative expenses decreased to ₱228.8 million (2014: ₱279.3 million; 2013: ₱337.3 million), resulting from management's continuing cost reduction plan and rationalization of business portfolio. Such include the delisting of Forum Energy Limited, the rightsizing of manpower complement, the reduction in the number of directors and the sharing of resources between subsidiaries.

A net other income of ₱10.5 million was recorded during the year in review (net other charges 2014: ₱311.5 million; 2013: ₱119.4 million) mainly as a result of lower impairment loss and assets write-off - net of reversal at ₱39.8 million (2014: ₱322.2 million; 2013: ₱102.5 million). In 2014, an impairment charge amounting to ₱338.5 million was recognized in September 2014, following the exit of Pitkin Petroleum Limited ("Pitkin") in SC6a Octon, while in 2013, impairments in Brixton Energy & Mining Corporation ("Brixton") and Forum assets amounting to ₱102.5 million were recorded. Gain on reversal of accrual for retirement liability amounted to ₱28.4 million (2014: nil; 2013: nil) representing excess of accrual over actual retirement costs of certain employees. Foreign exchange gain-net was higher at ₱24.7 million (2014: ₱0.1 million; 2013: ₱11.0 million) due to a foreign exchange difference on the Group's dollar denominated cash and assets. Net interest income stood at ₱6.1 million (2014: net interest income of ₱6.8 million; 2013: net interest expense of ₱38.9 million) resulting from the assignment of Forum's US$15.0 million loan facility from Philex Mining Corporation ("PMC") to PXP beginning November 2013. During 2013, there was a gain on sale of subsidiaries amounting to ₱246.6 million which comprised of the sale of all Pitkin's interests in its wholly-owned subsidiaries, Vietnam American Exploration Company LLC ("VAMEX") and Lonsdale, Inc ("Lonsdale"), a Gain on sale of available for sale ("AFS") financial assets of ₱26.9 million, brought about by the Company's divestments of its interests in PetroEnergy Resources Corporation ("PERC"). This was offset by a loss of ₱24.2 million from the sale of long lead items in Forum and the net interest expense from Forum's loan to the Company.

	Years Ended December 31		
(in Thousands)	**2015**	**2014**	**2013**
Provision for impairment and write-off of assets - net of reversal	(₱39,847)	(₱322,227)	(₱102,530)
Reversal of accrual for retirement liability	28,356	–	–
Foreign exchange gains - net	24,675	110	11,011
Interest income (expense) - net	6,099	6,756	(38,921)
Gain (loss) on sale of assets	1,688	–	(24,164)
Gain on curtailment	–	1,682	–
Gain on sale of subsidiaries	–	–	246,597

	Years Ended December 31		
(in Thousands)	**2015**	**2014**	**2013**
Gain on sale of AFS financial assets	–	–	26,867
Others - net	(10,429)	2,155	534
Total	**₱10,542**	**(₱311,524)**	**₱119,394**

A lower consolidated net loss of ₱144.0 million (2014: ₱448.7 million; 2013: ₱101.2 million) was incurred in 2015. Lower revenues arising from depressed crude oil prices coupled with lower production from SC 14C1 Galoc was partly offset by a net other income of ₱10.5 million. A higher consolidated net loss was posted in 2014 compared to 2013 mainly as a result of the impairment loss related to Pitkin's exit in SC 6A Octon. As such, net loss attributable to equity holders of the Parent was lower at ₱87.5 million (2014: ₱225.6 million; 2013: ₱98.5 million), but core net loss was ₱129.9 million (2014: ₱66.8 million; 2013: ₱147.3 million), with both basic and diluted loss per share amounted to ₱0.051 (2014: ₱0.133 2013: ₱0.058).

FINANCIAL POSITION

As at December 31, 2015, the Company's total assets stood at ₱7.228 billion as against ₱8.497 billion as at December 31, 2014. Total current assets decreased to ₱670.3 million from ₱2.061 billion, primarily due to a reduction in cash and cash equivalents by ₱1.382 billion. This was primarily attributed to Pitkin's share buyback transaction worth $30 million out of which $10 million was paid to PMC as partial settlement of its advances.

Noncurrent assets slightly rose to ₱6.558 billion from ₱6.436 billion, largely arising from the increase in deferred exploration costs to ₱4.936 billion from ₱4.831 billion. Such increase was related to exploration activities in SC 53, SC 75 and SC 74, combined with foreign currency conversion of the Group's dollar denominated assets.

Current liabilities as at December 31, 2015 were lower at ₱2.947 billion from ₱3.487 billion as at December 31, 2014. This was primarily a result of the reduction in advances from related parties to ₱2.932 billion from ₱3.422 billion, as PXP partially paid its outstanding debt to PMC in addition to a decrease in accounts payable and accrued expenses from ₱64.1 million to ₱14.9 million, due to payments made by the Group to its trade creditors.

As at end of the year in review, total noncurrent liabilities decreased to ₱1.314 billion from ₱1.338 billion due to a decline in other liabilities following the payment of benefits to retired employees. Total liabilities were reduced by ₱563.5 million from ₱4.825 billion in 2014 to ₱4.261 billion in 2015 following the reduction in current liabilities by P539.6 million and the drop in non-current liabilities by ₱23.9 million.

As of December 31, 2015, total equity fell from ₱3.673 billion as at the end of last year to ₱2.967 billion. This was primarily due to: (1) the decrease in non-controlling interest following Pitkin's share buyback transaction and (2) the increase in deficit coming from the net loss incurred during the year. These two were partially offset by (1) the increase in cumulative translation adjustment on foreign subsidiaries related to changes in foreign currency translation and; (2) increase in equity reserves, corresponding to Pitkin's share buyback transaction and PXP's acquisition of Forum minority shareholders during a tender offer made in June 2015.

CASH FLOWS

Net Cash Used in Operating Activities in 2015 amounted to ₱115.2 million (2014: ₱84.3 million; 2013: ₱254.3 million) arising from relatively lower petroleum revenues and payment of retirement benefits, trade creditors and suppliers. In 2014, total net cash used was a result of cash costs and expenses exceeded revenues. Net Cash from Investing Activities resulted in a net outflow of ₱58.6 million (2014: ₱199.9 million; 2013: net inflow of ₱1.088 billion), due to exploration activities in SC 53, SC 75 and SC 74 while in 2014 the net outflow was associated mainly with the exploration activities related to Peru Block XXVIII, SC 53, SC 74, and SC 75. In 2013, the net inflow was attributable the sale of the PXP's investment in PERC and Pitkin's sale of its interest in Vietnam's block 07/03, offset by the cash paid by PXP for the acquisition of Pitkin and the exploration activities related to SC 6A Octon. Net Cash used in Financing Activities amounted to ₱1.205 billion (2014: ₱428.8 million; 2013: net inflow of ₱1.503 billion) arising from the $10 million partial payment of PMC's Advances. In 2014, cash was used primarily to pay the current portion of Forum's long term loan and the acquisition of Pitkin's own shares, offset by inflows from net cash advances made by PMC to PXP. In 2013, the net cash inflow was primarily attributable to the additional advances provided by PMC to acquire Pitkin and availment of long-term term obtained to fund Galoc's Phase 2 drilling activities. Effect of exchange rate changes in cash and cash equivalents representing fluctuations in foreign currency exchange rates amounted to an outflow of ₱3.2 million (2014: ₱0.1 million; 2013: inflow of ₱1.0 million).

BOARD OF DIRECTORS

MANUEL V. PANGILINAN **DANIEL STEPHEN P. CARLOS** **EULALIO B. AUSTIN, JR.**

BARBARA ANNE C. MIGALLOS **BENJAMIN S. AUSTRIA** **EMERLINDA R. ROMAN** **DIANA PARDO-AGUILAR**

ROBERT C. NICHOLSON

MARILYN A. VICTORIO-AQUINO

MANUEL V. PANGILINAN
Chairman
Non-Executive Director

69, Filipino citizen; first elected Director of the Company on December 8, 2009; Chairman of the Board since December 8, 2009; last re-elected on May 19, 2015.

Academic background

Mr. Pangilinan graduated cum laude from the Ateneo de Manila University with a Bachelor of Arts degree in Economics. He received his Master of Business Administration degree from Wharton School of the University of Pennsylvania in 1968.

Business and Professional Background/Experience

Mr. Pangilinan founded First Pacific Company Limited, a corporation listed on the Hong Kong Stock Exchange, in May 1981. He served as Managing Director of First Pacific since its founding in 1981 until 1999. He was appointed Executive Chairman until June 2003, after which he was named Managing Director and Chief Executive Officer.

In May 2006, the Office of the President of the Philippines awarded Mr. Pangilinan the Order of Lakandula, rank of Komandante, in recognition of his contributions to the country. He was named Management Man of the Year 2005 by the Management Association of the Philippines. Mr. Pangilinan was awarded Honorary Doctorates in Science by Far Eastern University in 2010; in Humanities by Holy Angel University in 2008; by Xavier University in 2007; and by San Beda College in 2002 in the Philippines. He was formerly Chairman of the Board of Trustees of the Ateneo de Manila University and was a member of the Board of Overseers of the Wharton School. He is a member of the ASEAN Business Advisory Council.

Directorship in other listed companies in the Philippines

Mr. Pangilinan has been a Director of Philex Petroleum Corporation (the Company or PXP) since December 2009. 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

BOARD OF DIRECTORS

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 of its Board of Directors.

Directorship in other listed companies in the Philippines:

Philex Mining Corporation
Philippine Long Distance Telephone Company
Metro Pacific Investments Corporation
Roxas Holdings, Inc.
Manila Electric Company

DANIEL STEPHEN P. CARLOS

President
Executive Director
52, Filipino citizen; first elected Director on August 16, 2015.

Academic Background
Mr. Carlos obtained his Bachelor of Science in Geology from the University of the Philippines (1984) and holds a Master in Petroleum Geoscience from the Norwegian University of Science and Technology or NTNU (2002). He also has a Diploma in Petroleum Exploration and Reservoir Evaluation from the University of Trondheim, now NTNU in Norway (1988). He placed 3rd in the 1985 Geologist Licensure Examination.

Business and Professional Background/Experience
He was previously connected with the Department of Energy (1985–1991), Basic Energy Corporation, PNOC Exploration Corporation, Forum Pacific, Inc., and CGG. In February 2007, he joined Forum Energy Philippines Corporation as Vice President for Exploration and was appointed President in July 2013. He is also the Resident Agent in the Philippines of Forum (GSEC 101) Ltd, which operates Service Contract 72 Recto Bank. In August 2015, he was appointed as President of Philex Petroleum Corporation.

EULALIO B. AUSTIN, JR.

Non-Executive Director
54, Filipino citizen; first elected May 18, 2010; last re-elected May 19, 2015.

Academic background
Mr. Austin graduated from the St. Louis University, Baguio City with a Bachelor of Science degree in Mining Engineering. placed 8th in the Professional Mining Engineers Board Examinations in year 1982. In 2013, Mr. Austin attended the Advanced Management Program of Harvard University.

Business and Professional Background/Experience
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 Corporation since June 29, 2011. 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 concurrently serves as Chairman and 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 the Founding President of PSEM's Philex Chapter. He was recently awarded as the CEO of the year on Mining by The Asset last December 14, 2015 in Hongkong.

Directorship in other listed companies in the Philippines:

Philex Mining Corporation

ROBERT C. NICHOLSON

Non-Executive Director
60, British citizen; first elected February 23, 2011; last re-elected May 19, 2015.

Academic background
Mr. Nicholson is a graduate of the University of Kent and is qualified as a solicitor in England and Wales and in Hong Kong.

Business and Professional Background/Experience
Mr. Nicholson has been a Director of the Company since February 23, 2011. He also has been a Director of the Philex Mining since November 28, 2008. He is an Executive Chairman of Forum Energy Limited, a Chairman of Goodman Fielder Pty Limited, a Commissioner of PT Indofood Sukses Makmur Tbk and a Director of Metro Pacific Investments Corporation, Philex Mining Corporation, Philex Petroleum Corporation and PacificLight Power Pte. Ltd., all of which are First Pacific Group subsidiaries or associates.

Mr. Nicholson is also an Independent Non-executive Director of Pacific Basin Shipping Limited and Lifestyle Properties Development Limited. Previously, he was a senior partner of Reed Smith Richards Butler from 1985 to 2001 where he established the corporate and commercial department, and was also a senior advisor to the board of directors of PCCW Limited between August 2001 and September 2003.

Directorship in other listed companies in the Philippines:

Philippines
Philex Mining Corporation
Metro Pacific Investments Corporation

BARBARA ANNE C. MIGALLOS

Corporate Sectretary & Executive Director

61, Filipino citizen; first elected December 27, 2007 to June 11, 2008; director since May 18, 2010 to the present; last re-elected May 19, 2015.

Academic background

Ms. Migallos received her Bachelor of Arts degree in Political Science from the University of the Philippines and graduated cum laude. She obtained her Bachelor of Laws from the University of the Philippine College of Law, and graduated cum laude and Class Salutatorian, and ranked 3rd in the 1979 Philippine Bar Examinations.

Business and Professional Background/Experience

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. She is a Director and Corporate Secretary of Philex Mining Corporation and Corporate Secretary of Silangan Mindanao Mining Co., Inc. She is the Managing Partner of the Migallos & Luna Law Offices. Ms. Migallos is also a Director of Mabuhay Vinyl Corporation since 2000 and Philippine Resins Industries since 2001, and Corporate Secretary of Eastern Telecommunications Philippines, Inc. since 2005, Nickel Asia Corporation since 2010, and Alliance Select Foods International, Inc. since 2015. She is a professorial lecturer in Corporations Law, Insurance, Securities Regulation, Credit Transactions, and Mergers and Acquisitions at the De La Salle University College of Law. She was a Senior Partner of Roco Kapunan Migallos and Luna Law Offices from 1988 to 2006.

Directorship in other listed companies in the Philippines:

Philex Mining Corporation
Mabuhay Vinyl Corporation

BENJAMIN S. AUSTRIA

Independent Director

Independent Director; 70, Filipino citizen; first elected Independent Director on August 4, 2011; last re-elected on May 19, 2015.

Academic background

Dr. Austria received his Bachelor of Science degree in Geology from the University of the Philippines in 1965. He earned his Master and Doctorate degrees in Geology from Harvard University in 1968 and 1975, respectively. He is a registered Geologist and was recognized as the Outstanding Professional in the Field of Geology for 2001 by the Professional Regulation Commission of the Philippines.

Business and Professional Background/Experience

Dr. Austria is the Chairman of the Committee on Energy & Power of the Philippine Chamber of Commerce & Industry. He is Senior Adviser of Trans-Asia Petroleum Corporation. He is the Executive Director of the Philippine Petroleum Association of the Upstream Industry (Oil & Gas), Inc. and Vice President (Earth Sciences & Geography)/Director of the Philippine Association for the Advancement of Science & Technology, both of which are non-stock, non-profit corporations. Dr. Austria is a registered Geologist and was recognized as the Outstanding Professional in the Field of Geology for 2001 by the Professional Regulation Commission of the Philippines. He is currently a Member of the Board of Geology of the Professional Regulation Commission.

EMERLINDA R. ROMAN

Independent Director

Independent Director; 66, Filipino citizen; first elected Independent Director August 4, 2011; last re-elected May 19, 2015.

Academic Background

Dr. Roman received her Bachelor of Science degree in Agriculture at the University of the Philippines Los Baños in 1972. She earned her Master's Degree in Agribusiness Management in 1977 and her Doctor of Business Administration (DBA) degree in 1989 from the College of Business Administration of the University of the Philippines Diliman.

Business and Professional Background/Experience

Dr. Roman is the first woman to have been elected as President of the University of the Philippines. She served as U.P. President from February 10, 2005 to February 9, 2011. She is the Chairperson of the Board of Trustees of the Angara Center for Law and Economics, and the Board of Advisers of Manila Tytana Colleges, Inc. She is also a member of the Board of Trustees of Naga College Foundation and International Rice Research Institute and member of the Board of Advisers of the Development Center for Finance. 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 Chairperson of the UP Provident Fund, Inc. and the President of UP Foundation, Inc., NEC Foundation, Inc. and UP Foundation in America. Dr. Roman is also a Director of Redondo Peninsula Energy, Inc. and of One Meralco Foundation.

Dr. Roman has been an Independent Director of the Company since August 4, 2011. She also serves as Independent Director of SMART Communications, Inc. and of Digital Telecommunications Philippines, Inc.

BOARD OF DIRECTORS

MARILYN A. VICTORIO-AQUINO

Non-Executive Director

59, Filipino citizen; first elected April 18, 2013; last re-elected on May 19, 2015.

Academic Background

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.

Business and Professional Background/Experience

Ms. Aquino has been a Director of the Company on April 18, 2013. She has also been a Director of Philex Mining Corporation since December 7, 2009. She has been 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 Philippine Indofood Distribution Corporation, Light Rail Manila Corporation, Silangan Mindanao Mining Co., Inc., Lepanto Consolidated Mining Company, Maynilad Water Services Corporation, Silangan Mindanao Exploration Company, Inc. MetroPac Movers, Inc. and MetroPac Logistics Co. Inc.

Directorship in other listed companies in the Philippines:

Philex Mining Corporation
Lepanto Consolidated Mining Company

DIANA PARDO-AGUILAR

Non-Executive Director

52, Filipino citizen; first elected May 19, 2015.

Academic Background

Ms. Pardo-Aguilar holds a Masters degree in Business Administration major in International Business and Finance from Pepperdine University, California (1988) and a Bachelor of Science in Computer Studies from De La Salle University (1985).

Business and Professional Background/Experience

Ms. Pardo Aguilar was appointed as a Commissioner of the Social Security System in August 2010, chairs its Investment Oversight Committee and is a member of its Information Technology and Risk Management Committees. She has been a Member of the Capital Markets Development Committee, a joint initiative of the Philippine Stock Exchange and Philippine Chamber of Commerce and Industry, Director of Wenphil Corporation, Security Bank Corporation, Electronic Commerce Payments, Inc. Gate Distribution Enterprise Inc., Asian Holdings Corporation, and Treasurer of De La Salle Santiago Zobel School. Previously, Ms. Pardo Aguilar served as Director of Philippine Seven Corporation from 1999 to January 2015, Phoenix Petroleum Philippines, Inc. from 2010 to 2013, CLSA Exchange Capital Corporation from 2001 to 2002, Coastal Road Corporation from 1999 to 2002, ERA Philippines Inc. from 1998 to 2005. She was Vice President for Corporate Finance of Jardine Fleming Exchange Capital Corporation Group Inc. from 1988 to 2001 and Board of Trustees and Treasurer of De La Salle Santiago Zobel School from 2004 to 2010.

Directorship in other listed companies in the Philippines:

Security Bank Corporation

AUDITED FINANCIAL STATEMENTS

STATEMENT OF MANAGEMENT'S RESPONSIBILITY

The management of **PHILEX PETROLEUM CORPORATION** is responsible for the preparation and fair presentation of the financial statements for the years ended **December 31, 2015 and 2014**, 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 Philippines Standards on Auditing, and its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such examination.

