ASCENT

ANNUAL REPORT 2018


ASCENT

About the Cover

The cover shows determined employees running past symbolic obstacles, ever upwards, toward the promise of a future of growth, representing our workforce driving behind our success.

"Ascent" demonstrates how the company is rising above the challenges it is currently facing to achieve successful business operations. We are confident that with the right attitude and hard work, we can only rise higher.

CONTENTS

CORPORATE PROFILE

PXP Energy Corporation (PXP, the Company), formerly Philex Petroleum Corporation, is a Philippine corporation organized in December 2007 and is listed in the Philippine Stock Exchange (PSE).

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

The Company's direct interest in Philippine petroleum service contracts includes: (1) a 50% operating interest in SC 75; (2) a 70% operating interest in SC 74; and (3) a 5.56% interest in SC 6A Octon, all of which are in Northwest Palawan.

The Company holds a 78.98% controlling interest in Forum, with 72.18% held directly and 6.80% held indirectly through a 54.99%-owned subsidiary, FEC Resources, Inc. (FEC), a Canadian public company registered with the US Securities and Exchange Commission (SEC), the Alberta Securities Commission,

and the British Columbia Securities Commission, and quoted in North America.

Forum, a company incorporated in the United Kingdom with focus on the Philippines, has: (1) 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 (FGL); (2) a 100% operating interest in SC 40 North Cebu held through Forum Exploration, Inc. (FEI); and (3) 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 (FEPC).

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

The Company owns 100% of Brixton Energy and Mining Corporation (Brixton).

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 Parent Company: (1) Pitkin Peru LLC (PPR) and (2) Pitkin Vamex LLC (PVX).

A summary of the Parent Company's principal subsidiaries and their nature of business are as follows:

Subsidiary	Nature of Business
Forum Energy Limited	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 Recto Bank.
Forum Energy Philippines Corporation (FEPC)	FEPC 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 (GSEC 101) Limited (FGL)	FGL was incorporated in Jersey on March 31, 2005 and is involved in oil and gas exploration in the Philippines.
Forum (GSEC 101) Limited - 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 Limited	Pitkin was incorporated and registered in the United Kingdom of Great Britain and Northern Ireland on April 6, 2005 and is engaged primarily in the acquisition, exploration and development of oil and gas properties and the production of hydrocarbon products.
Pitkin Petroleum (Philippines) Plc (PPP)	PPP was registered as the Philippine branch of Pitkin Petroleum Limited on March 19, 2008.
Pitkin Petroleum Peru Z-38 SRL	Incorporated on October 5, 2006 and is presently engaged in exploration of oil and gas in Peru, specifically, Peru Block Z-38.
FEC	Incorporated on February 8, 1982 under the laws of Alberta, Canada. Primarily acts as an investment holding company
Brixton	Incorporated in the Philippines on July 19, 2005 to engage in exploration, development, and the utilization of energy-related resources.

CORPORATE ORGANIZATION

PXP ENERGY

79.0%[1]

Forum Energy Limited

- SC72 Reed Bank - **70%**
- SC40 N. Cebu - **100%[2]**
- SC6A Octon - **5.56%**
- SC6B Bonita - **8.18%**
- SC14A Nido - **8.47%**
- SC14B Matinloc - **12.41%**
- SC14B1 N. Matinloc - **19.46%**
- SC14C1 Galoc - **2.28%**
- SC14C2 W. Linapacan - **9.10%**
- SC14D Retention Area - **8.17%**
- SC14 Tara - **10%**

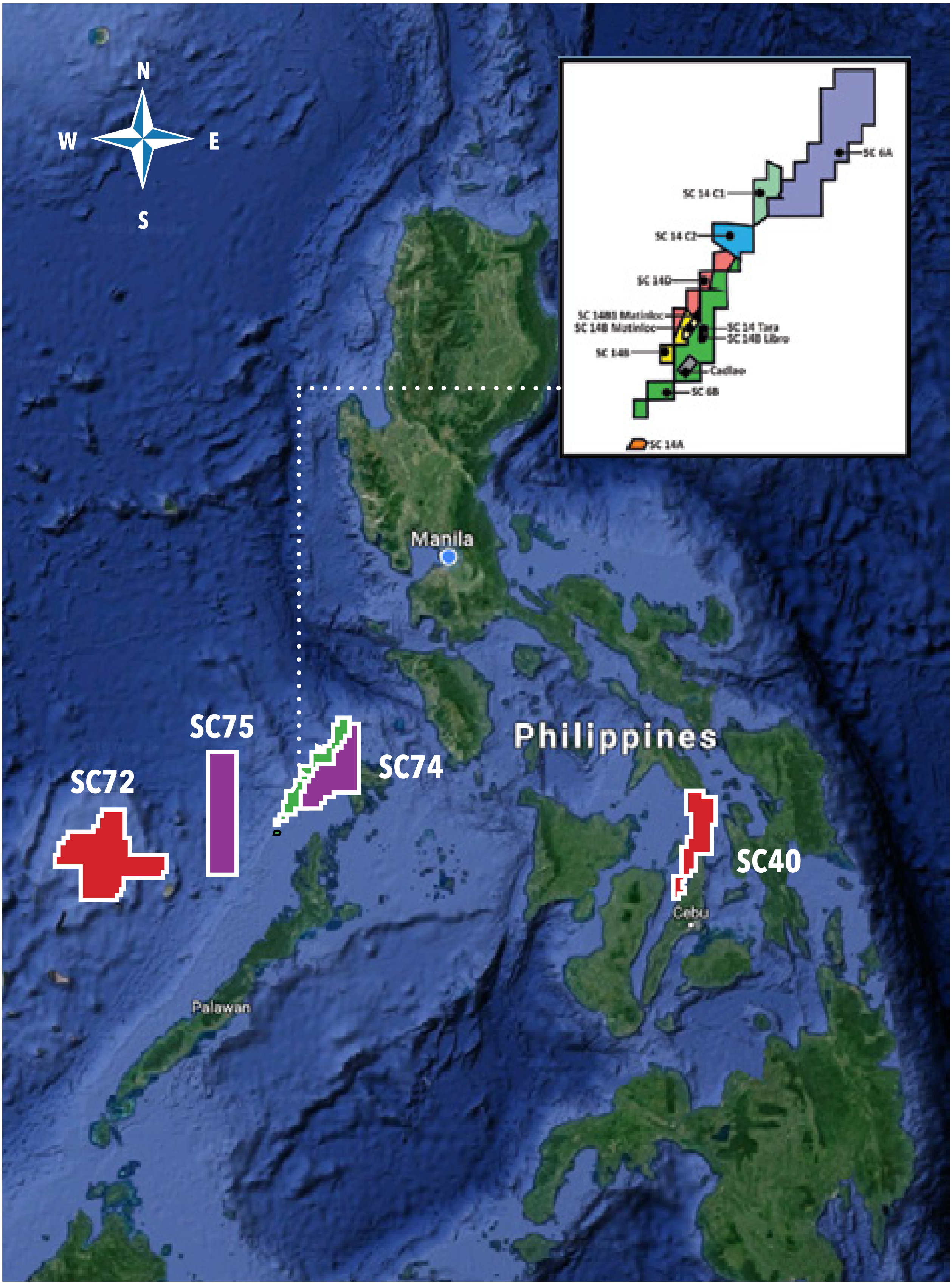
- SC75 NW Palawan - **50%**
- SC6A Octon - **5.56%**
- SC74 Linapacan - **70%**

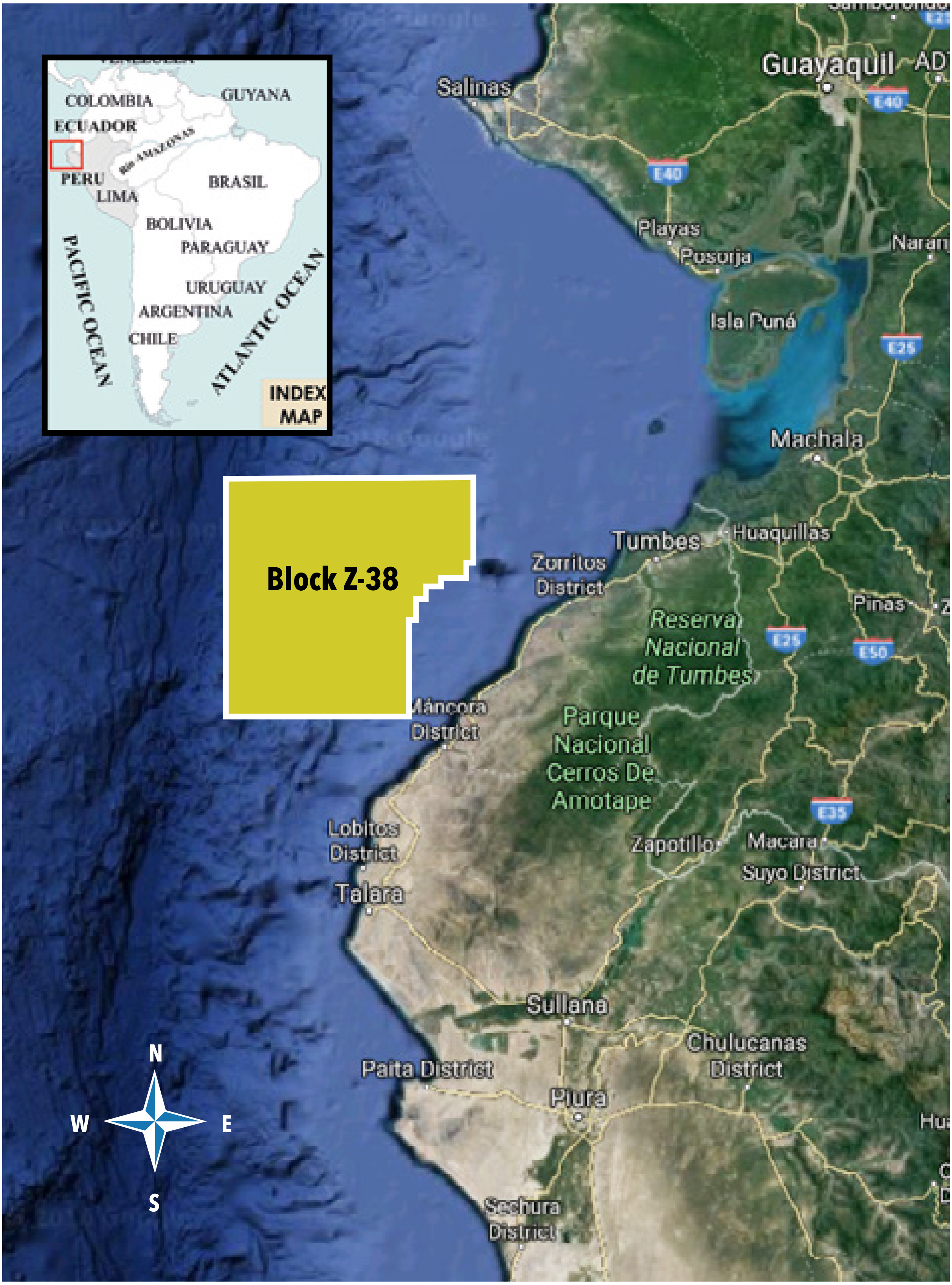
53.4%

Pitkin Petroleum Limited

- Peru Block Z-38 - **25%**

[1] *Economic interest of 75.92%*
[2] *Economic interest of 66.67%*


N
W
E
S
SC 6A
SC 14 C1
SC 14 C2
SC 14D
SC 14B1 Matinloc
SC 14B Matinloc
SC 14 Tara
SC 14B Libro
SC 14B
Cadlao
SC 6B
SC 14A
Manila
Philippines
SC75
SC72
SC74
SC40
Cebu
Palawan


Block Z-38
INDEX MAP
COLOMBIA
GUYANA
ECUADOR
PERU
LIMA
BRASIL
BOLIVIA
PARAGUAY
URUGUAY
ARGENTINA
CHILE
PACIFIC OCEAN
ATLANTIC OCEAN
Salinas
Guayaquil
Playas
Posorja
Isla Puná
Machala
Tumbes
Huaquillas
Zorritos District
Reserva Nacional de Tumbes
Pinas
Máncora District
Parque Nacional Cerros De Amotape
Lobitos District
Talara
Zapotillo
Macara
Suyo District
Sullana
Chulucanas District
Paita District
Piura
Sechura District
E40
E25
E50
E35
N
W
E
S

CHAIRMAN'S MESSAGE AND PRESIDENT'S REPORT

A remarkable progress witnessed by our Company last year was the signing of a Memorandum of Understanding (MOU) on Cooperation on Oil and Gas Development between the Republic of the Philippines and the People's Republic of China on November 20, 2018.

