ENERGY

(formerly Philex Petroleum Corporation)

ANNUAL REPORT
2016

ABOUT THE COVER

PXP Energy Corporation, formerly Philex Petroleum Corporation, is among the leaders in petroleum exploration and production in the Philippines, with operations in several blocks in offshore Palawan and Cebu.

The cover design, featuring an oil platform with superimposed images of a coral reef, captures the premium that PXP Energy has committed to the environment. Beyond financial performance, the Company is also one with the community in making the world a better place to live in.

The double exposure technique used in the cover portrays the mutually-beneficial relationship between the Company and the environment. It emphasizes that wherever PXP Energy operates, sustainability and community development are taken to heart, day in and day out.

Committed to simultaneously achieving operational excellence and living its values of integrity and discipline, PXP Energy reaches for its goals while taking on the responsibility to look after the community and the environment we all share.

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CORPORATE PROFILE

PXP Energy Corporation ("PXP" or "the Company"), formerly known as Philex Petroleum Corporation ("Philex Mining"), is a Philippine corporation organized in December 2007 as a wholly-owned subsidiary of Philex Mining Corporation. After the distribution of approximately 36% of Philex Petroleum shares to Philex Mining shareholders as property dividends, Philex Petroleum listed its shares on the second board of the Philippine Stock Exchange under the Amended Rules on Listing by Way of Introduction of the PSE on September 12, 2011.

The change of the Company's name from Philex Petroleum Corporation to PXP Energy Corporation was approved by the Company's shareholders on May 17, 2016, and by the Securities and Exchange Commission on August 8, 2016.

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").

These direct interests in Philippine petroleum service contracts include: (1) a 70% operating interest in Service Contract ("SC") 74 Linapacan, (2) a 50% operating interest in SC 75 NW Palawan, (3) an overriding royalty interest ("ORRI") of 1.65% in SC 6 Cadlao, and (4) a 5.56% interest in SC 6A Octon; all located in the Northwest Palawan Basin.

PXP holds a 77.5% voting interest in Forum, with 69.5% held directly, and 8% held indirectly through a 54.99%-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. 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 66.67%-owned 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, a 100% subsidiary.

Additionally, PXP holds a 53.43% controlling interest in Pitkin, an international upstream oil and gas company registered in the United Kingdom with operations in Peru Block Z-38 located in offshore Tumbes Basin.

CORPORATE ORGANIZATION

PXP ENERGY CORPORATION

SC75 NW PALAWAN	- 50%
SC6 CADLAO ORRI[1]	- 1.65%
SC6A OCTON	- 5.56%
SC74 LINAPACAN	- 70%

77.50%[2]

FORUM ENERGY LIMITED

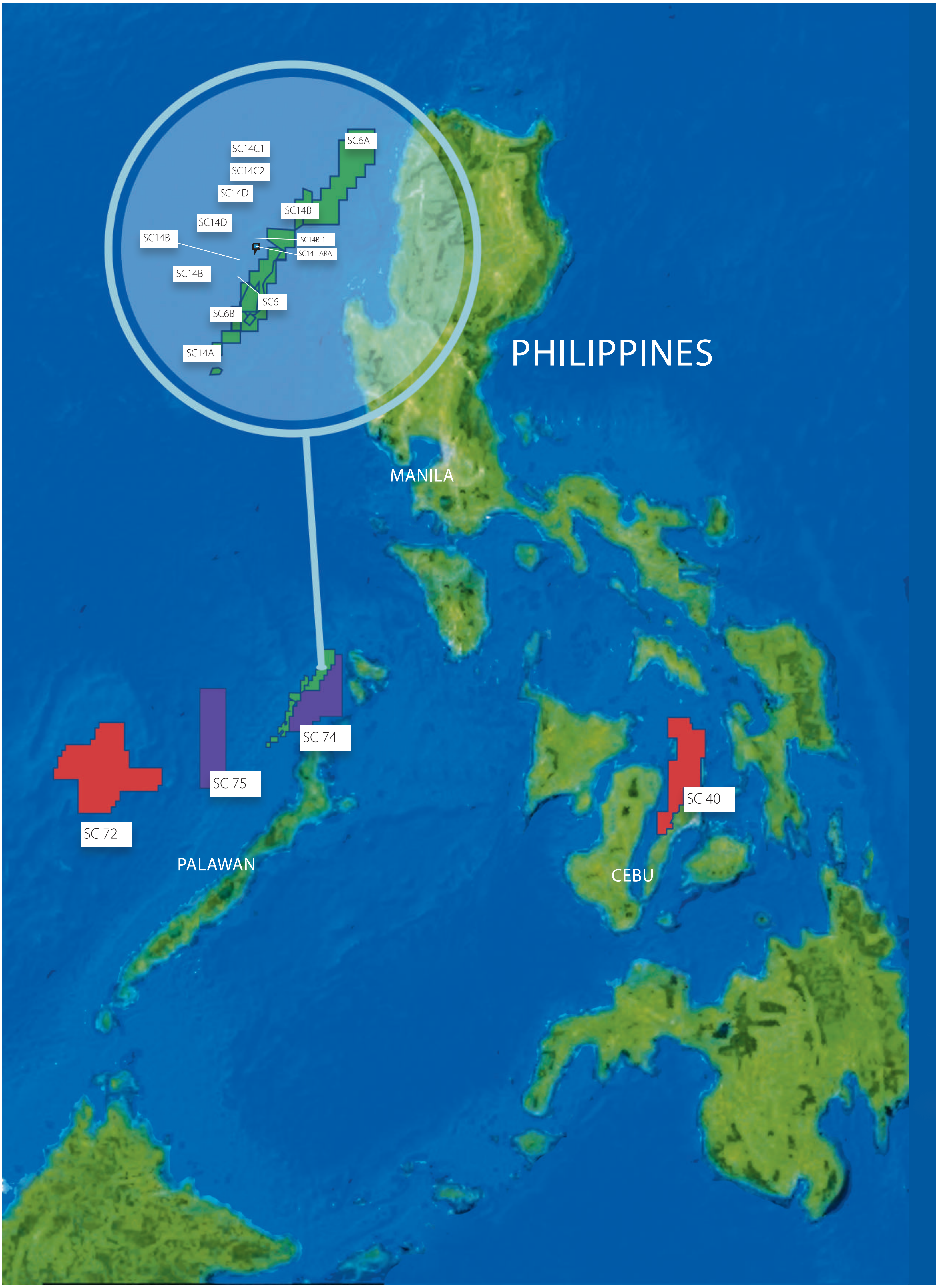
SC72 RECTO BANK	- 70%
SC40 N. CEBU	- 100%[3]
SC6A OCTON	- 5.56%
SC6B BONITA	- 7.03%
SC14A NIDO	- 8.46%
SC14B MATINLOC	- 12.40%
SC14B-1 N. MATINLOC	- 19.46%
SC14C-1 GALOC	- 2.27%
SC14C2 W. LINAPACAN	- 9.10%
SC14D RETENTION AREA	- 8.16%
SC14 TARA	- 10%

53.43%

PITKIN PETROLEUM LIMITED

PERU BLOCK Z-38	- 25%

[1] Overriding Royalty Interest
[2] Economic Interest of **73.91%**
[3] Economic Interest of **66.67%**


SC6A
SC14C1
SC14C2
SC14D
SC14B
SC14D
SC14B
SC14B-1
SC14 TARA
SC14B
SC6
SC6B
SC14A
PHILIPPINES
MANILA
SC 74
SC 75
SC 72
PALAWAN
SC 40
CEBU


KEI/PITKIN
BLOCK
Z-38
TALARA
SULLANA
PERU
PAITA
PIURA
COLOMBIA
FRENCH GUIANA
SURINAME
ECUADOR
PERU
BRAZIL
Atlantic Ocean
BOLIVIA
CHILE
PARAGUAY
Pacific Ocean
ARGENTINA
URUGUAY
FALKLAND ISLANDS
0 500 1000 mi
0 500 1000 km

CHAIRMAN'S MESSAGE

To My Fellow Shareholders

In 2016, PXP Energy Corporation, formerly known as Philex Petroleum Corporation (the "Company" or "PXP"), witnessed several major progressive changes around the globe, across the nation, and within the Company. After enduring almost two years of an apparent drought in petroleum prices, a glimpse of hope emerged in the global oil and gas landscape characterized by the steady and promising upturn in prices of petroleum products, from US$ 30 per barrel in the beginning of 2016 to around US$ 50 per barrel by year end.

Another encouraging development during the year was the decision by the United Nations Arbitral Tribunal Decision on the Arbitration Case between the Philippines and China which was announced on July 12, 2016.

The decision declares China's "9-Dash line" as "invalid" and therefore does not confer on China historic rights over the West Philippine Sea, and that her claims do not meet the United Nations Convention on the Law of the Sea ("UNCLOS") requirements on maritime features.

But most significant for the Company is the declaration of Recto Bank to be within the Philippines' 200 nautical mile Exclusive Economic Zone ("EEZ"), which under UNCLOS grants the Philippines exclusive development rights over the resources located within such EEZ.

This affirmative decision may provide some impetus to the Company's plans over Service Contract ("SC") 72 Recto Bank Block and the SC 75 NW Palawan Block, both of which are currently under Force Majeure ("FM") by virtue of the Department of Energy's ("DOE's") Order. As of this writing, PXP is awaiting the DOE's directive to lift the FM to allow the Company to resume development of the SCs, and establish the commerciality of potential hydrocarbon resources in these two prospective blocks.

While the current petroleum industry situation appears stable, the pace is considered by many as "a slow road back to recovery". Nonetheless, the improving situation enabled the Company to explore other opportunities, as a result of the reduction in exploration costs related to geological and geophysical activities, and reassess its long-term objectives. Specifically, PXP took advantage of this break by conducting seismic acquisition initiatives to execute the 2016 exploration plan in SC 74.

The Company's subsidiary, Forum Energy Philippines Corporation ("FEPC"), remains committed to its membership in various consortia, which include the different production sub-blocks in SC 14 such as Galoc and West Linapacan, as well as the two (2) retained blocks in SC 6. Another subsidiary, Forum Exploration, Inc. ("FEI"), continues to be the sole operator of the SC 40 Block in northern Cebu, which is located in one of the proven petroleum basins in the Philippines.

With respect to PXP's block in offshore Peru, Z-38, an asset held by another subsidiary Pitkin Petroleum Limited ("Pitkin"), activities are already underway for the possible drilling in 2018 of the two commitment exploration wells.

As earlier mentioned, the Company also underwent certain organizational restructuring and brand repositioning to support its long-term direction. On August 8, 2016, the Philippine Securities and Exchange Commission approved the Company's change of corporate name from Philex Petroleum Corporation to PXP Energy Corporation, indicating the move towards a more diversified business portfolio which may, in the medium-term, include investments in other, non-petroleum, energy projects.

Alongside the change in Company's name is the physical transfer of PXP's Corporate address last September 2016 to a newly-constructed office building located at the MediaQuest Compound at 2/F LaunchPad, Reliance corner Sheridan Streets Mandaluyong City.

In February 2016, the SC 74 JV elected to enter the second Sub-phase of the SC. The SC 74 2016 work commitment included the acquisition of at least 1,500 line-km of 2D seismic data. This was accomplished through the Multi-Client 2D Survey project of CGG Services SAS and the DOE wherein the JV purchased a group license to use the geophysical data to be acquired by CGG within the SC 74 block.

nautical miles west of Palawan Island. PXP has a 50% participating interest in SC 75 and is the designated operator.

The Sub-Phase 1 exploration work program, which comprises the acquisition and interpretation of 2D seismic, marine gravity, and magnetic data, was completed in mid-2015. The geological and geophysical studies offered encouraging results, with the identification of prospective significant culminations that have

OPERATIONAL HIGHLIGHTS

PXP Energy Corporation
SC 74 Linapacan

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.

On February 24, 2016, Pitkin and PXP signed a Deed of Assignment ("DOA") transferring Pitkin's 70% interest in SC 74 to PXP. PXP was then formally elected by the SC 74 Joint Venture ("JV") as the new operator of SC 74 on March 30, 2016. On April 25, 2016, the DOE approved the DOA.

CGG carried out the 2D seismic survey over SC 74 from May 30 to June 10, 2016 using the vessel Binh Minh 2. A total of 1,614.30 line-km of 2D seismic data was acquired using broadband technology, in addition to 1,718 km of marine gravity data, and 1,623 km of marine magnetic data gathered. In December 2016, the seismic data processing was completed in CGG's Singapore processing center and interpretation of the said seismic data is ongoing.

SC 75 NW Palawan

The SC 75 block is located offshore in the relatively underexplored area of the Northwest Palawan Basin, approximately 38

been recommended for further evaluation using 3D seismic data.

On September 9, 2015, the block was placed under FM 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 FM.

Although the Arbitral Tribunal Case decision was already released, the Company will take guidance from the Philippine Government with respect to any future activity in the said SC.

Forum Energy Limited
SC 72 Recto Bank

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 of the drilling of two (2) appraisal wells in the Sampaguita gas field, which has a potential to hold in-place contingent resources estimated at 2.6 trillion cubic feet ("TCF") of gas, and in-place prospective resources of 5.4 TCF as reported in 2012 by Weatherford Petroleum Consultants ("Weatherford"), an independent qualified competent person.

Due to the maritime dispute over the West Philippine Sea, the block was placed by the DOE under FM starting December 15, 2014. As in the case of SC 75, the Company will take guidance from the Philippine Government with respect to any future activity in SC 72.

Forum Exploration, Inc.
SC 40 North Cebu

The SC 40 covers the northern area of Cebu Island and the adjacent offshore areas in the Central Tañon Strait and Visayan Sea, with a total area of 4,580 square kilometers. The SC has a seven-year Exploration Period, extendible by three years, and a 25-year Production Period, extendible by 15 years. SC 40 was awarded on February 9, 1995, and is presently within the 25-year Production Period, to end on November 24, 2030. SC 40 contains the Libertad gas field and other onshore and offshore prospects.

The operator, FEI, is a 66.67%-owned subsidiary of Forum and has a 100% participating interest in the block.

Approved activities in 2017 included the conduct of a land gravity survey in San Remigio and Tabogon municipalities and the decommissioning of the Libertad gas field, which ceased production in 2015 due to water encroachment in the production well.

Forum Energy Philippines Corporation
SC 14 Block C1 Galoc

The Galoc Oil Field is within the SC 14 C1 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 14 C1.

The Galoc Oil Field produced a total of 1.9 million barrels of oil from January to December 2016, which is 17.4% lower than 2015's total production of 2.3 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$2.1 million in 2015 to US$695k in 2016. Five (5) liftings with cargo size ranging from 325,000 to 350,000 barrels have been carried out in 2016, while four (4) liftings are forecasted for 2017 with a total cargo of 1.4 million barrels of oil.

In October 2016, the Galoc JV approved the Galoc-7 drilling program, with a target well spud on or before March 31, 2017 at a cost of USD 32.5 million. The Galoc-7 well aims to appraise the northern extension (the Galoc Mid Area) of the Early Miocene Galoc Clastic Unit turbidite fan system to confirm the presence and quality of Galoc reservoir sands in the area. If successful, the Galoc Mid Area is expected to contribute an additional eight (8) million barrels of oil reserves and extend the life of the main Galoc Field.

SC 14 Block C2 West Linapacan

Under the 2017 Work Program and Budget submitted by the West Linapacan JV and later approved by the DOE, a remapping of the West Linapacan "A" Field will be undertaken this year using the 3D seismic data, which was reprocessed in 2014 but only made available to the JV recently. The work aims to improve the resource estimate and possibly serve as basis to update and/or modify previous well design and field development plans.

SC 6A Octon

The Octon JV will undertake further geological and geophysical studies this year upon completion of the ongoing 3D seismic reprocessing, using Pre-Stack Depth Migration ("PSDM"). There are already a number of prospects identified within SC 6A and hopefully, the reprocessing work will further enhance the quality of the initial seismic data.