Mr. Manuel V. Pangilinan
Chairman of the Board

Mr. Daniel Stephen P. Carlos
President

Mr. Danny Y. Yu
Treasurer

Signed this 24th day of February 2016

REPORT OF THE AUDIT COMMITTEE TO THE BOARD OF DIRECTORS

THE BOARD OF DIRECTORS
PHILEX PETROLEUM CORPORATION

Further to compliance with applicable corporate governance laws and rules, we confirm for 2015 as follows:

- That an independent director chairs the Audit Committee, and that the Committee has two independent directors as members;
- That the Audit Committee had five (5) meetings during the year 2015;
- That the Audit Committee reviewed and approved the retention of the existing Audit Committee Charter until the next review in 2016;
- That the Audit Committee reviewed and approved all audit services provided by SGV & Co. to Philex Group, and related fees for such services;
- That the Audit Committee have discussed with the Philex' internal audit group and SGV &Co. the overall scope and the plans for their respective audits, and results of their examinations, their evaluation of Philex Petroleum Corporation and Subsidiaries' internal controls and the overall quality of the Philex Group's financial reporting;
- That the Audit Committee has discussed with SGV & Co the matters required to be discussed by the prevailing applicable Auditing Standard, and we have received written disclosures and the letter from SGV & Co. as required by the prevailing Independence Standards (Statement as to Independence) and have discussed with SGV & Co. its independence from Philex Group and Philex group management;
- That the Audit Committee has conducted a review of the effectiveness of the Company's internal control systems. Based on the Audit Committee review and in reliance of with the Internal Auditor's report, the Audit Committee confirmed that the internal controls of Philex are adequate and effective.
- In the performance of the Audit Committee's oversight responsibilities, the Audit Committee has reviewed and discussed the audited financial statements of Philex Group as of and for the year ended December 31, 2015 with the Philex Group's management, which has the primary responsibility for the financial statements, and with SGV & Co., the Philex Group's independent auditor, who is responsible for expressing an opinion on the conformity of Philex Group's audited financial statements with Philippine Financial Reporting Standards (PFRS);
- Based on the reviews and discussions referred to above, in reliance on the Philex Group's management and SGV & CO., and subject to the limitation on our roles and responsibilities, the Audit Committee recommended to the Board of Directors the inclusion of the Company's consolidated financial statements as of and for the year ended December 31, 2015 in the Company's Annual Report to the Stockholders and to the Philippine Securities and Exchange Commission (Phil. SEC) on Form 17-A; and
- Based on a review of SGV & Co.'s performance and qualifications, including consideration of management's recommendation, the Audit Committee approved the appointment of SGV & Co. as the Philex Group's independent auditor.

Respectfully submitted,

EMERLINDA R. ROMAN
Committee Chair-Independent

INDEPENDENT AUDITORS' REPORT

SGV
Building a better working world

Sycip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

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

BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

The Stockholders and the Board of Directors
Philex Petroleum Corporation
Philex Building
No. 27 Brixton corner Fairlane Streets
Pasig City

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, 2015 and 2014, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2015, 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 Philippines 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.

Auditor's 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 statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Philex Petroleum Corporation and its subsidiaries as at December 31, 2015 and 2014 and its financial performance and its cash flows for each of the three years in the period ended December 31, 2015 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-3 (Group A),
May 1, 2015, valid until April 30, 2018
Tax Identification No. 102-100-830
BIR Accreditation No. 08-001998-60-2015,
February 27, 2015, valid until February 26, 2018
PTR No. 5321714, January 4, 2016, Makati City

February 24, 2016

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Amounts in Thousands, Except Par Value per Share and Number of Equity Holders)

	December 31	
	2015	2014
ASSETS		
Current Assets		
Cash and cash equivalents (Note 5)	**₱526,355**	₱1,908,365
Trade and other receivables - net (Note 6)	**111,630**	91,787
Inventories - net (Note 7)	**9,044**	18,550
Other current assets (Note 8)	**23,260**	42,634
Total Current Assets	**670,289**	2,061,336
Noncurrent Assets		
Property and equipment - net (Note 9)	**333,049**	316,430
Deferred oil and gas exploration costs - net (Note 11)	**4,936,712**	4,831,363
Deferred income tax assets (Note 18)	**22,723**	22,302
Goodwill (Notes 1 and 4)	**1,238,583**	1,238,583
Other noncurrent assets (Note 12)	**26,824**	27,157
Total Noncurrent Assets	**6,557,891**	6,435,835
TOTAL ASSETS	**₱7,228,180**	₱8,497,171
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Note 13)	**₱14,932**	₱64,077
Advances from related parties (Note 19)	**2,931,943**	3,421,836
Income tax payable	**33**	653
Total Current Liabilities	**2,946,908**	3,486,566
Noncurrent Liabilities		
Deferred income tax liabilities (Note 18)	**1,112,043**	1,111,937
Other noncurrent liabilities (Notes 9, 20 and 26)	**201,981**	225,977
Total Noncurrent Liabilities	**1,314,024**	1,337,914
Total Liabilities	**4,260,932**	4,824,480
Equity Attributable to Equity Holders of the Parent Company		
Capital stock - ₱1 par value (Note 17)	**1,700,000**	1,700,000
Equity reserves (Notes 2 and 4)	**120,172**	48,970
Deficit	**(1,233,205)**	(1,145,665)
Cumulative translation adjustment on foreign subsidiaries	**(3,958)**	(57,018)
	583,009	546,287
Non-controlling interests (Note 17)	**2,384,239**	3,126,404
Total Equity	**2,967,248**	3,672,691
TOTAL LIABILITIES AND EQUITY	**₱7,228,180**	₱8,497,171

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME

(Amounts in Thousands, Except Loss per Share)

	Years Ended December 31		
	2015	2014	2013
PETROLEUM AND OTHER REVENUES (Note 25)	**₱172,250**	₱307,882	₱208,773
COSTS AND EXPENSES			
General and administrative expenses (Note 15)	**228,822**	279,267	337,342
Petroleum and other production costs (Note 15)	**97,981**	156,178	105,665
Others	–	620	1,231
	326,803	436,065	444,238
OTHER INCOME (CHARGES)			
Foreign exchange gains (losses) - net	**24,675**	110	11,011
Interest income (Note 5)	**6,099**	11,770	7,220
Interest expense and other charges (Notes 9, 13, 14 and 19)	–	(5,014)	(46,141)
Provision and reversal of impairment and loss on write off of assets - net (Note 16)	**(39,847)**	(322,227)	(102,530)
Others - net (Note 16)	**19,615**	3,837	249,834
	10,542	(311,524)	119,394
LOSS BEFORE INCOME TAX	**(144,011)**	(439,707)	(116,071)
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 18)			
Current	**14**	468	1,022
Deferred	**2**	8,479	(15,859)
	16	8,947	(14,837)
NET LOSS	**(₱144,027)**	(₱448,654)	(₱101,234)
NET LOSS ATTRIBUTABLE TO:			
Equity holders of the Parent Company	**(₱87,540)**	(₱225,591)	(₱98,534)
Non-controlling interests	**(56,487)**	(223,063)	(2,700)
	(144,027)	(₱448,654)	(₱101,234)
BASIC/DILUTED LOSS PER SHARE (Note 24)	**(₱0.051)**	(₱0.133)	(₱0.058)

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Thousands)

	Years Ended December 31		
	2015	2014	2013
NET LOSS	**(₱144,027)**	(₱448,654)	(₱101,234)
OTHER COMPREHENSIVE INCOME (LOSS)			
Items to be reclassified to profit or loss in subsequent periods:			
Gain on translation of foreign subsidiaries	**92,430**	9,032	210,006
Unrealized gain on AFS financial assets, net of tax (Note 10)	–	–	30,485
	92,430	9,032	240,491
Item not to be reclassified to profit or loss in subsequent periods:			
Re-measurement losses on defined benefit plans (Note 20)	–	(1,202)	(1,687)
	92,430	7,830	238,804
TOTAL COMPREHENSIVE INCOME (LOSS)	**(₱51,597)**	(₱440,824)	₱137,570
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:			
Equity holders of the Parent Company	**(₱34,480)**	(₱222,811)	₱32,881
Non-controlling interests	**(17,117)**	(218,013)	104,689
	(₱51,597)	(₱440,824)	₱137,570

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF
CHANGES IN EQUITY

(Amounts in Thousands)

	Attributable to Equity Holders of the Parent							
	Capital Stock (Note 16)	Equity Reserves (Note 16)	Retained Deficit	Unrealized Loss on AFS Financial Assets (Note 10)	Cumulative Translation Adjustment on Foreign Subsidiaries	Subtotal	Non-controlling Interests (Note 16)	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 income (loss):								
Items to be reclassified to profit or loss in subsequent periods:								
Gain 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
Item not to be reclassified to profit or loss in subsequent periods:								
Re-measurement losses on defined benefit plans (Note 20)	–	–	(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**

(Forward)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Amounts in Thousands)

	Attributable to Equity Holders of the Parent							
	Capital Stock (Note 16)	Equity Reserves (Note 16)	Retained Earnings (Deficit)	Unrealized Gain (Loss) on AFS Financial Assets (Note 10)	Cumulative Translation Adjustment on Foreign Subsidiaries	Subtotal	Non-controlling Interests (Note 16)	Total
Net loss for the year	₱–	₱–	(₱225,591)	₱–	₱–	(₱225,591)	(₱223,063)	(₱448,654)
Other comprehensive income (loss):	–	–	–	–	–	–	–	–
Items to be reclassified to profit or loss in subsequent periods:								
Gain on translation of foreign subsidiaries	–	–	–	–	3,982	3,982	5,050	9,032
Item not to be reclassified to profit or loss in subsequent periods:								
Re-measurement losses on defined benefit plans (Note 20)	–	–	(691)	–	–	(691)	(511)	(1,202)
Total comprehensive income (loss) for the year	–	–	(226,282)	–	3,982	(222,300)	(218,524)	(440,824)
Effects of transactions with owners (Note 17)	–	49,093	–	–	–	49,093	(440,966)	(391,873)
BALANCES AT DECEMBER 31, 2014	**1,700,000**	**48,970**	**(1,145,665)**	**–**	**(57,018)**	**546,287**	**3,126,404**	**3,672,691**
Net loss for the year			(87,540)			(87,540)	(56,487)	(144,027)
Other comprehensive income (loss):								
Items to be reclassified to profit or loss in subsequent periods:								
Gain on translation of foreign subsidiaries	–	–	–	–	53,060	53,060	39,370	92,430
Total comprehensive income (loss) for the year	–	–	(87,540)	–	53,060	(34,480)	(17,117)	(51,597)
Effects of transactions with owners (Note 17)	–	71,202	–	–	–	71,202	(725,048)	(653,846)
BALANCES AT DECEMBER 31, 2015	**₱1,700,000**	**₱120,172**	**(₱1,233,205)**	**–**	**(₱3,958)**	**₱583,009**	**₱2,384,239**	**₱2,967,248**

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

	Years Ended December 31		
	2015	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before income tax	**(₱144,011)**	(₱439,707)	(₱116,071)
Adjustments for:			
Unrealized foreign exchange losses (gains) - net	**24,675**	(110)	11,011
Depletion and depreciation (Note 9)	**15,355**	63,573	14,616
Interest expense and other charges (Notes 9, 13, 14 and 19)	**–**	5,014	46,141
Gain on sale of AFS financial assets (Note 10)	**–**	–	(26,867)
Gain on sale of property and equipment (Note 9)	**(1,688)**	–	–
Gain on sale of subsidiaries (Note 1)	**–**	–	(246,597)
Interest income (Note 5)	**(6,099)**	(11,770)	(7,220)
Movement in retirement liability (Note 20)	**(28,356)**	8,929	15,623
Provision and reversal of impairment and loss on write off of assets - net (Note 16)	**39,847**	322,227	102,530
Operating income (loss) before working capital changes	**(100,277)**	(51,844)	(206,834)
Decrease (increase) in:			
Accounts receivable	**18,947**	16,135	17,648
Inventories - net	**10,890**	5,780	3,352
Other current assets	**19,973**	(14,958)	(57)
Decrease in accounts payable and accrued liabilities	**(72,982)**	(17,369)	(19,207)
Net cash used in operations	**(123,449)**	(62,256)	(205,098)
Interest paid	**–**	(38,675)	(39,527)
Interest received	**8,888**	16,712	7,220
Income taxes paid	**(634)**	(68)	(16,890)
Net cash used in operating activities	**(115,195)**	(84,287)	(254,295)
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to:			
Property and equipment	**(6,701)**	(45,647)	(45,806)
Deferred oil and gas exploration costs and other noncurrent assets (Notes 11 and 25)	**(55,944)**	(169,140)	(501,995)
Proceeds from sale of property and equipment (Note 9)	**4,033**	14,925	–
Proceeds from sale of subsidiaries (Note 1)	**–**	–	2,097,815
Proceeds from sale of AFS financial assets (Note 10)	**–**	–	167,999
Acquisition of subsidiary, net of cash acquired (Notes 1 and 4)	**–**	–	(629,953)
Net cash from (used in) investing activities	**(58,612)**	(199,862)	1,088,060

(Forward)

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

	Years Ended December 31		
	2015	2014	2013
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments made to related parties (Note 19)	**(₱494,126)**	₱–	₱–
Additional advances from related parties (Note 19)	**4,234**	76,939	1,409,540
Other noncurrent liabilities	**–**	–	24,144
Availment of long-term loan (Note 14)	**–**	–	110,033
Settlement of long-term loan (Notes 14 and 26)	**–**	(110,033)	(41,050)
Acquisition by subsidiary of own shares (Note 17)	**(715,143)**	(395,733)	–
Net cash from (used in) financing activities	**(1,205,035)**	(428,827)	1,502,667
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(3,168)**	(133)	1,025
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(1,382,010)**	(713,109)	2,337,457
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**1,908,365**	2,621,474	284,017
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	**₱526,355**	₱1,908,365	₱2,621,474

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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. The Parent Company (or PPC) 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), consisting 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. At the same time, PPC acquired from PMC all of its investment in the shares of stock of FEC Resources, Inc. (FEC) consisting of 225,000,000 shares representing 51.24% ownership interest 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.

In 2015, PPC bought additional shares from minority interest owners of FEP. As a result, the ownership interest of PPC in FEP increased from 36.44% to 48.77% (see Note 2).

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.

On July 2, 2014, PPC surrendered 2,000,000 of its shares held in Pitkin following the latter's tender offer to buy back 11,972,500 shares equivalent to 8.55% of all shares outstanding as of that date for a consideration of US$1 per share. Pitkin received a total of 11,099,000 shares surrendered from its existing shareholders. The share buyback transaction resulted to an increase in PPC's ownership in Pitkin from 50.28% to 53.07%.

In May 2015, Pitkin tendered another offer to buy back its outstanding shares for a consideration. The Parent Company and the non-controlling interests surrendered 21,373,000 shares and 19,499,500 shares, respectively. Following this transaction, PPC's interest in Pitkin has increased from 53.07% to 53.43% (see Note 2).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The foregoing Companies are collectively referred to as 'the Group' whose revenue is derived primarily from oil and gas assets in the Philippines.

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

Business Operations
PXP Parent Company
The Parent Company's principal asset is a 50% operating interest in SC75. It covers an area of 6,160 square kilometers in the NW Palawan Basin.

The work commitment for Sub-Phase 1 in SC75 had been fulfilled in 2015, following the completion of various exploration commitments. However due to Force Majeure, exploration activities in the area are temporarily suspended as at December 31, 2015.

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 as at December 31, 2015.

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 in December 2013.

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. Pitkin's principal asset is 25% interest in Peru Block Z-38.

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 both Vietnam Block 07/03 and Lonsdale, Inc. 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.

Recovery of Deferred Mine and Oil Exploration Costs
The Group's ability to realize its deferred oil and gas exploration costs amounting to ₱4,936,712 and ₱4,831,363 as at December 31, 2015 and 2014, 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 24, 2016.

2. **Basis of Preparation, 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 and reporting currency, rounded to the nearest thousand (₱000) 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 Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after January 1, 2015. The adoption of these amendments did not have any significant impact on the financial statements.

- Amendments to Philippine Accounting Standards (PAS) 19, *Defined benefit Plans: Employee Contributions*
- Annual Improvements to PFRSs 2010 - 2012 Cycle
  - PFRS 2, *Share-based Payment - Definition of Vesting Condition*
  - PFRS 3, Business Combinations - *Accounting for Contingent Considerations in a Business Combination*
  - PFRS 8, *Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*
  - PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Depreciation and Amortization*
  - PAS 24, *Related Party Disclosures - Key Management Personnel*
- Annual Improvements to PFRSs 2011 - 2013 Cycle
  - PFRS 3, *Business Combinations - Scope Exceptions for Joint Arrangements*
  - PFRS 13, *Fair Value Measurement - Portfolio Exception*
  - PAS 40, *Investment Property*

Future Changes in Accounting Policies
The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are listed below. The Group intends to adopt these standards when they become effective. Adoption of these standards and interpretations are not expected to have any significant impact on the financial statements of the Group.

No definite adoption date prescribed by the SEC and Financial Reporting Standards Council (FRSC)
- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*

Effective January 1, 2016
- PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Investments in Associates and joint Ventures - Investment entities: Applying the Consolidation Exception (Amendments)*
- PAS 27, *Separate Financial Statement - Equity Method in Separate Financial Statements (Amendments)*
- PFRS 11, *Joint Arrangements - Accounting for Acquisitions of Interests (Amendments)*
- PAS 1, *Presentation of Financial Statements - Disclosure Initiative (Amendments)*

- PAS 14, *Regulatory Deferral Accounts*
- PAS 16, *Property, Plant and Equipment, and PAS 41, Agriculture - Bearer Plants*
- PAS 16, *Property, Plant and Equipment, and PAS 38, Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortization (Amendments)*
- Annual Improvements to PFRSs (2012 - 2014 cycle)
  - PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations - Changes in Methods of Disposal*
  - PFRS 7, *Financial Instruments: Disclosures - Servicing Contracts*
  - PFRS 7, *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
  - PAS 19, *Employee benefits - Regional market issue regarding discount rate*
  - PAS 34, *Interim Financial Reporting - Disclosure information elsewhere in the interim financial report*

Effective January 1, 2018
- *PFRS 9, Financial Instruments*

In addition, to International Accounting Standards Board has issued the following new standards that have not yet been adopted locally by the SEC and FRSC. The Group is currently assessing the impact of these new standards and plants to adopt them on their required effective dates once adopted locally.
- International Financial Reporting Standards (IFRS) 15, *Revenue from Contracts with Customers* (effective January 1, 2018)
- IFRS 16, *Leases* (effective January 1, 2019)

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 in the consolidated statement of income and a second statement beginning with profit or loss and displaying components of other comprehensive income (OCI) in the 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

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and 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 consolidated 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 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 consolidated 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, non-controlling interests and other components of equity while any resulting gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.