Dear Shareholders,

The year 2018 saw a more supportive business environment for PXP Energy Corporation (PXP, the Company). As compared with 2017, the health of the petroleum industry has significantly improved worldwide, with the steady uptick of oil prices for the most part of 2018 and with increased exploration activities since the petroleum downturn.

A remarkable progress witnessed by our Company last year was the signing of a Memorandum of Understanding (MOU) on Cooperation on Oil and Gas Development between the Republic of the Philippines and the People's Republic of China on November 20, 2018. The MOU paves the way for the creation of an inter-governmental Steering Committee that will work out a program of cooperation which could eventually lead to joint exploration by Philippine and Chinese parties in the West Philippine Sea, as well as the creation of one or more Inter-Entrepreneurial Working Groups, where the China National Offshore Oil Corporation (CNOOC) will be involved with the relevant Philippine concessionaires, with the implicit task to agree on cooperation arrangements within 12 months after the signing of the MOU.

In relation to this, the Department of Energy (DOE) and the Department of Foreign Affairs (DFA) are working to lift the Force Majeure (FM, or Moratorium) imposed since December 2014 on Service Contract (SC) 72 Recto Bank and SC 75 Northwest Palawan, with the former SC being operated by PXP's subsidiary, Forum (GSEC 101) Limited. We remain hopeful that this encouraging move will enable us to progress with the exploration and development of these two major assets.

In our Peru offshore block Z-38, where PXP has a 25% participating interest in the block through its 53% subsidiary, Pitkin Petroleum Limited (Pitkin), preparations are underway for the drilling of the first exploration well in the block, Marina-1X, within the first quarter of 2020. This followed the lifting by Perupetro S.A. of the Moratorium on Z-38 on September 12, 2018.

"We are moving forward to 2019 with focused energy in the continuation and fulfillment of our exploration and production work commitments..."

As reported last year, Karoon Gas Australia Ltd (Karoon), the block's operator, has previously executed a Farm-In Agreement (FIA) with Tullow Peru Limited (Tullow), wherein Tullow will acquire a 35% interest by partially funding the cost of the well. Under a separate FIA with Karoon signed in 2009, Pitkin is carried in the cost of Marina-1X and a second exploration well, which will be identified in the future.

After enduring almost three years of weak oil prices averaging below US$50 per barrel, Dubai Oil, the main price benchmark for crude sold in the Asian region, came in above US$70 during the second and third quarters of 2018. This allowed our Company to generate higher revenues of PhP107.9 million in 2018 against PhP104.4 million in 2017, despite

> *The recovery of oil and gas prices after the 2014 downturn, together with positive political developments in the West Philippine Sea in 2018, are strong indicators of improved global economic growth and firm investment confidence in 2019.*

the expected decline in Galoc, Nido, and Matinloc fields' production.

The Galoc Field produced 1.17 million barrels of oil (mmbo) in 2018 compared with 1.46 mmbo in 2017, with the cumulative production reaching about 21.35 mmbo as of end-2018. The Galoc Field has been our Company's main source of revenue since production commenced in October 2008.

By the second half of the year, Tamarind Galoc Pte Ltd (Tamarind), a subsidiary of Singapore-based Tamarind Resources, acquired Nido Petroleum's subsidiaries Galoc Production Company WLL (GPC) and Nido Production (Galoc) Pte Ltd, giving Tamarind 55.88% equity and operatorship of the Galoc

Field. Tamarind's portfolio focuses on improving production performance of underexploited and dormant fields across Southeast Asia and Australasia.

Meanwhile, the Company's subsidiary, Forum Energy Philippines Corporation (FEPC), remains an active participant in its non-operated service contracts, which includes SC 14C1 Galoc, the exploration and production sub-blocks in SC 14 and the two retained blocks in SC 6. Another subsidiary, Forum Exploration, Inc. (FEI), maintained the operatorship of the SC 40 Block in Northern Cebu.

On October 25, 2018, the Board of Directors (the Board) of the Company approved the subscription by Dennison Holdings Corporation (Dennison) to 340,000,000 common shares of PXP at a price of PhP11.85 per share, representing a 20% discount to the 90-day Volume Weighted Average Price of the Company's shares, subject to the execution of a definitive subscription agreement. This is equivalent to an aggregate amount of PhP4.03 billion.

The Board, likewise, approved the subscription by Philex Mining Corporation (Philex) to 260,000,000 common shares of PXP, or an aggregate amount of PhP3.081 billion, under the same terms as above, subject to the execution of a definitive subscription agreement.

The Subscription Agreements between PXP and Dennison, and between PXP and Philex, were signed on October 26, 2018.

To date, Philex has settled approximately 70% of its subscription, for a total consideration of PhP2.157 billion, translating to an increased equity ownership in PXP from 19.8% to 30.4%.

Meanwhile, on March 29, 2019, the Company and Dennison mutually agreed to terminate the Subscription Agreement, thereby canceling all rights of the Company to issue and for Dennison to subscribe to the aforementioned common shares of the Company.

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 eight kilometers away from the municipality of Busuanga, Palawan. The acreage is bounded by several oil and gas fields and discoveries. The Joint Venture (JV) is composed of PXP, The Philodrill Corporation, and PNOC Exploration Corporation (PNOC EC).

On March 27, 2018, the DOE approved the JV's entry to Sub-Phase (SP) 3, with modified Work Commitments beginning December 13, 2017. The exploration track in SC 74 could be divided into two, namely: (1) the appraisal of the Linapacan Field, and (2) the exploration of the frontier eastern portions of the acreage. A few of the SP 3 activities include: (1) the completion of engineering and economic studies over the Linapacan fields and of market studies in Palawan Island; (2) the conduct of geologic fieldwork, biostratigraphic study, and source rock analysis in the Calamian Islands; and (3) continuing Phase 2 gravity and magnetic interpretation.

The geologic fieldwork in the Calamian Islands was conducted from June 17 to June 27, 2018, with 20 graduate students from the University of the Philippines National Institute of Geological Sciences (UP-NIGS). Rock samples collected from the field will be subjected to different tests and analyses, such as dating, total organic content, vitrinite reflectance, and pyrolysis, among others.

The engineering and economic studies on Linapacan A and B Fields were completed, with the PNOC EC as the lead company. Report writing is currently ongoing.

SC 75 NW Palawan

SC 75 is located offshore in the relatively underexplored area of the Northwest Palawan Basin, approximately 70 kilometers off Palawan Island. PXP has a 50% participating interest in SC 75, and is its designated operator, while partners PNOC EC and PetroEnergy Resources Corporation hold the remaining 35% and 15% interests, respectively. All activities in SC 75, however, have remained suspended since 2016 due to the FM imposed on December 27, 2015.

By the end of 2015, and prior to the enforcement of the FM over SC 75, PXP had completed and fulfilled all the SP 1 work activities which comprised the acquisition and interpretation of 2D seismic, marine gravity and magnetic data. The geological and geophysical studies undertaken using these data have resulted in the identification of prospective significant culminations that have been recommended for further evaluation using 3D seismic data.

Upon lifting of the FM, SC 75 will enter SP 2, wherein the minimum work commitment is the acquisition of at least 1,000 square kilometers of 3D seismic data. The Company remains in close dialogue with the DOE with respect to the possible lifting of FM over SC 75.

Forum (GSEC 101) Limited

SC 72 Recto Bank

SC 72 is located in the Recto Bank Basin, approximately 148 kilometers offshore to the west of Palawan Island. Forum is the operator of SC 72 through a 100% subsidiary, Forum (GSEC 101) Limited. It has a 70% participating interest over the block, while the remaining 30% participating interest is held by Monte Oro Resources and Energy, Inc. The block has been placed under Moratorium since December 2014 due to certain maritime disputes over the West Philippine Sea.

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

Complementary with the MOU, and in preparation for the possible lifting of the Moratorium over SC 72, Forum commissioned an Australia-based geophysical contractor to reprocess the 2011-acquired 3D dataset (565 sq. km.) over the Sampaguita gas field, using broadband Prestack Depth Migration (PSDM). The reprocessing commenced in October 2018 and is expected to be completed within the second quarter of 2019.

Forum Exploration, Inc.

SC 40 North Cebu

SC 40 covers the northern area of Cebu Island and the adjacent offshore areas in the Central Tañon Strait and Visayan Sea. The operator, FEI, is a 66.67%-owned subsidiary of Forum and has a 100% participating interest in the block.

In accordance with the DOE-approved 2018 Work Program and Budget (WP&B), FEI conducted a land gravity survey in the municipalities of Daanbantayan and Medellin from April 2 to 27, 2018. A total of 94 gravity stations were acquired at a spacing of 200 meters to 500 meters. The survey was designed to locate the apex of a high trend in the Dalingding area, define faults through forward modeling, and determine whether the mapped central depression is a graben or a trough. The processing and interpretation of the gravity data is currently underway.

Additionally, FEI is in its preparation stage for the drilling of an onshore well, Dalingding-2, in 2020. The Dalingding Prospect is a reefal structure defined by seismic, with Barili Limestone as the primary target.

Dalingding-1 well was drilled by Cophil Exploration in 1996 and was plugged and abandoned as a dry hole with minor gas shows after reaching a total depth of 1,508 feet. Following Forum's recent re-evaluation of the prospect, it was concluded that Dalingding-1 did not reach the Barili target, which is estimated at 1,740 feet, or 232 feet below the well's total depth. The current plan is to drill a well down to at least 2,000 feet to penetrate the Barili and secondary targets beneath.

Lastly, FEI also plans for the permanent plugging and abandonment (P&A) of the Forum-1X and Forum-2X wells in 2020. Both wells were drilled in 2003 and had oil and gas shows.

Forum Energy Philippines Corporation

SC 14 Block C1 Galoc

The Galoc Oil Field, where Forum has a 2.27% participating interest in, lies within the SC 14C1 offshore license and is located in the Northwest Palawan Basin, approximately 70 kilometers west of the municipality of Culion, Palawan.