Pitkin Petroleum Limited
Peru Block Z-38

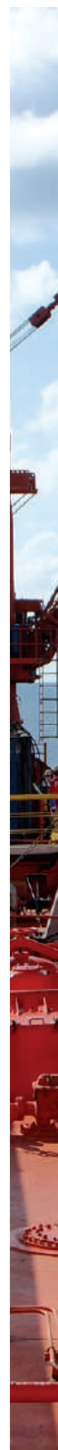
Peru Block Z-38 is located in the offshore part of the Tumbes Basin approximately 10 kilometers from the coast of northwest Peru, South America. Water depth across the block ranges from 100 m to over 2,000 m. Pitkin holds a 25% working interest in Block Z-38, which is operated by Karoon Gas Australia,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

The block has been placed by Perupetro S.A. under FM since September 1, 2013 due to rig unavailability and pending drilling-related permits from Peruvian agencies. 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 FM is lifted.

FINANCIAL RESULTS

The Company incurred an audited consolidated Net Loss Attributable to Equity Holders of the Parent Company of P22.4 M for the year ended December 31, 2016, compared with a corresponding loss of P87.5 million in 2015.

Reported audited consolidated net loss during 2016 amounted to P36.4 million, compared to a net loss of P144.0 million in 2015. The lower net loss was primarily attributable to a 75.7% reduction in overhead resulting from management's continuing cost reduction efforts and a recovery in impairment loss, net of lower petroleum revenues contributed by its subsidiary, Forum Energy Limited, arising from the decline in oil output and lower oil prices.



OUTLOOK

PXP is looking forward to a better 2017 and intends to capitalize on opportunities by channeling its resources on growth prospects primarily via exploration of various petroleum assets, starting with the ongoing seismic interpretation of the newly acquired data in SC 74, and the forthcoming land gravity survey by FEI in the Cebu block, in search of other prospects inside the production acreage.

In addition, the Company will closely monitor the results of the Galoc-7 drilling, scheduled in the first half of 2017. If the drilling turns out to be successful, the Consortium will proceed to a Phase 3 Galoc field development beginning with the installation of an additional 1 or 2 production wells.

Meanwhile, the Arbitral Tribunal's decision on the dispute between Philippines and China over the West Philippine Sea and the affirmative approach of the current Philippine administration to China will play a significant role in the Company's exploration program in the West Philippine Sea moving forward. PXP is hoping to resume discussions with potential partners for any possible joint exploration over the blocks located in the West Philippine Sea where the Company has interests in, including SC 72.

Once again, on behalf of the PXP Board and Management, we would like to convey our deep appreciation to all our stakeholders for their continuing optimism and support, to our employees and business partners for their constant dedication and hard work, and to our Directors for their usual counsel and wisdom.

Yours cordially

MANUEL V. PANGILINAN
Chairman

FINANCIAL AND OPERATING PERFORMANCE

FINANCIAL PERFORMANCE

Consolidated operating revenues amounted to P101.6 million in 2016 (2015: P172.3 million; 2014: P307.9 million) consisting solely of revenues from petroleum (2014: P304.7 for petroleum and P3.2 million for coal).

The lower petroleum revenue was mainly due to (1) the decline in average crude oil prices to $43.4 per barrel (2015: $54.0 per barrel; 2014: $105.8 per barrel) during the years in review and; (2) the normal decline in the oil production of Service Contract ("SC") 14 C-1 Galoc, yielding a gross volume of 1.7 million barrels of oil (2015: 2.4 million barrels; 2014: 2.8 million barrels) equivalent to 5 liftings (2015: 7 liftings; 2014: 9 liftings). The revenues were contributed by Forum Energy Limited ("Forum"), a 67.19%[1] 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 the year were as follows:

	2016	2015	2014
Revenues (In millions PhP)			
Oil and gas	**P101.6**	P172.3	P304.7
Coal	-	-	3.2
	P101.6	P172.3	P307.9
Sales			
Oil (barrels)*	**49,585**	69,646	81,158
Gas (mmBTU)	-	15,549	41,503
Coal (metric tons)	-	-	3,655

**sale of petroleum, net to Forum*

Costs and expenses totaled P170.8 million (2015: P326.8 million; 2014: P436.1 million). Petroleum production costs were lower at P115.4 million (2015: P98.0 million; 2014: P156.2 million), resulting from lesser oil output. General and administrative expenses substantially decreased to P55.5 million (2015: P228.8 million; 2014: P279.3 million), resulting from management's continuing cost reduction plan and rationalization of business portfolio. This included the delisting of Forum, the rightsizing of manpower complement, the reduction in the number of directors in Forum and the sharing of resources amongst subsidiaries.

A net other income of P20.5 million was recorded during the year in review (2015: P10.5 million; 2014: net other charges P311.5 million) due to the following: (1) lower net foreign exchange gain of P13.4 million (2015: P24.7 million; 2014: P0.1 million) arising from foreign exchange differences on the Group's dollar denominated cash and assets and (2) reversal in impairment loss of P4.7 million (2015: P39.8 million; 2014: P322.2 million) arising from the proceeds of the sale of SC 53 to a third-party.

In 2015, impairment charges were incurred as a result of Pitkin's exit in SC 53 Mindoro and Peru Block XXVIII. While in 2014, the P322.2 million impairment loss was incurred mainly from the exit of Pitkin in SC 6A Octon. Net interest income stood at P3.2 million (2015: P6.0 million; 2014: P6.8 million) resulting from lower interest income in interest bearing money market placements.

	Years Ended December 31		
(In millions PhP)	2016	2015	2014
Foreign exchange gains - net	**P13.3**	P24.7	P0.1
Provision and reversal of impairment and loss on write off of assets - net	**4.7**	(39.8)	(322.2)
Interest income	**3.3**	6.0	11.8
Interest expense and other charges	**(0.1)**	-	(5.0)
Others - net	**(0.7)**	19.6	3.8
Total	**P20.5**	P10.5	(P311.5)

A lower consolidated net loss of P36.4 million (2015: P144.0 million; 2014: P448.7 million) was incurred primarily as a result of the following: lower cost and expenses coming from reduced overhead and oil output, amid lower revenues due to depressed crude oil prices and lower production from SC 14 C1 Galoc, which was partly offset by a net other income of P20.5 million (2015: P10.5 million; 2014: net other charges of P311.5 million).

A higher net other charges was posted in 2014 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 P22.4 million (2015: P87.5 million; 2014: P225.6 million), and core net loss was P52.5 million (2015: P129.9 million; 2014: P66.8 million), with both basic and diluted loss per share amounted to P0.013 (2015: P0.051 2014: P0.133).

FINANCIAL POSITION

As at December 31, 2016, the Company's total assets stood at P7.331 billion as against P7.228 billion as at December 31, 2015. Total current assets was marginally lower at P668.4 million from P670.3 million. Cash slightly increased from P526.4 million to P573.3 million which arose from the collection of receivables resulting from: (1) The timing difference of the collection of oil liftings in Galoc; (2) The decrease in Other noncurrent assets due to the return of Peru XXVIII cash bond and tax credits by the Peruvian government to Pitkin as

[1] As of December 31, 2016

well as; (3) The increase in Trade and other payables after the receipt of cash from JV partners in SC 72 and SC 74. These were slightly offset by the increase in Deferred exploration costs spent mainly for SC 74.

Noncurrent assets slightly rose to P6.663 billion from P6.558 billion, largely arising from the increase in deferred exploration costs to P5.081 billion from P4.936 billion, offset by the decrease in other noncurrent assets to P0.9 million from P26.8 million.

Current liabilities as at the end of the year were marginally higher at P2.960 billion from P2.947 billion as at December 31, 2015. This was due to the increase in Trade and other payables to P27.9 million from P14.9 million while as at end of the year in review, total noncurrent liabilities remained flat at P1.314 billion from P1.338 billion.

As of December 31, 2016, total equity stood at P3.058 billion as against the end of 2015 at P2.967 billion. This was a result of the increase in non-controlling interest following the slight increase in Non-controlling interest including: (1) the increase in deficit coming from the net loss incurred during the period offset by (2) the increase in cumulative translation adjustment on foreign currency subsidiaries related to changes in foreign currency translation.

CASH FLOWS

Net Cash Provided by Operating Activities during the year amounted to P109.7 million (net outflows of 2015: P115.2 million; 2014: P84.3 million) resulting from lower operating cash costs, increased collection of Trade and other receivables due to timing differences in the sale of Galoc oil liftings and the increase in Trade and other payables coming from the cash calls paid to PXP by SC 74 consortium members. In 2015, the higher operating cash outflow vs 2014 was a result of higher cash operating costs, lower petroleum revenues, increase in payment of retirement benefits as well as trade creditors and suppliers.

Net Cash from Investing Activities resulted in a net outflow of P65.7 million (2015: P58.6 million; 2014: P199.9 million) due to exploration activities in SC53, SC75 and SC74, both in the current year and in the previous year. For 2014, the net outflow was associated with the exploration activities related to Peru Block XXVIII, SC 53, SC 74, and SC 75.

Net Cash used in Financing Activities amounted minimally at P299 thousand (2015: P1.205 billion; 2014: P428.8 million). In 2015, the net cash outflow arose from the $10 million partial payment of PMC's Advances to PXP, while 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, which, was offset by inflows from net cash advances made by PMC to PXP.

Effect of exchange rate changes in cash and cash equivalents representing fluctuations in foreign currency exchange rates amounted to an inflow of P3.3 million (2015: outflow of P3.2 million; 2014: P0.1). At the end of the current year, Cash and cash equivalents amounted to P573.3 million (2015: P526.36 million).

BOARD OF DIRECTORS

1 MANUEL V. PANGILINAN
Chairman Non-Executive Director

2 DANIEL STEPHEN P. CARLOS
President & Executive Director

3 EULALIO B. AUSTIN, JR.
Non-Executive Director

4 ROBERT C. NICHOLSON
Non-Executive Director

5 BARBARA ANNE C. MIGALLOS
Corporate Secretary & Executive Director

6 BENJAMIN S. AUSTRIA
Independent Director

7 EMERLINDA R. ROMAN
Independent Director

8 MARILYN A. VICTORIO-AQUINO
Non-Executive Director

9 JOSE GABRIEL M. LA VIÑA
Non-Executive Director

MANUEL V. PANGILINAN
Chairman
Non-Executive Director

AGE: 70
CITIZENSHIP: Filipino
FIRST ELECTED DIRECTOR: first elected Director of the Company on December 8, 2009; Chairman of the Board since December 8, 2009; last re-elected on May 17, 2016.

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. Mr. Pangilinan is the President and CEO of PLDT Inc, the country's dominant telecom company and Smart Communications Incorporated - the largest mobile phone operator in the Philippines, and continues to serve as their Chairman concurrently.

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. 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

Mr. Pangilinan has been a Director of Philex Mining Corporation (Philex Mining) and Philex Gold Philippines, Inc. (PGPI) since November 2008. He also serves as Chairman of Manila Electric Company (MERALCO), Metro Pacific Investments Corporation, Metro Pacific Tollways Corporation, and of non-listed companies including Beacon Electric Asset Holdings Inc., PLDT Communications and Energy Ventures Inc. (formerly Piltel), Maynilad Water Services Corporation (Maynilad), Mediaquest Incorporated, Associated Broadcasting Corporation (TV5), Landco Pacific Corporation, Makati Medical Center, Cardinal Santos Medical Center, Our Lady of Lourdes Hospital, Asian Hospital Incorporated, Central Luzon Doctor's Hospital, De Los Santos Medical Center, Manila Doctors Hospital, Jesus Delgado Memorial Hospital, Marikina Valley Medical Center, Sacred Heart of Malolos (Bulacan), Davao Doctors Incorporated, Riverside Medical Center Incorporated (Bacolod), West Metro Medical Center Hospital (Zamboanga), and Megaclinic,. In 2012, he was appointed as Vice Chairman of Roxas Holdings, Inc. which owns and operates the largest sugar milling operations in the Philippines.

LISTED COMPANIES OF WHICH MR. PANGILINAN IS PRESENTLY A DIRECTOR

Philippines
1. PXP Energy Corporation
2. Philex Mining Corporation
3. PLDT Inc.
4. Metro Pacific Investments Corporation
5. Metro Pacific Tollways Corporation
6. Roxas Holdings, Inc.
7. Manila Electric Company

Hong Kong
8. First Pacific Company Limited

DANIEL STEPHEN P. CARLOS
President &
Executive Director

AGE: 53
CITIZENSHIP: Filipino
FIRST ELECTED DIRECTOR: first elected Director on August 16, 2015; last re-elected on May 17, 2016.

ACADEMIC BACKGROUND

Mr. Carlos obtained his Bachelor of Science degree in Geology from the University of the Philippines (1984) and holds a Master of Science degree 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 (1988). He placed 3rd in the 1985 Geologist Licensure Examination.

BUSINESS AND PROFESSIONAL BACKGROUND/ EXPERIENCE

He was 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 the Resident Agent in the Philippines of Forum (GSEC 101) Ltd, which operates Service Contract 72 or Recto Bank. He is also the President of Forum Energy Philippines Corporation and Forum Exploration, Inc.

LISTED COMPANIES OF WHICH MR. CARLOS IS PRESENTLY A DIRECTOR

Philippines
1. PXP Energy Corporation

EULALIO B. AUSTIN, JR.
Non-Executive Director

AGE: 55
CITIZENSHIP: Filipino
FIRST ELECTED: first elected May 18, 2010; last re-elected May 17, 2016.

ACADEMIC BACKGROUND

Mr. Austin graduated from the St. Louis University - Baguio City, with a Bachelor of Science degree in Mining Engineering and placed eighth at the 1982 Professional Board Examination for mining engineers. He took his Management Development Program at the Asian Institute of Management in 2005 and his Advanced Management Program at the Harvard Business School in 2013.

BUSINESS AND PROFESSIONAL BACKGROUND/ EXPERIENCE

Mr. Austin has been a Director of the Company since May 17, 2012. He is also a Director of Philex Mining and PGPI 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 Founding President of PSEM's Philex Chapter. He was awarded as the CEO of the year on Mining by The Asset last December 14, 2015 in Hong Kong and was recently an Asia Pacific Entrepreneurship Awardee by the Enterprise Asia, awarded November 2016.

LISTED COMPANIES OF WHICH MR. AUSTIN IS PRESENTLY A DIRECTOR

Philippines
1. PXP Energy Corporation
2. Philex Mining Corporation

ROBERT C. NICHOLSON
Non-Executive Director

AGE: 61
CITIZENSHIP: British
FIRST ELECTED: first elected February 23, 2011; last re-elected May 17, 2016.

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 has been a Director of the Philex Mining and PGPI since November 28, 2008. He is the Chairman of Goodman Fielder Pty Limited (since March 2015), a Commissioner of PT Indofood Sukses Makmur Tbk and a Director of Metro Pacific Investments Corporation, Philex Mining Corporation, PXP Energy Corporation, PacificLight Power Pte. Ltd. and Forum Energy Limited, all of which are First Pacific Group subsidiaries, associates or joint venture.

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.

Mr. Nicholson has wide experience in corporate finance and cross border transactions, including mergers and acquisitions, regional telecommunications, debt and equity capital markets, corporate re-organizations and privatizations in China. Mr. Nicholson joined First Pacific's Board in 2003.

LISTED COMPANIES OF WHICH MR. NICHOLSON IS CURRENTLY A DIRECTOR

Philippines
1. PXP Energy Corporation
2. Philex Mining Corporation
3. Metro Pacific Investments Corporation

Hong Kong and Indonesia

4. First Pacific Company Limited
5. PT Indofood Sukses Makmur Tbk

BARBARA ANNE C. MIGALLOS
Corporate Secretary &
Executive Director

AGE: 62
CITIZENSHIP: Filipino
FIRST ELECTED: first elected December 27, 2007 to June 11, 2008; director since May 18, 2010 to the present; last re-elected May 17, 2016.

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 Philippines College of Law, graduating cum laude and Class Salutatorian, and ranked 3rd in the 1979 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 is also the Company's Corporate Secretary. Ms. Migallos has been a Director of Philex Mining and PGPI since June 26, 2013. She is also a Director of Mabuhay Vinyl Corporation since 2000, Philippine Resins Industries since 2001, and Forum Energy Philippines Corporation since 2013. She is the Corporate Secretary of Philex Mining since July 1998, PGPI, Silangan Mindanao Mining Co., Inc., Eastern Telecommunications Philippines Inc. since 2005, Nickel Asia Corporation since 2010, Emerging Power Inc. since 2015, Cordillera Exploration Co., Inc., Forum Energy Philippines Corporation since 2013, 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. She is the Managing Partner of the Migallos & Luna Law Offices.