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. On January 6, 2014, BEMC has finalized the agreements for the assignment of COC 130 to GCMDI. On May 27, 2015, the DOE has approved the assignment completing the transfer of COC 130 from BEMC to GCMDI.
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, particularly, a 2.27% interest in SC14 C-1 Galoc.
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. (FGSECL)	FGSECL was incorporated in Jersey, United States of America on March 31, 2005 and is involved in oil and gas exploration in the Philippines.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Subsidiary	Nature of Business
Forum (GSEC101) Ltd. - Philippine Branch (GSEC)	GSEC was established as a Philippine branch on October 17, 2005 and is involved in oil and gas exploration in the Philippines, specifically, SC72 Recto Bank.
Pitkin Petroleum Plc (Pitkin)	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, specifically, Peru Block Z-38.
Pitkin Petroleum Peru XXVIII SAC (PXX)	Incorporated on November 8, 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 FEI Limited (FFEIL), 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, 2015 and 2014 is summarized as follows:

	Percentages of Ownership			
	2015		2014	
	Direct	**Indirect**	Direct	Indirect
BEMC	**100.00**	**–**	100.00	–
FEC	**51.24**	**–**	51.24	–
FEP	**48.77**	**9.44**	36.44	12.32
FEP	**–**	**58.21**	–	48.76
FEPCO	**–**	**58.21**	–	48.76
FPHL	**–**	**58.21**	–	48.76
FFEIL	**–**	**58.21**	–	48.76
FEI	**–**	**38.81**	–	32.51
FGSECL	**–**	**58.21**	–	48.76
GSEC	**–**	**58.21**	–	48.76
Pitkin	**53.43**	**–**	53.07	–
PPR	**–**	**53.43**	–	53.07
Z38	**–**	**40.07**	–	39.80
PVX	**–**	**53.43**	–	53.07
Z38	**–**	**13.36**	–	13.27
PP2	**–**	**53.43**	–	53.07
PXX	**–**	**40.07**	–	39.80
PP3	**–**	**53.43**	–	53.07
PXX	**–**	**13.36**	–	13.27

Non-controlling interest (NCI)
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.

Business Combination and Goodwill
Acquisition method
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the 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 remeasured at fair value with changes in fair value recognized either in profit or loss or as a change to OCI. If the contingent consideration is not within the scope of PAS 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 reassesses 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 reassessment 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. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Impairment is determined for goodwill by assessing the recoverable amount of the Cash Generating Unit (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.

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.

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 recognizes 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

Foreign Currency Translation of Foreign Operations

The Group's consolidated financial statements are presented in Philippine 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:

- 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;
- income and expenses in the statement of income are translated at exchange rates at the average monthly prevailing rates for the year; and
- all resulting exchange differences in other comprehensive income.

Financial Instruments

Date of recognition

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

Initial recognition and classification of financial instruments

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

On initial recognition, the Group classifies its financial assets in the following categories: financial assets at FVPL, loans and receivables, held-to-maturity investments, and Available for Sale (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 date.

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

As at December 31, 2015 and 2014, the Group's financial assets and financial liabilities consist of loans and receivables and other financial liabilities.

Determination of fair value

The Group measures financial instruments 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 the Group.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated 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 consolidated 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 date.

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, 2015 and 2014, included under loans and receivables are the Group's cash and cash equivalents, trade and other receivable, refundable deposits included under 'Other current assets' and 'Other noncurrent assets' (see Notes 5, 6, 8, and 12).

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 (EIR) 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 date.

As at December 31, 2015 and 2014, the Group’s has no more AFS financial assets upon sale of its remaining AFS financial assets in 2013 (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, 2015 and 2014, included in other financial liabilities are the Group’s accounts payable and accrued liabilities, advances from related parties, long-term loan and other noncurrent liabilities (see Note 21).

<u>Offsetting Financial Instruments</u>
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.

<u>Impairment of Financial Assets</u>
The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 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 date whether there is objective evidence that a financial asset or group of financial assets is impaired. In case of equity investments classified as AFS financial assets, this would include a significant or prolonged decline in the fair value of the investments below its cost. The determination of what is 'significant' or 'prolonged' requires judgment. The Group treats 'significant' generally as 30% or more and 'prolonged' as greater than 12 months for quoted equity securities. When there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statement of income is removed from equity and recognized in the consolidated statement of income.

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

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

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

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

Financial liabilities
A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired. When 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 estimated 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
Other current assets 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. Other current assets 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

Oil and gas and coal mining properties also include its share in the estimated cost of rehabilitating the service contracts and the estimated restoration costs of its coal mine for which the Group is constructively liable. These costs are included under oil and gas, and coal mining properties.

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.

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:

Asset Category	Number 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 capitalized 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 recognized, then the remaining balance is transferred to 'Oil and gas, and coal mining properties' account shown under the 'Property and equipment' account in the consolidated 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 Nonfinancial Assets
This accounting policy applies primarily to the Group's Property and Equipment (see Note 9), Deferred Oil and Gas Exploration Costs (see Note 11), Goodwill and Other Non-current Assets (see Note 12).

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.

For assets excluding goodwill, an assessment is made at each consolidated statement of financial position date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of income. After such a reversal, the depreciation and amortization expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

The following criteria are also applied in assessing impairment of specific assets:

Goodwill
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 by assessing the recoverable amount of the CGU (or group of CGUs) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount to which goodwill has been allocated, an impairment loss is recognized. Where goodwill forms part of a cash-generating unit (or group of cash-generating units) and part of the operations within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured on the basis of the relative fair values of the operation disposed of and the portion of the cash-generating unit retained. Impairment losses relating to goodwill cannot be reversed in future periods.

Retirement Benefits Liability

The net defined benefit liability is the aggregate of the present value of the defined benefit obligation at the end of the reporting period.

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 consolidated 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 recognized in profit or loss on the earlier of:

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

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset.

The Group recognizes the following changes in the net defined benefit obligation as ‘personnel costs’ under the ‘general and administrative expenses’ in the consolidated statement of comprehensive income:

- 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 and other charges’. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of that result in decreases in equity, other than those relating to distributions to equity participants.

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.

Leases
Determination of whether an arrangement contains a lease
The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A reassessment is made after inception of the lease only if one of the following applies:
(a) there is a change in contractual terms, other than a renewal or extension of the arrangement;
(b) a renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
(c) there is a change in the determination whether fulfillment is dependent on a specified asset; or
(d) there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

Leases where the lessor retain substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

Share-based Payment Transactions
The executives of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions).

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the service conditions are fulfilled ending on the date on which the relevant employees become fully entitled to the award ("the vesting date"). The cumulative expense recognized for equity-settled transactions at each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

number of equity instruments that will ultimately vest. The charge or credit in the Group statement of comprehensive income for a period represents the movement in cumulative expense recognized as at the beginning and end of that period and are recognized in employee benefits.

No expense is recognized for awards that do not ultimately vest.

Where the terms of an equity-settled transaction award are modified, the minimum expense recognized is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Other Comprehensive Income (Loss)

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

Foreign Currency-Denominated Transactions and Translations

Transactions denominated in foreign currencies are recorded using the exchange rate at the date of the transaction. Outstanding monetary assets and monetary liabilities denominated in foreign currencies are restated using the rate of exchange at the end of the reporting date. Non-monetary items that are measured at fair value in a foreign currency shall be translated using the exchange 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 date.

Deferred income tax

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

Deferred income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences, carryforward benefits of the excess of minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT), 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 date and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred income tax amount to be utilized.

Deferred income tax assets and 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 Loss per Share

Basic loss per share is computed by dividing the net 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Diluted Loss per Share
Diluted loss per share is calculated by dividing the net 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, 2015 and 2014, 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 the accompanying 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 judgments, estimates and assumptions 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. Actual results could differ from such estimates.

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:

Going concern
The Group's management has made an assessment on the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue their business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements of the Group continue to be prepared under the going concern basis.

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. FEC's functional currency is the Canadian Dollar while it is the US Dollar for FEP and Pitkin. These are the currencies of the primary economic environments in which the entities primarily operate.

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

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

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 2015 and 2014. The carrying amount of deferred income tax assets amounted to ₱22,723 and ₱22,302 as at December 31, 2015 and 2014, respectively (see Note 18).

Determination and classification of 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 treatment for each assessment.

As at December 31, 2015 and 2014, the Group's joint arrangement is in the form of a joint operation.

<u>Accounting Estimates and Assumptions</u>
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:

Estimation of 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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' Petroleum Resources Management Reporting System 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 consolidated 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

Estimation of allowance for impairment on 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 collectability 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 ₱637,911 and ₱2,000,017 as at December 31, 2015 and 2014, respectively (see Note 22). Allowance for impairment losses on other receivables amounted to nil and ₱866 as at December 31, 2015 and 2014 (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.

Assessment of 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, 2015 and 2014, the carrying value of property and equipment amounted to ₱333,049 and ₱316,430, respectively. Impairment loss on property and equipment amounted to nil and ₱1,838 in 2015 and 2014, respectively (see Note 9).

Assessment of 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.

Assessment of 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, 2015 and 2014. The carrying value of goodwill as at December 31, 2015 and 2014 amounted to ₱1,238,583 (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 ₱9,044 and ₱18,550 as at December 31, 2015 and 2014, respectively (see Note 7). Allowance for probable inventory losses amounted to ₱266,103 as at December 31, 2015 and 2014 (see Note 7).

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.

NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS

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 ₱9,174 and ₱9,671 as at December 31, 2015 and 2014, respectively (see Note 9). In 2015 and 2014, the Group recognized accretion of interest amounting to nil. The discount rate used by the Group to value the provision as at December 31, 2015 and 2014 is 1.02% and 14%, respectively.

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 ₱4,936,712 and ₱4,831,363 as at December 31, 2015 and 2014, respectively (see Note 11). Allowance for unrecoverable portion of oil and gas interests amounted to ₱578,721 and ₱874,415 for December 31, 2015 and December 31, 2014, respectively (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 date. The net retirement benefits liability as at December 31, 2015 and 2014 amounted to nil and ₱24,552, respectively (see Note 20).

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.

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, 2015 and 2014, provision for losses recorded under noncurrent liabilities amounted to ₱192,807 and ₱191,754, respectively (see Note 26).

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 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 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:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As a result of the sale of all interests of Pitkin in Vamex in 2013, goodwill attributable to Vietnam Block 07/03 at time of acquisition of Pitkin by PPC was derecognized amounting to ₱554,178.

The fair values of deferred oil and gas exploration costs recognized as at December 31, 2013 financial statements were based on a provisional assessment of their fair value while the Group sought for the final results of independent valuations for the assets. The valuation is based on discounted cash flows for each of the project subject to uncertainty which involves significant judgments on many variables that cannot be precisely assessed at reporting date.

During 2014, results of studies from third party oil and gas consultants and competent persons were obtained by each of the respective operators of the projects which enabled the Group to perform and update the discounted cash flows. As a result of these assessment, an increase in carrying amount of Peru exploration assets by ₱393,399 occurred while assets in the Philippines decreased by the same amount. The 2013 comparative information was restated to reflect the adjustment to the provision amounts (see Note 11). These adjustments, however, did not have any material effect on goodwill, deferred tax assets or liabilities, impairment losses and foreign currency exchange gains or losses as at December 31, 2014 and 2013.

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 in BEMC and FEC (see Note 1). 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.

As at December 31, 2015 and 2014, the goodwill resulting from business combinations amounting to ₱1,238,584 are allocated to the Group's cash-generating units namely: SC 14 C1 Galoc Oil Field, SC 14 A&B Nido-Matinloc, SC 72 Reed Bank and Peru Z38. The Group performed its annual impairment test in December 2015 and 2014.

The recoverable amount of the CGUs were determined based on a value in use calculation using cash flow projections from financial budgets covering the expected life of the oil and gas fields. Based on its analysis, management concluded that the goodwill is recoverable. The calculation of the value in use for the CGUs incorporates the following key assumptions: a) oil prices which are estimated with reference to external market forecasts; b) volume of resources and reserves which are based on resources and reserves report prepared by third party; c) capital expenditure and production and operating costs which are based on the Group's historical experience and latest life of well models; and d) discount rate of 10%. The management believes that key assumptions used in determining the recoverable amount at reasonable possible changes would not cause the CGUs carrying amount to exceed its recoverable amount.

5. **Cash and Cash Equivalents**

	2015	2014
Cash on hand and in banks	**₱148,243**	₱387,746
Short-term investments	**378,112**	1,520,619
	₱526,355	₱1,908,365

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 ₱6,099, ₱11,770, and ₱7,220 were recognized for the years ended December 31, 2015, 2014 and 2013, respectively. The Group has USD accounts in various banks amounting to US$10,840 and US$44,205 as at December 31, 2015 and 2014, respectively (see Note 21).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. **Trade and other receivables** - net

	2015	2014
Trade	**₱82,925**	₱74,435
Accrued interest	–	2,790
Advances to suppliers	–	2,973
Others	**28,705**	12,455
	111,630	92,653
Less allowance for impairment loss	–	866
	₱111,630	₱91,787

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.

The Group recognized provision for impairment losses on trade and other receivables amounting to nil, nil, and ₱449 in 2015, 2014 and 2013, respectively. The Group has no related party balances included in the trade receivable and other receivables account as at December 31, 2015 and 2014.

7. **Inventories** - net

	2015	2014
Coal	**₱220,045**	₱220,045
Petroleum	**9,044**	18,550
Materials and supplies	**46,058**	46,058
	275,147	284,653
Less allowance for probable inventory losses	**266,103**	266,103
	₱9,044	₱18,550

The cost of coal inventories recognized as expense and included in 'Cost of coal sales' amounted to nil, ₱3,197, and ₱17,770 in 2015, 2014, and 2013, respectively (see Note 15).

The cost of petroleum recognized as expense and included in 'Petroleum production costs' amounted to ₱97,981, ₱152,981, and ₱87,895 in 2015, 2014, and 2013, respectively (see Note 15).

In 2014, impairment losses amounting to ₱3,197 were reversed by the Group since it was able to sell these inventories. In 2013, the Group recognized provision for impairment losses on inventories amounting to ₱117,371.

Movements in the allowance for probable inventory losses are as follows:

	2015	2014
Beginning Balance	**₱266,103**	₱269,300
Reversals	–	(3,197)
Ending Balance	**₱266,103**	₱266,103

8. Other Current Assets

	2015	2014
Input VAT	**₱15,167**	₱17,533
Prepaid expenses	**6,238**	10,755
Deposits	**1,199**	5,217
Creditable withholding tax	**–**	2,862
Others	**656**	6,267
	₱23,260	₱42,634

9. Property and Equipment - net

As at December 31, 2015:

	Oil and Gas, and Coal Mining Properties	**Machinery and Equipment**	**Surface Structures**	**Construction in-progress**	**Total**
Cost					
Balances at January 1	**₱824,008**	**₱259,694**	**₱37,659**	**₱759**	**₱1,122,120**
Additions	**59**	**6,642**	**–**	**–**	**6,701**
Disposals	**–**	**(19,229)**	**–**	**–**	**(19,229)**
Effect of translation adjustment	**45,876**	**3,850**	**–**	**–**	**49,726**
Balances at December 31	**869,943**	**250,957**	**37,659**	**759**	**1,159,318**
Accumulated depletion and depreciation					
Balances at January 1	**290,934**	**99,843**	**8,886**	**–**	**399,663**
Depletion and depreciation (Notes 15 and 24)	**14,922**	**4,133**	**–**	**–**	**19,055**
Disposals	**–**	**(16,884)**	**–**	**–**	**(16,884)**
Effect of translation adjustment	**15,235**	**3,721**	**–**	**–**	**18,956**
Balances at December 31	**321,091**	**90,813**	**8,886**	**–**	**420,790**
Accumulated impairment					
Balances at January 1	**222,494**	**154,001**	**28,773**	**759**	**406,027**
Reversals of impairment	**–**	**(1,371)**	**–**	**–**	**(1,371)**
Effect of translation adjustment	**727**	**96**	**–**	**–**	**823**
Balances at December 31	**223,221**	**152,726**	**28,773**	**759**	**405,479**
Net Book Values	**₱325,631**	**₱7,418**	**₱–**	**₱–**	**₱333,049**

As at December 31, 2014:

	Oil and Gas, and Coal Mining Properties	Machinery and Equipment	Surface Structures	Construction in-progress	Total
Cost					
Balances at January 1	₱780,118	₱304,431	₱37,659	₱759	₱1,122,967
Additions	39,797	5,850	–	–	45,647
Disposals	–	(51,082)	–	–	(51,082)
Effect of translation adjustment	4,093	495	–	–	4,588
Balances at December 31	824,008	259,694	37,659	759	1,122,120
Accumulated depletion and depreciation					
Balances at January 1	220,130	114,935	8,886	–	343,951
Depletion and depreciation (Notes 15 and 24)	69,308	3,385	–	–	72,693
Disposals	–	(18,722)	–	–	(18,722)
Effect of translation adjustment	1,496	245	–	–	1,741
Balances at December 31	290,934	99,843	8,886	–	399,663
Accumulated impairment					
Balances at January 1	222,378	167,088	28,773	759	418,998
Impairment during the year	–	1,838	–	–	1,838
Reversals of impairment	–	(14,925)	–	–	(14,925)
Effect of translation adjustment	116	–	–	–	116
Balances at December 31	222,494	154,001	28,773	759	406,027
Net Book Values	₱310,580	₱5,850	₱–	₱–	₱316,430

As at December 31, 2015 and 2014, depletion expense capitalized as part of oil inventories amounted to ₱3,101 and ₱7,565, respectively.

NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS

The Group recognized impairment losses on property and equipment amounting to nil, ₱1,838 and ₱19,449 in 2015, 2014 and 2013, respectively. 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 which significantly reduced the recoverable amount of the asset.

The Group recognized reversals of impairment losses on property and equipment amounting to ₱1,371, ₱14,925 and ₱34,739 in 2015, 2014 and 2013, respectively. These reversals relate to sale and transfer of BEMC's machinery and equipment to GCMDI, Silangan Mindanao Mining Company Incorporated (SMMCI) and other third parties during these years.

The Group recognized gain on sale of property and equipment amounting to ₱1,688, nil and nil in 2015, 2014 and 2013, respectively. The proceeds from these sales of property and equipment amounted to ₱4,033, ₱14,925 and nil in 2015, 2014 and 2013, respectively.

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 ₱9,174 and ₱9,671 as at December 31, 2015 and 2014, respectively.

The details of the Group's provision for rehabilitation and decommissioning costs are as follows:

	2015	2014
Beginning balances	**₱9,671**	₱953
Provision for decommissioning costs	**–**	8,718
Disposal	**(953)**	–
Effect of translation adjustment	**456**	–
Ending balances	**₱9,174**	₱9,671

The provision for rehabilitation and decommissioning costs amounting to ₱9,174 and ₱9,671 as at December 31, 2015 and 2014, respectively, are recorded under 'Other noncurrent liabilities' in the consolidated statements of financial position.

Discount rates of 1.02% and 14% were used to compute the present values of provision for rehabilitation and decommissioning costs of FEP and BEMC, respectively, for the years ended December 31, 2015 and 2014, respectively.

10. AFS Financial Assets

As at December 31, 2015 and 2014, the Group no longer has AFS financial assets upon sale of all of its investment in Petro Energy Resources Corporation (PERC) for a consideration of ₱167,999 on February 21, 2013. Gain on sale of PERC shares amounted to ₱26,867 which was recognized in profit or loss.

11. Deferred Oil and Gas Exploration Costs - net

	2015	2014
Oil and gas exploration assets	**₱5,515,433**	₱ 5,705,778
Less Allowance for unrecoverable portion	**578,721**	874,415
	₱4,936,712	₱4,831,363

As at December 31, 2015 and 2014, carrying value of Peru exploration assets amounted to ₱3,388,226 and ₱3,449,730, respectively and the remaining balance pertain to Philippine exploration assets.

In 2015 and 2014, provision for impairment losses on deferred oil and gas exploration costs were recognized by the Group amounting to ₱359,395 and ₱338,525, respectively.

In 2015, the Group wrote off deferred oil and gas exploration costs amounting to ₱338,525 and ₱70,453 on SC 6A and Peru Block XXVIII, respectively. The deferred oil and gas exploration costs on SC 6A was impaired in 2014. The Group recognized also a reversal of impairment amounting to ₱388,630.