Galoc yielded 1.17 mmbo in 2018 compared with 1.46 mmbo the previous year. In 2018, three liftings were completed, with a total cargo of 1.07 mmbo. The cargoes were sold at an average price of US$74.20 per barrel, which was 35% higher than the average price of US$54.97 per barrel realized in the four liftings completed in 2017. Three liftings are projected for 2019.

Tamarind, the new operator of the SC 14C1, is determined in extending the field life and in optimizing the production performance of the Galoc Field. One of the planned activities for 2019 includes the installation of a Condensate Recovery Unit (CRU) onboard the Floating Production, Storage, and Offloading (FPSO) that is capable of recovering 15 to 20 barrels of condensate for every one million cubic feet of gas produced, while reducing Greenhouse Gas (GHG) emissions by 20% to 30%.

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 100m to over 2,000m. Pitkin holds a 25% working interest in Block Z-38, which is operated by Karoon. As a review, in January 2018, Tullow agreed to acquire a 35% interest in the acreage, through a farm-down from Karoon.

Further, the FM previously imposed over the block on September 1, 2013 was already lifted on September 12, 2018. The WP&B 2019 revolves around the drilling of two (2) exploration wells approximately within 22 months. The JV is working towards the drilling of the Marina-1X well, the first exploratory well to be drilled inside the block, in early 2020.

FINANCIAL RESULTS

The Company recorded a consolidated Net Loss Attributable to Equity Holders of the Parent Company of PhP77.0 million (FY2017: PhP39.1 million), with Reported Consolidated Net Loss amounting to PhP96.4 million (FY2017: PhP57.1 million) in 2018.

Consolidated revenues improved to PhP107.9 million in 2018 (FY2017: PhP104.4 million) as a result of the 35% improvement in crude oil prices, partially offset by the decline in output.

Meanwhile, the Company's consolidated cost and expenses stood at PhP221.4 million (2017: PhP158.2 million), resulting from higher depletion charges coupled with the decommissioning costs of old Tara and Libro wells in SC 14A and SC 14B. Meanwhile, recurring overhead was constantly contained.

The Company incurred a higher net loss despite the reduction in loss from operations, due to forex gain (+PhP18.7 million), offset by higher depletion charges (-PhP31.0 million) and the decommissioning of old SC 14A and SC 14B wells (-PhP29.8 million).

OUTLOOK

The recovery of oil and gas prices after the 2014 downturn, together with positive political developments in the West Philippine Sea in 2018, are strong indicators of improved global economic growth and firm investment confidence in 2019. According to experts, oil price volatility will continue to create mixed signals for the rest of the year.

The Company remains optimistic that the MOU between the Philippines and China would eventually lead to a definitive agreement that will pave the way for us to resume exploration activities in our highly prospective blocks, specifically SC 72 located in the West Philippine Sea. Meanwhile, in anticipation of the lifting of the FM, the Company is undertaking the necessary pre-drilling activities such as the improvement of the Sampaguita 3D seismic data set through the application of new sophisticated technology PSDM. The seismic interpretation of the newly reprocessed data set will enable us to redefine our previously identified leads and prospects, update the resource estimate, and determine the optimum location of the Sampaguita 4 and 5 wells.

We are moving forward to 2019 with focused energy in the continuation and fulfillment of our exploration and production work commitments in the SC

74 block, as well as in the non-operated blocks in Northwest Palawan. With Tamarind at the forefront in SC 14C1, we are confident that the deployment of new engineering technology and innovation would optimize production over the next two to three years, and extend the Galoc Field's economic life.

Within the year, the SC 74 and SC 14C2 Consortia will also jointly conduct a rock physics and quantitative interpretation program over the Linapacan and West Linapacan blocks, which aims to predict lithology and fluid content in the main carbonate reservoir through the integration of existing seismic, geological, and well data. In SC 74, we will focus on the Linapacan A and B fields, which contain both oil and gas deposits.

Concurrent with the continued conduct of exploration of other valuable prospects in our Cebu operated block, FEI is now preparing for its drilling plans scheduled in 2020.

With the addition of Tullow in the Consortium, and with the lifting of the Moratorium over the Z-38 Peru Block in 2018, we can finally commence the drilling of our first well in 2020, targeting the Marina prospect.

On new ventures, the DOE launched in November 2018 an improved petroleum licensing system known as the Philippine Conventional Energy Contracting Program (PCECP), aimed at revitalizing petroleum activities in the country. Under the PCECP, 14 Pre-Determined Areas (PDAs) are offered for bidding, while at the same time allowing companies to nominate for areas outside the PDAs.

The Company plans to participate in the PCECP through bidding and/or area nomination.

Once again, we would like to take this opportunity to thank our shareholders, the Board of Directors, the management, and our employees for their continued commitment and support.

Yours sincerely,

Manuel V. Pangilinan
Chairman

Daniel Stephen P. Carlos
President

FINANCIAL AND OPERATING PERFORMANCE

Consolidated operating revenues amounted to PhP107.9 million in 2018 (2017: PhP104.4 million; 2016: PhP101.6 million) consisting solely of revenues from petroleum.

In 2018, the higher revenue was due to: (1) the 35% rise in average crude oil prices at US$74 per barrel (2017: US$54 per barrel; 2016: US$43 per barrel), offset by (2) the decline in the oil production of SC 14 C-1 Galoc, which yielded a gross volume of 1.1 million barrels (2017: 1.4 million barrels; 2016: 1.7 million barrels) from three offtakes (2017: four offtakes; 2016: five offtakes). The steady rise in oil prices, offset by a continuous decline in oil production, contributed to the higher revenue in 2017 versus 2016.

The revenues were contributed by Forum Energy Limited (Forum), a 79.0% direct and indirectly owned subsidiary, from its participating interests in the oil fields of Galoc, Nido, Matinloc, and North Matinloc.

Oil production during the year were as follows:

	2018	2017	2016
Oil Revenues *(in PhP millions)*	**107.9**	104.4	101.6
Barrels *(net to Forum)*	**31,232**	41,270	49,585

Costs and expenses totaled PhP221.4 million (2017: PhP158.2 million; 2016: PhP170.8 million). Petroleum production costs were higher at PhP131.0 million (2017: PhP108.9 million; 2016: PhP115.4 million), resulting from 4% lower oil production cost offset by higher depletion. In 2017, petroleum production costs were lower versus 2016 due to lower depletion on lesser oil output.

General and administrative expenses stood at PhP90.4 million (2017: PhP49.4 million; 2016: PhP55.4 million), resulting from the consultancy expense incurred during the reorganization of Pitkin in previous years amounting to PhP11.9 million and the decommissioning of SC 14 Tara and Libro wells at PhP29.8 million. Total recurring overhead, however, was flat owing to management's continuing cost control and sharing of costs between subsidiaries. In 2017, general and administrative expenses decreased versus 2016 resulting from the cost-reduction initiatives of management.

A net other income of PhP21.4 million was recorded in 2018 (2017: net other charge of PhP1.1 million; 2016: net other income of PhP20.5 million) consisting of the following: (1) interest income at PhP2.8 million (2017: PhP3.7 million; 2016: PhP3.3 million); and (2) foreign exchange (forex) gain of PhP18.7 million (2017: net forex loss of PhP0.1 million; 2016: net forex gain of PhP13.3 million) resulting from foreign currency exchange differences from the conversion of the Group's dollar denominated currency to peso, and vice versa. In 2017, provision of impairment and loss on write-off of assets stood at PhP4.6 million (2016: reversal of impairment at PhP4.7 million). The provision for impairment during 2017 was a result of the rehabilitation and decommissioning of the Libertad Gas Field in SC 40, offset by the reversal of impairment losses of PhP11.3 million representing accrued expenses reversal during the year. In 2016, a reversal of impairment amounting to PhP4.7 million arose coming from the proceeds of the sale of SC 53 to a third-party, which was impaired in previous years.

	Year ended in December 31		
(in PhP millions)	**2018**	2017	2016
Interest income	**2.8**	3.7	3.3
Foreign exchange gains-net	**18.7**	(0.1)	13.3
Interest expense and other charges	**(0.1)**	(0.1)	(0.1)
Provision and reversal of impairment and loss on write-off of assets - net	**-**	(4.6)	4.7
Others - net	**-**	-	(0.7)
TOTAL	**21.4**	(1.1)	20.5

FINANCIAL POSITION

As of December 31, 2018, the Company's total assets stood at PhP7.247 billion against PhP7.229 billion as of December 31, 2017. Total current assets dropped to PhP428.9 million from PhP525.8 million as cash and cash equivalents decreased from PhP450.0 million to PhP342.4 million. Said decrease was attributable to cash disbursements incurred for the: (1) plug and abandonment of SC 14 Tara and Libro wells amounting to PhP29.8 million; (2) exploration activities in SC 74 and SC 72 at PhP78.6 million; (3) overhead expenses at PhP56.1 million; and (4) net cash received from SC 14C-1 Galoc from oil sales during the year; (5) cash received from Philex Mining Corporation (PMC) amounting to PhP770.3 million, representing the 25% down payment for PMC's subscription to 260 million new PXP shares at PhP11.85 per share; offset by (6) cash paid by PXP to PMC amounting to PhP781.3 million for the repayment of outstanding advances from the latter. In addition, inventories-net increased from PhP21.8 million to PhP32.4 million as a result of unsold oil inventory as of year-end.

As of December 31, 2017, the Company's total assets stood at PhP7.229 billion against PhP7.332 billion as of December 31, 2016. Total current assets dropped to PhP525.8 million from PhP669.2 million as cash and cash equivalents decreased from PhP573.3 million to PhP450.0 million. Said decrease was attributable to the cash infusion from Tidemark Holdings Limited, a major shareholder of Forum, representing additional share subscription to the latter, which was offset by cash disbursements incurred for the: (1) cost of appraisal well in SC 14 C-1 Galoc; (2) exploration activities in SC 74; (3) share repurchase by Pitkin of its shareholders; (3) purchase of additional shares of Forum from a subsidiary and an affiliate; and (4) partial payment of debt to PMC. Trade and other receivables decreased from PhP63.5 million to PhP41.6 million as a result of reclassification to deferred exploration costs in SC 74.

Noncurrent assets slightly rose to PhP6.818 billion from PhP6.703 billion, largely arising from the increase in deferred exploration costs to PhP5.310 billion from PhP5.168 billion. This was a result of the costs spent in the exploration activities in SC 74 and SC 72. This increase was offset by the decrease in property and equipment from PhP261.9 million to PhP230.8 million due to depletion.

During 2017, noncurrent assets slightly rose to PhP6.702 billion from PhP6.663 billion, largely arising from the increase in deferred exploration costs to PhP5.168 billion from PhP5.081 billion, resulting from the costs spent in the Galoc appraisal well and exploration activities in SC 74, offset by the decrease in property and equipment from PhP307.8 million to PhP261.9 million due to depletion and the decommissioning of the Libertad Gas field in SC 40.

Current liabilities as of December 31, 2018 were lower at PhP2.160 billion from PhP2.926 billion from the previous year. This was primarily due to the reduction in advances from related parties, from PhP2.906 billion to PhP2.125 billion, following the partial payment of debt to PMC. This was partially offset by the growth in trade and other payables arising from PXP's consortium partners cash calls in SC 74 and accrual of payables to PhP34.0 million from PhP19.4 million.