LISTED COMPANIES OF WHICH MS. MIGALLOS IS CURRENTLY A DIRECTOR

Philippines

1. PXP Energy Corporation
2. Philex Mining Corporation
3. Mabuhay Vinyl Corporation

BENJAMIN S. AUSTRIA
Independent Director

AGE: 71
CITIZENSHIP: Filipino
FIRST ELECTED: first elected Independent Director on August 4, 2011; last re-elected on May 17, 2016.

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.

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 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.

LISTED CORPORATIONS OF WHICH DR. AUSTRIA IS CURRENTLY A DIRECTOR

1. PXP Energy Corporation (Independent Director)

EMERLINDA R. ROMAN
Independent Director

AGE: 67
CITIZENSHIP: Filipino
FIRST ELECTED INDEPENDENT DIRECTOR: first elected Independent Director August 4, 2011; last re-elected May 17, 2016.

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 president of the University of the Philippines where she is now Professor Emeritus at the Cesar E.A. Virata School of Business. She has held various administrative positions in UP – served as three-time Chancellor of the University's flagship campus – UP Diliman, Vice-President, Secretary of the Board of Regents and finally its President. Dr. Roman was President when the University celebrated its centennial at which time the university went on an aggressive fundraising campaign raising more than P6 Billion.

Dr. Roman also served as Chair of the Board of Trustees of the International Rice Research Institute, President of the UP Foundation, Chair of the Friends of UP in America Foundation, and Chair of the UP Provident Fund.

She sits on the boards of Smart Communications, Inc., Digital Telecommunications Philippines, Inc., Redondo Peninsula Energy, and One Meralco Foundation. She is also Chair of the Board of Advisers of Manila Tytana Colleges and Chair of the Board of the Angara Center for Law and Economics.

LISTED COMPANIES OF WHICH DR. ROMAN IS CURRENTLY A DIRECTOR

1. PXP Energy Corporation (Independent Director)

MARILYN A. VICTORIO-AQUINO
Non-Executive Director

AGE: 61
CITIZENSHIP: Filipino
FIRST ELECTED: first elected April 18, 2013; last re-elected on May 17, 2016.

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's practice focused on banking, finance and securities, construction and infrastructure, investments, mergers and acquisitions, and mining and natural resources.

Ms. Aquino was elected as Director of the Company on April 18, 2013. She has been a Director of Philex Mining and PGPI since December 7, 2009 and was re-elected on June 26, 2013. She is an Assistant Director of First Pacific Company Limited since July 2012 and was appointed as Chief Risk Officer in August 2016, following her 32-year law practice at SyCip Salazar Hernandez and Gatmaitan Law Offices, where she was Partner from 1989 to 2012. She is the President and Chief Executive Officer of MetroPac Movers Inc., the logistics company of MetroPacific Investments Corporation. She is also a Director of First Coconut Manufacturing Inc., Silangan Mindanao Mining Company Inc. since January 2013, Silangan Mindanao Exploration Company, Inc. since January 2013, Lepanto Consolidated Mining Company since October 2012, Light Rail Manila Corporation since July 2014, and Maynilad Water Services, Inc. since December 2012.

LISTED COMPANIES OF WHICH MS. AQUINO IS CURRENTLY A DIRECTOR

Philippines
1. PXP Energy Corporation
2. Philex Mining Corporation
3. Lepanto Consolidated Mining Company

JOSE GABRIEL M. LA VIÑA
Non-Executive Director

AGE: 59
CITIZENSHIP: Filipino
FIRST ELECTED: April 26, 2017

ACADEMIC BACKGROUND
Mr. La Viña graduated at the Ateneo de Manila University with a degree of BA Philosophy (Magna Cum Laude) and an Ateneo Full Scholar & Insular Life Educational Foundational Scholar. He was also an AFS Scholar, Master in Entrepreneurship (Superior Performance) at the Asian Institute of Management; a Valedictorian at Corona del Mar High School, Newport Beach, California, Xavier University High School, and Xavier University Grade School.

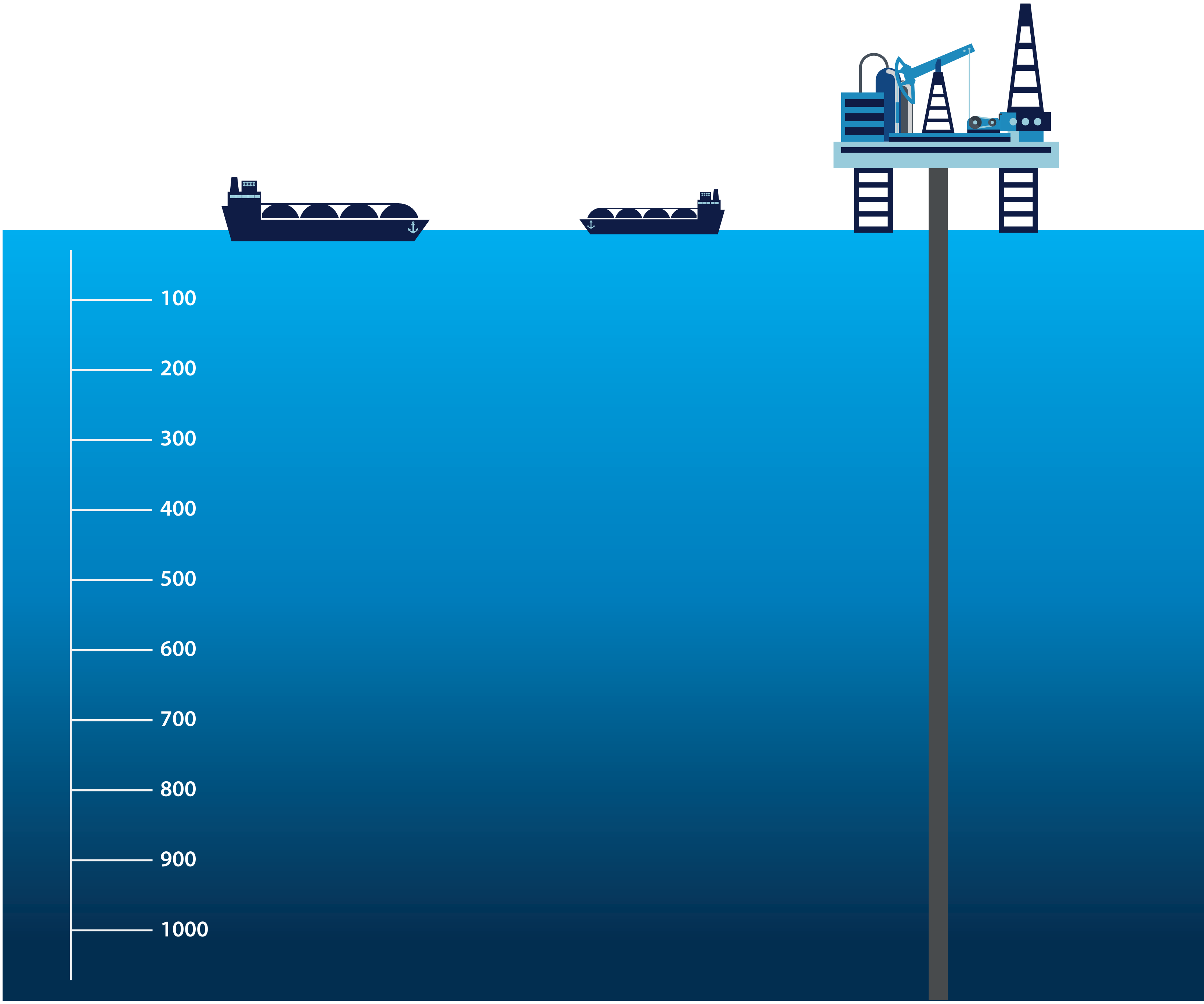
BUSINESS AND PROFESSIONAL BACKGROUND/ EXPERIENCE
Mr. La Viña was appointed Commissioner of the Social Security System (SSS) on November 2016. Prior to this, he was Social Media Director, Duterte 2016 Presidential Campaign and a member of its Media Central & Communications Group. Mr. La Viña has 32 years of experience as Founder & CEO in various industries, including Home Mortgage Brokerage, Real Estate, Cooperative Banking, Technology, Auto Sales, Supply Chain Management, Hospitality and Music Entertainment. Elected February 2016 to the Board of Directors of the Alumni Association of the Asian Institute of Management. Served as Treasurer & Trustee of AFS Intercultural Services, which sends around 30 to 40 Filipino Muslim youth scholars to the United States every year under the Kennedy-Lugar Youth Exchange and Study program funded by the U.S. State Department.

As composer, Mr. La Viña's songs have been recorded by Lea Salonga, Chad Borja, Joey Albert, Iza Calzado, Gino Padilla, Anna Fegi, Renz Verano, Jinky Llamanzares, Kaye Abad, Toti Fuentes, Raymond Lauchenco, Iwi Laurel, Tillie Moreno, Louie Reyes, Eugene Villaluz, Teresa Loyzaga, and other Filipino and international artists. One of his compositions won Third Prize in the Metro Manila Popular Music Festival in 1984 and two other received Honorable Mention at the 10th Billboard International Song Contest, 2002.

LISTED COMPANIES OF WHICH MR. LA VIÑA IS CURRENTLY A DIRECTOR

Philippines
1. PXP Energy Corporation
2. Philex Mining Corporation

FINANCIAL STATEMENTS



STATEMENT OF MANAGEMENT'S RESPONSIBILITY

The management of PXP ENERGY CORPORATION (formerly Philex Petroleum Corporation) is responsible for the preparation and fair presentation of the financial statements for the years ended December 31, 2016 and 2015, including the additional components attached therein, in accordance with the prescribed financial reporting framework indicated therein. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

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

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

Manuel V. Pangilinan	**Daniel Stephen P. Carlos**	**Paraluman M. Navarro**
Chairman	President	Treasurer

Signed 28th of February 2017.

REPORT OF THE AUDIT COMMITTEE TO THE BOARD OF DIRECTORS

THE BOARD OF DIRECTORS
PXP ENERGY CORPORATION

Further to compliance with applicable corporate governance laws and rules, we confirm for 2016 as follows:

1. That an independent director chairs the Audit Committee, and that the Committee has two independent directors as members;

2. That the Audit Committee had five (5) meetings during the year 2016.

3. That the Audit Committee reviewed and approved all audit services provided by SGV & Co. to PXP Group, and related fees for such services;

4. That the Audit Committee had discussed with the Philex's internal audit group and SGV & Co. the overall scope and the plans for their respective audits, and results of their examinations, their evaluation of PXP Energy Corporation and Subsidiaries' internal controls and the overall quality of the PXP Group's financial reporting;

5. That the Audit Committee had discussed with SGV & Co the matters required to be discussed by the prevailing applicable Auditing Standard, and we had received written disclosures and the letter from SGV & Co. as required by the prevailing Independence Standards (Statement as to Independence) and had discussed with SGV & Co. its independence from PXP Group and PXP group management;

6. That the Audit Committee had 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 PXP are adequate and effective.

7. In the performance of the Audit Committee's oversight responsibilities, the Audit Committee had reviewed and discussed the audited financial statements of PXP Group as of and for the year ended December 31, 2016 with the PXP Group's management, which has the primary responsibility for the financial statements, and with SGV & Co., the PXP Group's independent auditor, who is responsible for expressing an opinion on the conformity of PXP Group's audited financial statements with Philippine Financial Reporting Standards (PFRS);

8. Based on the reviews and discussions referred to above, in reliance on the PXP 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, 2016 in the Company's Annual Report to the Stockholders and to the Philippine Securities and Exchange Commission (SEC) on Form 17-A on its February 23, 2016 meeting; and

9. 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 PXP Group's independent auditor for the year 2017.

10. In addition to the Audit Committee's oversight responsibilities, the Audit Committee had reviewed the quarterly financial highlights or results of the Company and related material transactions for the year 2016 that needs to be reported in accordance with Philippine Financial Reporting Standards (PFRS);

Respectfully submitted,

Emerlinda R. Roman
Committee Chair–Independent

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.com/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

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
PXP Energy Corporation
2/F LaunchPad
Reliance corner Sheridan Streets
Mandaluyong City

Opinion

We have audited the consolidated financial statements of PXP Energy Corporation and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Recoverability of Deferred Oil and Gas Exploration Costs

The Group capitalizes costs incurred in the exploration stage of its oil and gas assets. As disclosed in Note 10 to the consolidated financial statements, PXP, through its various subsidiaries, has deferred oil and gas exploration costs as at December 31, 2016 amounting to ₱5,081 million, which is 69% of the Group's consolidated assets. The ability of the Group to realize their deferred oil and exploration costs depends on the success of their exploration and future development work in proving the viability of their oil properties to produce oil in commercial quantities. The assessment of the recoverability of the deferred oil and gas exploration costs involves significant management judgment and is considered as having a high estimation uncertainty and significant risk estimate.

Audit response

We obtained management's assessment on the recoverability of these deferred oil exploration costs and inquired about their plans on operations. We inspected service contracts and relevant joint operations agreements of each exploration project to determine that the period for which the Group has the right to explore in the specific area has not expired and the Group has rights and obligations under the contracts through participating interests. We obtained and reviewed the work program and budget duly approved by the Consortium and the regulatory agency. We also obtained the latest management disclosures regarding the status of their service contracts and assessed the adequacy to support the assessment of management regarding its recoverability.

Recoverability of Goodwill

The Group is required to test goodwill acquired in a business combination annually. As at December 31, 2016, the Group's goodwill primarily attributable to Peru Block Z-38 and Service Contract 72 amounted to ₱1,238 million, which is considered significant to the consolidated financial statements. In addition, management's assessment process requires significant judgment and is based on certain assumptions, such as gross profit, operating margin, capital expenditures and discount rate. The Group's disclosures about goodwill are included in Note 4 to the consolidated financial statements.

Audit response

We obtained an understanding of the Group's recoverability assessment process and the related controls. We assessed the competence, capability and objectivity of the Group's specialist by considering their qualifications and experience. We involved our internal specialist in evaluating the methodologies and the assumptions used. These assumptions include forecasted revenue base, gross margin/profit, operating margin, capital expenditures and discount rate. We compared the key assumptions used against the historical performance of the cash-generating units and other relevant external data. In addition, we tested the parameters used in the derivation of the discount rate against market data.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2016, but does not include the financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2016 are expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with PFRS, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Jose Pepito E. Zabat III.

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. 5908781, January 3, 2017, Makati City

February 28, 2017

PXP ENERGY CORPORATION
(formerly Philex Petroleum Corporation)
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

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

	December 31	
	2016	2015
ASSETS		
Current Assets		
Cash and cash equivalents (Note 5)	**₱573,341**	₱526,355
Trade and other receivables (Note 6)	**63,480**	111,630
Inventories - net (Note 7)	**19,160**	9,044
Other current assets (Note 8)	**13,231**	23,260
Total Current Assets	**669,212**	670,289
Noncurrent Assets		
Property and equipment - net (Note 9)	**307,835**	333,049
Deferred oil and gas exploration costs - net (Note 10)	**5,081,450**	4,936,712
Deferred income tax assets (Note 17)	**33,706**	22,723
Goodwill (Note 4)	**1,238,583**	1,238,583
Other noncurrent assets (Note 11)	**939**	26,824
Total Noncurrent Assets	**6,662,513**	6,557,891
TOTAL ASSETS	**₱7,331,725**	₱7,228,180
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Note 12)	**₱27,937**	₱14,932
Advances from related parties (Note 18)	**2,931,701**	2,931,943
Income tax payable	**25**	33
Total Current Liabilities	**2,959,663**	2,946,908
Noncurrent Liabilities		
Deferred income tax liabilities (Note 17)	**1,109,848**	1,112,043
Other noncurrent liabilities (Notes 9, 19 and 25)	**203,704**	201,981
Total Noncurrent Liabilities	**1,313,552**	1,314,024
Total Liabilities	**4,273,215**	4,260,932
Equity Attributable to Equity Holders of the Parent Company		
Capital stock - ₱1 par value (Note 16)	**1,700,000**	1,700,000
Equity reserves (Notes 4 and 16)	**128,842**	120,172
Deficit	**(1,255,567)**	(1,233,205)
Cumulative translation adjustment on foreign subsidiaries	**70,016**	(3,958)
	643,291	583,009
Non-controlling interests (Note 16)	**2,415,219**	2,384,239
Total Equity	**3,058,510**	2,967,248
TOTAL LIABILITIES AND EQUITY	**₱7,331,725**	₱7,228,180

See accompanying Notes to Consolidated Financial Statements.