The Pitkin, PPC and FEP, through their subsidiaries, have various participating interests in petroleum service contracts as follows as at December 31, 2015:

	Participating Interest		
Service Contract	Pitkin	PPC	FEP
SC 6 (Cadlao Block)	–	1.65%	–
SC 6A (Octon Block) [1]	–	5.56%	5.56%
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) [2]	–	–	9.10%
SC 14 Block D (Retention Block)	–	–	8.17%
SC 40 (North Cebu Block)	–	–	100%
SC 53 (Mindoro) [3]	70.00%	–	–
SC 72 (Reed Bank)	–	–	70.00%
SC 74	70.00%	–	–
SC 75	–	50.00%	–
Peru Block Z-38	25.00%	–	–

[1] *On March 9, 2015, the DOE has approved the Deed of Assignment (DOA) transferring the 70% interest of Pitkin Petroleum Plc to the Farmors Group. PPC and FEP's participating interests increased upon execution of the DOA.*
[2] *On March 12, 2015, the DOE acknowledged the termination of the Service Contract 14C2 West Linapacan Farm-in Agreement between Pitkin and the farmors. FEP's interest increased upon such termination.*
[3] *On June 11, 2015, the DOE has cancelled the DOA between Pitkin and RMA due to latter's financial incapacity.*

<u>SC 6A (Octon Block)</u>
The SC covers an area of 1,080 square kilometers. On July 11, 2011, Pitkin acquired 70% interest and operatorship of the block.

In 2014, Pitkin elected not to enter Phase 2 of the FIA and returned its 70% participating interest to the farm-out partners. As a result of Pitkin's exit, Philodrill re-assumed the block's operatorship beginning January 01, 2015 while PPC and FEP's participating interests in the block returned to their pre-farm out interests of 5.56% each. The DOE approved the Deed of Assignment on May 14, 2015.

As a result of the decision to exit SC 6A, Pitkin recorded provision for impairment loss of ₱338,525 in 2014.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 December 21, 2012, FEP and Galoc Production Company (GPC) entered into a loan facility with BNP Paribas to provide a total of US$40,000 project financing for the Galoc Field's Phase 2 development. The total amount drawn from the loan facility was fully paid in 2014.

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 increased field production from the average 4,500 BOPD to around 12,000 BOPD.

The Galoc Field has already produced about 16.84 million barrels of oil since start of production in October 2008. In 2015, the field produced around 2.26 million barrels of oil.

A proposed Galoc Phase 3 development is under evaluation by the Consortium. It includes the drilling of an appraisal well to test the Mid Galoc Prospect located north of the Galoc Field.

SC 14 Block C-2 (West Linapacan)
West Linapacan is located in 300 to 350 meters of water, approximately 60 kilometers 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 on 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.

On March 12, 2015, the Farm-in Agreement (FIA) with RMA was terminated and Pitkin returned all of its participating interest to the original second parties to the contract. FEP's interest in the block increased to 9.10%

SC 40 (North Cebu)
In 2012, FEP commissioned a resource assessment study to be undertaken by Petroleum Geo-Services Reservoir Consultants, an independent competent person. The results of the study 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 was impaired by ₱388,630 included in 'Provision for impairment of assets' in the consolidated statements of income in 2012. The carrying value as at December 31, 2012 reflects the potential of a number of smaller onshore locations within SC 40.

In 2015, the management has finalized its assets review of SC 40 based on a more detailed Resource Estimation Report prepared by PGS in 2013. The updated report indicated a significant increase in resources which triggered the reassessment and reversal of the impairment recognized in 2012. The results of the assets review and the competent person report were presented to the Risk and Resource Committee of the Board in 2015. The Committee has approved and adopted the report. A reversal of impairment loss amounting to ₱388,630 was recognized by the Group in 2015.

SC 53 (Mindoro)
SC 53 measures 7,240 square kilometers and is mostly located in onshore Mindoro Island. The Service Contract was entered into on July 8, 2005 between 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.

In 2015, Pitkin recognized impairment loss amounting to ₱359,395 after it has expressed intention to exit from the JV reducing the carrying value of SC 53 to nil as at December 31, 2015.

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 a potential to contain In-Place Contingent Resources of 2.6 trillion cubic feet (TCF) and In-Place Prospective Resources of 5.4 TCF as reported by Weatherford Petroleum Consultants (Weatherford) in 2012.

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.

In February 2015, FEP received a letter from the DOE confirming the suspension of offshore exploration activities in disputed areas of the West Philippine Sea while the arbitration case between the Philippines and China remains pending. The suspension became effective from December 15, 2014 until the date when the DOE notifies Forum to resume operations.

Upon lifting of the Force Majeure, FEP will have 20 months (equivalent to the remaining Sub-Phase 2 period from the effective date of the Force Majeure) to complete the Sub-Phase 2 work commitment comprising the drilling of two wells. The terms of the succeeding sub-phase will remain the same but will be adjusted accordingly.

During the year, the United Nations Arbitral Tribunal unanimously decided that it has jurisdiction over the maritime dispute between China and the Philippines over the West Philippine Sea, and it was the proper body to decide on the case filed by the Philippines in January 2013. It also ruled that China's decision not to participate in these proceedings does not deprive the Tribunal of jurisdiction and that the Philippines' decision to commence arbitration unilaterally was not an abuse of the UNCLOS dispute settlement procedures. Further hearings were held during the 4th Quarter of 2015 and a definitive ruling is expected to be issued by the tribunal in 2016.

SC 74
In September 2013, Pitkin, with its consortium partner, Philodrill, acquired acreage on SC74 in a competitive bid under the 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.

In June 2015, Philodrill and PNOC Exploration Corporation (PNOC EC) entered into a Deed of Assignment whereby Philodrill transferred a 5% participating interest to PNOC EC.

SC74 will enter the second Sub-Phase in February 2016 with the conduct of a 2D seismic survey as part of its sub-phase 2 work commitment.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SC 75
On January 3, 2014, the duly executed copy of Petroleum SC 75 was granted to the bid group comprising PPC, PNOC EC, 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.

The work commitment for Sub-Phase 1 had been fulfilled in 2015 following the completion of the acquisition of 2,235 line-km of 2D seismic data over SC 75 and simultaneous acquisition of marine magnetic and gravity data, broadband processing of the 2D seismic data, processing and interpretation of gravity and magnetic data, and Geological & Geophysical (G&G) studies, including 2D seismic interpretation.

In 2015, the DOE advised the SC 75 Consortium of its decision to place the area under Force Majeure effective from the end of Sub-Phase 1 on December 27, 2015. In view of this, all exploration activities in the block have been suspended until such time that the DOE informs the Consortium of the lifting of the Force Majeure.

Peru Block XXVIII
Block XXVIII was awarded to Pitkin in October 2010. It covers an area of 3,143 square kilometers located in the eastern portion of the productive Sechura Basin.

In 2015, Pitkin recognized loss on write-off amounting to ₱70,453 following its exit in the exploration sub-phase 2 and surrendered the block to the Peruvian Government. This reduced the carrying value of Block XXVIII to nil as at December 31, 2015.

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%). The block covers an area of 4,875 square kilometers and is located in the Tumbes Basin offshore NW Peru.

During the year, the Peruvian oil and gas regulator, Perupetro S.A., approved the application to place Peru Block Z-38 into force majeure. The application for force majeure was requested on the basis of the Operator, Karoon Gas, being unable to secure a suitable drilling unit within the required timeframe on the Pacific side of the Americas. The force majeure was granted effective September 1, 2013. As a result, the term of the current third exploration period will have approximately 22 months remaining once the force majeure is lifted.

During 2015, Peruvian Government has approved an Environmental Impact Study to drill ten exploration wells and ten appraisal wells on offshore Block Z-38. Work has continued on seismic interpretation of the block, together with the mapping of high-graded prospects. Community relations activities are being conducted in preparation of the upcoming drilling campaign.

12. **Other Noncurrent Assets**

	2015	2014
Guarantee deposits	**₱26,824**	₱25,490
Refundable deposits	–	1,667
	₱26,824	₱27,157

Pitkin has deposits to guarantee satisfactory completion of projects and work commitments under certain exploration contracts.

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. In 2015, the remaining refundable deposits were reclassified to ‘Other current assets’.

13. **Trade and Other Payables**

	2015	2014
Trade	**₱3,620**	₱10,803
Accrued expenses	**10,332**	38,942
Accrued interest	–	823
Withholding taxes	**12**	693
Other nontrade liabilities	**968**	12,816
	₱14,932	₱64,077

The Group’s trade and other payables 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.

14. **Long-term Loan**

On December 21, 2012, FEP, together with GPC, entered into a US$40,000 loan facility with BNP Paribas for the purpose of financing the development activities of SC 14C’s Galoc Phase 2. 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 nil and ₱1,095 as at December 31, 2014 and 2013, respectively. Interest expense recognized in profit or loss in 2014 amounted to ₱3,146. Facility fees and finance charges amounted to ₱466 and ₱1,402 as at December 31, 2014, and ₱7,100 and ₱7,890 as at December 31, 2013. The facility fees and finance charges are also recorded under ‘Interest expense and other charges’ in the consolidated statements of income.

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

On June 30, 2014, the loan was fully-settled and all accessory contracts were terminated simultaneously.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. **Costs and Expenses**

	2015	2014	2013
Petroleum production costs:			
Production costs	**₱86,801**	₱92,793	₱48,346
Depletion and depreciation (Note 9)	**11,180**	60,188	39,549
	₱97,981	₱152,981	₱87,895
Cost of coal sales:			
Personnel costs	**₱–**	₱1,076	₱5,983
Materials and supplies	**–**	485	2,697
Communication, light and water	**–**	378	2,588
Outside services	**–**	206	1,146
Purchase cost of coal	**–**	5	29
Depletion and depreciation (Note 9)	**–**	–	4,452
Others	**–**	1,047	875
	₱–	₱3,197	₱17,770
General and administrative expenses:			
Personnel costs	**₱99,087**	₱132,315	₱130,059
Professional fees	**60,577**	59,177	88,310
Directors' fees	**20,266**	40,511	47,562
Taxes and licenses	**15,873**	1,467	3,485
Rental	**4,978**	7,531	9,056
Depreciation (Note 9)	**4,175**	3,385	4,478
Communications, light and water	**1,580**	2,671	12,773
Travel and transportation	**1,307**	6,841	14,806
Office supplies	**216**	625	1,554
Repairs and maintenance	**159**	397	1,906
Others	**20,604**	24,347	23,353
	₱228,822	₱279,267	₱337,342

The Group's cost of coal of sales pertains to the cost of coal sales of BEMC. Since BEMC has stopped its operation, the current year's balance is nil compared to ₱3,197 and ₱17,770 during 2014 and 2013 respectively. The production and depletion cost of the Group primarily is attributable to FEP, on the Libertad and Galoc producing wells. The Group's General and administrative expenses includes personnel cost, professional fees, directors' fees, rentals, travel and transportation, depreciation, utilities, taxes and licenses and office supplies.

16. **Other Income (Charges)**

	2015	2014	2013
Provision and reversal of impairment and loss on write off of assets - net:			
Reversal of impairment losses (Notes 7, 9 and 11)	**₱390,001**	₱18,122	₱34,739
Loss on write-off of assets (Note 11)	**(70,453)**	–	–
Provision for impairment of assets (Note 11)	**(359,395)**	(340,349)	(137,269)
	(₱39,847)	(₱322,227)	(₱102,530)

	2015	2014	2013
Others - net:			
Reversal of accrual for retirement liability (Note 20)	**₱28,356**	₱–	₱–
Gain (Loss) on sale of assets (Note 9)	**1,688**	–	(24,164)
Gain on curtailment (Note 20)	**–**	1,682	–
Gain on sale of subsidiaries (Note 1)	**–**	–	246,597
Gain on sale of AFS financial assets (Note 10)	**–**	–	26,867
Others - net	**(10,429)**	2,155	534
	₱19,615	₱3,837	249,834

17. **Equity**

Capital Stock

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

Details of the Parent Company's capital stock follow:

	Number of Shares	
Common stock - ₱1 par value	**2015**	2014
Authorized	**6,800,000,000**	6,800,000,000
Issued, outstanding and fully paid		
January 1	**1,700,000,000**	1,700,000,000
Issuance during the year	**–**	–
December 31	**1,700,000,000**	1,700,000,000

As at December 31, 2015 and 2014, the Parent Company's total stockholders totaled 35,236 and 35,409, respectively.

Equity Reserves

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% to 48.76% as at December 31, 2012. '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.

In July 2014, Pitkin tendered an offer to buy back 11,972,500 of its outstanding shares for a consideration of US$1 per share. The Parent Company surrendered 2,000,000 of its shares wherein non-controlling interests surrendered 9,099,000 shares. As a result of the share buyback transaction, the Parent Company's ownership interest increased from 50.28% to 53.07%. The total consideration paid by Pitkin to shareholders amounted to ₱482,363, wherein ₱395,733 is attributable to non-controlling interest. An increase in equity of Parent Company amounting to ₱46,382 resulted from the transaction, while the rest of the movement was due to share option cancellation during the period.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In May 2015, Pitkin tendered another offer to buy back its outstanding shares for a consideration of US$1 per share. The Parent Company and the non-controlling interests surrendered 21,373,000 shares and 19,499,500 shares, respectively. As a result, the Parent Company's interest in Pitkin has increased from 53.07% to 53.43%. The total consideration paid by Pitkin to shareholders amounted to ₱1,365,404, wherein ₱651,436 is attributable to non-controlling interests. An increase in equity of Parent amounting to ₱102,949 resulted from the transaction.

In June 2015, PPC bought additional investment from NCIs of Forum Energy Plc. The NCIs sold 4,383,777 for a total consideration of ₱63,706. In November, PPC acquired 2,000,000 shares from FEC. The transactions resulted to increased ownership of PPC over FEP from 36.44% to 48.77%. A decrease in equity of Parent amounting to ₱31,747 resulted from the transaction.

In November 2015, PPC bought 2 million additional FEP shares from FEC. As a result, the ownership interest of PPC and FEC in FEP resulted to 48.77% and 18.43%, respectively.

<u>Non-controlling Interest</u>
Non-controlling interests consist of the following:

	Percentage of Ownership	Country of incorporation and operation	**2015**	2014
Non-controlling interests in the net assets of:				
Pitkin and its subsidiaries	46.57%	UK/Philippines	**₱2,060,294**	₱3,032,576
FEC	48.76%	Canada	**93,559**	84,773
FEP and its subsidiaries	46.90%	UK/Philippines	**230,386**	9,055
			₱2,384,239	₱3,126,404

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

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

	2015	2014
FEP and its subsidiaries	**185,033**	17,277
FEC	**8,428**	(5,871)
Pitkin and its subsidiaries	**(₱249,948)**	(₱234,467)

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

	2015	2014
FEP and its subsidiaries	**₱41,141**	1,596
FEC	**439**	81
Pitkin and its subsidiaries	**(2,210)**	6,565

The summarized financial information of these subsidiaries before intercompany eliminations is provided below:

Statements of comprehensive income as of December 31, 2015:

	Pitkin and its subsidiaries	**FEC**	**FEP and its subsidiaries**
Revenue	**₱–**	**₱–**	**₱172,250**
Cost of sales	**–**	**–**	**(97,981)**
General and administrative expenses	**(95,859)**	**(11,740)**	**(56,733)**
Other income (charges)	**(441,077)**	**29,026**	**7,815**
Interest expense	**–**	**–**	**(39,124)**
Income (loss) before tax	**(536,936)**	**17,286**	**(13,773)**
Provision for income tax	**14**	**–**	**2**
Net income (loss)	**(536,950)**	**17,286**	**(13,775)**
Other comprehensive income (loss)	**(4,122)**	**901**	**54,118**
Total comprehensive income (loss)	**(₱541,072)**	**₱18,187**	**₱40,343**
Attributable to non-controlling interests	**(₱252,159)**	**₱8,868**	**₱226,174**

Statements of comprehensive income as of December 31, 2014:

	Pitkin and its subsidiaries	FEC	FEP and its subsidiaries
Revenue	₱–	₱–	₱304,723
Cost of sales	–	–	(152,981)
General and administrative expenses	(167,102)	(12,047)	(73,989)
Other income (charges)	(327,327)	6	(410)
Interest expense	–	–	(5,014)
Income (loss) before tax	(494,429)	(12,041)	72,329
Benefit from income tax	–	–	(8,947)
Net income (loss)	(494,429)	(12,041)	63,382
Other comprehensive income (loss)	9,308	134	(8,101)
Total comprehensive income (loss)	(₱485,121)	(₱11,907)	₱55,281
Attributable to non-controlling interests	(₱227,903)	(₱5,790)	₱15,681

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)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Statements of financial position as at December 31, 2015:

	Pitkin and its subsidiaries	**FEC**	**FEP and its subsidiaries**
Current assets	**₱291,108**	**₱26,888**	**₱113,576**
Noncurrent assets	**180,321**	**40**	**1,567,524**
Current liabilities	**(7,343)**	**(2,869)**	**(3,186)**
Noncurrent liabilities	**–**	**–**	**(1,012,677)**
Total equity	**464,086**	**24,059**	**665,237**
Attributable to:			
Equity holders of the Parent Company	**₱216,125**	**₱12,325**	**₱324,370**
Non-controlling interests	**247,961**	**11,734**	**340,867**

Statements of financial position as at December 31, 2014:

	Pitkin and its subsidiaries	FEC	FEP and its subsidiaries
Current assets	₱1,818,056	₱12,519	₱102,058
Noncurrent assets	567,738	60	1,467,920
Current liabilities	(25,747)	(6,706)	(45,838)
Noncurrent liabilities	(20,964)	–	(899,249)
Total equity	2,339,083	5,873	624,891
Attributable to:			
Equity holders of the Parent Company	₱1,241,351	₱3,009	₱612,021
Non-controlling interests	1,097,732	2,864	12,870

Statements of cash flows as of December 31, 2015:

Activities	**Pitkin and its subsidiaries**	**FEC**	**FEP and its subsidiaries**
Operating	**(₱234,888)**	**(₱48,514)**	**(₱833,121)**
Investing	**55,464**	**63,727**	**6,097**
Financing	**(1,332,272)**	**–**	**808,562**
Net increase (decrease) in cash and cash equivalents	**(₱1,511,696)**	**₱15,213**	**(₱18,462)**

Statements of cash flows as of December 31, 2014:

Activities	Pitkin and its subsidiaries	FEC	FEP and its subsidiaries
Operating	(₱196,275)	(₱10,186)	₱202,078
Investing	(112,817)	20	(36,878)
Financing	(513,737)	–	(141,144)
Net increase (decrease) in cash and cash equivalents	(₱822,829)	(₱10,166)	₱24,056

18. **Income Taxes**

a. In 2015, current provision for income tax pertains to BEMC, PPC and FEP's MCIT.

b. The components of the Group's deferred income tax liabilities as at December 31, 2015 and 2014 are as follows:

	2015	2014
Deferred income tax assets		
Impairment loss on deferred exploration costs	**₱16,303**	₱16,303
NOLCO	**4,737**	1,497
MCIT	**1,683**	1,476
Retirement benefit	–	3,026
	₱22,723	₱22,302
Deferred income tax liabilities		
Unrealized foreign exchange gain	**(₱5,438)**	(₱5,332)
Unrealized gain on dilution of interest	**(126,615)**	(126,615)
Fair value adjustment as a result of business combination	**(979,990)**	(979,990)
	(₱1,112,043)	(₱1,111,937)

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 (benefit from) income tax follows:

	2015	2014	2013
Provision for (benefit from) income tax computed at the statutory income tax rate	**(₱102,736)**	(₱131,930)	(₱58,587)
Additions to (reductions in) income tax resulting from:			
Nontaxable petroleum revenue	**(40,676)**	(83,507)	(53,949)
Nondeductible petroleum production costs and depletion	**41,756**	47,081	33,128
Interest income subjected to final tax	**(806)**	(4,079)	(100)
Nondeductible expenses and non-taxable income:			
Provision for impairment of assets	–	418	60,510
Gain on sale of AFS financial assets	**(7,256)**	–	(8,060)
Movement in unrecognized deferred tax asset	**109,713**	162,873	12,106
Others	**21**	197	115
Provision for (benefit from) income tax	**₱16**	₱8,947	(₱14,837)

d. As at December 31, 2015, 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
2013	2016	₱109,821	₱1,022
2014	2017	516,164	1,428
2015	2018	52,466	1,028
		₱678,451	₱3,478

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following are the movements of the Group's NOLCO and excess MCIT as at December 31, 2015 and 2014:

	NOLCO		Excess MCIT	
	2015	2014	**2015**	2014
Beginning balance	**₱702,425**	₱291,483	**₱2,742**	₱1,316
Additions	**52,466**	516,164	**1,028**	1,428
Applications	**(25,267)**	(36,474)	**–**	–
Expirations	**(51,173)**	(68,748)	**(292)**	(2)
Ending balance	**₱678,451**	₱702,425	**₱3,478**	₱2,742

e. The Group did not recognize deferred income tax assets on the following deductible temporary differences as at December 31, 2015 and 2014:

	2015	2014
NOLCO	**₱52,466**	₱7,937
Excess MCIT	**1,028**	1,428
	₱53,494	₱9,365

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 2015 and 2014.