As of December 31, 2017, current liabilities were marginally lower at PhP2.926 billion from PhP2.960 billion from the previous year. This was primarily due to the decrease in advances from related parties following the partial payment of debt to PMC, in addition to the reduction in accounts payable and other accrued liabilities to PXP's consortium partners in SC 74.

Noncurrent liabilities stood at PhP1.305 billion from PhP1.301 billion resulting from the increase in deferred tax liabilities from PhP1.110 billion to PhP1.113 billion. Total liabilities were lower at PhP3.465 billion from PhP4.226 billion at the end of the prior year following the reduction in current liabilities by PhP766.4 million and a rise in non-current liabilities by PhP4.8 million.

As of end-2017, noncurrent liabilities were reduced to PhP4.226 billion from PhP4.273 billion following the reversal of provision for losses in other noncurrent liabilities, which resulted in the reduction of the balance from PhP203.7 million to PhP190.7 million. Total liabilities were lower at PhP4.226 billion from PhP4.273 billion at the end of the prior year, following the reduction in current liabilities by PhP33.7 million and a drop in non-current liabilities by PhP13.0 million.

As of December 31, 2018, total equity reached PhP3.782 billion against PhP3.002 billion at the end of 2017. This was a result of the increase in capital stock to PhP1.960 billion from PhP1.700 billion and additional paid-in capital to PhP2.821 billion from nil, offset by the increase in subscription receivable at PhP2.311 billion following the subscription of PMC to 260 million new PXP shares at PhP11.85 per share. In addition, deficit increased to PhP1.372 billion from PhP1.295 billion subsequent to the net loss incurred during the year, while cumulative translation adjustment and non-controlling interests increased to PhP153.9 million from PhP76.3 million and to PhP2.408 billion from PhP2.398 billion, respectively.

Total equity as of December 31, 2017 reached PhP3.002 billion against PhP3.058 billion at the end of 2016. This was a result of the slight decrease in non-controlling interest attributable to: the (1) net loss incurred in the current year at PhP57.1 million (2016: PhP36.4 million; 2015: PhP144.0 million) and the (2) effect of transactions with owners, which resulted in a reduction of PhP9.8 million (2016: PhP1.7 million; 2015: PhP653.8 million) following the share repurchase by Pitkin and the additional capital infusion in Forum, but was offset by (3) gain on translation of foreign subsidiaries at PhP10.6 million (2016: PhP129.3 million; 2015: PhP92.4 million).

CASH FLOWS

Net cash used in operating activities during the year amounted to PhP21.5 million (2017: net outflow PhP22.0 million; 2016: net inflow PhP109.6 million), which resulted from the: (1) plug and abandonment of SC 14 Tara and Libro wells amounting to PhP29.8 million;

(2) overhead expenses at PhP56.1 million; and (3) cash received from SC 14C-1 Galoc from oil sales net of cash production expenses during the year.

In 2017, cash from operating activities was mainly attributable from the operating loss of PhP23.6 million, while in 2016, the increased inflow came from the collection of trade and other receivables due to cash collection for the sale of oil from Galoc in December 2015. In addition, trade and other payables increased for the collection of cash calls by PXP from the SC 74 consortium members.

Net cash from investing activities resulted in a net outflow of PhP87.7 million (2017: PhP64.2 million; 2016: PhP65.7 million), mainly due to additions in exploration activities in SC 74 and SC 72. In 2017, the net outflow came from the additions in exploration activities in SC 74 and the drilling of the appraisal well in SC 14 C-1 Galoc. For 2016, the outflows resulted from exploration activities in SC 75 and SC 74, while 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 stood at PhP6.3 million (2017: PhP36.9 million; 2016: PhP243,000.00) coming from the cash received by PXP from PMC amounting to PhP770.3 million, representing the 25% down payment for PMC's subscription to 260 million new PXP shares at PhP11.85 per share, offset by cash paid by PXP to PMC amounting to PhP781.3 million for the repayment of outstanding advances from the latter.

In 2017, the net cash outflow was a result of the following: (1) proceeds from the issuance of the subsidiary's new shares at PhP100.7 million, representing the cash infused by a major shareholder of Forum for the subscription of additional shares; (2) acquisition of non-controlling interest at PhP17.7 million accounting for the cash paid for the additional interests acquired by PXP in Forum; (3) decrease in advances from related parties amounting to PhP25.2 million, representing partial payment of debt with PMC; and (4) acquisition by the subsidiary of own shares at PhP92.8 million, which was the amount of the cash spent for Pitkin's share repurchase. In 2016, cash used was minimal.

Effect of foreign exchange rate changes in cash and cash equivalents representing fluctuations in foreign currency exchange rates for the last three years amounted to an outflow of PhP7.9 million (2017: net outflow PhP150 thousand; 2016: net inflow PhP3.3 million). At the end of the current year, cash and cash equivalents amounted to PhP342.4 million (2017: PhP450.0 million; 2016: PhP573.3 million).

BOARD OF DIRECTORS

MANUEL V. PANGILINAN

72, Filipino citizen; first elected Director of the Company on December 8, 2009; Chairman of the Board since December 8, 2009; last re-elected on June 1, 2018.

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 ("First Pacific"), 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 Incorporated, 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.

Mr. Pangilinan has been a Director of Philex Mining Corporation and Philex Gold Philippines, Inc. 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, Incorporated which owns and operates the largest sugar milling operations in the Philippines.

Listed companies of which Mr. Pangilinan is presently a director:

Philippines
- PXP Energy Corporation
- Philex Mining Corporation
- PLDT Incorporated
- Metro Pacific Investments Corporation
- Roxas Holdings, Incorporated
- Manila Electric Company

Hong Kong
- First Pacific Co. Ltd.

DANIEL STEPHEN P. CARLOS

55, Filipino citizen; first elected Director on August 16, 2015; last re-elected on June 1, 2018.

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 is a licensed Geologist and placed 3rd in the 1985 Geologist Licensure Examination.

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

Listed company of which Mr. Carlos is presently a director

Philippines
- PXP Energy Corporation

EULALIO B. AUSTIN, JR.

57, Filipino citizen; first elected May 18, 2010; last re-elected June 1, 2018.

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 Corporation ("Philex Mining") and Philex Gold Philippines, Inc. 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. Outside of Philex Mining, he serves as a member of the Chamber of Mines of the Philippines' Nominations Committee and Board of Trustees. Mr. Austin also sits as a member of the Executive Committee of the Board of Trustees and the Chairman of the Towards Sustainable Mining Initiative Committee. He likewise serves in 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
- PXP Energy Corporation
- Philex Mining Corporation

BENJAMIN S. AUSTRIA

73, Filipino citizen; first elected Independent Director on August 4, 2011; last re-elected on June 1, 2018.

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. Dr. Austria retired in 2011 from the University of the Philippines ("UP") as Professor of Geology after 45 years of service, teaching courses in Economic Geology, Geochemistry and Crystallography. The UP National Institute of Geological Sciences building was completed and inaugurated while he was Director of the Institute from 1987 to 1993.

Business and Professional Background/ Experience:
Dr. Austria is the Chairman of the Subcommittee on Energy of the Philippine Chamber of Commerce & Industry. He is Senior Adviser of PHINMA Petroleum & Geothermal, Inc. He is Chairman of the Earth Sciences & Geography Division and a Director of the Philippine Association for the Advancement of Science & Technology, a non-stock, non-profit corporation. 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

Philippines

- PXP Energy Corporation (Independent Director)

EMERLINDA R. ROMAN

69, Filipino citizen; first elected Independent Director August 4, 2011; last re-elected June 1, 2018

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 a Member of the Board of Trustees of Akademya Filipino.

Listed corporations of which Dr. Roman is currently a director

Philippines

- PXP Energy Corporation (Independent Director)

MARILYN A. VICTORIO-AQUINO
63, Filipino citizen; first elected April 18, 2013; last re-elected on June 1, 2018.

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 Corporation and Philex Gold Philippines, Inc. since December 7, 2009 and was re-elected on June 26, 2013. She is also a Director of PXP Energy Corporation. She is an Assistant Director of First Pacific Co. Ltd. since July 2012, following her 32-year law practice at SyCip Salazar Hernandez and Gatmaitan Law Offices, where she was Partner from 1989 to 2012. She is the President and Chief Executive Officer of MetroPac Movers Inc., the logistics company of Metro Pacific Investments Corporation. She is also the President of First Coconut Manufacturing Corporation. She has been a Director of PremierLogistics, Inc. since January 2017, Silangan Mindanao Mining Company, Inc. since January 2013, Silangan Mindanao Exploration Company, Inc. since January 2013, Lepanto Consolidated Mining Company since October 2012 and Maynilad Water Services, Inc. since December 2012.

Listed companies of which Ms. Aquino is currently a director

Philippines
- PXP Energy Corporation
- Philex Mining Corporation
- Lepanto Consolidated Mining Company

OSCAR S. REYES
72, Filipino citizen; first elected August 2, 2017; last re-elected on June 1, 2018.

Academic Background:
Mr. Reyes received his Bachelor of Arts degree in Economics from the Ateneo de Manila University and graduated cum laude. He holds a Diploma in Business Administration and a Certificate in Export Promotion from the Waterloo Lutheran University and a Masters in Business Administration from the Ateneo Graduate School of Business. He took his Business Management Consultants and Trainers' Programs at the Japan Productivity Center and the Asian Productivity Organization; Program for Management Development at the Harvard Business School, and; Commercial Management Program at the Lensbury Centre, Shell International Petroleum Corporation.

Business and Professional Background/Experience:
Mr. Reyes is the President and Chief Executive Officer of the Manila Electric Company. He serves as Chairman of the Board of Pepsi Cola Products Philippines, Inc., Atimonan One Energy, Inc., PacificLight Power Pte. Ltd., Redondo Peninsula Energy, Inc., CIS Bayad Center, Inc., Meralco Industrial Engineering Services Corporation, Meralco Energy Inc., MRail, Inc., Spectrum Inc., and as Co-Chairman of Meralco PowerGen Corporation. He is a Director of the Manila Electric Company, Manila Water Company, PLDT Communications and Energy Ventures, Inc., Basic Energy Corporation, Cosco Capital Inc., Clark Electric Development Corporation, Sunlife Financial Plans, Inc., Sun Life Prosperity Funds, Grepalife Mutual Funds, MPioneer Insurance, Inc., Petrolift Corporation, Eramen Minerals, Inc. and Asian Eye Institute. He also serves as a member of the Advisory Council of the Bank of the Philippine Islands and a member of the Advisory Board of PLDT, Inc. He is Vice Chairman of the Board of One Meralco Foundation, Inc. and a Trustee of Pilipinas Shell Foundation, Inc., El Nido Foundation, Inc. and SGV Foundation. Mr. Reyes was formerly Country Chairman of the Shell companies in the Philippines, and concurrently Managing Director of Shell Phils. Exploration B.V. and President & Chief Executive Officer of Pilipinas Shell Petroleum Corporation.

Listed companies of which Mr. Reyes is currently a director

Philippines
- PXP Energy Corporation
- Manila Electric Company
- Manila Water Company
- Pepsi Cola Products Philippines, Inc.
- Basic Energy Corporation
- Cosco Capital Inc.

DIANA V. PARDO-AGUILAR

55, Filipino citizen; first elected on May 19, 2015; last re-elected on June 1, 2018.