PXP ENERGY CORPORATION
(formerly Philex Petroleum Corporation)
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
(Amounts in Thousands, Except Loss per Share)

	Years Ended December 31		
	2016	2015	2014
PETROLEUM AND OTHER REVENUES (Note 24)	**₱101,579**	₱172,250	₱307,882
COSTS AND EXPENSES			
Petroleum and other production costs (Note 14)	**115,405**	97,981	156,178
General and administrative expenses (Note 14)	**55,415**	228,822	279,267
Others	**–**	–	620
	170,820	326,803	436,065
OTHER INCOME (CHARGES)			
Foreign exchange gains - net	**13,341**	24,675	110
Reversal of (provision for) impairment and loss on write off of assets - net (Note 15)	**4,748**	(39,847)	(322,227)
Interest income (Note 5)	**3,316**	6,099	11,770
Interest expense and other charges (Notes 9, 12, 13 and 18)	**(120)**	–	(5,014)
Others - net (Note 15)	**(748)**	19,615	3,837
	20,537	10,542	(311,524)
LOSS BEFORE INCOME TAX	**(48,704)**	(144,011)	(439,707)
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 17)			
Current	**73**	14	468
Deferred	**(12,390)**	2	8,479
	(12,317)	16	8,947
NET LOSS	**(₱36,387)**	(₱144,027)	(₱448,654)
NET LOSS ATTRIBUTABLE TO:			
Equity holders of the Parent Company	**(₱22,362)**	(₱87,540)	(₱225,591)
Non-controlling interests	**(14,025)**	(56,487)	(223,063)
	(₱36,387)	(₱144,027)	(₱448,654)
BASIC/DILUTED LOSS PER SHARE (Note 23)	**(₱0.013)**	(₱0.051)	(₱0.133)

See accompanying Notes to Consolidated Financial Statements.

PXP ENERGY CORPORATION
(A Subsidiary of Philex Mining Corporation)
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in Thousands)

	Years Ended December 31		
	2016	2015	2014
NET LOSS	**(₱36,387)**	(₱144,027)	(₱448,654)
OTHER COMPREHENSIVE INCOME (LOSS)			
Items to be reclassified to profit or loss in subsequent periods:			
Gain on translation of foreign subsidiaries	**129,343**	92,430	9,032
	129,343	92,430	9,032
Item not to be reclassified to profit or loss in subsequent periods:			
Re-measurement losses on defined benefit plans (Note 19)	–	–	(1,202)
	129,343	92,430	7,830
TOTAL COMPREHENSIVE INCOME (LOSS)	**₱92,956**	(₱51,597)	(₱440,824)
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:			
Equity holders of the Parent Company	**₱51,612**	(₱34,480)	(₱222,811)
Non-controlling interests	**41,344**	(17,117)	(218,013)
	₱92,956	(₱51,597)	(₱440,824)

See accompanying Notes to Consolidated Financial Statements.

PXP ENERGY CORPORATION
(formerly Philex Petroleum Corporation)
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014
(Amounts in Thousands)

	Attributable to Equity Holders of the Parent						
	Capital Stock (Note 16)	Equity Reserves (Note 16)	Retained Deficit	Cumulative Translation Adjustment on Foreign Subsidiaries	Subtotal	Non-controlling Interests (Note 16)	Total
BALANCES AT DECEMBER 31, 2013	**₱1,700,000**	**(₱123)**	**(₱919,383)**	**(₱61,000)**	**₱719,494**	**₱3,785,894**	**₱4,505,388**
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 19)	–	–	(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 16)	–	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**

(Forward)

	Attributable to Equity Holders of the Parent						
	Capital Stock (Note 16)	Equity Reserves (Note 16)	Retained Earnings (Deficit)	Cumulative Translation Adjustment on Foreign Subsidiaries	Subtotal	Non-controlling Interests (Note 16)	Total
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 16)	–	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**
Net loss for the year	–	–	(22,362)	–	(22,362)	(14,025)	(36,387)
Other comprehensive income (loss):							
Items to be reclassified to profit or loss in subsequent periods:							
Gain on translation of foreign subsidiaries	–	–	–	73,974	73,974	55,369	129,343
Total comprehensive income (loss) for the year	–	–	(22,362)	73,974	51,612	41,344	92,956
Effects of transactions with owners (Note 16)	–	8,670	–	–	8,670	(10,364)	(1,694)
BALANCES AT DECEMBER 31, 2016	**₱1,700,000**	**₱128,842**	**(₱1,255,567)**	**₱70,016**	**₱643,291**	**₱2,415,219**	**₱3,058,510**

See accompanying Notes to Consolidated Financial Statements.

PXP ENERGY CORPORATION
(formerly Philex Petroleum Corporation)
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands)

	Years Ended December 31		
	2016	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before income tax	**(₱48,704)**	(₱144,011)	(₱439,707)
Adjustments for:			
Depletion and depreciation (Note 14)	**50,102**	15,355	63,573
Gain on sale of property and equipment (Note 9)	**–**	(1,688)	–
Movement in retirement liability (Note 19)	**–**	(28,356)	8,929
Interest expense and other charges (Notes 9, 12, 13 and 18)	**(120)**	–	5,014
Interest income (Note 5)	**(3,316)**	(6,099)	(11,770)
Provision and reversal of impairment and loss on write off of assets - net (Note 15)	**(4,748)**	39,847	322,227
Unrealized foreign exchange losses (gains) - net	**(13,341)**	24,675	(110)
Operating loss before working capital changes	**(20,127)**	(100,277)	(51,844)
Decrease (increase) in:			
Trade and other receivables	**79,708**	18,947	16,135
Inventories - net	**(5,722)**	10,890	5,780
Other current assets	**18,975**	19,973	(14,958)
Increase (decrease) in trade and other payables	**33,550**	(72,982)	(17,369)
Net cash generated from (used in) operations	**106,384**	(123,449)	(62,256)
Interest received	**3,316**	8,888	16,712
Income taxes paid	**(81)**	(634)	(68)
Interest paid	**–**	–	(38,675)
Net cash from (used in) operating activities	**109,619**	(115,195)	(84,287)
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease in other noncurrent assets (Note 11)	**25,885**	–	–
Additions to:			
Deferred oil and gas exploration costs and other noncurrent assets (Notes 10 and 24)	**(84,618)**	(55,944)	(169,140)
Property and equipment	**(5,251)**	(6,701)	(45,647)
Proceeds from sale of property and equipment (Note 9)	**–**	4,033	14,925
Payment for cancellation of shares (Note 16)	**(1,694)**	–	–
Net cash used in investing activities	**(65,678)**	(58,612)	(199,862)

(Forward)

	Years Ended December 31		
	2016	2015	2014
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments made to related parties (Note 18)	**(₱243)**	(₱494,126)	₱–
Additional advances from related parties (Note 18)	–	4,234	76,939
Settlement of long-term loan (Notes 13 and 25)	–	–	(110,033)
Acquisition by subsidiary of own shares (Note 16)	–	(715,143)	(395,733)
Net cash used in financing activities	**(243)**	(1,205,035)	(428,827)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**3,288**	(3,168)	(133)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**46,986**	(1,382,010)	(713,109)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**526,355**	1,908,365	2,621,474
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	**₱573,341**	₱526,355	₱1,908,365

See accompanying Notes to Consolidated Financial Statements.

PXP ENERGY CORPORATION
(formerly Philex Petroleum Corporation)
AND SUBSIDIARIES

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

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

<u>Corporate Information</u>
PXP Energy Corporation (formerly Philex Petroleum Corporation 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 PXP) was subsequently listed on the Philippine Stock Exchange (PSE) on September 12, 2011.

PXP's former ultimate parent is Philex Mining Corporation (PMC) which was incorporated in the Philippines and whose shares of stock are listed in the PSE. In February 2016, PMC declared a portion of its shares in the Parent Company as property dividends to all stockholders resulting in PMC losing control over PXP. The dividends were distributed on July 15, 2016.

On September 24, 2010, PXP 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 Ltd. (FEL), the number of shares owned and controlled by PXP in FEL thereafter totaled to 21,503,704 shares, which represented at that time 64.45% ownership interest in FEL. In 2012, certain directors and employees of FEL exercised their option over 2,185,000 ordinary shares. As a result, the ownership interest of PXP and FEC in FEL was diluted to 36.44% and 24.05%, respectively.

In June 2015, PXP bought additional investment from the non-controlling interests (NCI) owners of FEL for 20 British Pence per share. The NCIs sold 2,383,777 shares for a total consideration of □33,889,615. Then, in November of the same year, PXP further purchased additional shares of FEL from FEC for 21 British Pence per share. FEC sold 2,000,000 shares for a total consideration of □29,816,472. Following these transactions, PXP's interest in FEL increased from 36.44% to 48.77% (see Note 2).

In January 2016, FEC cancelled its 30,000,000 shares previously held under escrow. As a result, PXP's ownership interest increased from 51.24% to 54.99% (see Note 2).

On April 5, 2013, PXP increased its shareholding in Pitkin Petroleum Ltd. (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 PXP 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, PXP 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$1.00 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 PXP'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 US$0.75 per share. The Parent Company and the non-controlling interests surrendered 21,373,000 shares and 19,499,500 shares, respectively. Following this transaction, PXP's interest in Pitkin has increased from 53.07% to 53.43% (see Note 2).

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 2/F LaunchPad, Reliance corner Sheridan Streets, Mandaluyong City.

Business Operations

PXP Parent Company

The Parent Company's principal asset is a 50% operating interest in Service Contract (SC) 75. It covers an area of 6,160 square kilometers in the NW Palawan Basin. However due to *force majeure*, exploration activities in the area are temporarily suspended as at December 31, 2016.

On April 25, 2016, the Department of Energy (DOE) approved the Purchase and Sale Agreement (PSA) and Deed of Assignment (DOA) entered by PXP and Pitkin Petroleum (Philippines) Plc transferring the latter's 70% interest in SC 74 to PXP.

In December 2016, processing of seismic data for SC 74 was completed. Geological and geophysical (G&G) studies is planned to commence in 2017 which includes the interpretation of the newly processed 2D data.

FEL and its subsidiaries

FEL's principal asset is a 70% interest in SC 72 which covers an area of 8,800 square kilometers in the West Philippine Sea. FEL 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, 2016.

FEL'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.

In October 2016, the consortium approved the drilling of Galoc-7 to test the Mid Galoc Prospect, which is estimated to contain resources of 6.2 to 14.6 million stock tank barrels (MSTB) with the DOE approving the drilling program and budget on November 8, 2016.

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.

Recovery of Deferred Oil and Gas Exploration Costs
The Group's ability to realize its deferred oil and gas exploration costs amounting to ₱5,081,450 and ₱4,936,712 as at December 31, 2016 and 2015, respectively (see Note 10) 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 28, 2017.

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. 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 accounting policies adopted are consistent with those of the previous financial year except that the Group has adopted the following new accounting pronouncements starting January 1, 2016. Adoption of these pronouncements did not have any significant impact on the Group's financial position or performance unless otherwise indicated.

- Amendments to PFRS 10, PFRS 12 and PAS 28, *Investment Entities: Applying the Consolidation Exception*
- Amendments to PFRS 11, *Accounting for Acquisitions of Interests in Joint Operations*
- PFRS 14, *Regulatory Deferral Accounts*
- Amendments to PAS 1, *Disclosure Initiative*
- Amendments to PAS 16 and PAS 38, *Clarification of Acceptable Methods of Depreciation and Amortization*
- Amendments to PAS 16 and PAS 41, *Agriculture: Bearer Plants*
- Amendments to PAS 27, *Equity Method in Separate Financial Statements*
- Annual Improvements to PFRSs 2012 - 2014 Cycle
  - Amendment to PFRS 5, *Changes in Methods of Disposal*
  - Amendment to PFRS 7, *Servicing Contracts*
  - Amendment to PFRS 7, *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
  - Amendment to PAS 19, *Discount Rate: Regional Market Issue*
  - Amendment to PAS 34, *Disclosure of Information 'Elsewhere in the Interim Financial Report'*

Standards and Interpretations Issued but not yet Effective

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Group does not expect that the future adoption of the said pronouncements to have a significant impact on its consolidated financial statements. The Group intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2017

- Amendment to PFRS 12, *Clarification of the Scope of the Standard* (Part of *Annual Improvements to PFRSs 2014-2016* Cycle)
  The amendments clarify that the disclosure requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

- Amendments to PAS 7, *Statement of Cash Flows, Disclosure Initiative*
  The amendments to PAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendments, entities are not required to provide comparative information for preceding periods. Early application of the amendments is permitted. Application of amendments will result in additional disclosures in the 2017 consolidated financial statements of the Group.

- Amendments to PAS 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses*
  The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

  Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. Early application of the amendments is permitted.

  These amendments are not expected to have any impact on the Group.

Effective beginning on or after January 1, 2018

- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*
  The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and if other criteria are met. Early application of the amendments is permitted.

The Group is assessing the potential effect of the amendments on its consolidated financial statements.

- Amendments to PFRS 4, *Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4*

  The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the forthcoming insurance contracts standard. They allow entities to choose between the overlay approach and the deferral approach to deal with the transitional challenges. The overlay approach gives all entities that issue insurance contracts the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when PFRS 9 is applied before the new insurance contracts standard is issued. On the other hand, the deferral approach gives entities whose activities are predominantly connected with insurance an optional temporary exemption from applying PFRS 9 until the earlier of application of the forthcoming insurance contracts standard or January 1, 2021.

  The overlay approach and the deferral approach will only be available to an entity if it has not previously applied PFRS 9.

  The amendments are not applicable to the Group since none of the entities within the Group have activities that are predominantly connected with insurance or issue insurance contracts.

- PFRS 15, *Revenue from Contracts with Customers*

  PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue.

  The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018.

- PFRS 9, *Financial Instruments*

  PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, Financial Instruments: Recognition and Measurement, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

  The adoption of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Group's financial liabilities. The adoption will also have an effect on the Group's application of hedge accounting and on the amount of its credit losses. The Group is currently assessing the impact of adopting this standard.

- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)
  The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. The amendments should be applied retrospectively, with earlier application permitted.

- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*
  The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.

- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*
  The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The interpretation may be applied on a fully retrospective basis. Entities may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

Effective beginning on or after January 1, 2019

- PFRS 16, *Leases*
  Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, Leases. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.
  The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

Entities may early adopt PFRS 16 but only if they have also adopted PFRS 15. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs.
The Group is currently assessing the impact of adopting PFRS 16.

Deferred effectivity

- Amendments to PFRS 10 and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
  The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, Business Combinations. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

  On January 13, 2016, the Financial Reporting Standards Council postponed the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

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
- 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
Brixton Energy & Mining Corporation (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 Coal Operating Contract (COC) 130 to Grace Coal Mining and Development, Inc. (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.
FEL	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 70% interest in SC 72 Reed Bank.
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, particularly a 2.28% interest in SC 14 C-1 Galoc.
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 on March 31, 2005 and is involved in oil and gas exploration in the Philippines.
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, SC 72 Recto Bank.
Pitkin Petroleum Ltd. (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.

Subsidiary	Nature of Business
Pitkin Petroleum (Philippines) Plc (PPP)	PPP was registered as the Philippine Branch of Pitkin Petroleum Ltd. on March 19, 2008 and is 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.

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: Pitkin Peru LLC (PPR) and Pitkin Vamex LLC (PVX).

On July 18, 2016, Forum Philippine Holdings Limited (FPHL) and Forum (FEI) Limited, both wholly-owned by FEL were dissolved. On May 19, 2016, Pitkin sold Pitkin Petroleum 2 LLC and Pitkin Petroleum 3 LLC to a third party.