19. 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 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:

	2015			
	Amount/ Volume	**Outstanding Balance**	**Terms**	**Conditions**
Ultimate parent - PMC				
Advances: increase (decrease)				
PPC	**₱490,166**	**₱2,194,128**	On demand; non-interest bearing	Secured, no impairment
BEMC	**–**	**737,815**	On demand; non-interest bearing	Unsecured, no impairment
Total	**₱490,166**	**₱2,931,943**		

	2014			
	Amount/ Volume	Outstanding Balance	Terms	Conditions
Ultimate parent - PMC				
Advances: increase (decrease)				
PPC	₱163,379	₱2,684,021	On demand; non-interest bearing	Unsecured, no impairment
BEMC	61,875	737,815	On demand; non-interest bearing	Unsecured, no impairment
Total	₱225,254	₱3,421,836		

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. Drawdowns from the loan amounted to nil, US$15,500 and US$15,200, as at December 31, 2015, 2014 and 2013, respectively. The loans receivable from FPHL and loan payable to PMC recorded in the Parent Company amounted to ₱674,804 as at December 31, 2013.

   In 2015, a transfer agreement has been entered into by FPHL (the "Original Borrower") and GSEC 101 - Jersey (the "New Borrower"). This states that all the rights and obligations under the Finance Documents of the Original Borrower will be transferred by way of novation to the New Borrower and the Original Borrower will be released from its obligations and will cease to own any rights under the Facility Agreement.

   Interest expense amounted to ₱37,986, ₱32,190 and ₱27,317 in 2015, 2014 and 2013, respectively. In the same years, commitment fees amounted to ₱1,138, ₱1,130 and ₱1,721, respectively. The interest expense and commitment fees were recorded under 'Interest expense and other charges' in the consolidated statements of income while these were eliminated upon consolidation for the year ended December 31, 2015 and December 31, 2014.

NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS

Loans receivable of PPC as at December 31, 2015 and 2014 amounted to ₱729,430,000 and ₱693,160,000.

b. PMC made cash advances to be used as additional working capital of the Parent Company and acquisition of investments. In 2013, PMC and the Parent Company have agreed that the settlement of the outstanding US dollar-denominated advances will be settled in Peso.

On August 11, 2015, the BOD has agreed that a pledge agreement with PMC (pledgee) be entered into by PPC (pledgor). In order to secure the balance of US$50 million or ₱2.2 billion as of pledge date, the Company has pledged its shares in its subsidiaries, Pitkin and Forum to PMC. The contract was formally executed on August 17, 2015. As at December 31, 2015 and 2014, advances from PMC amounted to ₱2,931,669 and ₱3,421,836, 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, 2015 and 2014, the non-interest-bearing advances from PMC amounted to ₱737,815 and nil, respectively.

d. The compensation of key management personnel pertaining to short-term employees and retirement benefits amounted to ₱12,135, ₱3,805 and ₱3,625 for the years ended December 31, 2015, 2014 and 2013, respectively.

20. **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 and FEP have unfunded, noncontributory defined benefit retirement plan covering its regular and full-time employees.

The cost of defined benefit pension plans, as well as the present value of the pension obligation, is determined using actuarial valuations. The actuarial valuation involves making various assumptions.

In 2014, the principal assumptions used in determining retirement benefits liability for the defined benefit plans are shown below:

	2014
Discount rates	3.50% - 5.77%
Future salary increases	5.00%

Present value of defined benefit obligation:

	2014
Net benefit cost in consolidated statements of comprehensive income	
January 1	₱15,623
Current service cost	6,814
Interest cost	2,595
Gain on curtailment	(1,682)
Subtotal (Carried Forward)	23,350

	2014
Subtotal (Brought Forward)	₱23,350
Re-measurements in OCI	
Experience adjustments	2,267
Actuarial changes from changes in financial assumptions	(1,065)
Subtotal	1,202
Ending balance	₱24,552

In 2015, Pitkin approved plan to terminate all its employees effective end of January 2016. FEPCO also terminated its employees in August 2015. These resulted in absolute and full extinguishment of the obligation of the Group to pay retirement benefits under the existing regulatory framework. Consequently, the outstanding retirement benefits liabilities of the Group at the date of extinguishment were recognized as gain in the statement of comprehensive income. The reversal of accrual for retirement benefits liability of Pitkin and FEPCO amounted to ₱3,463 and ₱24,893, respectively.

The retirement benefits liability amounting to nil and ₱24,552 as at December 31, 2015 and 2014, respectively, are recorded under 'Other noncurrent liabilities' in the consolidated statements of financial position.

21. **Financial Instruments**

The Group has determined that the carrying amounts of cash and cash equivalents, trade and other receivables, refundable deposits, trade and other payables, advances from related parties and other noncurrent liabilities, reasonably approximate their fair values because these are mostly short-term in nature.

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

	December 31, 2015		December 31, 2014	
	Fair Values	**Carrying Values**	Fair Values	Carrying Values
Financial Assets				
Cash on hand	**₱74**	**₱74**	₱135	₱135
Loans and receivables:				
Cash and cash equivalents:				
Cash in banks	**148,170**	**148,170**	387,611	387,611
Short-term investments	**378,111**	**378,111**	1,520,619	1,520,619
Trade and other receivables:				
Trade	**82,925**	**82,925**	74,435	74,435
Accrued interest	–	–	2,790	2,790
Others	**28,705**	**28,705**	14,562	14,562
Refundable deposits under:				
Other current assets	**1,199**	**1,199**	5,217	5,217
Other noncurrent assets	–	–	27,157	27,157
	₱639,184	**₱639,184**	₱2,032,526	₱2,032,526

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	December 31, 2015		December 31, 2014	
	Fair Values	**Carrying Values**	Fair Values	Carrying Values
Financial Liabilities				
Other financial liabilities:				
Trade and other payables:				
Trade	**₱3,620**	**₱3,620**	₱10,803	₱10,803
Accrued expenses	**10,332**	**10,332**	38,942	38,942
Accrued interest	**–**	**–**	823	823
Other nontrade liabilities	**968**	**968**	12,816	12,816
Advances from related parties	**2,931,943**	**2,931,943**	3,421,836	3,421,836
Current portion of long-term loan	**–**	**–**	–	–
Noncurrent portion of long-term loan	**–**	**–**	–	–
Other noncurrent liabilities	**192,807**	**192,807**	191,754	191,754
	₱3,139,670	**₱3,139,670**	₱3,676,974	₱3,676,974

Due to the short-term nature of cash and cash equivalents, trade and other receivables, trade and other payables, and advances from related parties, the carrying amounts of these financial instruments approximate their fair values at each reporting period.

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 loan bears.

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 December 31, 2015 and 2014.

22. Financial Risk Management Objectives and Policies

The Group's financial instruments consist of cash and cash equivalents, trade and other receivables receivable, trade and other payables, 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.

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:

	2015	2014
Cash in banks and cash equivalents	**₱526,281**	₱1,908,230
Trade and other receivables	**111,630**	91,787
Refundable deposits	**–**	6,884
	₱637,911	₱2,006,901

The following tables show the credit quality of the Group's financial assets by class as at December 31, 2015 and 2014 based on the Group's credit evaluation process.

As at December 31, 2015:

	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	**₱148,170**	**₱–**	**₱–**	**₱148,170**
Short-term investments	**378,111**	**–**	**–**	**378,111**
Trade and other receivables:				
Trade	**82,925**	**–**	**–**	**82,925**
Accrued interest	**–**	**–**	**–**	**–**
Others	**28,705**	**–**	**–**	**28,705**
Refundable deposits under:				
Other current assets	**70**	**–**	**–**	**70**
Other noncurrent assets	**27,953**	**–**	**–**	**27,953**
Total	**₱665,934**	**₱–**	**₱–**	**₱665,934**

As at December 31, 2014:

	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	₱387,611	₱–	₱–	₱387,611
Short-term investments	1,520,619	–	–	1,520,619
Accounts receivable:				
Trade	73,569	–	866	74,435
Accrued interest	2,790	–	–	2,790
Others	14,562	–	–	14,562
Refundable deposits under:				
Other current assets	5,217	–	–	5,217
Other noncurrent assets	27,157	–	–	27,157
Total	₱2,031,525	₱–	₱866	₱2,032,391

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2015 and 2014, respectively:

As at December 31, 2015:

	On Demand	**Less than 3 Months**	**3 to 12 Months**	**Over 12 Months**	**Total**
Cash on hand	**₱74**	**₱–**	**₱–**	**₱–**	**₱74**
Loans and receivables:					
Cash in banks	**148,170**	**–**	**–**	**–**	**148,170**
Short-term investments	**–**	**378,111**	**–**	**–**	**378,111**
Trade and other receivables	**–**	**78,467**	**–**	**–**	**78,467**
Refundable deposits under:					
Other current assets	**70**	**–**	**–**	**–**	**70**
Other noncurrent assets	**–**	**–**	**–**	**27,953**	**27,953**
Total undiscounted financial assets	**₱148,314**	**₱456,578**	**₱–**	**₱27,953**	**₱632,845**
Trade and other payables:					
Trade	**₱–**	**₱3,620**	**₱–**	**₱–**	**₱3,620**
Accrued expenses	**–**	**10,332**	**–**	**–**	**10,332**
Other nontrade liabilities	**–**	**968**	**–**	**–**	**968**
Advances from related parties	**2,931,943**	**–**	**–**	**–**	**2,931,943**
Other noncurrent liabilities	**–**	**–**	**–**	**192,807**	**192,807**
Total undiscounted financial liabilities	**₱2,931,943**	**₱14,920**	**₱–**	**₱192,807**	**₱3,139,670**

As at December 31, 2014:

	On Demand	Less than 3 Months	3 to 12 Months	Over 12 Months	Total
Cash on hand	₱135	₱–	₱–	₱–	₱135
Loans and receivables:					
Cash in banks	387,611	–	–	–	387,611
Short-term investments	–	1,520,619	–	–	1,520,619
Accounts receivable	69,219	–	21,702	866	91,787
Refundable deposits under:					
Other current assets	5,217	–	–	–	5,217
Other noncurrent assets	–	–	–	27,157	27,157
Total undiscounted financial assets	₱462,182	₱1,520,619	₱21,702	₱28,023	₱2,032,526
Accounts payable and accrued liabilities:					
Trade	₱–	₱10,803	₱–	₱–	₱10,803
Accrued expenses	–	38,942	–	–	38,942
Accrued interest	823	–	–	–	823
Other nontrade liabilities	6,780	–	6,036	–	12,816
Advances from related parties	3,421,836	–	–	–	3,421,836
Current portion of long-term loan	–	–	–	–	–
Noncurrent portion of long-term loan	–	–	–	–	–
Other noncurrent liabilities	–	–	–	191,754	191,754
Total undiscounted financial liabilities	₱3,429,439	₱49,745	₱6,036	₱191,754	₱3,676,974

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 ₱27,650, ₱110 and ₱11,011 arising from the translation of these foreign currency-denominated financial instruments were recognized by the Parent Company in the years ended December 31, 2015, 2014 and 2013, respectively. The exchange rates of the Peso to US dollar were ₱47.06, ₱44.72 and ₱44.40 to US$1 in the years ended December 31, 2015, 2014 and 2013, respectively.

The Group's foreign currency-denominated monetary assets and monetary liabilities as at December 31, 2015 and 2014 are as follow:

	2015		2014	
	US$	**Peso Equivalent**	US$	Peso Equivalent
Assets				
Cash and cash equivalents	**10,840**	**₱510,130**	$44,205	₱1,976,867
Trade Receivables	**915**	**43,060**	–	–
Liabilities				
Advances from related parties	**(3,647)**	**(171,628)**	–	–
Net monetary assets (liabilities)	**$8,108**	**₱381,562**	$44,205	₱1,976,867

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
2015	
Appreciate by 4%	**(₱15,262)**
Depreciate by (4%)	**15,262**
2014	
Appreciate by 4%	(₱79,075)
Depreciate by (4%)	79,075

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

23. Capital Management

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

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

	2015	2014
Capital stock	**₱1,700,000**	₱1,700,000
Deficit	**(1,233,205)**	(1,145,665)
	₱466,795	₱554,335

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

24. Basic/Diluted Loss per Share

Basic/diluted loss per share is computed as follows:

	2015	2014	2013
Net loss attributable to equity holders of the Parent Company	**(₱87,540)**	(₱225,591)	(₱98,534)
Divided by weighted average number of common shares issued during the year	**1,700,000,000**	1,700,000,000	1,700,000,000
Basic/diluted loss per share	**(₱0.051)**	(₱0.133)	(₱0.058)

As at December 31, 2015, 2014, and 2013, the Parent Company does not have any potentially dilutive stocks.

25. Segment Information

The Group currently has two reportable segments namely oil and gas activities and coal mining activities. No operating segments have been aggregated to form the two reportable operating segments.

Operating results of the Group is regularly reviewed by the Group's President 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 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 operating 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:

	2015	2014	2013
SC 14 Block C (Galoc)	**₱157,539**	₱266,298	₱142,877
SC 14 Block A (Nido)	**5,156**	18,140	17,028
SC 14 Block B-1(North Matinloc)	**1,938**	13,383	4,962
SC 14 Block B (Matinloc)	**6,556**	4,117	18,038
SC 40 Libertad	**1,061**	2,785	4,873
White Castle	**–**	–	3,465
	₱172,250	₱304,723	₱191,243

On January 6, 2014, BEMC finalized the agreement regarding the assignment and sale of its Coal Operating Contract (COC). On January 8, 2014, BEMC requested to DOE the approval of the Deed of Assignment (DA) executed by BEMC and Grace Coal Mining and Development, Inc. On May 27, 2015, the DOE has approved the assignment. Thus, the new operator of COC 130 is now GCMDI.

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, 2015:

	Oil and Gas	**Coal**	**Eliminations**	**Total**
Consolidated Revenue				
External customers	**₱172,250**	**₱–**	**₱–**	**₱172,250**
Results				
EBITDA	**₱611,572**	**₱4,514**	**(₱757,292)**	**(₱141,206)**
Depreciation and depletion	**(4,175)**	**–**	**–**	**(4,175)**
Income tax (expense) benefit	**16**	**–**	**–**	**16**
Interest Income	**40,462**	**–**	**(40,462)**	**–**
Interest expense and other charges - net	**(39,124)**	**–**	**40,462**	**1,338**
Consolidated net income (loss)	**₱608,751**	**₱4,514**	**(₱757,292)**	**(₱144,027)**
Core net income (loss)	**(₱931,422)**	**(₱317)**	**₱811,347**	**(₱120,392)**
Consolidated total assets	**₱6,234,649**	**₱2,643**	**₱990,888**	**₱7,228,180**
Consolidated total liabilities	**₱3,347,458**	**₱737,907**	**₱175,567**	**₱4,260,932**
Other Segment Information				
Capital expenditures	**₱66,886**	**₱–**	**₱–**	**₱66,886**
Non-cash expenses other than depletion and depreciation	**469,878**	**–**	**–**	**469,878**

As at December 31, 2014:

	Oil and Gas	Coal	Eliminations	Total
Consolidated Revenue				
External customers	₱304,723	₱3,159	₱–	₱307,882
Results				
EBITDA	(₱434,006)	₱14,658	(₱11,917)	(₱431,265)
Depreciation and depletion	(5,014)	–	–	(5,014)
Income tax (expense) benefit	(8,947)	–	–	(8,947)
Interest expense and other charges - net	(3,428)	–	–	(3,428)
Consolidated net income (loss)	(₱451,395)	₱14,658	(₱11,917)	(₱448,654)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	Oil and Gas	Coal	Eliminations	Total
Core net income (loss)	(₱72,696)	(₱3,465)	₱9,362	(₱66,799)
Consolidated total assets	₱8,441,162	₱11,931	₱44,078	₱8,497,171
Consolidated total liabilities	₱3,803,932	₱751,709	₱268,839	₱4,824,480
Other Segment Information				
Capital expenditures	₱219,854	₱–	₱–	₱219,854
Non-cash expenses other than depletion and depreciation	372,041	–	–	372,041

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 and other charges - 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	₱9,376,854	₱43,383	₱694	₱9,420,931
Consolidated total liabilities	₱3,812,538	₱797,819	₱305,186	₱4,915,543
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

Annual revenues from the major customers of the Group are as follows:

	2015	2014	2013
Singapore Petroleum Corporation	**₱79,002**	₱–	₱–
SK Energy International Pte Ltd	**41,264**	32,466	76,310
Thai Oil Public Company Limited	**37,272**	52,884	–
Hyundai Oilbank Company Ltd	–	97,481	–
GS Caltex Corporation	–	62,829	36,998
Pilipinas Shell Petroleum Corporation	–	35,365	39,502
Petco Trading Labuan Company Ltd	–	–	28,760
	₱157,538	₱281,025	₱181,570

Revenues amounting to ₱14,711, ₱26,855, and ₱27,203 pertain to external customers with individual revenue amounts less than 10% of the Group's revenue for the years ended December 31, 2015, 2014 and 2013.

The table below shows the Group's reconciliation of core net income (loss) to the consolidated net loss for the years ended December 31, 2015, 2014 and 2013.