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

Business and Professional Background/ Experience:
Ms. Pardo-Aguilar was appointed as Commissioner of the state-run Social Security System in August 2010 and was reappointed by President Rodrigo Duterte in 2016. She is Chairperson of the Investment Oversight Committee and Vice Chairperson of the Information Technology Committee; and a Member of the Risk Management and Audit Committees. She was appointed as Director of Security Bank Corporation since April 2017 and Chairs the Trust Committee. She was also appointed as Chairperson of SB Capital Investment Corporation since August 2016. She was appointed as an Independent Director of Medical Doctor's Inc., of Makati Medical Center since July 2018 and also appointed as Chairperson of the Audit Committee since September 2018. She is a Member of the Investment Committee of De La Salle Philippines since July 2018. She was re-elected as one of the members of the Board of Governors of the Employers Confederation of the Phils. in December 2018. She is a Member of the Board of Directors of Ionics Inc., since December 2016, a Consultant Advisor to the Board of Phil. Seven Corporation since January 2015, a Member of the Philippine Stock Exchange's Capital Markets Development Board since 2013, a Director of Electronic Commerce Payment Networks, Inc., since 2004 and a Director of Wenphil Corporation since 1998.

Listed companies of which Ms. Pardo-Aguilar is currently a director

Philippines
- PXP Energy Corporation
- Security Bank Corporation
- IONICS, Inc.

JOSEPH H.P. NG

55, British Citizen; first elected March 21, 2019

Academic Background:
Mr. Ng received an MBA and a Professional Diploma in Accountancy from Hong Kong Polytechnic University. He is a member of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants and the Institute of Chartered Accountants in England and Wales.

Business and Professional Background/ Experience:
Mr. Ng joined First Pacific Company Limited in 1988 from PriceWaterhouse's audit and business advisory department in Hong Kong and acted as the Group Treasurer and served in several senior finance positions within the First Pacific Group, including as the Head of Finance of the Group's regional telecom division and a director of a number of the Group's telecom joint ventures in India, Indonesia and PR China. Mr. Ng has acted as Executive Vice President of First Pacific's Group Finance since May 2002. Mr. Ng is also a Commissioner of PT Indofood Sukses Makmur Tbk.

Listed companies of which Mr. Ng is currently a director

Philippines
- PXP Energy Corporation
- Philex Mining Corporation

Indonesia
- PT Indofood Sukses Makmur Tbk (Commissioner)

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **PXP ENERGY CORPORATION (formerly Philex Petroleum Corporation)** ("the Company") is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the five years ended **December 31, 2018 and 2017**, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operation, or has no realistic alternative but to so.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

The Board of Directors reviews and approves the financial statements including the schedules attached therein, and submits the same to the stockholders or members.

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

Mr. Manuel V. Pangilinan
Chairman of the Board

Mr. Daniel Stephen P. Carlos
President

Ms. Paraluman M. Navarro
Treasurer

Signed this 21st day of March 2019

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 2018 as follows:

- An Independent Director chairs the Audit Committee and Board Risk & Resource Oversight Committee, and that Committee has one (1) other independent director as member;
- The Audit Committee and the Board Risk & Resource Oversight Committee held five (5) and four (4) meetings, respectively, during the year 2018;
- The Audit Committee reviewed and approved all audit services provided by SGV & Co. to PXP Group, and related fees for such services;
- The Audit Committee discussed with the PXP 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 and the Subsidiaries' internal controls and overall quality of PXP Group's financial reporting;
- The Audit Committee discussed with SGV & Co. the matters required to be discussed by the prevailing applicable Auditing Standards. The Committee received written disclosures and letter from SGV & Co. as required by the prevailing Independence Standards (Statement of Independence) and discussed with the same its Independence from PXP Group and the PXP Group management;
- The Audit Committee and the Board Risk and Resource Oversight Committee conducted a review of the Company's internal control systems and confirmed the adequacy and effectiveness of the same.
- In the performance of its oversight responsibilities, the Audit Committee reviewed and discussed the audited financial statements of PXP for the year ended December 31, 2018 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, which is responsible for expressing an opinion on the conformity of PXP Group's audited financial statements with Philippine Financial Reporting Standards (PFRS);
- Based on the reviews and discussions related to No. 6, subject to the limitation on its role and responsibilities, the Audit Committee recommend to the Board of Directors the inclusion of the Company's financial statements as of and for the year ended December 31, 2018 in the Company's Annual Report to the Stockholders and to the Philippine Securities and Exchange Commission (SEC) on Form 17-A and;
- Based on a review of SGV & Co.'s performance and qualifications, including consideration of management's recommendation, the Audit Committee approved the appointment of SGV & Co. as the PXP's independent auditor for the year 2019.
- In addition to the Audit Committee's oversight responsibilities, the Audit Committee reviewed the quarterly financial highlights or results of the Company and related material transactions for the year 2018 that need 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,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

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, 2018 and 2017, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2018, 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, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2018 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.

SGV
Building a better working world

- 2 -

Recoverability of Deferred Oil and Gas Exploration Costs

As at December 31, 2018, the carrying value of the Group's deferred oil and gas exploration costs amounted to ₱5,310 million. These deferred exploration costs pertain to the expenditures incurred in the exploration stage of its oil and gas assets. Under *PFRS 6, Exploration for and Evaluation of Mineral Resources*, these deferred exploration costs shall be assessed for impairment when facts and circumstances suggest that the carrying amounts exceeds the recoverable amounts. The ability of the Group to recover its deferred exploration costs would depend on the commercial viability of the reserves. We considered this as a key audit matter because of the materiality of the amount involved, and the significant management judgment required in assessing whether there is any indication of impairment.

The Group's disclosures about deferred exploration cost are included in Note 10 to the consolidated financial statements.

Audit response

We obtained management's assessment on whether there is any indication that deferred exploration costs may be impaired. We reviewed the summary of status of each of the exploration projects as at December 31, 2018. We inspected the 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 which supports the assessment of management regarding its recoverability. We also inquired about the existing concession areas that are expected to be abandoned or any exploration activities that are planned to be discontinued in those areas.

Impairment Testing of Goodwill

Under PFRS, the Group is required to annually test the amount of goodwill for impairment. As of December 31, 2018, the Group's goodwill is considered significant to the consolidated financial statements. In addition, management's assessment process requires significant judgment and is based on assumptions, specifically forecasted oil and gas prices, estimated volume of resources and reserves, capital expenditures, production and operating costs and discount rate.

The Group's disclosures about goodwill are included in Note 4 to the consolidated financial statements.

Audit response

We involved our internal specialist in evaluating the methodologies and the assumptions used. These assumptions include forecasted oil and gas prices, estimated volume of resources and reserves, capital expenditures, production and operating costs and discount rate. We compared the key assumptions used against the historical performance of the cash-generating units and other relevant external data. We tested the parameters used in the determination of the discount rate against market data. We also reviewed the Group's disclosures about those assumptions to which the outcome of the impairment test is most sensitive; specifically those that have the most significant effect on the determination of the recoverable amount of goodwill.

SGV
Building a better
working world

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, 2018, but does not include the consolidated 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, 2018 are expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated 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 consolidated 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 consolidated 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.

SGV

Building a better working world

- 4 -

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.

SGV
Building a better working world

- 5 -

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 Alexis Benjamin C. Zaragoza III.

SYCIP GORRES VELAYO & CO.

Alexis Benjamin C. Zaragoza III
Partner
CPA Certificate No. 109217
SEC Accreditation No. 1627-A (Group A),
April 4, 2017, valid until April 3, 2020
Tax Identification No. 246-663-780
BIR Accreditation No. 08-001998-129-2017,
February 9, 2017, valid until February 8, 2020
PTR No. 7332637, January 3, 2019, Makati City

March 21, 2019

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	
	2018	2017
ASSETS		
Current Assets		
Cash and cash equivalents (Note 5)	**₱342,374**	₱450,039
Trade and other receivables - net (Note 6)	**40,741**	41,585
Inventories - net (Note 7)	**32,398**	21,727
Other current assets (Note 8)	**13,351**	12,408
Total Current Assets	**428,864**	525,759
Noncurrent Assets		
Property and equipment - net (Note 9)	**230,798**	261,883
Deferred oil and gas exploration costs - net (Note 10)	**5,310,477**	5,168,368
Deferred income tax assets (Note 16)	**35,003**	31,651
Goodwill (Note 4)	**1,238,583**	1,238,583
Other noncurrent assets (Note 11)	**3,629**	2,368
Total Noncurrent Assets	**6,818,490**	6,702,853
TOTAL ASSETS	**₱7,247,354**	₱7,228,612
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Note 12)	**₱33,957**	₱19,410
Advances from related parties (Note 17)	**2,125,184**	2,906,490
Income tax payable	**433**	30
Total Current Liabilities	**2,159,574**	2,925,930
Noncurrent Liabilities		
Deferred income tax liabilities (Note 16)	**1,113,448**	1,109,853
Other noncurrent liabilities (Notes 9 and 23)	**191,914**	190,713
Total Noncurrent Liabilities	**1,305,362**	1,300,566
Total Liabilities	**3,464,936**	4,226,496
Equity Attributable to Equity Holders of the Parent Company		
Capital stock - ₱1 par value (Note 15)		
Authorized - 6,800,000,000 common shares		
Issued and subscribed - 1,960,000,000 common shares in 2018;		
1,700,000,000 common shares in 2017	**1,960,000**	1,700,000
Additional paid-in capital (Note 15)	**2,821,000**	–
Subscription receivable (Note 15)	**(2,310,750)**	–
Equity reserves (Notes 4 and 15)	**122,062**	122,062
Deficit	**(1,371,720)**	(1,294,692)
Cumulative translation adjustment on foreign subsidiaries	**153,866**	76,258
	1,374,458	603,628
Non-controlling interests (Note 15)	**2,407,960**	2,398,488
Total Equity	**3,782,418**	3,002,116
TOTAL LIABILITIES AND EQUITY	**₱7,247,354**	₱7,228,612

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		
	2018	2017	2016
PETROLEUM REVENUES (Note 22)	**₱107,924**	₱104,445	₱101,579
COSTS AND EXPENSES			
Petroleum production costs (Note 13)	**130,973**	108,851	115,405
General and administrative expenses (Note 13)	**90,417**	49,376	55,415
	221,390	158,227	170,820
OTHER INCOME (CHARGES)			
Foreign exchange gains - net	**18,685**	(146)	13,341
Interest income (Note 5)	**2,796**	3,749	3,316
Interest expense (Note 9)	**(76)**	(130)	(120)
Reversal of (provision for) impairment and loss on write-off of assets - net (Note 14)	**–**	(4,578)	4,748
Others	**–**	–	(748)
	21,405	(1,105)	20,537
LOSS BEFORE INCOME TAX	**(92,061)**	(54,887)	(48,704)
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 16)			
Current	**1,103**	106	73
Deferred	**3,267**	2,150	(12,390)
	4,370	2,256	(12,317)
NET LOSS	**(₱96,431)**	(₱57,143)	(₱36,387)
NET LOSS ATTRIBUTABLE TO:			
Equity holders of the Parent Company	**(₱77,028)**	(₱39,125)	(₱22,362)
Non-controlling interests	**(19,403)**	(18,018)	(14,025)
	(₱96,431)	(₱57,143)	(₱36,387)
BASIC/ DILUTED LOSS PER SHARE (Note 21)	**(₱0.045)**	(₱0.023)	(₱0.013)

See accompanying Notes to Consolidated Financial Statements.