The ownership of the Parent Company over the foregoing companies as at December 31, 2016 and 2015 is summarized as follows:

	Percentages of Ownership			
	2016		2015	
	Direct	**Indirect**	Direct	Indirect
BEMC	**100.00**	–	100.00	–
FEC	**54.99**	–	51.24	–
FEL	**48.77**	**10.13**	48.77	9.44
FEL	–	**58.90**	–	58.21
FEPCO	–	**58.90**	–	58.21
FPHL	–	–	–	58.21
FFEIL	–	–	–	58.21
FGSECL	–	**58.90**	–	58.21
FEI	–	**39.27**	–	38.81
GSEC	–	**58.90**	–	58.21
Pitkin	**53.43**	–	53.43	–
PPP	**53.43**	–		
PVX	–	**53.43**	–	53.43
Z38	–	**40.07**	–	40.07
PPR	–	**53.43**	–	53.43
Z38	–	**13.36**	–	13.36
PP2	–	–	–	53.43
PXX	–	–	–	40.07
PP3	–	–	–	53.43
PXX	–	–	–	13.36

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.

<u>Business Combination and Goodwill</u>
Acquisition method
Business combinations, except for business combination between entities under common control, are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the 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.

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.

<u>Interest in Joint Arrangements</u>
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

<u>Foreign Currency Translation of Foreign Operations</u>
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 FEL 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
- 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, 2016 and 2015, 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
- 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.

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.

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, 2016 and 2015, included under loans and receivables are the Group’s cash and cash equivalents, trade and other receivables, refundable deposits included under ‘Other current assets’ and ‘Other noncurrent assets’ (see Note 21).

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, 2016 and 2015, included in other financial liabilities are the Group’s trade and other payables, advances from related parties 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.

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 EIR (i.e., the EIR 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.

<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.

- 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 production 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.

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 comprehensive income. 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 comprehensive income. 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.

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 10) and goodwill.

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.

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 CGU (or group of CGUs) is less than the carrying amount to which goodwill has been allocated, an impairment loss is recognized. Where goodwill forms part of a CGU (or group of CGUs) 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 CGU 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.

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.

<u>Other Comprehensive Income (Loss)</u>
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.

<u>Foreign Currency-Denominated Transactions and Translations</u>
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.

<u>Income Taxes</u>
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 Earnings (Loss) per Share
Basic earnings (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.

Diluted Earnings (Loss) per Share
Diluted earnings (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, 2016 and 2015, 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:

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 the United States (US) Dollar for FEL and Pitkin. These are the currencies of the primary economic environments in which the entities primarily operate.

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 recognized deferred income tax assets on NOLCO amounting to nil and ₱4,737 in 2016 and 2015, respectively. The carrying amount of deferred income tax assets amounted to ₱33,706 and ₱22,723 as at December 31, 2016 and 2015, respectively (see Note 17).

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, 2016 and 2015, 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 reserves and resources
Hydrocarbon reserves are estimates of the amount of hydrocarbons that can be economically and legally extracted from the Group's oil and gas and coal mining properties. The Group estimates its commercial reserves and resources based on information compiled by appropriately qualified persons relating to the geological and technical data on the size, depth, shape and grade of the hydrocarbon body and suitable production techniques and recovery rates. Commercial reserves are determined using estimates of oil and gas in place, recovery factors and future commodity prices, the latter having an impact on the total amount of recoverable reserves and the proportion of the gross reserves which are attributable to the host government under the terms of the Production-Sharing Agreements. Future development costs are estimated using assumptions as to the number of wells required to produce the commercial reserves, the cost of such wells and associated production facilities, and other capital costs.

The Group estimates and reports hydrocarbon reserves in line with the principles contained in the Society of Petroleum Engineers' 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 amortization 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 impairment 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 ₱637,145 and ₱665,934 as at December 31, 2016 and 2015, respectively (see Note 21). Allowance for impairment losses on other receivables amounted to nil as at December 31, 2016 and 2015 (see Note 6).

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, 2016 and 2015, the carrying value of property and equipment amounted to ₱307,835 and ₱333,049, respectively. Impairment loss on property and equipment amounted to nil in 2016 and 2015 (see Note 9).

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, 2016 and 2015. The carrying value of goodwill as at December 31, 2016 and 2015 amounted to ₱1,238,583 (see Note 4).

Determination of the NRV of inventories
The NRV of coal and petroleum 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 ₱19,160 and ₱9,044 as at December 31, 2016 and 2015, respectively (see Note 7). Allowance for probable inventory losses amounted to ₱266,103 as at December 31, 2016 and 2015 (see Note 7).

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 ₱9,700 and ₱9,174 as at December 31, 2016 and 2015, respectively (see Note 9). In 2016, the Group recognized accretion of interest amounting to ₱120. The discount rate used by the Group to value the provision as at December 31, 2016 and 2015 is 1.63% and 1.02%, 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. There was no allowance for impairment loss recognized in 2016 and 2015.

The deferred oil and gas exploration costs have a carrying value amounting to ₱5,081,450 and ₱4,936,712 as at December 31, 2016 and 2015, respectively (see Note 10). Allowance for unrecoverable portion of oil and gas interests amounted to ₱662,896 and ₱578,721 for December 31, 2016 and December 31, 2015, respectively (see Note 10).

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, 2016 and 2015, provision for losses recorded under noncurrent liabilities amounted to ₱194,004 and ₱192,807, respectively (see Note 25).

4. Business Combination

Acquisition of Pitkin

On April 5, 2013, PXP 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 PXP obtaining control over Pitkin. As a result of the acquisition, PXP 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

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. 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.

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

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. 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.

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 FEL 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, formerly controls the Parent Company, BEMC, FEC and FEL 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 FEL 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, 2016 and 2015, the goodwill resulting from business combinations amounting to ₱1,238,583 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 2016 and 2015.

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 at the weighted average cost of capital (WACC). 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

	2016	2015
Cash on hand and in banks	**₱251,549**	₱148,243
Short-term investments	**321,792**	378,112
	₱573,341	₱526,355

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 ₱3,316, ₱6,099, and ₱11,770 were recognized for the years ended December 31, 2016, 2015 and 2014, respectively. The Group has US Dollar ($) accounts in various banks amounting to US$9,483 and US$10,840 as at December 31, 2016 and 2015, respectively (see Note 21).

6. Trade and Other Receivables

	2016	2015
Trade	**₱55,785**	₱82,925
Others	**7,695**	28,705
	₱63,480	₱111,630

Trade receivables are noninterest-bearing and are currently due and demandable. These include receivables from sale of coal and petroleum products. Other receivables pertain to cash calls paid to oil operators pending liquidation. These are liquidated upon submission of the financial reports by the operator in the subsequent month following the month of cash call.

The Group has no related party balances included in the trade and other receivables account as at December 31, 2016 and 2015.

7. Inventories - net

	2016	2015
Coal - at cost	**₱220,045**	₱220,045
Petroleum - at cost	**19,160**	9,044
Materials and supplies - at cost	**46,058**	46,058
	285,263	275,147
Less allowance for probable inventory losses	**266,103**	266,103
	₱19,160	₱9,044

The cost of coal inventories recognized as expense and included in 'Cost of coal sales' amounted to nil, nil, and ₱3,197 in 2016, 2015, and 2014, respectively (see Note 14).

The cost of petroleum recognized as expense and included in 'Petroleum production costs' amounted to ₱115,405, ₱97,981, and ₱152,981 in 2016, 2015, and 2014, respectively (see Note 14).

Allowance for probable inventory losses pertains to the total of coal inventories and materials and supplies inventories. In 2014, impairment losses amounting to ₱3,197 were reversed by the Group since it was able to sell these inventories.

As at December 31, 2016 and 2015, depletion expense capitalized as part of petroleum inventories amounted to ₱7,288 and ₱3,101, respectively.

8. Other Current Assets

	2016	2015
Prepaid expenses	**₱6,691**	₱6,238
Input VAT	**6,501**	15,167
Deposits	**39**	1,199
Others	**–**	656
	₱13,231	₱23,260

9. Property and Equipment - net

As at December 31, 2016:

	Oil and Gas, and Coal Mining Properties	Machinery and Equipment	Surface Structures	Construction in-progress	Total
Cost					
Balances at January 1	**₱869,943**	**₱250,957**	**₱37,659**	**₱759**	**₱1,159,318**
Additions	**569**	**115**	–	–	**684**
Disposals	–	**(5,649)**	–	–	**(5,649)**
Effect of translation adjustment	**43,784**	**4,014**	–	–	**47,798**
Balances at December 31	**914,296**	**249,437**	**37,659**	**759**	**1,202,151**
Accumulated depletion and depreciation					
Balances at January 1	**321,091**	**90,813**	**8,886**	–	**420,790**
Depletion and depreciation (Notes 7 and 14)	**57,039**	**351**	–	–	**57,390**
Disposals	–	**(5,647)**	–	–	**(5,647)**
Effect of translation adjustment	**12,669**	**3,558**	–	–	**16,227**
Balances at December 31	**390,799**	**89,075**	**8,886**	–	**488,760**
Accumulated impairment					
Balances at January 1	**223,221**	**152,726**	**28,773**	**759**	**405,479**
Effect of translation adjustment	**69**	**8**	–	–	**77**
Balances at December 31	**223,290**	**152,734**	**28,773**	**759**	**405,556**
Net Book Values	**₱300,207**	**₱7,628**	**₱–**	**₱–**	**₱307,835**

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 7 and 14)	14,281	4,175	–	–	18,456
Disposals	–	(16,884)	–	–	(16,884)
Effect of translation adjustment	15,876	3,679	–	–	19,555
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

No impairment losses on property and equipment in 2016 and 2015. Impairment loss in 2014 amounted to ₱1,838.

The Group recognized reversals of impairment losses on property and equipment amounting to nil, ₱1,371 and ₱14,925 in 2016, 2015 and 2014, 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 in 2015. The proceeds from these sales of property and equipment amounted to nil, ₱4,033 and ₱14,925 in 2015 and 2014, respectively.

Oil and gas, and coal mining properties include the present value of the BEMC's and FEL's estimated rehabilitation and decommissioning costs amounting to ₱9,700 and ₱9,174 as at December 31, 2016 and 2015, respectively.

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

	2016	2015
Beginning balances	**₱9,174**	₱9,671
Accretion	**120**	–
Disposal	**–**	(953)
Effect of translation adjustment	**406**	456
Ending balances	**₱9,700**	₱9,174

The provision for rehabilitation and decommissioning costs amounting to ₱9,700 and ₱9,174 as at December 31, 2016 and 2015, respectively, are recorded under 'Other noncurrent liabilities' in the consolidated statements of financial position.

Discount rates of 1.63% and 1.02% were used to compute the present values of provision for rehabilitation and decommissioning costs of FEL and BEMC, respectively, for the years ended December 31, 2016 and 2015, respectively.

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

	2016	2015
Oil and gas exploration assets	**₱5,744,346**	₱5,515,433
Less allowance for unrecoverable portion	**662,896**	578,721
	₱5,081,450	₱4,936,712

As at December 31, 2016 and 2015, carrying value of Peru exploration assets amounted to ₱3,395,272 and ₱3,388,226, respectively and the remaining balance pertain to Philippine exploration assets.

In 2016 and 2015, provision for impairment losses on deferred oil and gas exploration costs were recognized by the Group amounting to nil and ₱359,395, 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. Also in 2015, the Group recognized a reversal of impairment amounting to ₱388,630 on SC 40.

The Pitkin, PXP and FEL, through their subsidiaries, have various participating interests in petroleum service contracts as follows as at December 31, 2016:

	Participating Interest		
Service Contract	Pitkin	PXP	FEL
SC 6 (Cadlao Block)	–	1.65%	–
SC 6A (Octon Block)	–	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)	–	–	9.10%

Service Contract	Participating Interest Pitkin	 PXP	 FEL
SC 14 Block D (Retention Block)	–	–	8.17%
SC 40 (North Cebu Block)	–	–	100.00%
SC 53 (Mindoro) [1]	–	–	–
SC 72 (Reed Bank)	–	–	70.00%
SC 74 (Linapacan) [2]	–	70.00%	–
SC 75 (Northwest Palawan)	–	50.00%	–
Peru Block Z-38	25.00%	–	–

[1] *On October 24, 2016, the DOE has approved the Purchase and Sale Agreement (PSA) and Deed of Assignment (DOA) dated April 27, 2016 transferring the 70% interest of Pitkin Petroleum (Philippines) Plc to Mindoro-Palawan Oil and Gas, Inc. (MPOGI).*

[2] *On April 25, 2016, the DOE has approved the PSA and DOA dated February 24, 2016 transferring the 70% interest and operatorship of Pitkin Petroleum (Philippines) Plc to PXP.*

SC 6A (Octon Block)

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 Farm-in Agreement (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 PXP and FEL'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.

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, FEL 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 barrels of oil per day (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 2016 and 2015, the field produced around 1.88 and 2.26 million barrels of oil, respectively.

In October 2016, the Consortium approved the drilling of Galoc-7 to test the Mid Galoc Prospect, which is estimated to contain resources of 6.2 to 14.6 million stock tank barrels (MSTB). The DOE approved the drilling program and budget on November 8, 2016.

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 SC 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 SC 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 FIA with RMA was terminated and Pitkin returned all of its participating interest to the original second parties to the contract. FEL's interest in the block increased to 9.10%.

SC 40 (North Cebu)
In 2012, FEL 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 Petroleum Geo-Services (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 SC 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.
On October 24, 2016, the DOE approved the PSA and DOA dated April 27, 2016 transferring the 70% interest of Pitkin to MPOGI.

In 2016, Pitkin recognized gain on reversal of impairment loss amounting to ₱4,748 which equals the proceeds of sale to MPOGI.

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 FEL for the second-sub-phase of SC 72 which was supposed to be accomplished by August 2013. However, FEL was unable to commence the drilling programme because of maritime disputes between the Philippine and Chinese governments.

In February 2015, FEL 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 FEL to resume operations.

Upon lifting of the *force majeure*, FEL 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.

In 2015, the United Nations Arbitral Tribunal (UNAT) 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. The UNAT finally decided that the Philippines has exclusive sovereign rights over the West Philippine Sea on July 12, 2016.

As at December 31, 2016, *force majeure* is still enforced and FEL is still waiting until this is lifted in order to commence the remaining Sub-Phase 2 work commitment.

<u>SC 74 (Linapacan)</u>
In September 2013, Pitkin, with its consortium partner, Philodrill, acquired acreage on SC 74 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.

On April 25, 2016, the DOE has approved the PSA and DOA dated February 24, 2016 transferring the 70% interest and operatorship of Pitkin Petroleum (Philippines) Plc to PXP.

In December 2016, processing of seismic data was completed. Geological and geophysical (G&G) studies is planned to commence in 2017 which includes the interpretation of the newly processed 2D data.

<u>SC 75 (Northwest Palawan)</u>
On January 3, 2014, the duly executed copy of Petroleum SC 75 was granted to the bid group comprising PXP, 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.

In 2014, 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.

In 2016, Peruvian Government has approved the work program consisting of preparation for drilling of two exploration wells, subject to rig availability and securing of remaining regulatory permits, continued evaluation of other prospects and leads within the block and continued social programs and projects.

11. Other Noncurrent Assets

	2016	2015
Guarantee deposits	**₱589**	₱26,824
Decommissioning fund	**350**	−
	₱939	₱26,824

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

Funding for the decommissioning costs of Galoc commenced in 2016. FEL's contribution to the decommissioning fund amounted to ₱350 as at December 31, 2016.

12. Trade and Other Payables

	2016	2015
Trade	**₱12,794**	₱3,620
Accrued expenses	**13,461**	10,332
Withholding taxes	**310**	12
Other nontrade liabilities	**1,372**	968
	₱27,937	₱14,932

The Group's trade and other payables are noninterest-bearing and are generally settled within 30-60 day terms.

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.

The Group has no related party balances included in the trade and other payables account as at December 31, 2016 and 2015.

13. Long-term Loan

On December 21, 2012, FEL, together with GPC, entered into a US$40,000 loan facility with BNP Paribas for the purpose of financing the development activities of SC 14 C's Galoc Phase 2.