	2015	2014	2013
Core net income (loss)	**(₱129,893)**	(₱66,799)	(₱147,322)
Non-recurring gains (losses)			
Foreign exchange gains (losses) - net	**21,997**	2,292	5,328
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)	**231,052**	18,122	34,739
Loss on sale of assets	–	–	(11,782)
Provision for impairment of assets (Notes 6, 7, 9 and 11)	**(229,650)**	(180,623)	(128,779)
Net tax effect of aforementioned adjustments	**18,954**	1,417	(1,598)
Net income (loss) attributable to:			
Equity holders of the Parent Company	**(87,540)**	(225,591)	(98,534)
Non-controlling interests	**(56,487)**	(223,063)	(2,700)
	(₱144,027)	(₱448,654)	(₱101,234)

26. **Provisions and Contingencies**

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

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. In 2013, FEP paid BEC ₱41,050 to fully extinguish the liability.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 above mentioned transactions amounting to ₱192,807 and ₱191,754 as at December 31, 2015 and 2014, respectively, are recorded under 'Other noncurrent liabilities' in the consolidated statements of financial position

27. Notes to Consolidated Statements of Cash Flows

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

Non-cash Investing Activities

a. In 2014, provision for rehabilitation and decommissioning costs amounting to ₱8,717 was recognized by FEP for its producing oil and gas assets and capitalized as part of property and equipment under "Wells, platforms, and other facilities".

CORPORATE GOVERNANCE

As a publicly-listed Philippine corporation, PXP conforms to the corporate governance rules, requirements, and regulations of the Philippine SEC and the PSE. The Company is likewise committed to the highest standards of corporate governance and continues to benchmark against recognized international best practices and monitors developments in corporate governance to elevate the Company's corporate governance structures, processes, and practices to global standards. PXP also advocates an ethical corporate culture guided by its core values of integrity, teamwork, respect for individuals, work excellence, corporate as well as social and environment responsibility.

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.

A. RIGHTS OF SHAREHOLDERS

We respect the rights of all shareholders, in accordance with the Corporation Code, Articles of Incorporation, By-Laws, and the Manual of Corporate Governance.

Basic Shareholders Right

Dividend Policy

The Company has not declared any cash or other dividends from the time of its incorporation. Apart from legal restrictions governing the declaration of dividends, there are no restrictions that limit the Company's ability to pay dividends whether currently or in the future.

On July 24, 2014, the Company has adopted a policy on the Timing of Cash Dividend Payment which should be within 30 calendar days from the date of declaration.

CORPORATE GOVERNANCE

Right To Participate In Decisions

Shareholders have the right to participate in decisions concerning fundamental corporate changes.

Shareholders also have the right to participate in decisions concerning fundamental corporate changes. The following corporate actions require the vote of shareholders holding at least 66 2/3% of the Company's outstanding capital stocks:

1. Amendment to the Articles of Incorporation;
2. Increase in capital stock;
3. Sale or disposition, including the constitution of a mortgage or a pledge, of all or substantially all of the Company's assets;
4. Investment of corporation funds for a purpose other than the Company's primary purpose;
5. Waiver of pre-emptive rights for specific transactions; and
6. Mergers and consolidations.

Right To Participate Effectively and Vote In General Shareholder Meetings

Shareholders have the right to participate effectively and vote in general shareholders' meetings. The Company ensures that shareholders are informed of the rules, including the voting procedures that govern general shareholders' meetings.

PXP respects and recognizes the right of minority shareholders to nominate director. This right is corollary to the right to vote, which is guaranteed under the Corporation Code of the Philippines and recognized in the Company's By Laws and Manual of Corporate Governance.

Under the Company's By-Laws, shareholders may submit nominations to the Board of Directors' Nominations Committee. The deadline for submission of nominations is on the 23rd day of March of each year, or such other date as may be determined by the Board of Directors, and announced by the Company via the PSE disclosure system early in the year, together with the announcement for the date of the annual shareholders' meeting and the record date for the said meeting.

All shareholders have the right to vote each year for the following:

a. Election of directors
b. Approval of the Minutes of shareholders' meeting/s held in the previous year;
c. Approval of the annual report and the audited financial statements;
d. Selection of election inspectors for the ensuing year; and
e. Selection of the external auditors.

Voting Procedures

Voting is done by balloting and shareholders shall be entitled to vote either in person or by proxy. Shareholders who are present and did not submit proxies before the meeting are given ballots upon registration. In the case of proxies submitted prior to the meeting, the proxy designated by the shareholder to represent them at shareholders' meeting is provided with ballots for casting in accordance with the shareholder's instructions, as indicated in the proxy.

Proxies will be tabulated by the Company's stock transfer agent, the BDO Stock Transfer and results of the tabulation will be announced for the relevant items on the Agenda. The Corporate Secretary will be responsible for the casting of votes and as appropriate, will be assisted by the Company's independent election inspectors in the counting of votes.

The voting and vote tabulation procedures used are further explained in the Company's Notice of Annual Shareholders' Meeting. The Corporate Secretary will likewise explain the voting procedure at the start of the meeting and the same form part of the Minutes of Annual Shareholders' meeting which will be posted in the Company's website.

Shareholders' Meeting

The Company recognizes the right of all shareholders to attend all scheduled shareholders' meetings. Regular shareholders' meetings shall be held annually on a fixed date indicated in the Company's By-Laws. The holding of the annual meeting is mandatory, as it is during which the directors are elected and the shareholders have the opportunity to be updated on the Company's condition, as well as its plans and programs. It also serves as a venue to ask questions and raise relevant issues or concerns. On the other hand, special meetings, as needed, shall be held at any time and for any purpose.

The minutes of the Annual Shareholders Meeting (ASM) is posted in the Company's website which will contain transcript of the open forum during the ASM, voting results per agenda, the resolutions taken up during the ASM and the attendance of directors and key officers.

As matter of practice, the members of the Board, the Chairman, the President, Audit Committee Chairman, representatives of the external auditors and other key officers and employees are present during the scheduled meetings of shareholders. They shall have the opportunity to make a statement, should they desire to do so, and will be available to respond to appropriate questions.

Notice
The Company sends a timely Notice of Meeting to shareholders, stating the date, time, place and detailed agenda with explanatory circulars, as needed for each item, and is sent out at least twenty eight (28) days prior to the scheduled annual meeting.

Markets For Corporate Control Should Be Allowed To Function In An Efficient And Transparent Manner.
In cases of mergers, acquisitions and/or takeovers requiring shareholders' approval, the Board, as a matter of practice, appoints an independent party to evaluate the fairness of the valuation, terms and conditions of such transactions.

In cases of mergers and acquisitions, the Chairman and the President, together with external financial and technical consultants, prepare a detailed recommendation for consideration by the Board.

An independent consultant or independent financial advisor is retained to review the terms and conditions of contracts and to evaluate the merits of each specific transaction.

The Exercise Of Ownership Rights By All Shareholders, Including Institutional Investors, Should Be Facilitated.
The Company does not have any institutional investor with a share ownership greater than 5% other than Social Security System which owns 7.3% of the total outstanding capital stock.

B. EQUITABLE TREATMENT OF SHAREHOLDERS

Shares and Voting Rights
The Company has only one class of common shares, each entitled to one vote. Cumulative voting, which enhances the ability of minority shareholders in voting for the election of directors, is allowed.

Notice of ASM
The Notice of ASM bears the resolutions in the most recent ASM and each resolution deals with only one item. There is no bundling of several items into the same resolution.

For a wider appreciation, all Company notices and circulars are written and published in the English language.

The Notice of ASM also provides the following information:

a. The profiles of each director – age, academic qualification, date of first appointment, experience, and directorships in other listed companies seeking for election/re-election;
b. External Auditors seeking appointment/re-appointment are clearly identified;
c. Dividend Policy. The Company has not declared any cash or other dividends from the time of its incorporation; and
d. Readily available proxy statements.

The Notice of ASM is also available in the Company's website through the following link:
http://www.philexpetroleum.com.ph/index.php?option=com_content&view=article&id=60&Itemid=40

Insider Trading and abusive Self-Dealing Policies

Trading Black-outs
The Company strictly enforces and monitors compliance with its policy on insider trading, which prohibits the trading of Company securities during prescribed periods by covering members of the:

- Board of Directors
- Management Team, and
- Employees who have been made aware of undisclosed material information with respect to the Company and its operations.

The blackout period begins thirty (30) calendar days prior to the disclosure of the Annual Financial Results until two (2) full trading days thereafter. For the quarterly results, the blackout period begins fifteen (15) calendar days before the structured disclosure until two (2) full trading days after the date of the disclosure.

In cases of non-structured disclosures of other material information, employees in possession of price sensitive information are reminded not to trade in the Company's shares from the time they come into possession of any material information and up to two (2) full trading days after the information is disclosed to the public.

Policy on Dealings in Company Shares of Stocks
The Company's revised Policy on Dealings in Company Shares of Stocks is available at *(http://www.philexpetroleum.com.ph/images/stories/philex/corporate_governance/pxp%20policy%20on%20dealings%20in%20company%20shares.pdf)*. Under the Revised Policy on Dealings in Company Shares of Stock, all concerned directors, officers and/or employees are required to report to the Compliance Officer all respective dealings in Company shares within two (2) business days, and for the Company to disclose the same within three (3) business days from the date of the transaction.

Related Party Transactions by Directors and Key Executives
The Company strictly adheres to the guidelines covering securities dealings to comply with existing government regulations and promote fairness. Changes in personal shareholdings of Directors and key officers of the Company resulting from open market transactions or the grant of shares from incentive-based schemes implemented by the Company are reported to the SEC and PSE within the specified deadlines.

Related Party Transaction ("RPT") Policy
The Company's Policy on Related Party Transactions can be accessed through *(http://www.philexpetroleum.com.ph/images/stories/philex/corporate_governance/pxp%20rpt%20policy%20amended.pdf)* in the Company's website. Under this policy, the Company shall, at all times, abide by the

CORPORATE
GOVERNANCE

following standards that RPTs must be "fair and conducted at arm's length" during the review and prior to the approval of such RPT.

For purposes of this Policy, a material and/or significant RPT is defined as transactions with related parties involving an aggregate amount or value equal to or greater than Fifty Million Pesos (P50 Million) over a twelve (12) month calendar year period ("Material and/or Significant RPT").

As a matter of policy and procedure, all material and/or significant RPTs shall be subject to review and endorsement by the Corporate Governance Committee ("CG Committee") and require the concurrence of all Independent Directors prior to the approval by the Board, except those covered under Annex B of this policy.

Conflict of Interest Policy

The Conflict of Interest Policy is available at *(http://www.philexpetroleum.com.ph/images/stories/philex/corporate_governance/conflict%20of%20interest%20policy.pdf)* in our Company website. This policy ensures that all work-related decisions, actions or inactions of PXP's directors, officers, employees and consultants are above-board and are based on sound business principles and judgment, devoid of bias or partiality.

The director, employee or consultant concerned shall likewise inhibit themselves from any direct or indirect participation or involvement at any stage of the transactional process flow. These persons are also not allowed to sign any paper or document related to the transaction.

The Company shall not, directly or indirectly (through any Subsidiary or affiliate), grant or arrange for any credit (or extensions thereof) in the form of personal loans to any director or officer, unless allowed by applicable laws and regulations.

Protecting Minority Shareholders From Abusive Actions

PXP respects the rights of the minority shareholders and develops policies towards ensuring that the Board, in all cases, shall consider the corporate interest above all, as a whole. The key guidelines include:

a. Emphasis on the fiduciary responsibilities of the Board, the officers to the Company and its shareholders as well as the duties of care and exercise of prudence;
b. Avoidance of conflicts of interest and prompt disclosure of potential conflict;
c. Prompt, full and fair disclosure of material information;
d. Formulation of other policies towards prevention of actions that will favor the controlling interest or major shareholder/s at the expense of the minority shareholder; and
e. Adoption of RPT Policy.

C. ROLE OF STAKEHOLDERS

The Company respects the rights of all stakeholders identified below, as established by law or by mutual agreement.

Customers

In line with PXP's Code of Business Conduct and Ethics, the Company upholds fair and transparent dealings with its customers. All the transactions and business relationships with customers are covered by contracts and comply with existing laws and regulations in the country.

Supplier/contractor practice

The Company's Policy on Vendor Relations is available at *(http://www.philexpetroleum.com.ph/images/stories/philex/corporate_governance/suppliercontractor%20relations%20policy.pdf)* in our Company website. Under this policy, the Company shall promote and implement standards of relationships with Suppliers that embody the Code's principles and core values as defined in the Code. Directors, employees and consultants shall maintain the Company's reputation for equal opportunity and honest treatment of suppliers in all business transactions through the following guidelines:

a. The Company shall seek and maintain mutually beneficial relationships with Suppliers that uphold the Company's principles and core values;
b. The Company shall give qualified Suppliers adequate, fair, and equal opportunity to bid on goods and services for the Company's projects or requirements;
c. The Company shall accredit Suppliers based on established criteria that reflect the Company's reputation for fair, equal opportunity and honest treatment of all Suppliers; and
d. As a general rule, purchases will be made on the basis of Competitive Bidding. In the event that it will be to the best interest of the Company to enter into strategic partnerships with Suppliers, the Company may apply the Negotiated Contract option. All such strategic partnerships and negotiated transactions must be reported and justified to the appropriate approving authorities, and recorded prior to commitment. Transparency in all these transactions shall be maintained at all times.

Environment

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 its workers at all levels.

Part of the Vendor Accreditation form is confirmation of any affiliation or involvement in any Environmental Organization.

Interaction with the Communities

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 petroleum exploration and development, environmental stewardship, health and safety, and community relations.

Anti-corruption Programs and Procedures

The Company formulated a Code of Business Conduct and Ethics which upholds professionalism and ethics in business dealings and transactions. In relation to this, the Company has a Vendor Relations Policy and Policy on Gifts, Entertainment and Sponsored Travel which can be found at: *http://www.philexpetroleum.com.ph/index.php?option=com_content&view=article&id=57&Itemid=44.*

Vendor Relations

The Company's Policy on Vendor Relations is available at *(http://www.philexpetroleum.com.ph/images/stories/philex/corporate_governance/suppliercontractor%20relations%20policy.pdf)* in our Company website. PXP promotes and implements standards of relationships with Suppliers that embody the Code's principles and core values as defined in the Code through its Vendor Relations Policy. This policy is available on the Company's website through the above link.

Policy on Gifts, Entertainment and Sponsored Travel

The Company's Policy on Vendor Relations is available at *http://www.philexpetroleum.com.ph/images/stories/philex/corporate_governance/policy%20on%20gifts%20entertainment%20and%20sponsored%20travels.pdf).* Under this Policy, directors, employees and consultants shall refrain from putting themselves in situations or acting in a manner that could significantly affect the objective, independent or effective performance of their duties and responsibilities in the Company.

In this regard, directors, employees and consultants who have received gifts, entertainment and sponsored travel from any third party, with whom the Company does business or proposes to do business, whether directly or indirectly, shall inform their donor that these were received in behalf of the Company and shall be handled in accordance with Company policy. Sponsored travel from third parties requires disclosure and prior approval from the superior, which approval shall conform to the letter and spirit of this policy.

Creditor's Rights

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

Effective redress for violation of Stakeholders' Rights.

The Company provides contact details, via the Company's website, which stakeholders (e.g. customers, suppliers, general public etc.) can use to voice their concerns and/or complaints for possible violation of their rights. Details of the contact persons are as follows:

Investor Relations:
Mr. Rolando S. Bondoy,
Division Manager - Investor Relations

Trade Creditors & Suppliers Inquiries:
Mr. Mark Raymond H. Rilles
Finance Controller

Snail Mail:
Philex Petroleum Corporation
Philex Building
27 Brixton Street, Pasig City 1600
Philippines

Telephone:
(632) 631-1381 to 88

Email:
admin@philexpetroleum.com.ph

Performance-enhancing mechanisms for Employees

Employee Development Programs

The Company respects the dignity and human rights of its employees, including the rights guaranteed by existing labor laws. PXP promotes safety, non-discrimination, environmental awareness and commitment in the workplace, and supports programs that champion the engagement and development of employees.

In 2015, the following learning sessions and employee development programs were conducted by the Company. Each program is tailor fit for a specific audience within the organization to ensure focus and generate the best results

2015 LEARNING AND DEVELOPMENT PROGRAMS	
LEVEL	PROGRAM TITLE
Directors/ Officers	Annual Corporate Governance Enhancement Session " Data and Information Rules: What Board Should Know"
Managers/ Officers	Annual Corporate Governance Enhancement Session " Data and Information Rules: What Management Should Know"
All Levels	New Employee Orientation

Site Safety Policy

The Company adheres to a Site Safety Policy and is committed to the highest levels of health and safety programs to ensure every stakeholder's safety and espouses loss prevention as a way of life. PXP strives to maintain a sound and safe working

CORPORATE GOVERNANCE

place for the prevention of injury, illness, property damage and loss to processes, in compliance with all relevant legislations and the preservation of the environment as well.

The Compensation Philosophy/Principles of the Company are as follows:

a. Pay-for-Performance;
b. Pay for competencies and skills that are valuable to Philex;
c. Pay competitively versus local competitors and other comparative companies;
d. Provide a total rewards package that includes pay, benefits, employee recognition, employee development and a work environment conducive to high performance;
e. Benchmark against an effective Performance Management Process; and
f. Ensure line managers are primarily responsible for implementing the Philex Compensation Philosophy, with HR serving as a resource.

Whistle Blowing Policy

In accordance with the Company's adherence to the principles of good governance, this Policy and procedures prescribed herein are being 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.

- Confidentiality
  All (whistleblower) complaints, including the identity of the whistleblower, witnesses and employees named in the Complaint, will be treated in a confidential manner, unless the Company is otherwise required or compelled by law to release information.

- Anonymous Reporting
  Any (whistleblower) complaint must be coursed or filed through any of the various reporting channels. To aid further investigation of the (whistleblower) complaint, a whistleblower who makes or files a (whistleblower) complaint anonymously may opt to provide means by which he can be contacted without compromising his or her anonymity (e.g. send and/or receive mails through a post office (P.O.) Box number, an e-mail address, or communicate through text messages using a pre-paid cell phone number, etc.)

- Protection from Retaliation
  Subject to the provisions of Malicious Allegations and without prejudice to legally-mandated courses of action to protect one's right, baseless and illegal retaliation against any whistleblower or witness is prohibited and will be dealt with in accordance with this Policy, other relevant Company policies and rules, and applicable laws. A whistleblower or witness who will identify himself shall be protected from retaliation.

- Malicious Allegations
  In case the Appropriate Investigating Unit (AIU), to which a (Whistleblower) complaint has been referred to, should determine that, after investigation, the whistleblower and/or witness has made baseless, untruthful, fabricated, malicious, or vexatious allegations, and particularly if he/they persist in making such, disciplinary action may be taken against the whistleblower and witness in accordance with pertinent Company policies and rules and applicable laws in order to protect the good name of persons that may have been unjustly accused or implicated.

  For purposes of this Policy, the AIU may either be the Internal Audit, Human Resources, Legal, Security, or a committee composed of representatives from those relevant units, where necessary.

D. DISCLOSURE AND TRANSPARENCY

Transparent ownership structure

The following shareholders own more than 5 percent directly in the Company's capital stock as of March 10, 2016:

Shareholder	Number of Shares	Percent	Beneficial Owner
Philex Mining Corporation (Thru PCD Nominee)	1,100,444,846	64.74%	Philex Mining Corporation
PCD Nominee Corporation (Filipino)	197,247,672	11.60%	See Note 1
Asia Link B.V.	127,909,498	7.52%	First Pacific Company Limited
Social Security System ("SSS")	105,588,755	6.21%	Social Security System
PCD Nominee Corporation (Non-Filipino)	93,967,452	5.53%	See Note 1

1. PCD Nominee Corporation ("PCD"), the nominee of the Philippine Depository & Trust Corp., is the registered owner of the shares in the books of the Company's transfer agent. The beneficial owners of such shares are PCD participants who hold the shares on their own behalf or in behalf of their clients. PCD is a private company organized by the major institutions actively participating in the Philippine capital markets to implement an automated book-entry system of handling securities transactions.