PXP ENERGY CORPORATION
(formerly Philex Petroleum Corporation)
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in Thousands)

	Years Ended December 31		
	2018	2017	2016
NET LOSS	**(₱96,431)**	(₱57,143)	(₱36,387)
OTHER COMPREHENSIVE INCOME			
Items to be reclassified to profit or loss in subsequent periods:			
Gain on translation of foreign subsidiaries	**106,483**	10,592	129,343
TOTAL COMPREHENSIVE INCOME (LOSS)	**₱10,052**	(₱46,551)	₱92,956
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:			
Equity holders of the Parent Company	**₱580**	(₱32,883)	₱51,612
Non-controlling interests	**9,472**	(13,668)	41,344
	₱10,052	(₱46,551)	₱92,956

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, 2018, 2017 and 2016
(Amounts in Thousands)

	Attributable to Equity Holders of the Parent Company								
	Capital Stock (Note 15)	Additional paid in capital (Note 15)	Subscription Receivable (Note 15)	Equity Reserves (Note 15)	Deficit	Cumulative Translation on Foreign Subsidiaries	Subtotal	Non-controlling Interests (Note 15)	Total
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									
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 15)	–	–	–	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**
Net loss for the year	–	–	–	–	(39,125)	–	(39,125)	(18,018)	(57,143)
Other comprehensive income									
Items to be reclassified to profit or loss in subsequent periods:									
Gain on translation of foreign subsidiaries	–	–	–	–	–	6,242	6,242	4,350	10,592
Total comprehensive income (loss) for the year	–	–	–	–	(39,125)	6,242	(32,883)	(13,668)	(46,551)
Effects of transactions with owners (Note 15)	–	–	–	(6,780)	–	–	(6,780)	(3,063)	(9,843)
BALANCES AT DECEMBER 31, 2017	**1,700,000**	**–**	**–**	**122,062**	**(1,294,692)**	**76,258**	**603,628**	**2,398,488**	**3,002,116**
Net loss for the year	–	–	–	–	(77,028)	–	(77,028)	(19,403)	(96,431)
Other comprehensive income									
Items to be reclassified to profit or loss in subsequent periods:									
Gain on translation of foreign subsidiaries	–	–	–	–	–	77,608	77,608	28,875	106,483
Total comprehensive income (loss) for the year	–	–	–	–	(77,028)	77,608	580	9,472	10,052
Additional share subscription (Note 15)	260,000	2,821,000	(2,310,750)	–	–	–	770,250	–	770,250
BALANCES AT DECEMBER 31, 2018	**₱1,960,000**	**₱2,821,000**	**(₱2,310,750)**	**₱122,062**	**(₱1,371,720)**	**₱153,866**	**₱1,374,458**	**₱2,407,960**	**₱3,782,418**

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		
	2018	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before income tax	**(₱92,061)**	(₱54,887)	(₱48,704)
Adjustments for:			
Depletion and depreciation (Note 13)	**61,339**	30,151	50,102
Unrealized foreign exchange losses (gains) - net	**(17,260)**	146	(13,341)
Interest income (Note 5)	**(2,796)**	(3,749)	(3,316)
Interest expense and other charges (Note 9)	**76**	130	(120)
Provision and reversal of impairment and loss on write-off of assets - net (Note 14)	**–**	4,578	(4,748)
Operating loss before working capital changes	**(50,702)**	(23,631)	(20,127)
Decrease (increase) in:			
Trade and other receivables - net	**15,609**	3,205	79,708
Inventories - net	**(7,090)**	(2,245)	(5,722)
Other current assets	**(392)**	1,468	18,975
Increase (decrease) in trade and other payables	**19,078**	(4,465)	33,550
Net cash generated from (used in) operations	**(23,497)**	(25,668)	106,384
Interest received	**2,673**	3,749	3,316
Income taxes paid	**(699)**	(101)	(81)
Net cash flows provided by (used in) operating activities	**(21,523)**	(22,020)	109,619
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to:			
Deferred oil and gas exploration costs - net (Notes 10 and 22)	**(80,550)**	(62,099)	(84,618)
Property and equipment - net (Note 9)	**(1,220)**	(675)	(5,251)
Increase (decrease) in other noncurrent assets (Note 11)	**(5,924)**	(1,429)	25,885
Payment for cancellation of shares (Note 15)	**–**	–	(1,694)
Net cash flows used in investing activities	**(87,694)**	(64,203)	(65,678)
CASH FLOWS FROM FINANCING ACTIVITIES			
Decrease in advances from related parties (Note 17)	**(781,306)**	(25,211)	(243)
Proceeds from additional shares subscription (Note 15)	**770,250**	–	–
Increase (decrease) in other noncurrent liabilities	**4,720**	(1,875)	–
Proceeds from issuance of subsidiary's new shares (Note 15)	**–**	100,650	–
Acquisition of non-controlling interest (Note 15)	**–**	(17,705)	–
Acquisition by subsidiary of own shares (Note 15)	**–**	(92,788)	–
Net cash flows used in financing activities	**(6,336)**	(36,929)	(243)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**7,888**	(150)	3,288
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(107,665)**	(123,302)	46,986
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**450,039**	573,341	526,355
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	**₱342,374**	₱450,039	₱573,341

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, Status of Business Operations, and Authorization for Issuance of the Consolidated Financial Statements**

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

On September 24, 2010, PXP acquired from Philex Mining Corporation (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 Limited (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 common shares. As a result, the ownership interest of PXP and FEC in FEL was diluted to 36.44% and 24.05%, respectively.

On April 5, 2013, PXP increased its shareholding in Pitkin Petroleum Limited (Pitkin), a company incorporated and registered in the United Kingdom (UK) of Great Britain and Northern Ireland on April 6, 2005, from 18.46% to 50.28% through the subscription of 10,000,000 new common shares and purchase of 36,405,000 shares from existing shareholders at US$0.75 per share. This resulted to PXP obtaining control over Pitkin.

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 an offer to buy back its outstanding shares for a consideration US$0.75 per share. The Parent Company and the non-controlling interests (NCI) owners 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%.

In June 2015, PXP bought 2,383,777 shares from NCI owners of FEL for 20 British Pence per share for a total consideration of ₱33,890. Then in November of 2015, PXP further purchased 2,000,000 shares of FEL from FEC for 21 British Pence per share for a total consideration of ₱29,816. Following these transactions, PXP's interest in FEL increased from 36.44% to 48.77%.

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

In February 2016, its former ultimate parent PMC, a company incorporated in the Philippines and whose shares of stock are listed in the PSE, declared a portion of its shares in the Parent Company as property dividends to all of PMC's stockholders. This resulted in PMC losing control over PXP. The dividends were distributed on July 15, 2016.

On March 9, 2016, PXP's Board of Directors (BOD), approved to change its corporate name from Philex Petroleum Corporation to PXP Energy Corporation.

On February 17, 2017, Pitkin tendered its offer to buyback 11,430,500 of its own shares for a consideration of US$0.35 per share. The Parent Company surrendered 6,107,000 shares for a consideration of ₱107,717, while the NCI owners surrendered its proportionate stake of 5,323,500 shares for a total payment of ₱92,788. The transaction did not change the ownership percentages for both PXP and NCI owners.

On March 23, 2017, PXP entered into an agreement with FEL and Forum (GSEC 101) Limited (FGSECL) to capitalize a part of the maturing long-term loan of FGSECL from PXP amounting to US$11,805 into 39,350,920 new common shares of FEL at US$.030 per share. On May 17, 2017, PXP bought an additional investment of 1,185,000 shares from Asia Link B.V. at US$0.30 per share, for a total consideration of ₱17,705. On November 23, 2017, PXP entered into an agreement to buy 1,000,000 FEL shares held by FEC at US$0.30 per share for a total consideration of ₱15,219. As a result of these transactions, PXP's economic interest in FEL increased from 58.90% to 75.92% (see Note 2).

On October 26, 2018, PXP, PMC, and Dennison Holdings Corporation (DHC) signed a subscription agreement wherein PMC and DHC subscribed to 260,000,000 and 340,000,000 common shares of PXP, respectively, for a total consideration of ₱3,081,000 and ₱4,029,000, respectively. The agreement was approved by the BOD on October 25, 2018 (see Note 15). On December 27, 2018, PMC paid the 25% downpayment of ₱770,250. As a result of the transaction, PMC's total ownership interest in PXP increased from 19.76% to 30.40% as at December 31, 2018. Upon full payment of both PMC and DHC, total estimated ownership interest in PXP will be 25.91% and 14.78%, respectively.

The Parent Company's registered business address is 2/F LaunchPad, Reliance corner Sheridan Streets, Mandaluyong City.

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

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 Northwest (NW) Palawan Basin. However, due to a *force majeure* issued by the Department of Energy (DOE) on December 27, 2015, exploration activities in the area are temporarily suspended as at December 31, 2018.

On October 31, 2018, PXP submitted to the DOE the proposed work program and budget for 2019 consisting mainly of license administration costs and a contingent 3D seismic survey of at least 1,000 square kilometers that will be conducted once the *force majeure* is lifted. The survey will fulfill the Consortium's minimum work commitment under sub phase (SP) 2.

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 SP 2 of exploration activities from August 2011 to August 2013. However, due to maritime disputes between the Philippine and Chinese governments, the SC is under *force majeure* and exploration activities in the area are temporarily suspended as at December 31, 2018.

The Libertad Field under its 100% interest in SC 40 located in Bogo City, Cebu had been shut-in since August 2015. It was deemed that FEL would not be able to resume operations due to pressure-related problems in the L95-1 production well. Thus, FEL decided to decommission the field and to plug and abandon (P&A) the L95-1 well permanently. A P&A program was approved by the DOE on August 1, 2017.

On November 11, 2017, FEL's contractor Desco Inc. was able to successfully plug and abandon the L95-1 well. As a result, the Group has recognized provision for impairment of property and equipment amounting to ₱15,211 (see Note 9). Exploration activities in other sub-blocks within SC 40 will continue.

In December 2018, the DOE directed FEL to request for the lifting of the *force majeure* over SC 72. Such request was made through a letter sent by FEL to DOE on December 21, 2018. As a service contractor in SC 72, FEL is bound by DOE's directive over the lifting of the *force majeure* and the resumption of activities in SC 72.

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 Peru. Pitkin's principal asset is 25% interest in Peru Block Z-38. The Block's operator, Karoon Gas Australia Inc. (Karoon), holds 40% interest.

Effective September 12, 2018, Perupetro approved the lifting of *force majeure* in Block Z-38 upon Karoon's request. The Consortium plans to drill Marina 1X well in the first quarter of 2020. The third exploration period will expire on July 1, 2020.

Recovery of Deferred Oil and Gas Exploration Costs
The Group's ability to realize its deferred oil and gas exploration costs amounting to ₱5,310,477 and ₱5,168,368 as at December 31, 2018 and 2017, 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 yet 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 accompanying consolidated financial statements of the Group as at December 31, 2018 and 2017, and for each of the three years in the period ended December 31, 2018, were authorized for issuance by the BOD on March 21, 2019.