Interest on the loan is set at 6% plus London Interbank Offered Rate (LIBOR) rate per annum as at December 31, 2013 which shall decrease to 5.5% plus LIBOR rate per annum once all stipulations in the loan facility agreement have been met. Interest expense recognized in profit or loss in 2014 amounted to ₱3,146. Facility fees and finance charges amounted to ₱466 and ₱1,402 in 2014, respectively. The facility fees and finance charges are also recorded under 'Interest expense and other charges' in the consolidated statements of income.

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

14. Costs and Expenses

	2016	2015	2014
Petroleum production costs (Note 7):			
Production costs	**₱65,654**	₱86,801	₱92,793
Depletion and depreciation (Note 9)	**49,751**	11,180	60,188
	₱115,405	₱97,981	₱152,981
Cost of coal sales (Note 7):			
Personnel costs	**₱–**	₱–	₱1,076
Materials and supplies	**–**	–	485
Communication, light and water	**–**	–	378
Outside services	**–**	–	206
Purchase cost of coal	**–**	–	5
Others	**–**	–	1,047
	₱–	₱–	₱3,197

	2016	2015	2014
General and administrative expenses:			
Professional fees	**₱27,851**	₱60,577	₱59,177
Personnel costs	**10,760**	99,087	132,315
Directors' fees	**4,152**	20,266	40,511
Rental	**806**	4,978	7,531
Taxes and licenses	**731**	15,873	1,467
Travel and transportation	**528**	1,307	6,841
Depreciation (Note 9)	**351**	4,175	3,385
Office supplies	**315**	216	625
Communications, light and water	**173**	1,580	2,671
Repairs and maintenance	**70**	159	397
Others	**9,678**	20,604	24,347
	₱55,415	₱228,822	₱279,267

The Group's cost of coal of sales pertains to the cost of coal sales of BEMC. Since BEMC has stopped its operation in 2015, the 2016 and 2015 balances are nil. The production and depletion cost of the Group is primarily attributable to the Libertad and Galoc producing blocks of FEL. 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.

15. Other Income (Charges)

	2016	2015	2014
Provision and reversal of impairment and loss on write off of assets - net:			
Reversal of impairment losses (Notes 7, 9 and 10)	**₱4,748**	₱390,001	₱18,122
Loss on write-off of assets (Note 10)	**–**	(70,453)	–
Provision for impairment of assets (Note 10)	**–**	(359,395)	(340,349)
	₱4,748	(₱39,847)	(₱322,227)

	2016	2015	2014
Others - net:			
Reversal of accrual for retirement liability (Note 19)	**₱–**	₱28,356	₱–
Gain (loss) on sale of assets (Note 9)	**–**	1,688	–
Gain on curtailment (Note 19)	**–**	–	1,682
Others - net	**(748)**	(10,429)	2,155
	(₱748)	₱19,615	₱3,837

16. 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	
	2016	2015
Common stock - ₱1 par value		
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, 2016 and 2015, the Parent Company's total stockholders totaled 39,146 and 35,236, respectively.

<u>Equity Reserves</u>
In May 2012, certain directors and employees of FEL exercised their option over 2,185,000 ordinary shares. This resulted in the Group's effective economic interest in FEL 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 FEL.

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.

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 and November 2015, PXP bought additional investment from NCI owners of FEL, including FEC. In total, the NCI owners sold 4,383,777 for a total consideration of ₱63,706. The transactions resulted to increased ownership of PXP over FEL from 36.44% to 48.77%. A decrease in equity of Parent amounting to ₱31,747 resulted from the transaction.

In January 2016, FEC cancelled its 30,000,000 shares previously held under escrow for ₱1,694. As a result, PXP's ownership interest increased from 51.24% to 54.99%. An increase in equity of Parent Company amounting to ₱8,670 resulted from the transaction.

Non-controlling Interest

Non-controlling interests consist of the following:

	Percentage of Ownership	Country of incorporation and operation	**2016**	2015
Non-controlling interests in the net assets of:				
Pitkin and its subsidiaries	46.57%	UK/Philippines	**₱2,068,140**	₱2,060,294
FEC	45.01%	Canada	**82,580**	93,559
FEL and its subsidiaries	41.10%	UK/Philippines	**264,499**	230,386
			₱2,415,219	₱2,384,239

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

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

	2016	2015
FEL and its subsidiaries	**(₱3,731)**	₱185,033
FEC	**(6,101)**	8,428
Pitkin and its subsidiaries	**(4,193)**	(249,948)

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

	2016	2015
FEL and its subsidiaries	**₱42,242**	₱41,141
FEC	**1,086**	439
Pitkin and its subsidiaries	**12,041**	(2,210)

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

Statements of comprehensive income as of December 31, 2016:

	Pitkin and its subsidiaries	**FEC**	**FEL and its subsidiaries**
Revenue	**₱–**	**₱–**	**₱101,579**
Cost of sales	**–**	**–**	**(115,405)**
General and administrative expenses	**(12,873)**	**(13,601)**	**(12,704)**
Other income	**4,291**	**48**	**9,470**
Interest expense	**–**	**–**	**(44,901)**
Loss before tax	**(8,582)**	**(13,553)**	**(61,961)**
Provision for income tax	**10**	**–**	**(12,267)**
Net loss	**(8,592)**	**(13,553)**	**(49,694)**
Other comprehensive income	**25,855**	**719**	**54,324**
Total comprehensive income (loss)	**₱17,263**	**(₱12,834)**	**₱4,630**
Attributable to non-controlling interests	**₱8,039**	**(₱5,777)**	**₱1,903**

Statements of comprehensive income as of December 31, 2015:

	Pitkin and its subsidiaries	FEC	FEL 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	₱18,921

Statements of comprehensive income as of December 31, 2014:

	Pitkin and its Subsidiaries	FEC	FEL 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 financial position as at December 31, 2016:

	Pitkin and its subsidiaries	**FEC**	**FEL and its subsidiaries**
Current assets	**₱345,442**	**₱15,897**	**₱145,492**
Noncurrent assets	**140,663**	**30**	**1,635,514**
Current liabilities	**(4,786)**	**(4,701)**	**(136,779)**
Noncurrent liabilities	**–**	**–**	**(974,364)**
Total equity	**481,319**	**11,226**	**669,863**
Attributable to:			
Equity holders of the Parent Company	**₱257,169**	**₱6,173**	**₱394,549**
Non-controlling interests	**224,150**	**5,053**	**275,314**

Statements of financial position as at December 31, 2015:

	Pitkin and its subsidiaries	FEC	FEL 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 cash flows as of December 31, 2016:

Activities	**Pitkin and its subsidiaries**	**FEC**	**FEL and its subsidiaries**
Operating	**₱5,785**	**(₱10,965)**	**₱85,369**
Investing	**51,456**	**(43)**	**(12,369)**
Financing	**5,320**		**1,371**
Net increase (decrease) in cash and cash equivalents	**₱62,561**	**(₱11,008)**	**₱74,371**

Statements of cash flows as of December 31, 2015:

Activities	Pitkin and its subsidiaries	FEC	FEL 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)

17. **Income Taxes**

a. In 2016, current provision for income tax pertains to BEMC, PXP and FEL's MCIT.

b. The components of the Group's deferred income tax assets (liabilities) as at December 31, 2016 and 2015 are as follows:

	2016	2015
Deferred income tax assets		
Unrealized foreign exchange loss	**₱16,736**	₱–
Impairment loss on deferred exploration costs	**16,303**	16,303
MCIT	**667**	1,683
NOLCO	–	4,737
	₱33,706	₱22,723
Deferred income tax liabilities		
Fair value adjustment as a result of business combination	**(₱979,990)**	(₱979,990)
Unrealized foreign exchange gain	**(3,243)**	(5,438)
Unrealized gain on dilution of interest	**(126,615)**	(126,615)
	(₱1,109,848)	(₱1,112,043)

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:

	2016	2015	2014
Benefit from income tax computed at the statutory income tax rate	**(₱9,145)**	(₱102,736)	(₱131,930)
Additions to (reductions in) income tax resulting from:			
Nondeductible petroleum production costs and depletion	**32,291**	41,756	47,081
Gain on sale of AFS financial assets	**–**	(7,256)	–
Provision for impairment of assets	**–**	–	418
Interest income subjected to final tax	**(57)**	(806)	(4,079)
Movement in unrecognized deferred tax asset	**(5,935)**	109,713	162,873
Nondeductible expenses and non-taxable income:			
Nontaxable petroleum revenue	**(29,450)**	(40,676)	(83,507)
Others	**(21)**	21	197
Provision for (benefit from) income tax	**(₱12,317)**	₱16	₱8,947

d. As at December 31, 2016, 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
2014	2017	₱516,164	₱1,428
2015	2018	52,466	1,028
2016	2019	47,789	74
		₱616,419	₱2,530

The following are the movements of the Group's NOLCO and excess MCIT as at December 31, 2016 and 2015:

	NOLCO		Excess MCIT	
	2016	2015	**2016**	2015
Beginning balance	**₱678,451**	₱702,425	**₱3,478**	₱2,742
Additions	**47,789**	52,466	**74**	1,028
Expirations	**(109,821)**	(51,173)	**(1,022)**	(292)
Applications	**–**	(25,267)	**–**	–
Ending balance	**₱616,419**	₱678,451	**₱2,530**	₱3,478

e. The Group did not recognize deferred income tax assets on the following deductible temporary differences as at December 31, 2016 and 2015:

	2016	2015
NOLCO	**₱616,419**	₱662,661
Excess MCIT	**1,863**	1,795

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 2016 and 2015.

18. 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:

	2016			
	Amount/ Volume	**Outstanding Balance**	**Terms**	**Conditions**
PMC				
Advances: increase (decrease)				
PXP	**₱104**	**₱2,193,886**	Collectible in cash; On demand; non-interest bearing	Secured, no impairment
BEMC	–	**737,815**	Collectible in cash; On demand; non-interest bearing	Unsecured, no impairment
Total	**₱104**	**₱2,931,701**		

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

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 FEL'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. The loans receivable from FPHL and loan payable to PMC recorded in the Parent Company amounted to ₱674,804 in 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 incurred for this loan facility amounted to ₱43,829, ₱37,986 and ₱32,190 in 2016, 2015 and 2014, respectively. In the same years, commitment fees amounted to ₱1,191, ₱1,138 and ₱1,130, 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, 2016, 2015 and 2014. Total drawdowns from the loan amounted to US$15,500 as at December 31, 2016, 2015 and 2014.

   Loans receivable of PXP as at December 31, 2016 and 2015 amounted to ₱770,660 and ₱729,430.

   PMC made cash advances to be used as additional working capital of the Parent Company and acquisition of investments.

   On August 11, 2015, the BOD has agreed that a pledge agreement with PMC (pledgee) be entered into by PXP (pledgor). In order to secure the balance of ₱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, 2016 and 2015, advances from PMC amounted to ₱2,193,886 and ₱2,194,128, respectively.

b. BEMC has significant transactions with related parties involving advances to provide funding on BEMC's exploration and development activities. As at December 31, 2016 and 2015, the non-interest-bearing advances from PMC amounted to ₱737,815.

c. The compensation of key management personnel pertaining to short-term employees and retirement benefits amounted to ₱8,700, ₱12,135 and ₱3,805 for the years ended December 31, 2016, 2015 and 2014, respectively.

19. 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 FEL 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	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 the 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 in 2015 amounted to ₱3,463 and ₱24,893, respectively.

20. 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 and advances from related parties, reasonably approximate their fair values because these are mostly short-term in nature.

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, 2016 and 2015.

21. Financial Risk Management Objectives and Policies

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

	2016	2015
Cash in banks and cash equivalents	**₱573,276**	₱526,281
Trade and other receivables	**63,480**	111,630
Refundable deposits	**389**	28,023
	₱637,145	₱665,934

The following tables show the credit quality of the Group's financial assets by class as at December 31, 2016 and 2015 based on the Group's credit evaluation process.

As at December 31, 2016:

	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	**₱251,484**	**₱–**	**₱–**	**₱251,484**
Short-term investments	**321,792**	–	–	**321,792**
Trade and other receivables:				
Trade	**55,785**	–	–	**55,785**
Others	**7,695**	–	–	**7,695**
Refundable deposits under:				
Other current assets	–	**39**	–	**39**
Other noncurrent assets	–	**350**	–	**350**
Total	**₱636,756**	**₱389**	**₱–**	**₱637,145**

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	₱637,911	₱28,023	₱–	₱665,934

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

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

Liquidity risk

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

The following tables summarize the maturity profile of the Group's financial assets that can be used by the Group to manage its liquidity risk and the maturity profile of the Group's financial liabilities, based on contractual undiscounted repayment obligations (including interest) as at December 31, 2016 and 2015, respectively:

As at December 31, 2016:

	On Demand	Less than 3 Months	3 to 12 Months	Over 12 Months	Total
Cash on hand	₱65	₱–	₱–	₱–	₱65
Cash equivalents	251,484	321,792	–	–	573,276
Loans and receivables:					
Trade and other receivables	–	63,480	–	–	63,480
Refundable deposits under:					
Other current assets	39	–	–	–	39
Other noncurrent assets	–	–	–	350	350
Total undiscounted financial assets	₱251,588	₱385,272	₱–	₱350	₱637,210
Trade and other payables:					
Trade	₱–	₱12,794	₱–	₱–	₱12,794
Accrued expenses	–	13,461	–	–	13,461
Other nontrade liabilities	–	1,372	–	–	1,372
Advances from related parties	2,931,701	–	–	–	2,931,701
Other noncurrent liabilities	–	–	–	194,004	194,004
Total undiscounted financial liabilities	₱2,931,701	₱27,627	₱–	₱194,004	₱3,153,332

As at December 31, 2015:

	On Demand	Less than 3 Months	3 to 12 Months	Over 12 Months	Total
Cash on hand	₱74	₱–	₱–	₱–	₱74
Cash equivalents	148,170	378,111	–	–	526,281
Loans and receivables:					
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

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 ₱13,341, ₱24,675 and ₱110 arising from the translation of these foreign currency-denominated financial instruments were recognized by the Parent Company in the years ended December 31, 2016, 2015 and 2014, respectively. The exchange rates of the Peso to US dollar were ₱49.72, ₱47.06 and ₱44.72 to US$1 in the years ended December 31, 2016, 2015 and 2014, respectively.

The Group's foreign currency-denominated monetary assets and monetary liabilities as at December 31, 2016 and 2015 are as follow:

	2016		2015	
	US$	Peso Equivalent	US$	Peso Equivalent
Assets				
Cash and cash equivalents	**US$9,483**	**₱471,495**	US$10,840	₱510,130
Trade receivables	**1,250**	**62,150**	915	43,060
Liabilities				
Advances from related parties	–	–	(3,647)	(171,628)
Net monetary assets	**US$10,733**	**₱533,645**	US$8,108	₱381,562

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
2016	
Appreciate by 4%	**₱21,346**
Depreciate by (4%)	**(21,346)**
2015	
Appreciate by 4%	(₱15,262)
Depreciate by (4%)	15,262

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

22. 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:

	2016	2015
Capital stock	**₱1,700,000**	₱1,700,000
Deficit	**(1,255,567)**	(1,233,205)
	₱444,433	₱466,795

23. Basic/Diluted Loss per Share

Basic/diluted loss per share is computed as follows:

	2016	2015	2014
Net loss attributable to equity holders of the Parent Company	**(₱22,362)**	(₱87,540)	(₱225,591)
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	**(₱0.013)**	**(₱0.051)**	**(₱0.133)**

As at December 31, 2016, 2015, and 2014, the Parent Company does not have any potentially dilutive securities.