The Binh Minh 2 is the 2D seismic vessel to be utilized during the seismic data acquisition over SC 74.

Directors and Officers' Dealings and Shareholdings

Name of Director	Number of Direct shareholdings as of December 31, 2014	Changes in Year 2014	Number of Direct shareholdings as of December 31, 2015	Number of Indirect shares	% of Capital Stock
Manuel V. Pangilinan	891,251 (Direct)	–	891,251 (Direct)	1	0.05%
Carlo S. Pablo*	1 (Indirect)	(1)	–	–	0.00%
Daniel Stephen P. Carlos**	–	1	1	1	0.00%
Eulalio B. Austin, Jr.	170,117 (Direct)	–	170,117 (Direct)	1	0.01%
Robert C. Nicholson	157 (Direct)	–	157 (Direct)	1	0.00%
Diana Pardo-Aguilar	1 (Direct)	–	1 (Direct)	–	0.00%
Barbara Anne C. Migallos	40,485 (Direct)	–	40,485 (Direct)	1	0.00%
Benjamin S. Austria	86 (Direct)	–	86 (Direct)	–	0.00%
Emerlinda R. Roman	1 (Direct)	–	1 (Direct)	–	0.00%
Marilyn A. Victorio-Aquino	13 (Direct)	–	13 (Direct)	–	0.00%
TOTAL	**1,102,110**	**–**	**1,102,111**	**5**	**0.06%**

*Until August 15, 2015
**Since August 16, 2015

The Company's Corporate Structure can be found on page 3.

Quality of Annual Report

The Company's Annual Report contains the following information, which can be found on the sections and pages specified below:

CORPORATE GOVERNANCE

Disclosure of Related Party Transactions
Related Party Transaction: Please see pages 72-74 for discussion of Related Party Transaction Policy.

All related party transactions are reported in the Company's Notes to Audited Financial Statements found on page 29 of this Annual Report.

Directors' Dealings in Company shares
Directors' and Senior Management's dealings in Company shares may be found on page 91 of this Annual Report.

Audit and Non Audit Fees
Audit and Audit-Related Fees
For 2015, the Company's external auditors were engaged primarily to express an opinion on the fairness of the Company's financial statements. The audit, included the assistance to the Company in the preparation of its income tax return, The audit fees for these services were ₱5.0 million for 2015 vs 2014.

Non-Audit Fees
The Company has not engaged the external auditors for services other than the above.

Medium of Communications
Company Website: (http://www.philexpetroleum.com.ph/)
The Company is committed to the highest standards of disclosure, transparency and fairness in information dissemination. The Company provides the public with strategic, operating and financial information through adequate and timely disclosures to the regulatory authorities, such as the Philippine SEC and the PSE. Along with regular periodic reports, PXP discloses all material information about the Company that may have an impact on valuation, its stock price and the trading volume of its securities. All financial and nonfinancial disclosures are immediately posted on the Company Disclosures section of the Company's website.

Interim Results
PXP addresses the various information requirements of the investing public through our Investor Relations Division. The Company dutifully accomplishes and submits quarterly and annual reports on or even before the deadline prescribed by the regulatory agencies. Our quarterly reports can be found on the link below in the Company's website: (http://www.philexpetroleum.com.ph/index.php?option=com_content&view=article&id=33&Itemid=25).

Analysts and Media Briefings
Analyst briefings, physical or via teleconference, are conducted on a regular basis to provide a timely update on the financial and operating performance of the Company to the investment community.

The Company's Corporate Affairs Group (now called the Public and Regulatory Affairs Group) handles the Company's public, media and government relations functions. Media briefings are conducted after the Annual Shareholders' Meeting and, in some instances, before the analyst briefings. Copies of the analyst and the media releases can be found on the below link in the Company's website: (http://www.philexpetroleum.com.ph/index.php?option=com_content&view=article&id=25&Itemid=17).

Timely filing/release of annual/financial reports
The Company's Audited Financial Statements were published (in the Company website and disclosed to the PSE and SEC) within 60 days from the end of the reporting financial yearend and can be accessed on the link below in the Company website:
http://www.philexpetroleum.com.ph/index.php?option=com_content&view=article&id=34&Itemid=26.

The Philippine Law mandates publicly listed companies to submit their SEC Form 17-A Annual Report to the PSE and SEC on or before April 15, 2016. The true and fair representation of the Audited Financial Statements / Annual Report is affirmed by the Chairman of the Board of Directors, the President and Treasurer in the Statement of Management Responsibility, which can be found on page 18 of this Annual Report.

Company Website
The Company's website provides the following information accessible through links indicated below:

Information:	Link
Business operations	http://www.philexpetroleum.com.ph/index.php?option=com_content&view=article&id=31&Itemid=23
Financial statements/ reports (current and prior years)	http://www.philexpetroleum.com.ph/index.php?option=com_content&view=article&id=33&Itemid=25
Materials provided in briefings to analysts and media	http://www.philexpetroleum.com.ph/index.php?option=com_content&view=article&id=25&Itemid=17
Shareholding structure	http://www.philexpetroleum.com.ph/index.php?option=com_content&view=article&id=50&Itemid=38
Group corporate structure	http://www.philexpetroleum.com.ph/index.php?option=com_content&view=article&id=9&Itemid=6
Downloadable annual report	http://www.philexpetroleum.com.ph/index.php?option=com_content&view=article&id=32&Itemid=24
Notice of ASM	http://www.philexpetroleum.com.ph/index.php?option=com_content&view=article&id=60&Itemid=26

Information:	Link
Minutes of ASM	http://www.philexpetroleum.com.ph/index.php?option=com_content&view=article&id=58&Itemid=45
Company's by-laws and Articles of Incorporation	http://www.philexpetroleum.com.ph/index.php?option=com_content&view=article&id=52&Itemid=39

Investor Relations
The contact details of the officer / office responsible for investor relations are as follows:
Mr. Rolando S. Bondoy
Division Manager - Investor Relations
Philex Mining Group
Telephone No.: (632) 631-1381 to 88
Email: philex@philexmining.com.ph

E. RESPONSIBILITIES OF THE BOARD

Board Duties and Responsibilities

Corporate Governance Manual
In September 2011, the Company filed with the PSE and SEC its Manual on Corporate Governance, further revised on 31 July 2014 to comply with SEC Memorandum Circular No. 9 Series of 2014.

Board Committee Charters
The Board Committee Charters are found on page 94 of this Annual Report.

Types of Decisions That Require Board Approval
The types of decisions that require the approval of the Board of Directors pertain to ordinary business transactions of the Company and do not extend beyond the management of extra ordinary corporate affairs nor above the limits of its authority as provided by law.

Roles And Responsibilities Of The Board Of Directors
Each Director has a duty of obedience, diligence and loyalty to the corporation he serves. The Director shall:

- Act within the scope of power and authority of the Company and the Board as prescribed in the Articles of Incorporation, By-Laws, and under existing laws, rules and regulations;
- 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
- Act in the best interest of the Company and for the common benefit of the Company's shareholders.

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 the Company's Manual of Corporate Govermance. The Board shall also be responsible for fostering the long-term success of the Company and securing its sustained competitiveness.

Vision and Mission
The Company's Management and Board of Directors review and approve the Company's vision, mission and corporate strategy on an annual basis and monitor/oversee the implementation of such corporate strategy.

The Company's vision is to be a highly respected, world-class energy resource company, committed to deliver excellent value to its investors, employees, and other stakeholders. Its mission is to become a responsible energy resource company that explores and develops petroleum and coal resources for the use of society.

Board structure
Details of the Code of Ethics or Conduct
Please see link for full text:
http://www.philexpetroleum.com.ph/index.php?option=com_content&view=article&id=57&Itemid=44.

The Company is dedicated to doing business in accordance with the highest standards of ethics. The Company, its directors, officers, and employees shall comply with the Code and shall 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, and social and environmental responsibility in their relationships among themselves and with the Company's customers, suppliers, competitors, business partners, other stakeholders, government regulators, and the general public.

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. He or she, apart from his or her shareholdings, is free from any business dealings 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/her duties and responsibilities to the Company.

The Board has two (2) independent directors in accordance with the Philippine laws and regulations, specifically Section 38 of the Securities Regulations Code of the Philippines.

Directorship in Other Listed Companies
Information on directorship in other listed companies of the Board of Directors is included in the profiles of each director found on pages 13 to 16 of this Annual Report.

The Board Committees
The Committees will monitor the activities and undertake a regular review of matters under their respective areas. The full list of PXP's committees can be found in the Company's website: http://www.philexpetroleum.com.ph/index.php?option=com_content&view=article&id=54&Itemid=41.

CORPORATE GOVERNANCE

Audit Committee

Charter and Purpose --

The Audit Committee Charter sets forth the Audit Committee's purposes, authority, duties and responsibilities, structure and procedures as prescribed by the Revised Code of Corporate Governance (the "CG Code"), the Company's Manual of Corporate Governance and the Guidelines for the Assessment of Performance of Audit Committees of Companies Listed on the Exchange (the "Guidelines") promulgated by the SEC (the "Commission"), and in view of the establishment by the Board of a separate Risk Committee.

The primary purpose of the Committee is to assist the Board in its oversight functions over the following:

a. the integrity of the Company's accounting and financial reporting principles and policies and internal control systems, including the integrity of the Company's financial statements and the independent audit thereof;

b. the Company's compliance with legal and regulatory requirements;

c. the Company's audit processes and the performance of the Company's internal audit organization and External Auditor, including the External Auditor's qualifications and independence.

Members, Meetings Held and Attendance:

Office	Name	No. of Meetings Held	No. of Meetings Attended	%
Chairman	Emerlinda R. Roman (Independent Director)	5	5	100%
Member	Robin C. Nicholson (Non-Executive Director)	5	5	100%
Member	Benjamin S. Austria (Independent Director)	5	5	100%

Formerly, Audit and Risk Committee until a separate Risk Committee was spun-off on April 28, 2015

Corporate Governance Committee

Charter and Purpose--

The Charter of the Corporate Governance Committee sets forth its purposes, authority, duties and responsibilities, structure and procedures in accordance with the Manual of Corporate Governance. The primary purpose of the Committee is to assist the Board of Directors (the "Board") in performing the corporate governance duties in compliance with PXP's Manual, the Revised Code of Corporate Governance of the SEC, the Corporate Governance Guidelines and the listing rules of the PSE.

The complete details of the Company's Corporate Governance Committee Charter can be accessed through the following link in the Company's website: *http://www.philexpetroleum.com.ph/images/stories/philex/corporate_governance/pxp%20cg%20committee%20charter.pdf* .

Members, Meetings Held and Attendance

Office	Name	No. of Meetings Held	No. of Meetings Attended	%
Chairman Non-Executive Director	Marilyn Victorio - Aquino	1	1	100%
Member Independent Director	Emerlinda R. Roman	1	1	100%
Member Independent Director	Benjamin S. Austria	1	1	100%

Board Processes

Attendance

The Board has a pre-determined schedule of meetings at the 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.

Board	Name	No. of Meetings Held during the year	No. of Meetings Attended	%
Chairman	Manuel V. Pangilinan	6	6	100%
Member	Carlo S. Pablo[a]	4	3	75%
Member	Daniel Stephen P. Carlos[b]	2	2	100%
Member	Robin C. Nicholson	6	6	100%
Member	Marilyn A. Victorio-Aquino	6	6	100%
Member	Eulalio B. Austin, Jr.	6	5	83%
Member	Barbara Anne C. Migallos	6	6	100%
Member	Diana V. Pardo-Aguilar	6	5	83%

Board	Name	No. of Meetings Held during the year	No. of Meetings Attended	%
Member	Emerlinda R. Roman (Independent Director)	6	4	67%
Member	Benjamin S. Austria (Independent Director)	6	6	100%

Notes:

a. Carlo S. Pablo resigned 15 July 2015, effective at the close of business on 15 August 2015. The percentage reported above (100%) is based on the number of meetings held while he was a Director.

b. Daniel Stephen P. Carlos was elected Director and President on 24 July 2015, effective 16 August 2015 to fill the vacancy due to the resignation of Carlo S. Pablo. The percentage reported above (100%) is based on the meetings held since Mr. Carlos was elected.

A separate meeting of non-executive directors without the presence of the executive officers is held at least once a year.

Access to information

The Company regularly sends soft copies of complete set of board papers to directors via e-mail at least 5 days in advance, and the hard copies are physically distributed on the day of the board meeting or earlier upon request of directors.

Corporate Secretary

The Corporate Secretary 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.

The Company Secretary is responsible for safekeeping and preservation of the integrity of the minutes of the meetings of; 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; ensuring that all Board procedures, rules and regulations are strictly followed; and assisting the Chairman in the preparation of the Board agenda; and keeping directors updated regarding relevant statutory and regulatory changes, including new policies or rules of the SEC and the PSE.

Board Appointments and Re-election

The Directors are elected by the shareholders at the Annual Shareholders' Meeting. Each director shall serve a one-year term and until their successors are elected and qualified. Any vacancy in the Board before the end of their terms 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 the business. Members are selected with no discrimination for gender, race, religion, age, professional skill, or other qualifications.

Remuneration Matters

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 PXP Corp. 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 a reasonable per diem for attendance at Board meetings. Per-diem fee is determined by the Board and is set at ₱30,000 for regular board meeting and ₱20,000 for special committee meeting.

President

The President is entitled to receive fixed remuneration, in accordance with compensation plans approved by the Board.

Internal Audit

The internal audit group is a separate and independent unit, which directly reports to the Audit Committee and is headed by Ms. Geraldine B. Ateo-an.

The internal audit group functionally reports directly to the Audit Committee. The role of the internal auditor is to provide independent, objective assurance, and consulting services to the management designed to add value and improve the company's operations. The role also includes ensuring the adequacy of the 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 control issues, evaluation of compliance with the Code of Conduct for the management and other matters requested by the Committee or the Board.

Risk Oversight

Risk Management System

An effective management of risk is vital to the continued growth and success of the Group and the Company is committed to manage risk in a proactive and effective manner across the organization. This commitment is embodied in the PHILEX Group Risk

CORPORATE GOVERNANCE

Management Philosophy Statement, which read 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."

On 28th April 2015, upon recommendation of the Corporate Governance Committee, the Board approved the creation of a separate Risk Committee. The Risk committee meets at least twice a year to review the Group's key enterprise risk and corresponding mitigation measures to address those risks. The Group's Enterprise Risk Management evaluation can be found in the Company's website: *http://www.philexpetroleum.com.ph/index.php?option=com_content&view=article&id=56&Itemid=43.*

Accordingly, the Philex Group employs a comprehensive, integrated risk management program, implemented 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 sustain the Company's competitive advantage. The Group believes that an effective risk management program will contribute to the attainment of PXP's objectives and its subsidiaries, thereby creating value for the business and its stakeholders."

The Company adopted a Risk Management Policy Manual which encompasses the Enterprise Risk Management ("ERM") framework for managing risk at an enterprise-wide level in PXP and its subsidiaries (the "PHILEX Group"). 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 address and treat these risks.

Key Risk and how these are managed:

There are uncertainties inherent in the business of petroleum exploration and development. It is vulnerable to contingencies such as:

- **Failure to discover oil and gas resources that can be developed for commercial production**
  The Company's ability to sustain itself depends on the discovery of oil and gas resources that can be developed for commercial production. There is no assurance that exploration activities of the Company and the corporations in which it has invested (collectively with the Company, the "Group") will result in the discovery of oil or gas deposits because of the uncertainties in locating and estimating the size of subsurface deposits of oil or gas despite advances in exploration technology. Even if a substantial oil or gas deposit is discovered, there are other factors that may prevent or delay its commercial development, such as drilling and production hazards; political, social and/or environmental issues; and insufficient market demand and/or infrastructure, particularly for a natural gas development. If exploration and development activities of the Group are not successful, the Company's ability to generate future cash flow and obtain additional financing to continue operations may be adversely affected.

  The Company mitigates exploration and development risks mainly by investing in a portfolio of exploration assets, working with partners and contractors with proven track records, and undertaking phased exploration with exit options.

- **Failure to fund expenditures and investments for exploration and development activities**
  The exploration and development of oil and gas resources are capital intensive. The Company's ability to fund such expenditures and investments depends on numerous factors, including the ability to generate cash flow from the Group's production, availability and terms of external financing, and the extent to which work commitments can be adjusted under the relevant SCs and similar agreements. If the Group is unable to obtain the required funding, the Group will have to adjust its business plans and strategies, which may adversely affect the Company's future prospects, market value and results of operations.

  The Company mitigates the foregoing risks by sharing the costs and risks of exploration and development with suitable joint venture partners and undertaking phased exploration with exit options. Where funding is still insufficient, the Company may adjust its business plans and strategies.

- **Operating risks and natural disasters resulting in losses**
  Exploration and production of oil and gas are subject to various operating risks such as fires, explosion, spills, gas leaks, collisions, mechanical failures, and natural disasters that may result in injuries, loss of lives, suspension of operations, and damage to property and the environment. As a result, losses and liabilities arising from the occurrence of any of these risks may have a material adverse effect on the Company's business and results of operations.

The foregoing risk is mitigated by insurance. However, please note that insurance coverage applies against some, but not all, potential losses and liabilities. The Company will assess the acceptability of residual risks not covered by insurance policies, and if the Company deems that such risks are not within the levels that the Company is willing to accept, the Company may decide to avoid the risk by either terminating or forgoing the activity, project or investment.

- **Laws, regulations and contingencies adding to the cost and effort of doing business**
  The petroleum industry is highly regulated. In addition to complying with the laws and regulations for doing business in the Philippines and in the other jurisdictions where the Group operates, the nature of the Group's business also subjects the Group to laws and regulations regulating the industry, as well as those on environment, occupational health and safety standards. Despite efforts to comply with all such laws and regulations, the Group's business may be exposed to significant liabilities and restrictions due to accidents and unforeseen circumstances. Furthermore, such laws and regulations are subject to changes which may result in delays or restrictions on exploration, development or production activities as well as increased cost of compliance. There is no assurance that these costs will not have a material adverse effect on the Company's business and results of operations.

  The foregoing risk is mitigated by the Group's respective policies, which are geared towards compliance with laws and regulations, as well as with good industry practice relating to health, safety and environment. Some of the risks and some of the potential losses and liabilities arising therefrom may not be covered by insurance. The Company will assess the acceptability of residual risks not covered by insurance policies, and if the Company deems that such risks are not within the levels that the Company is willing to accept, the Company may decide to avoid the risk by either terminating or forgoing the activity, project or investment.

- **Price fluctuations and substantial or extended decline in prices**
  Prices for oil and gas have demonstrated significant volatility in the past. Historically, prices of oil and gas are influenced by a number of factors, including global and regional supply and demand, geopolitical uncertainty, domestic and foreign governmental regulations and actions, global and regional economic conditions, and weather conditions and natural disasters. It is not possible to accurately forecast future oil and gas price movements and trends. Declines in crude oil and gas prices will adversely affect the Company's business, prospects, and results of operations.

  The Company mitigates price risks by evaluating the economic sensitivity of investment opportunities to low product prices and taking this into consideration when making investment decisions.