2. **Basis of Preparation, Statement of Compliance and Summary of Significant Accounting Policies**

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 (PFRSs).

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, 2018. Adoption of these pronouncements did not have any significant impact on the Group's financial position or performance unless otherwise indicated.

- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*

- PFRS 9, *Financial Instruments*

PFRS 9 Financial Instruments replaces PAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after January 1, 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group applied PFRS 9 prospectively, with an initial application date of 1 January 2018. The Group has not restated the comparative information, which continues to be reported under PAS 39. The effects of adopting PFRS 9 as at January 1, 2018 has no material impact to the Group's consolidated financial statements.

a. Classification and measurement
Under PFRS 9, debt instruments are subsequently measured at fair value through profit or loss (FVTPL), amortized cost, or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding.

The assessment of the Group's business model was made as of the date of initial application, January 1, 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The classification and measurement requirements of PFRS 9 did not have a significant impact on the Group. The Group continued measuring at fair value all financial assets previously held at fair value under PAS 39. The following are the changes in the classification of the Group's financial assets:

- Cash, except cash on hand, receivables and refundable deposits previously classified as loans and receivables as at December 31, 2017 are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are classified and measured as Debt instruments at amortized cost beginning January 1, 2018.

The Group has not designated any financial liabilities as at FVTPL. There are no changes in classification and measurement for the Group's financial liabilities.

In summary, upon the adoption of PFRS 9, the Group had the following required or elected reclassifications as at January 1, 2018:

		PFRS 9 measurement category
	Amount	**Amortized cost**
PAS 39 measurement category		
Loans and receivables		
Cash and cash equivalents; excluding cash on hand	₱450,022	₱450,022
Trade receivables	31,197	31,197
Others	12,906	12,906
	₱494,125	**₱494,125**

b. Impairment

The adoption of PFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing PAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. PFRS 9 requires the Group to recognize an allowance for ECLs for all debt instruments not held at FVTPL and contract assets.

Upon adoption of PFRS 9, impairment losses did not reduce the carrying amount of the Group's cash and cash equivalents, trade and other receivables as at January 1, 2018.

c. Hedge accounting

The Group has no existing hedge relationships as at December 31, 2017, thus will not have an impact on the consolidated financial statements of the Group.

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

- PFRS 15, *Revenue from Contracts with Customers*

PFRS 15 supersedes PAS 18 Revenue and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. PFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be 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.

PFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

Forum Energy Philippines Corporation (FEPCO), the revenue generating subsidiary of the Group is in various joint operations arrangements, which has producing fields from SC 14 A-B Nido-Matinloc and SC 14C-1 Galoc. The revenue generated by the Consortium comes from the sale of petroleum products from these fields to its primary customers. In this regard, FEPCO recognizes its share in revenue from the joint operation. As at December 31, 2018 and 2017, the Group's joint arrangement is in the form of a joint operation, and is accounted for in accordance with PFRS 11, *Joint Arrangements.*

The Group assessed that the adoption of PFRS 15 has no material impact since the Group's main source of revenues is from its share in revenue from the joint operation. Under PFRS 15, an entity shall apply the new standard to all contracts with customers, except for contractual rights and obligations that are within the scope of PFRS 11.

The adoption of PFRS 15 do not have a material impact on the consolidated financial position, consolidated statements of income, consolidated statements of other comprehensive income or the Group's consolidated operating, investing, and financing cash flows.

- Amendments to PAS 28, *Investments in Associates and Joint Ventures, Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)

- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*

- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*

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 will have a significant impact on its financial statements. The Group intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2019

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*

  Under PFRS 9, a debt instrument can be measured at amortized cost or at FVOCI, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from January 1, 2019, with earlier application permitted.

  These amendments have no impact on the consolidated financial statements of the Group.

- PFRS 16, *Leases*

PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases.

PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17.

A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

The Group plans to apply the modified retrospective approach upon adoption of PFRS 16 in 2019 and elects to apply the standard to contracts that were previously identified as leases applying PAS 17 and Philippine Interpretation IFRIC-4, *Determining whether an Arrangement contains a Lease*. The Group will therefore not apply the standard to contracts that were not previously identified as containing a lease applying PAS 17 and Philippine Interpretation IFRIC-4.

The Group also elects to use the exemptions provided by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value.

The accounting for operating leases where the Group acts as the lessee will significantly change due to the adoption of PFRS 16. As of December 31, 2018, the Group has non-cancellable operating lease commitments of ₱206. Of these commitments, ₱67 are low-value leases for which the Group will continue to recognize the associated lease payments in profit or loss on a straight line basis.

In addition, on February 1, 2019, PXP entered into a non-cancellable operating lease contract with Silangan Mindanao Mining Corporation, Inc. (SMMC), for a period of one (1) year commencing on February 1, 2019 up to January 31, 2020. The lease agreement has a total annual payment of ₱4,282 and is renewable at the option of either party, subject to mutually agreed upon terms and conditions. The contract requires PXP to pay security deposit amounting to ₱637, which is refundable within 60 days from the termination of the contract (see Note 25).

For the remaining lease commitments, the Group expects to recognize right-of-use assets of ₱10,380, lease liabilities of ₱10,347 as of February 1, 2019. Overall, the Group's equity will be ₱33 higher upon initial adoption of the new leases standard.

Moving forward, the Group's cash flows from operating activities will increase and cash flows from financing cash flows will decrease as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities.

- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*

  The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

  - Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event

  - Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

  The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income (OCI).

  The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after January 1, 2019, with early application permitted. These amendments have no impact on the consolidated financial statements of the Group.

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*

  The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in PFRS 9 applies to such long-term interests.

  The amendments also clarified that, in applying PFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying PAS 28.

  The amendments should be applied retrospectively and are effective from January 1, 2019, with early application permitted. The Group is currently assessing the impact of adopting PAS 28.

- Philippine Interpretation IFRIC-23, Uncertainty over Income Tax Treatments

  The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12, Income Taxes, and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

This interpretation is not relevant to the Group because there is no uncertainty involved in the tax treatments made by management in connection with the calculation of current and deferred taxes as of December 31, 2018 and 2017.

- *Annual Improvements to PFRSs* 2015-2017 Cycle

  - Amendments to PFRS 3, *Business Combinations*, and PFRS 11, *Joint Arrangements*, *Previously Held Interest in a Joint Operation*

    The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

    A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in PFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

    An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019 and to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted. These amendments are currently not applicable to the Group but may apply to future transactions.

  - Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*

    The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, OCI or equity according to where the entity originally recognized those past transactions or events.

    An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application is permitted. These amendments are not applicable to the Group.

- Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

  The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

  An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted.

  Since the Group's current practice is in line with these amendments, the Group does not expect any effect on its consolidated financial statements upon adoption.

Effective beginning on or after January 1, 2020

- Amendments to PFRS 3, *Definition of a Business*

  The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

  An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

  These amendments will apply on future business combinations of the Group.

- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*

  The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements.

  An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

Effective beginning on or after January 1, 2021

- PFRS 17, *Insurance Contracts*

  PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted.

Deferred effectivity

- Amendments to PFRS 10, *Consolidated Financial Statements*, 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. 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 deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) completes 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 Consolidated 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 statements of income and a second statement beginning with profit or loss and displaying components of OCI in the consolidated statements of comprehensive income.

Basis of Consolidation
The consolidated financial statements comprise the financial statements of the Parent Company 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 statements of 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
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 Recto Bank.
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.
FGSECL	FGSECL was incorporated in Jersey on March 31, 2005 and is involved in oil and gas exploration in the Philippines.
Forum (GSEC 101) 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	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.

(Forward)

Subsidiary	Nature of Business
Pitkin Petroleum (Philippines) Plc (PPP)	PPP was registered as the Philippine Branch of Pitkin Petroleum Limited on March 19, 2008.
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.
FEC	Incorporated on February 8, 1982 under the laws of Alberta, Canada. Primarily acts as an investment holding company.
Brixton Energy & Mining Corporation (BEMC)	Incorporated in the Philippines on July 19, 2005 to engage in exploration development and utilization of energy-related resources.

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).

The ownership of the Parent Company over the foregoing companies as at December 31, 2018 and 2017 is summarized as follows:

	Percentages of Ownership	
	Direct	Indirect
FEL	–	75.92
FEPCO	–	75.92
FGSECL	–	75.92
FEI	–	50.62
GSEC	–	75.92
Pitkin	53.43	–
PPP	53.43	–
PVX	–	53.43
Z38	–	40.07
PPR	–	53.43
Z38	–	13.36
FEC	54.99	–
FEL	72.18	3.74
BEMC	100.00	–

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

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

Business Combination and Goodwill
Acquisition method
Business combinations, 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 recognized 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 statements of income. Impairment losses relating to goodwill cannot be reversed in future periods. The Group performs its impairment test of goodwill annually every December 31.

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

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

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

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

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

Foreign Currency Translation of Foreign Operations
The Group's consolidated financial statements are presented in 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 statements 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 dollar (US$) 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 statements of financial position
- income and expenses in the statements of income are translated at exchange rates at the average monthly prevailing rates for the year
- all resulting exchange differences in other comprehensive income

Current Versus Noncurrent Classification
The Group presents assets and liabilities in the statement of financial position based on current and noncurrent classification. An asset is current when it is:
- Expected to be realized or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within 12 months after the reporting period; or
- Cash and cash equivalents unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

All other assets are classified as noncurrent.

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within 12 months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period

The Group classifies all other liabilities as noncurrent.

Deferred tax assets and liabilities are classified as noncurrent assets and liabilities.

Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Accounting policies on the classification and measurement and impairment of financial assets applied before January 1, 2018

Initial Recognition and Subsequent Measurement of Financial Assets

Date of recognition

The Group recognizes a financial asset or a financial liability in the consolidated statements 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 FVTPL, includes transaction cost.

On initial recognition, the Group classifies its financial assets in the following categories: financial assets at FVTPL, 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 FVTPL 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, 2017, the Group's financial instruments are in the nature of loans and receivables and other financial liabilities.

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 statements 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, 2017, included under loans and receivables are the Group's cash and cash equivalents, and trade and other receivables (see Note 19).

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

As at December 31, 2017, included in other financial liabilities are the Group's trade and other payables, advances from related parties and other noncurrent liabilities (see Note 19).

Impairment of Financial Assets
The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. 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 statements 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.

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 statements of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Accounting policies on the classification and measurement and impairment of financial assets applied on or after January 1, 2018

Initial Recognition and Subsequent Measurement of Financial Assets
Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, FVOCI, and FVTPL.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing the financial assets. The Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs.

In order for a financial asset to be classified and measured at amortized cost or FVOCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

The Group's financial assets are in the nature of financial assets at amortized cost. As at December 31, 2018, the Group has no financial assets classified as FVOCI and FVTPL.

Subsequent Measurement of Financial Assets
For purposes of subsequent measurement, financial assets are classified in four categories:
- Financial assets at amortized cost (debt instruments)
- Financial assets at FVOCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at FVOCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at FVTPL

Financial assets at amortized cost (debt instruments)
This category is the most relevant to the Group. The Group measures financial assets at amortized cost if both of the following conditions are met:
- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and;
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortized cost are subsequently measured using the EIR method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

As at December 31, 2018, the Group's financial assets at amortized cost include cash and cash equivalents, trade and other receivables (see Note 19).