24. Segment Information

The Group currently has two reportable segments namely oil and gas activities and coal mining activities. The coal mining operations of BEMC ended in 2014. 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:

	2016	2015	2014
SC 14 Block C (Galoc)	**₱85,379**	₱157,539	₱266,298
SC 14 Block A (Nido)	**9,566**	5,156	18,140
SC 14 Block B-1(North Matinloc)	**4,760**	1,938	13,383
SC 14 Block B (Matinloc)	**1,874**	6,556	4,117
SC 40 Libertad	–	1,061	2,785
	₱101,579	₱172,250	₱304,723

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 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, 2016:

	Oil and Gas	Coal	Eliminations	Total
Consolidated Revenue				
External customers	**₱101,579**	**₱–**	**₱–**	**₱101,579**
Results				
EBITDA	**₱25,300**	**(₱101)**	**(₱48,798)**	**(₱23,599)**
Depreciation and depletion	**(351)**	–	–	**(351)**
Income tax (expense) benefit	**(12,257)**	**(60)**	–	**(12,317)**
Interest Income	–	–	–	–
Interest expense and other charges - net	**(44,901)**	–	**44,781**	**(120)**
Consolidated net loss	**(₱32,209)**	**(₱161)**	**(₱4,017)**	**(₱36,387)**
Core net income (loss)	**(₱105,727)**	**₱31**	**₱55,744**	**(₱49,952)**
Consolidated total assets	**₱6,387,792**	**₱2,441**	**₱941,492**	**₱7,331,725**
Consolidated total liabilities	**₱3,451,944**	**₱737,867**	**₱83,404**	**₱4,273,215**
Other Segment Information				
Capital expenditures	**₱63,238**	**₱–**	**₱–**	**₱63,238**
Non-cash expenses other than depletion and depreciation	–	–	–	–

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)	₱801,846	(₱129,893)
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)
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

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

	2016	2015	2014
Thai Oil Public Company Limited	**₱26,872**	₱37,272	₱52,884
SK Energy International Pte Ltd	**26,710**	41,264	32,466
Chevron USA Inc. (Singapore Branch)	**16,031**	–	–
Singapore Petroleum Corporation	**15,766**	79,002	–
Hyundai Oilbank Company Ltd	**–**	–	97,481
GS Caltex Corporation	**–**	–	62,829
Pilipinas Shell Petroleum Corporation	**–**	–	35,365
	₱85,379	₱157,538	₱281,025

Revenues amounting to ₱16,291, ₱14,711, and ₱26,855 pertain to external customers with individual revenue amounts less than 10% of the Group's revenue for the years ended December 31, 2016, 2015 and 2014, respectively.

The table below shows the Group's reconciliation of core net loss to the consolidated net loss for the years ended December 31, 2016, 2015 and 2014:

	2016	2015	2014
Core net loss	**(₱49,952)**	(₱129,893)	(₱66,799)
Non-recurring gains (losses)			
Foreign exchange gains - net	**10,348**	21,997	2,292
Gain on reversal of impairment loss on assets (Note 9)	**(192)**	231,052	18,122
Loss on sale of assets	**(221)**	–	–
Provision for impairment of assets (Notes 6, 7, 9 and 11)	–	(229,650)	(180,623)
Net tax effect of aforementioned adjustments	**17,655**	18,954	1,417
Net loss attributable to:			
Equity holders of the Parent Company	**(22,362)**	(87,540)	(225,591)
Non-controlling interests	**(14,025)**	(56,487)	(223,063)
	(₱36,387)	(₱144,027)	(₱448,654)

25. 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.

Share Purchase Agreement (SPA) between FEL 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 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 ₱194,004 and ₱192,807 as at December 31, 2016 and 2015, respectively, are recorded under 'Other noncurrent liabilities' in the consolidated statements of financial position

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

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

<u>Non-cash Investing Activities</u>

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

CORPORATE GOVERNANCE

Corporate Governance Confirmation Statement

As a publicly-listed Philippine corporation, PXP conforms to the corporate governance rules, requirements, and regulations of the Philippine Securities and Exchange Commission (SEC) and the Philippine Stock Exchange (PSE). The Company is committed to the highest standards of corporate governance and continues to benchmark against recognized international best practices. To ensure constant improvement, PXP 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 as well as corporate, 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 raise its corporate governance practices in line with global best practices.

A. RIGHTS OF SHAREHOLDERS

PXP respects the rights of all shareholders, in accordance with the Corporation Code of the Philippines, Company's Articles of Incorporation, By-Laws, and the Manual of Corporate Governance ("MCG").

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.

The Company has adopted a policy on the Timing of Dividend Payment (within 30 calendar days from the date of declaration).

Right To Participate In Decisions

Shareholders 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 stock:

(a) Amendment to the Articles of Incorporation;
(b) Increase in capital stock ;
(c) Sale or disposition, including the constitution of a mortgage or a pledge, of all or substantially all of the Company's assets;
(d) Investment of corporation funds for a purpose other than the Company's primary purpose;
(e) Waiver of pre-emptive rights for specific transactions; and
(f) Mergers and consolidations.

Right To Participate Effectively In and Vote In Shareholder Meetings

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

PXP respects and recognizes the right of minority shareholders to nominate directors. 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 MCG.

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. For 2016, the deadline for nominations was announced by the company last February 28, 2017 and announced by the Company via PSE disclosure system, 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 were 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, 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 tabulation procedures 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 will 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 in May in accordance with 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) that is posted in the Company's website 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, the Audit Committee Chairman, the representatives of the external auditor 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.

Disclosure and Release of Notice of ASM to Shareholders

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 date of the annual meeting.

Markets For Corporate Control

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.

Furthermore, 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 and legal counsel is retained to review the terms and conditions of contracts and to evaluate the merits of each specific transaction.

Institutional Investors

.The Philippine Social Security (SSS) is the only institutional investor with a share of ownership greater than 5% as of March 31, 2017. The company does not have any shareholder earning more than 50%.

B. EQUITABLE TREATMENT OF SHAREHOLDERS

Shares and Voting Rights
The Company has only one class of common shares, each entitled to one vote. Cummulative voting, which enhances the ability of minority shareholders in voting 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:

(i) The profiles of each director – age, academic qualification, date of first appointment, experience, and directorships in other listed companies seeking for election/re-election;
(ii) External Auditors seeking appointment/re-appointment are clearly identified;
(iii) Divident Policy; and
(iv) Readily available proxy statements.

The Notice of ASM is also available in the Company's website through the following link:

http://www.pxpenergy.com.ph/company-disclosure/notice-of-agm

Trading and abusive Self-Dealing Policies Trading Black-outs
The company strictly enforcer and monitors compliance with its policy on inside trading which prohibits the trading of the Company's securities during prescribes periods by the following covered persons:

- 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 Policy on Dealings in Company Shares of Stocks is available at *(http://www.pxpenergy.com.ph/corporate-governance/company-policy/policy-on-dealings-in-company-shares)* in our Company website. 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.

This prohibits director and employees to benefit from any knowledge which is not generally available to the market.

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.pxpenergy.com.ph/corporate-governance/company-policy/review-of-related-party-transactions)* the Company's website. Under this policy, the Company shall, at all times, abide by the 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, to ensure that they are at the best interests of the Company and its shareholders in accordance with the Company's RPT policy.

Conflict of Interest Policy

The Conflict of Interest Policy is available at *(http://www.pxpenergy.com.ph/corporate-governance/company-policy/conflict-of-interest-policy)* 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 directors, employees or consultants concerned shall likewise inhibit themselves from any direct or indirect participation or involvement at any stage of the transactional process flow where they are conflicted. 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:

(i) Emphasis on the fiduciary responsibilities of the Board, the officers of the Company and its shareholders as well as the duties of care and exercise of prudence;
(ii) Avoidance of conflicts of interest and prompt disclosure of potential conflict;
(iii) Prompt, full and fair disclosure of material information;
(iv) 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
(v) Adoption of Policies on RPTs.

C. ROLE OF STAKEHOLDERS

Customers

In line with PXP's Code of Business Conduct and Code of Ethics ("Code"), 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.pxpenergy.com.ph/corporate-governance/company-policy/supplier-contractor-relation)* 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. Such reports, justifications, and subsequent approval or disapproval of the appropriate authorities shall be kept by the procurement center.

Environment

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

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.pxpenergy.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.pxpenergy.com.ph/corporate-governance/company-policy/supplier-contractor-relation)* 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.

The Company's Policy on Vendor Relations is available at our Company website: *(http://www.pxpenergy.com.ph/corporate-governance/company-policy/supplier-contractor-relation)*.

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 his 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:
PXP Energy Corporation
2/F LaunchPad
Reliance corner Sheridan Streets, Mandaluyong City
1550 Philippines

Telephone: (632) 631-1381

Email: admin@pxpenergy.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 2016, 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.

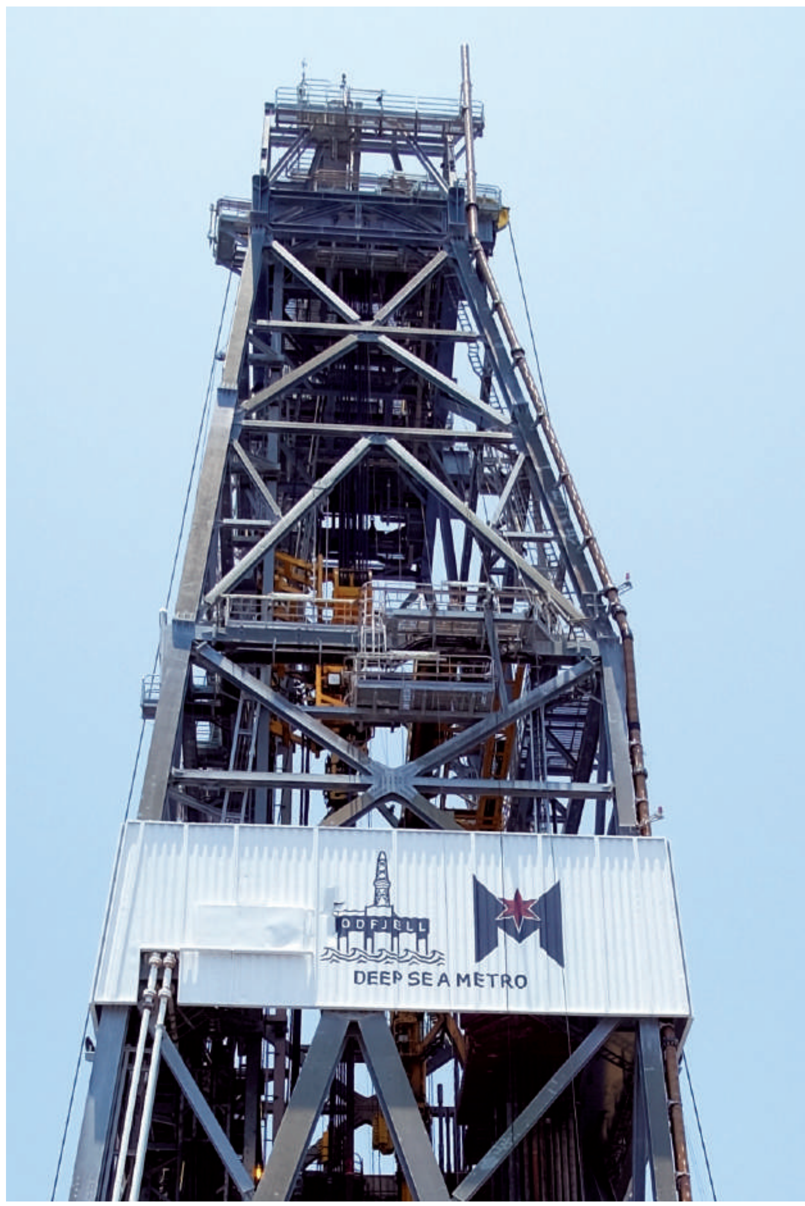
2016 LEARNING AND DEVELOPMENT PROGRAMS	
LEVELS	PROGRAM TITLE
Directors/Officers	Corporate Governance Enhancement Session
Managers/Officers	Corporate Governance Enhancement Session
All Levels	New Employee Orientation

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 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:

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



Whistle Blowing Policy

The Company's Policy on Vendor Relations is available at *http://www.pxpenergy.com.ph/corporate-governance/company-policies*

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 Business and Ethics.

- *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 stockholders own more than five percent (5%) of the Company's stock as of March 14, 2017:

SHAREHOLDER	NUMBER OF SHARES	PERCENT	BENEFICIAL OWNER
PCD Nominee Corporation	403,299,995 (excludes shares of Philex Mining and SSS held through PCD Nominee)	23.724%	See Note 1.
Philex Mining Corporation	335,864,728	19.757%	Philex Mining Corporation (PCD Nominee) See Note 1.
Asia Link B.V	284,470,725	16.734%	First Pacific Company, Ltd. See Note 2.
Social Security System	214,916,804	12.642%	Social Security System (Direct and through PCD Nominee) See Note 3.
Two Rivers Pacific Holdings Corporation	125,608,156	7.389%	Two Rivers Pacific Holdings Corporation

(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's 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 in the Philippines. Philex Mining Corporation, whose shares are held through PCD, owns 335,864,728 shares or 19.757% of the outstanding shares of the Company, as indicated above.

(2) Asia Link B.V. is a wholly owned subsidiary of First Pacific Company, Ltd. ("First Pacific"). Kirtman Limited and Maxella Limited, both part of the First Pacific Company Limited Group, own a total of 139,954,951 shares or 8.2326% of the outstanding shares of the Company.

(3) Ms. Diana Pardo-Aguilar is a Commissioner of the Social Security Commission, the governing body of the Social Security System ("SSS"). She currently represents SSS in the Company as a member of the Board of Directors.

Quality of Annual Report

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

INFORMATION:	PAGE
Major Business Risks and How They are Being Managed	96
Corporate Objectives	101
Key Performance Indicators - (Financial and Non-Financial)	102
Dividend Payment Policy	86
Details of Whistle Blowing Policy	90
Biographical Details of Directors	13
Training and/or Continuing Education Program Attended by Each Director	98
Number of Board of Directors' Meetings Held and Attendance during the Year	95
Corporate Governance Confirmation Statement	86

Disclosure of Related Party Transactions

Related Party Transaction: Please see page ___ for discussion of Related Party Transaction Policy

All related party transactions are reported in the Company's Notes to Audited Financial Statements found on pages 73-74 of this Annual Report.

Directors' Dealings in Company shares

Directors and Officers' Dealings and Shareholdings

NAME OF DIRECTOR	Number of Direct shareholdings as of December 31, 2015	Changes in Year 2015	Number of Direct shareholdings as of December 31, 2016	Number of Indirect shares	% of Capital Stock
Manuel V. Pangilinan (Chairman)	891,250	712,215	1,603,465	1	0.09%
Daniel Stephen P. Carlos (President)	-	765	765	1	0.00%
Barbara Anne C. Migallos (Corporate Secretary)	40,484	31,193	71,677	1	0.00%
Robert C. Nicholson (Non-Executive Director)	157	190	347	1	0.00%
Marilyn A. Victorio-Aquino (Non-Executive Director)	13	76,516	76,529	-	0.00%
Eulalio B. Austin, Jr. (Non-Executive Director)	170,116	208,224	378,340	1	0.02%
Diana Pardo-Aguilar (Non-Executive Director)	1	-	1	-	0.00%
Benjamin S. Austria (Independent Director)	86	105	191	-	0.00%
Emerlinda R. Roman (Independent Director)	1	-	1	-	0.00%
Paraluman M. Navarro (Treasurer)	-	2,431	2,431	-	0.00%
TOTAL	1,102,108	1,031,639	2,133,747	5	0.13%

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

Audit and Non Audit Fees

For 2016, 2015 and 2014, independent auditors were engaged to express an opinion on the consolidated and stand-alone financial statements of the Company and its Subsidiaries (the "Group"), and to assist in the preparation of the income tax returns of the Group. A regular audit was carried out based on Philippine Standards on Auditing. The audit fees for these services were for P4.9 million for 2016, P5.0 million for 2015 and P11.2 million for 2014.

There were no non-regular audit conducted during the years 2016, 2015 and 2014.

Medium of Communications

Company Website *(http://www.pxpenergy.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.

Quarterly Reports

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.pxpenergy.com.ph/company-disclosure/sec-fillings)*

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.pxpenergy.com.ph/press-materials/press-materials)

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.pxpenergy.com.ph/company-disclosure/other-disclosures

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 17, 2017. 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 the 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.pxpenergy.com.ph/our-business/philex-petroleum*
Financial statements (current and prior years)	*http://www.pxpenergy.com.ph/company-disclosure/sec-fillings*
Materials proviede in briefings to analysts abd media	*http://www.pxpenergy.com.ph/press-materials/press-materials*
Sharingholding structure	*http://www.pxpenergy.com.ph/about/shareholding-structure*
Group corporate structure	*http://www.pxpenergy.com.ph/about/group-structure*
Downloadable annual report	*http://www.pxpenergy.com.ph/investor-relations/annual-reports*
Notice of ASM	*http://www.pxpenergy.com.ph/company-disclosure/notice-of-agm*
Minutes of ASM	*http://www.pxpenergy.com.ph/company-disclosure/minutes-of-agm*
Company's by-laws and Articles of Incorporation	*http://www.pxpenergy.com.ph/corporate-governance/corporate-governance*

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 8885
Email: *philex@philexmining.com.ph*

E. RESPONSIBILITIES OF THE BOARD

Board Duties and Responsibilities

Manual on Corporate Governance

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

Types of Decisions That Requires 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 three-fold 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 and all stakeholders. 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 its corporate powers, conduct the business and control the properties of the Company in compliance with the corporate governance principles instituted in the Company's Corporate Governance Manual. The Board shall also be responsible for fostering the long-term success of the Company and securing its sustained competitiveness.