- **Estimates used in the business may be unreliable or incorrect**
  This report includes estimates made by the Company and third parties of oil and gas reserves and resources. Estimates of reserves and resources should be regarded only as estimates that may change as additional technical and commercial information becomes available. Not only are such estimates based on information which is currently available, but such estimates are also subject to the uncertainties inherent in the application of judgmental factors in interpreting such information. The quantities that might actually be recovered should they be discovered and developed may differ significantly from the estimates presented herein.

  As of the date of this report, the Company has not independently verified the estimates provided by third parties. As estimates of reserves and resources change over time, the Company will have to adjust its business plans and strategies. Any significant downward revision in the estimates of reserves and resources may adversely affect the Company's financial condition, future prospects and market value.

- **International boundary issues over the West Philippine Sea**
  The Company has been granted SC 72 in the Recto Bank Area, offshore west Palawan, which is subject to international boundary issues pertaining to certain areas of the West Philippine Sea. Other SCs in the same area and in which the Company has direct or indirect interests may also be affected by the same international boundary issues. The uncertainty of how these issues will be resolved may be a source of continuing risk to the operations in offshore Palawan.

  The Company will continue to rely on Government support and policy in addressing such geopolitical issues.

- **Compliance with laws, regulations and contracts, failing which the Company may lose its contracts, licenses and approvals from the Government or otherwise be penalized**
  Substantially all of the Company's revenues are or will be derived from SCs, which give the Group and their respective joint venture partners exclusive rights to conduct exploration and development operations over certain blocks in the jurisdictions in which they have invested. The Group and their joint venture partners are also expected to secure business licenses and permits in relation to their operations. The Group and their joint venture partners' operations may be restricted, suspended or terminated if the Group, their joint venture partners or any of their respective contractors and assignees fail to satisfy their respective contractual obligations under the contracts, and the laws, rules and regulations governing such contracts, or to secure

CORPORATE GOVERNANCE

and maintain required licenses and permits. This may prevent the Group and their joint venture partners from further exploration and development activity within the relevant concession areas which in turn could materially and adversely affect the Company's business, financial condition, results of operations and prospects.

The foregoing risk is mitigated by the Group's respective policies, which include compliance with laws, regulations and contracts, and exerting all reasonable efforts to secure and maintain licenses and permits required for its business and undertakings. The Group also adopts provisions in their agreements with their joint venture partners to address defaults and non-compliance with laws, regulations and contracts.

- **Competition in securing exclusive rights may hamper the company's growth and expansion**

  The Government has been taking steps to attract investments in the exploration and development of oil and gas in the Philippines, particularly with respect to the application and award of petroleum SCs, which is done through competitive public bidding. The Company's competitors may have greater financial, technical, and organizational capabilities than the Company, particularly international oil and gas companies. Significant competitive pressure could result in the failure or increased costs to acquire additional exploration and production assets, thereby causing a material adverse effect on the Company's business and results of operations.

  The Company intends to remain competitive by leveraging the strengths discussed in description of "Business – Strengths and Strategies."

The Audit Committee statement on the adequacy of the Company's internal controls/risk management systems is found on page 19 of the Annual Report.

Chairman's Role

The Chairman of the Board 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 and ensures that the Board works effectively and discusses key issues in a timely manner – taking into account proposals and recommendations of the President and management. In addition, the Chairman ensures that the open lines of communication and free flow of information between Management and the Board are maintained.

The President and the Chief Operating Officer

The President 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 and financial and internal controls are adequate and effective to ensure reliability and integrity of financial and operational information. Further, he oversees the effectiveness and efficiency of operations and safeguards assets in compliance with laws, rules and regulations. The President provides leadership to the management in developing and implementing business strategies, policies, processes and budgets to the extent approved by the Board and takes the lead in identifying and managing operational and other business risks.

Board Diversity

The Company embraces and promotes diversity at all levels, including the Board. The Company recognizes that human capital remains as its most valuable asset and as such, PXP is committed to fostering, cultivating, and preserving a culture of diversity and inclusion. The collective sum of the diversity - in terms of background, race, ethnicity, religion, gender, life experiences, knowledge, inventiveness, innovation, self-expression, unique capabilities, and talents - represents a significant part of PXP's culture, reputation, and achievements.

Board Performance

Directors and Officers' Orientation and Training Policy

The full text of Directors' and Officers' Orientation and Training Policy can be accessed through the following link in the Company website: *http://www.philexpetroleum.com.ph/images/stories/philex/corporate_governance/pxp%20directors%20and%20officers%20orientation%20and%20training%20policy.pdf.*

As a matter of rule, each member of the Board of Directors shall undertake the requirements set out in this policy with respect to the orientation programs for New Directors and the mandatory annual training programs for all the members of the Board of Directors, as far as practicable. The mandatory annual training program shall also apply to executive officers with the rank of Vice President and above. The said training program is in compliance with the Philippine SEC Memorandum Circular 20, Series of 2013.

Training and/or continuing education program attended by each director

Performance Appraisal / Assessment Policy

The objective of this policy is to enable the Board to periodically identify overall strengths and specific areas for improvements based on results of assessment, and to obtain important feedback and views from the members of the Board which will collectively form part of Company's overall strategy, performance and/or future directions or endeavors.

Directors will be requested to complete a standard self-assessment as follows:

Performance Evaluation	Self -Assessment	Evaluated By
Board of Directors	/	Individual Director/s
Director	/	Individual Director/s
Board Committees	/	Member of Committee
President and COO	N/A	Individual Director/s

The different forms and criteria are attached as annexes in the Policy and can be viewed on the following link in the Company website: http://www.philexpetroleum.com.ph/images/stories/philex/corporate_governance/pxp%20bod%20appraisal%20policy.pdf.

The Company has had no recent sales of unregistered or exempt securities, including issuances of securities constituting an exempt transaction.

Dividend Policy

The Company has not declared any cash dividends from the time of its incorporation.

Apart from legal restrictions governing the declaration of dividends, there are no restrictions that limit the Company's ability to pay dividends whether currently or in the future.

On July 24, 2014, the Company has adopted a policy on the Timing of Cash Dividend Payment (within 30 calendar days from the date of declarарion).

Details of 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 from any retaliation an employee/person who reveals illegal/unethical behavior by others. A copy of the Company's whistle blowing policy can be found at: http://www.philexpetroleum.com.ph/images/stories/philex/corporate_governance/whistle%20blowing%20policy.pdf.

Details of Trainings of Directors

Name of Director/Officer	Date of Training	Program	Name of training institution
Manuel V. Pangilinan Chairman	12/02/2013	Ensuring Effective Board Oversight of Ethics and Compliance: Emerging Trends and Lessons Learned	First Pacific Leadership Academy
	12/04/2014	Corporate Governance: What to Expect from SEC and Corporate Governance Trends and Practices in Advanced Economies	Philex Mining Corporation
	10/30/2015	Annual Corporate Governance Enhancement Session "Data and Information Rules: What Board Should Know"	Philex Mining Corporation with PLDT, MPIC and Meralco
	11/14/2015	"Governance Transformation in ASEAN Reforms and Priorities"	SEC and ICD
Daniel Stephen P. Carlos Director, President*	08/26-27/2015	Leading the Self	First Pacific Leadership Academy Inc.
	10/12/2015	Internal Auditing Training	Lockforce International Inc.
	10/15/2015	SEC-PSE Corporate Governance Forum of Publicly Listed Companies	Makati Business Club
	10/30/2015	Data and Information Governance: What the Board and Management Should Know	Philex Mining Corporation with PLDT, MPIC and Meralco
	12/08-09/2015	GEOCON 2015 - Opportunities in Changing Times	Geological Society of the Phils
Robert C. Nicholson Director	05/02/2013	Hong Kong Corporate Law Regulatory Update	Pacific Basin
	08/27/2013	Diversity on Board and Recent Regulatory Developments on Corporate Governance	First Pacific Co. Ltd.
	12/05/2013	Synopsis on Legal and Regulatory Issues	First Pacific Co. Ltd.
	10/15/2014	First Pacific Company Directors' Training	First Pacific Co. Ltd.
	10/16/2015	FPC Directors' Training	First Pacific Co. Ltd
	12/04/2015	Indofood Seminar for BOC and BOD	First Pacific Co. Ltd

CORPORATE GOVERNANCE

Name of Director/Officer	Date of Training	Program	Name of training institution
Eulalio B. Austin, Jr. Director	03/08/2013	Lifting the hood: The Obama Engine and how it worked from day 1	First Pacific Leadership Academy
	07/24/2013	Talent Management, Leadership Succession and Development Program	First Pacific Leadership Academy
	09-10/2013	Advance Management Program	Harvard Business School
	11/28/2014	"Going for the Gold: Competing Successfully in the ASEAN Corporate Governance Scorecard."	Institute of Corporate Directors
	10/30/2015	Annual Corporate Governance Enhancement Session: Data and Information Gathering: "What Board Should Know"	Philex Mining Corporation with PLDT, MPIC and Meralco
	11/14/2015	Governance Transformation in ASEAN Reforms and Priorities	SEC and ICD
Marilyn V. Aquino Director	12/02/2013	Corporate Governance Enhancement Session	First Pacific Leadership Academy
	11/13/14	Corporate Governance Programs	SGV & Co./Lepanto Consolidated Mining Company
	10/30/2015	Annual Corporate Governance Enhancement Session: Data and Information Gathering: "What Board Should Know"	Philex Mining Corporation with PLDT, MPIC and Meralco
Diana V. Pardo-Aguilar	12/04/2014	Corporate Governance: What to Expect from SEC and Corporate Governance Trends and Practices in Advanced Economies	Philex Petroleum Corporation
	10/30/2015	Annual Corporate Governance Enhancement Session: Data and Information Gathering: "What Board Should Know"	Philex Mining Corporation with PLDT, MPIC and Meralco
Barbara Anne C. Migallos Director & Corporate Secretary	05/18/2013	SEC's Revised Code of Corporate Governance	Center for Global Best Practices
	8/21-23/2013	Corporate Governance for Directors and Institutional Investors	Truventus Kuala Lumpur, Malaysia
	12/04/2014	Corporate Governance: What to Expect from SEC and Corporate Governance Trends and Practices in Advanced Economies	Philex Mining Corporation
	10/30/2015	Annual Corporate Governance Enhancement Session: Data and Information Gathering: "What Board Should Know"	Philex Mining Corporation with PLDT, MPIC and Meralco
	11/26/2015	Corporate Governance Seminar	Philippine Corporate Enhancement and Governance, Inc.

Name of Director/Officer	Date of Training	Program	Name of training institution
Benjamin S. Austria Independent Director	02/14-15/ 2013	Cleaner Fossil Fuel Systems Knowledge Network Meeting, London	World Energy Council
	05/24-25/2013	6th Extractive Industries Transparency Initiative (EITI) Global Conference: Beyond Transparency, Sydney	Extractive Industries Transparency Initiative
	09/27/2013	Adoption of the 2013 EITI Standards, Quezon City	EITI Philippines
	12/02/2013	GEOCON 2013: Invest in Geology, Invest in the Future, Makati City	Geological Society of the Philippines
	10/10/2013	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
	12/04/2014	Corporate Governance What to Expect from SEC and Corporate Governance Trends and Practices in Advanced Economies	Philex Petroleum Corporation
	10/30/2015	Annual Corporate Governance Enhancement Session: Data and Information Gathering: "What Board Should Know"	Philex Mining Corporation with PLDT, MPIC and Meralco
Emerlinda R. Roman Independent Director	12/02/2013	Executive Talks: Corporate Governance Enhancement Session	First Pacific Leadership Academy
	12/04/2014	Corporate Governance: What to Expect from SEC and Corporate Governance Trends and Practices in Advanced Economies	Philex Petroleum Corporation
	10/30/2015	Annual Corporate Governance Enhancement Session: Data and Information Gathering: "What Board Should Know"	Philex Mining Corporation with PLDT, MPIC and Meralco
Danny Y. Yu Treasurer	08/27/2014	Mastering Enterprise Risk Management	Center for Global Best Practices
	10/21/2014	SEC- PSE Corporate Governance Forum	Philippine Stock Exchange
	12/01/2014	21st Century Leadership & Governance: Thriving and Change, Complexity and Lots of Choices	Philex Mining Corporation
	12/04/2014	Corporate Governance: What to Expect from SEC and Corporate Governance Trends and Practices in Advanced Economies	Philex Mining Corporation
	09/30/2015	Moving Ahead with Good Governance	Moving Ahead with Good Governance
	10/29/2015	Annual Corporate Governance Enhancement Session: Data and Information Gathering: "What Management Should Know"	Annual Corporate Governance Enhancement Session: Data and Information Gathering: "What Management Should Know"
	11/14/2015	Governance Transformation in ASEAN Reforms and Priorities	Governance Transformation in ASEAN Reforms and Priorities

CORPORATE
STRENGTHS, STRATEGIES AND OBJECTIVES

Photo of a sedimentary outcrop taken during the fieldwork in Calamian Islands in 2015.

The Company aims to become a leading Philippine upstream oil and gas company by leveraging the strengths and pursuing the strategies outlined below:

Strengths

The Company and its subsidiaries has substantial participating interests in under explored areas of proven hydrocarbon basins, namely, SC 72 Recto Bank (Forum 70%), SC 75 NW Palawan (PXP 50%), SC 74 Linapacan (Pitkin 70%), and Peru Block Z-38 (Pitkin 25%). The substantial participating interest in these blocks allows access to funding and technology through farm-out arrangements while retaining a material interest in the service contract.

The Company is managed by a team of experienced professionals and business leaders with a diverse range of expertise including upstream oil and gas business development, project management, project finance, investment management, and mergers and acquisitions. The Company's board also has extensive corporate governance experience in leading companies in the Philippines and Asia.

As a Philippine national, the Company is entitled to the Filipino participation allowance in accordance with the fiscal terms of petroleum service contracts in the Philippines. The combination of its Filipino participation allowance entitlement and strong principal shareholders makes the Company an ideal joint venture partner of foreign oil and gas companies in petroleum service contracts.

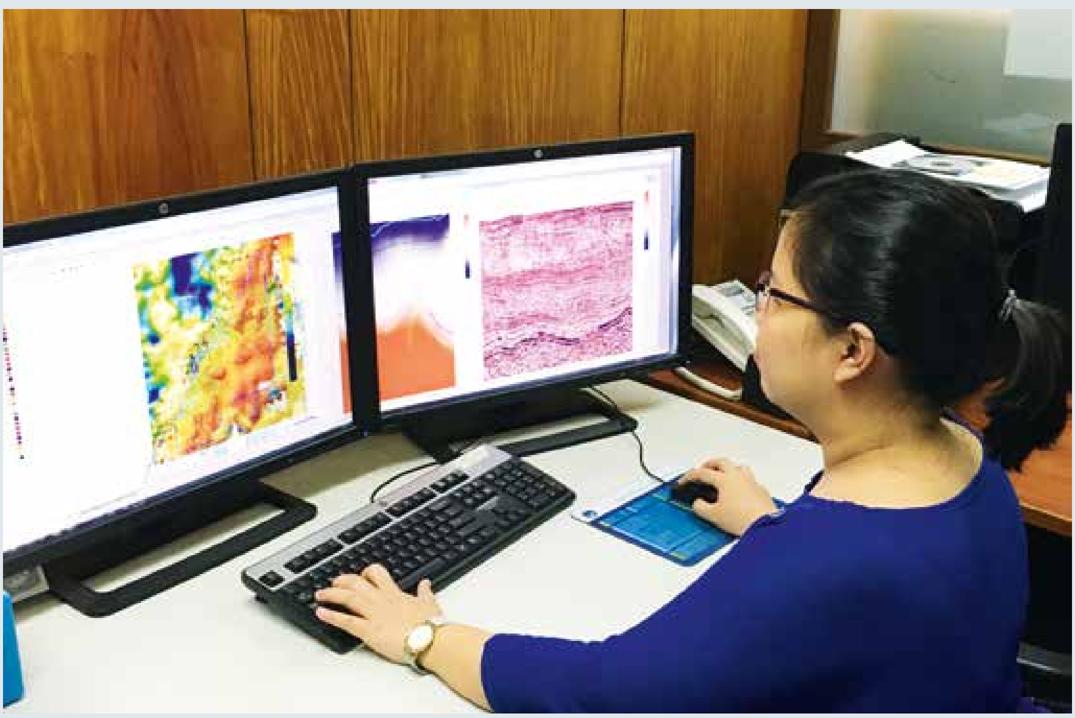
The Company's principal shareholders, Philex Mining and First Pacific, are leaders in business and industry in the Philippines and Asia. Philex Mining is a leader in the Philippine mining industry with continuous operations since 1958. First Pacific is a Hong Kong-based investment management and holding company with existing and planned investments in Asia relating to telecommunications, power distribution and generation, water utilities, infrastructure development, natural resource development and consumer food products. Through First Pacific, Philex Petroleum is affiliated with Meralco, the largest power distribution company in the Philippines. Meralco has determined to expand into power generation, making it a potential off-taker for gas from SC 72.

Objectives

- ***Enhance Value of Assets***
  Maturing assets from the exploration to the development and production phases enhances the value of the Company's assets.
- ***Manage Portfolio***
  Selective acquisitions and divestments help mitigate the risks inherent in petroleum exploration, and ensure alignment of resources with the Company's objectives and strategies.
- ***Control of Costs and Expenses***
  The minimization of costs and expenses by the Company and its subsidiaries would consequently result in improved net income and better financial stability for the Company.
- ***Manage Financials***
  Prudent and well-implemented financial management will prolong the Company's ability to finance its activities and thus its corporate life.
- ***Promote Health and Safety and Preserve Environment***
  A commitment to undertake activities without endangering the environment and the health and safety of people is key to maintaining the Company's license to operate.

Strategies

- Establish the hydrocarbon potential of exploration assets including SC 72 Recto Bank, SC 75 NW Palawan, SC 74 Linapacan, and Peru Block Z-38.
- Manage exploration risks by developing a diversified asset portfolio through the selective acquisition and divestment of assets based on prudent assessment of risks and upside potential.
- Rationalize the Philex Petroleum group structure to ensure optimal use and allocation of management, technical and financial resources.
- Access global technical expertise and technology through partnerships with international oil companies and the deployment of international contractors, and technical consultants.



CORPORATE DIRECTORY

PHILEX PETROLEUM CORPORATION
Philex Building
27 Brixton Street
Pasig City 1600
Philippines

Telephone: (632) 631-1381 to 88

ATTORNEYS
Migallos & Luna Law Offices
Picazo Buyco Tan Fider & Santos Law Offices
Sycip Salazar Hernandez & Gatmaitan Law Offices

BANKERS
BDO Unibank, Inc.
Unionbank of the Philippines
Landbank of the Philippines
Hong Kong and Shanghai Banking Corporation
Australia and New Zealand Banking Group
Citibank N.A.

TRANSFER AGENT
BDO Stock Transfer, Inc.
15th Floor, South Tower, BDO Corporate Center, 7899 Makati Avenue
Makati City 0726, Philippines
Tel: (632) 878-4052
(632) 840-7000 loc. 6977/6975
(632) 878-4056

INDEPENDENT PUBLIC ACCOUNTANTS
SyCip Gorres Velayo & Co.

MAJOR SUBSIDIARIES
FEC Resources Inc.
Forum Energy Limited
Pitkin Petroleum Limited

PHILEX PETROLEUM
CORPORATION

27 Brixton Street, Pasig City, 1600
Philippines