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 MCG. 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
Code of Business Conduct and Ethics
Details of the Company's Code of Conduct and Business Ethics can be found here: *http://www.pxpenergy.com.ph/corporate-governance/company-policy/code-of-business-conduct-and-ethics*

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.

Board Structure and Composition

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 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.pxpenergy.com.ph/corporate-governance/board-committees*

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 Revised Code of Corporate Governance of PXP. The primary purpose of the Committee is to assist the Board of Directors (the "Board") of the Company in performing the corporate governance duties in compliance with PXP's MCG, the Revised Code of Corporate Governance of the SEC, and 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.pxpenergy.com.ph/corporate-governance/cg-manuals/pxp-corporate-governance-committee-charter*

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 MCG 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. The Committee shall also have other duties and powers as may be delegated to the Committee by the Board, subject to limitations set by the Board and conveyed to the Committee.

Members, Meetings Held and Attendance:

OFFICE	NAME	NO. OF MEETINGS HELD	NO. OF MEETINGS ATTENDED	%
Chairman, Independent Director	Emerlinda R. Roman	5	5	100%
Member, Independent Director	Benjamin S. Austria	5	5	100%
Member, Non-Executive Director	Robert C. Nicholson	5	4	80%

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 YEAR	NO. OF MEETINGS ATTENDED*	%
Chairman	Manuel V. Pangilinan	7	5	71%
Member	Daniel Stephen P. Carlos	7	7	100%
Member	Robert C. Nicholson	7	6	86%
Member	Eulalio B. Austin, Jr.	7	5	71%
Member	Marilyn A. Victorio-Aquino	7	6	86%
Member	Diana V. Pardo-Aguilar	7	7	100%
Member	Barbara Anne C. Migallos	7	7	100%
Member	Benjamin S. Austria (Independent Director)	7	7	100%
Member	Emerlinda R. Roman (Independent Director)	7	6	86%

A separate meeting of non-executive directors without the presence of the Chairman or any 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 director/s.

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 by the members; and assisting the Chairman in the preparation of the Board agenda, facilitating trainings of directors and keeping directors updated regarding relevant statutory and regulatory changes, including new policies or rules of the SEC and the PSE.

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. The compensation is in accordance with the Corporation Code and the Company By-Laws, or as approved by the shareholders.

Director
A director, as determined by the Board, is entitled to receive a reasonable per diem for attendance at Board meetings.

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 auditor is appointed by the management, in accordance with company's employment requirements and policies, and 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, corporate governance 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 PXP Group Risk Management Philosophy Statement, which read as follows:

"The PXP Group shall undertake a Risk Management Program that will mitigate or eliminate identified physical, socio-ecological and economic risks inherent in its mining business thereby ensuring a productive and profitable operation."

Accordingly, the PXP 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 "PXP 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, 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.

- 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

The Group's competent person reports include 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 annual 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 Western Philippine Sea

The Company operates SC 72 in the Recto Bank Area, offshore west Palawan, which is subject to international maritime issues pertaining to certain areas of the Western Philippine Sea. Another block affected by the dispute is SC 75 in Northwest Palawan, which was placed under Force Majeure in December 2015. The Permanent Court of Arbitration in The Hague released a ruling on July 12, 2016 on the maritime case filed by the Republic of the Philippines against the People's Republic of China. In particular, the Tribunal ruled that Reed Bank (Recto Bank), where Service Contract SC 72 lies, is within the Philippines' Exclusive Economic Zone (EEZ) as defined under the United Nations Convention on the Law of the Sea (UNCLOS). 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 take guidance from the Philippine Government in respect of any future activity in SC 72 and other areas that are under force majeure.

- 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 grant 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 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.

People on the Board

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 an open line of communication and free flow of information between Management and the Board are maintained.

The President
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 Policy
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 inclusivity. The collective sum of its 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

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	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.pxpenergy.com.ph/corporate-governance/company-policy/assessment-policy

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.pxpenergy.com.ph/corporate-governance/company-policy/orientation-and-training-policy

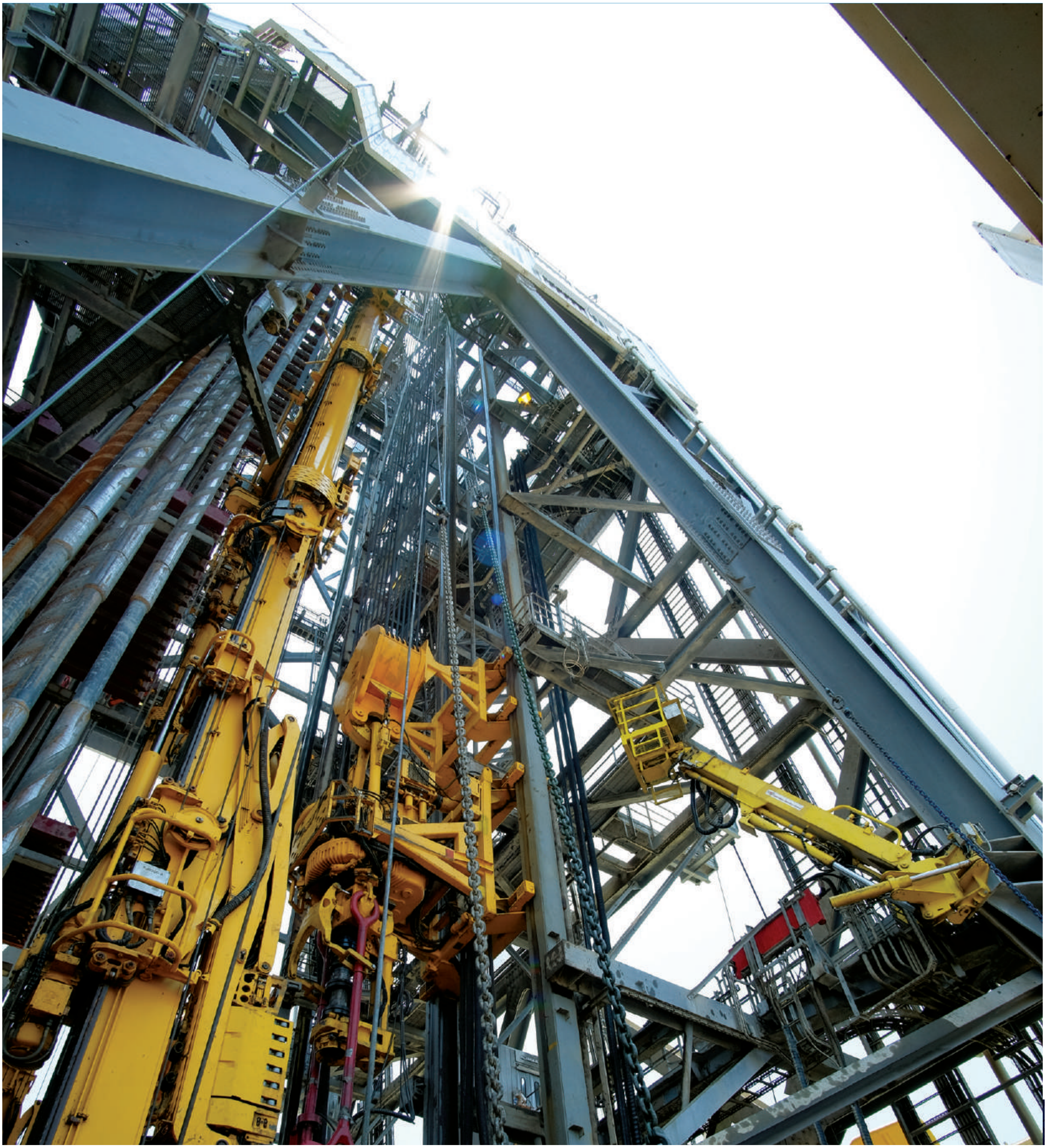
As a matter of rule, each member of the Board of Directors shall undertake the requirements set out in this Policy with respect to the orientation programs for New Directors and the mandatory annual training programs for all th e members of the Board of Directors. The mandatory annual training program 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

NAME OF DIRECTOR/ OFFICER	DATE OF TRAINING	PROGRAM	NAME OF TRAINING INSTITUTION
Manuel V. Pangilinan Chairman	12/2/2013	Ensuring Effective Board Oversight of Ethics and Compliance: Emerging Trends and Lessons Learned	First Pacific Leadership Academy
	12/4/2014	Corporate Governance: What to Expect from SEC and Corporate Governance Trends and Practices in Advanced Economics	Philex Mining Corporation
	10/30/2015	Annual Corporate Governance Enhancement Session "Data and Information Rules: What Board Should Know"	Philex Mining Corporation PLDT, MPIC and Meralco
	11/14/2015	"Governance Transformation in ASEAN Reforms and Priorities"	SEC and ICD
	03/05/2016	The Philippine Competition Act and Philippine Competition Commission	PLDT
	10/12/2016	ESG Reporting - HKEx Requirements	First Pacific Company Limited,
	23/11/2016	Digital Transformation, Risk Management and Governance in the 21st Century Digital Governance: Issues in Emerging Technologies	Philex Mining Corporation, PLDT, MPIC and Meralco
Daniel Stephen P. Carlos, Director & President	8/26-27/2015	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 PLDT, MPIC and Meralco
	12/8/9/2015	GEOCON 2015 - Opportunities in Changing Times	Geological Society of the Phils
	2/2/2016	Cybersecurity in the 21st Century	Corporate Governance Group, MVP Group of Companies
	6/22/2016	2016 Visayas Energy Investment Forum	Department of Energy
	08/03/2016	SEC CG Forum	SEC
	8/25/2016	Symposium on the Permanent Court of Arbitration Decision on the South China Sea: Implications to the Philippine Oil and Gas Industry	Association of International Petroleum Negotiators - Asia Chapter with Philippine Petroleum Association of the Upstream Industry (Oil & Gas), Inc.
Robert C. Nicholson Director	5/2/2013	Hong Kong Corporate Law Regulatory Update	Pacific Basin
	8/27/2013	Diversity on Board and Recent Regulatory Developments on Corporate Governance	First Pacific Company Limited
	12/5/2013	Synopsis on Legal and Regulatory Issues	First Pacific Company Limited
	10/15/2014	First Pacific Company Directors' Training	First Pacific Company Limited
	10/16/2015	FPC Directors' Training	First Pacific Company Limited
	12/4/2015	Indofood Seminar for BOC and BOD	First Pacific Company Limited
	11/23/2016	Digital Transformation, Risk Management and Governance in the 21st Century Digital Governance: Issues in Emerging Technologies	Philex Mining Corporation PLDT, MPIC and Meralco
Eulalio B. Austin, Jr. Director	3/8/2013	Lifting the hood: The Obama Engine and how it worked from day 1	First Pacific Leadership Academy
	7/24/2013	Talent Management, Leadership Succession and Development Program	First Pacific Leadership Academy
	9-10/2013	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 PLDT,MPIC and Meralco
	11/14/2015	Governance Transformation in ASEAN Reforms and Priorities	SEC and ICD
	02/18/2016	Annual Corporate Governance Enhancement Session: Cyber Security in the 21st Century	Philex Mining Corporation, PLDT, MPIC and Meralco
	08/03/2016	SEC CG Forum	SEC
	23/11/2016	Digital Transformation, Risk Management and Governance in the 21st Century Digital Governance: Issues in Emerging Technologies	Philex Mining Corporation, PLDT, MPIC and Meralco

NAME OF DIRECTOR/ OFFICER	DATE OF TRAINING	PROGRAM	NAME OF TRAINING INSTITUTION
Marilyn V. Aquino Director	12/2/2013	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
	02/18/2016	Annual Corporate Governance Enhancement Session: Cyber Security in the 21st Century	Philex Mining Corporation with PLDT,MPIC and Meralco
	03/05/2016	The Philippine Competition Act and Philippine Competition Commission	PLDT
	11/29/2016	Corporate Governance Updates and Economic Briefing	Center for Global Best Practices
Diana V. Pardo - Aguilar Director	12/4/2014	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
	2/2/2016	Cybersecurity in the 21st Century	Corporate Governance Group, MVP Group of Companies
Barbara Anne C. Migallos Director & Corporate Secretary	5/18/2013	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
	12/4/2014	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.
	08/03/2016	SEC CG Forum	SEC
Benjamin S. Austria Independent Director	2/14-15/ 2013	Cleaner Fossil Fuel Systems Knowledge Network Meeting, London	World Energy Council
	5/24-25 2013	6th Extractive Industries Transparency Initiative (EITI) Global Conference: Beyond Transparency, Sydney	Extractive Industries Transparency Initiative
	9/27/2013	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
	12/4/2014	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
	2/24-25/2016	Extractive Industries Transparency Initiative 2016, From Reports to Results, Improving Governance in an Era of Low Commodity Prices	Lima, Peru
	8/3/2016	SEC CG Forum	PICC, Pasay City
	10/9-13/2016	23rd World Energy Congress, Embracing New Frontiers, Vision and Scenarios for the Future and Identifying the Business Opportunities: Resources and Technologies	Istanbul, Turkey
Emerlinda R. Roman Independent Director	12/2/2013	Executive Talks: Corporate Governance Enhancement Session	First Pacific Leadership Academy
	12/4/2014	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
	08/03/2016	SEC CG Forum	SEC
Paraluman M. Navarro Treasurer	2/2/2016	Cybersecurity in the 21st Century	Corporate Governance Group, MVP Group of Companies

CORPORATE STRENGTHS, STRATEGIES AND OBJECTIVES



STRENGTHS AND STRATEGIES

The Company's objective is 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 underexplored areas of proven hydrocarbon basins, namely, SC 72 Recto Bank (Forum 70%), SC 75 NW Palawan (PXP 50%), SC 74 Lipnapacan (Pitkin 70%), SC 40 Cebu (100%) 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 Incentive Allowance (FPIA) 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, PXP Energy 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.

Strategies

- Establish the hydrocarbon potential of exploration assets including SC 72 Reed Bank, SC 75 NW Palawan, SC 74 Linapacan, SC 40 Cebu and Peru Block Z-38.

- Manage exploration risks by developing a diversified asset protfolio through the selective acquisition and divestment of assets based on prudent assessment of risks and upside potential.

- 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.

Key Performance Indicators – (Financial and Non-Financial)

1. Enhance Value of Assets

Maturing assets from the exploration to the development and production phases enhances the value of the Company's assets.

2. Portfolio Management

Selective acquisitions and divestments help mitigate the risks inherent in petroleum exploration, and ensure alignment of resources with the Company's objectives and strategies.

3. 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.

4. Financial Management

Prudent and well-implemented financial management will prolong the Company's ability to finance its activities and thus its corporate life.

5. Health, Safety and 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.

COMPANY DIRECTORY

PXP Energy Corporation
2/F Floor LaunchPad
Reliance corner Sheridan Streets
Mandaluyong City 1550
Philippines

Telephone: (632) 631-1381

ATTORNEYS

Migallos & Luna Law Offices

BANKERS

BDO Unibank, Inc.
Unionbank of the Philippines
Landbank of the Philippines
China Banking Corporation

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

Fax: (632) 878-4056

INDEPENDENT PUBLIC ACCOUNTANTS

SyCip Gorres Velayo & Co.

MAJOR SUBSIDIARIES

FEC Resources Inc.

Forum Energy Limited

Pitkin Petroleum Limited

PXP ENERGY

(formerly Philex Petroleum Corporation)

2nd Floor LaunchPad Reliance cor Sheridan Streets
Mandaluyong City 1550, Philippines