Impairment of Financial Assets
The Group recognizes an allowance for ECLs for all debt instruments not held at FVTPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original EIR. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables (not subject to provisional pricing) and other receivables due in less than 12 months, the Group applies the simplified approach in calculating ECLs, as permitted by PFRS 9. Therefore, the Group does not track changes in credit risk, but instead, recognizes a loss allowance based on the financial asset's lifetime ECL at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For any other financial assets carried at amortized cost (which are due in more than 12 months), the ECL is based on the 12-month ECL. The 12-month ECL is the proportion of lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

The Group considers a financial asset in default when contractual payments are 30 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows and usually occurs when past due for more than one year and not subject to enforcement activity.

Provisions for expected credit losses
The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (e.g., by geography, product type, customer type and/or rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions are expected to deteriorate over the next year, which can lead to an increased number of defaults, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

Definition of default
The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable.
- when there is a breach of financial covenants by the counterparty; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 30 days past due unless the Group has reasonable and supportable information to demonstrate that a more conservative default criterion is more appropriate.

Credit-impaired financial assets
A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:
a) significant financial difficulty of the issuer or the borrower;
b) a breach of contract, such as a default or past due event;
c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having
d) granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
e) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
f) the disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy
The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognized in profit or loss.

<u>Derecognition of Financial Assets</u>
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

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at FVTPL, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables net of directly attributable transaction costs. This category includes the Group's trade payables and accrued expenses.

Subsequent measurement

After initial recognition, payables are subsequently measured at amortized cost using the EIR method.

Derecognition of 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 statements of income.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements 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.

Determination of Fair Value

The Group measures financial instruments at fair value at each reporting 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; and
- 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.

Cash and Cash Equivalents

Cash consists of cash on hand and in banks. 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.

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. 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.

Value-added tax (VAT)
Revenues, expenses, and assets are recognized net of the amount of VAT, if applicable.

When VAT from sales of goods and/or services (output VAT) exceeds VAT passed on from purchases of goods or services (input VAT), the excess is recognized as payable in the consolidated statements of financial position. When VAT passed on from purchases of goods or services (input VAT) exceeds VAT from sales of goods and/or services (output VAT), the excess is recognized as an asset in the statement of financial position to the extent of the recoverable amount.

Prepaid expenses
Prepaid expenses pertain to advance payments to rentals, insurance premiums, and other prepaid items. Prepaid items are apportioned over the period covered by the payment and charged to the appropriate accounts in the consolidated statements of income when incurred. These are stated at the estimated NRV.

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 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 statements of income when incurred.

Oil and gas 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 properties also include its share in the estimated cost of rehabilitating the SCs for which the Group is constructively liable.

Construction in-progress (CIP) included in property and equipment is stated at cost, which includes direct labor, materials and construction overhead. CIP 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 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 statements 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.

Fully depreciated assets are retained in the accounts until these are no longer in use. No further depreciation is charged to current operation for these items.

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 statements of income when incurred.

If no potentially commercial hydrocarbons are discovered, the deferred oil and gas exploration asset is written off through the consolidated statements of 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 properties' account shown under the 'Property and equipment' account in the consolidated statements 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 statements of 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 on the commercial viability of the 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 (see Note 4).

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 statements of income.

For assets excluding goodwill, an assessment is made at each consolidated statements 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 statements 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.

Provision for Rehabilitation and Decommissioning Costs
Decommissioning costs on oil and gas fields are based on estimates made by the SC 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 statements of financial position is increased by the accretion expense charged to operations using the EIR over the estimated remaining term of the obligation. The periodic unwinding of the discount is recognized in the consolidated statements 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 statements of income. Decrease in rehabilitation and decommissioning costs that exceeds the carrying amount of the corresponding rehabilitation asset is recognized immediately in the consolidated statements of income.

Capital Stock and Additional Paid-in Capital
Capital stock is measured at par value for all shares issued. 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.

Subscription Receivable
Subscription receivable pertains to the uncollected portion of the subscribed capital stock which reduces the outstanding balance of capital stock.

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 subsidiaries are deconsolidated, which is the date on which control ceases.

Deficit
Deficit represents accumulated losses of the Group, prior period adjustments, effect of changes in accounting policies, and other capital adjustments.

Related Party Relationships and 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.

Revenue Recognition

Accounting policies applied before January 1, 2018

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.

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

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

Accounting policies applied after January 1, 2018

Revenue from sale of petroleum products is recognized at a point in time when the control of the goods has transferred from the Consortium Operator of the joint arrangement to the customer, which is typically upon delivery of the petroleum products to the customers. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and other sales tax or duty. The Group has generally concluded that it is the principal in its revenue arrangements.

The revenue recognized from the sale of petroleum products pertains to the Group's share in revenue from the joint operations. The revenue sharing is accounted for in accordance with PFRS 11, *Joint Arrangements*.

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 statements of income in the year they are incurred.

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.

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

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

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

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

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

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

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

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

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

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

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

Provisions and Contingencies

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

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

Earnings (Loss) per Share

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

Diluted earnings (loss) per share is calculated by dividing the net income (loss) attributable to equity holders of the Parent Company by the weighted average number of common shares issued during the year plus the weighted average number of common shares that would be issued on the conversion of all potentially dilutive common shares into common 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.

<u>Judgments</u>
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 Philippine 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.

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, 2018 and 2017, the Group's joint arrangements are in the form of a joint operation.

Assessment of production start date
The Group assess the stage of each oil field to determine when the project moves from the exploration to the production phase. When a project moves into the production stage, the capitalization of certain exploration or development costs ceases and costs are either regarded as inventory or expensed, except for capitalizable costs related to wells, platforms and other facilities additions or improvements. It is also at this point that depletion commences.

Assessment of units-of-production depletion
Estimated recoverable proved and probable reserves are used in determining the depletion of wells, platforms and oil field assets. This results in a depletion charge proportional to the depletion of the anticipated remaining life. Each item's life, which is assessed annually, has regard to both physical life limitations and to present assessments of economically recoverable reserves of the oil field. The calculation requires the use of estimates of future capital expenditure. The Group uses barrels of oil produced as the basis of depletion. Any change in estimates is accounted for prospectively.

Accounting Estimates and Assumptions
The key estimates and assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Significant accounting estimates applied before January 1, 2018

Estimation of allowance for impairment on trade and other receivables
The Group maintains an allowance for impairment at a level that management considers adequate to provide for potential uncollectibility of its trade 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 trade and other receivables for collective impairment due to the few counterparties that can be specifically identified. Any impairment loss is recognized in the consolidated statements of income with a corresponding reduction in the carrying value of the loans and receivables through an allowance account. Total carrying value of trade and other receivables amounted to ₱41,585 as at December 31, 2017, respectively (see Note 6). Allowance for impairment losses on other receivables amounted to ₱707 as at December 31, 2017 (see Note 6).

Significant accounting estimates applied on or after January 1, 2018

Estimation of provision for ECLs of trade and other receivables
The Group uses a provision matrix to calculate ECLs for trade and other receivables. The provision rates are based on days past due of each counterparty that have similar loss pattern.

The provision matrix is initially based on the Group's historical observed default rates. The Group calibrates the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., unemployment rate) are expected to deteriorate over the next year which can lead to an increased number of defaults in its members, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

No provision for ECL on the Group's trade and other receivables were recognized in 2018. Total carrying value of trade and other receivables amounted to ₱40,741 as at December 31, 2018, respectively (see Note 6). Allowance for ECL on other receivables amounted to ₱707 as at December 31, 2018 (see Note 6).

Estimation of oil and gas reserves
Hydrocarbon reserves are estimates of the amount of hydrocarbons that can be economically and legally extracted from the Group's oil and gas 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 (PSA). 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 properties and property and equipment, may be affected due to changes in estimated future cash flows.
- Depreciation and amortization charges in the consolidated statements 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 depletion based on UOP
Wells, platforms, and other facilities are depleted using the UOP method over the total proved and probable developed reserves. This results in amortization charge proportional to the depletion of the anticipated remaining production from the field.

Each item's life, which is assessed annually, has regard to both its physical life limitations and to present assessments of economically recoverable reserves of the field at which the asset is located. These calculations require the use of estimates and assumptions, including the amount of recoverable reserves and estimates of future capital expenditure. The calculation of the UOP rate of depletion could be impacted to the extent that actual production in the future is different from current forecasted production based on total proved and probable reserves, or future capital expenditure estimate changes. Changes to proved and probable reserves could arise due to changes in the assumptions used in estimating the reserves. Changes are accounted for prospectively.

As at December 31, 2018 and 2017, the carrying values of wells, platforms, and other facilities, shown as 'Oil and gas properties' under 'Property and equipment', amounted to ₱224,088 and ₱255,604, respectively. In 2018, 2017 and 2016, depletion expense incurred by the Group amounted to ₱60,825, ₱29,703 and ₱49,751, respectively (see Notes 9 and 13)

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, 2018 and 2017, the carrying value of property and equipment amounted to ₱230,798 and ₱261,883, respectively, net of allowance for impairment loss of ₱421,451 and ₱419,693 as at December 31, 2018 and 2017, respectively (see Note 9).

Impairment testing 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, judgements and assumptions such as forecasted oil and gas prices, estimated volume of resources and reserves, capital expenditures, production and operating costs and discount rate. 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, 2018 and 2017. The carrying value of goodwill as at December 31, 2018 and 2017 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 ₱32,398 and ₱21,727 as at December 31, 2018 and 2017, respectively (see Note 7). Allowance for probable inventory losses amounted to ₱266,103 as at December 31, 2018 and 2017 (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 statements 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 ₱8,453 and ₱7,955 as at December 31, 2018 and 2017, respectively (see Note 9). The Group recognized accretion of interest amounting to ₱76 and ₱130 for 2018 and 2017, respectively. The discount rate used by the Group to value the provision as at December 31, 2018 and 2017 is 1.63%.

Recoverability of deferred oil and gas exploration costs
Deferred exploration costs pertain to expenditures incurred in the exploration stage of its oil and gas assets. Oil and gas assets relate to projects that are currently on-going. These deferred exploration cost shall be assessed for impairment when the facts and circumstances suggest that the carrying amounts exceeds the recoverable amounts. The ability of the Group to recover its deferred exploration costs would depend on the commercial viability of the reserves. In addition, the recovery of these costs also depends upon the success of exploration activities and future development or the discovery of oil and gas producible in commercial quantities. Allowances shall be provided for oil and gas assets that are specifically identified to be unrecoverable. There was no allowance for impairment loss recognized in 2018 and 2017.

The deferred oil and gas exploration costs have a carrying value amounting to ₱5,310,477 and ₱5,168,368 as at December 31, 2018 and 2017, respectively, net of allowance for unrecoverable portion amounting to ₱757,075 and ₱668,510 for December 31, 2018 and 2017, respectively (see Note 10).

Assessing realizability 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 carrying amount of deferred income tax assets amounted to ₱35,003 and ₱31,651 as at December 31, 2018 and 2017, respectively. Details of temporary differences in which no deferred tax assets were recognized are provided in Note 16.

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, 2018 and 2017, provision for losses recorded under noncurrent liabilities amounted to ₱183,461 and ₱182,758, respectively (see Note 23).

4. Business Combination

	2018	2017
Peru block Z-38	**₱979,990**	₱979,990
SC 72 (Recto Bank)	**254,397**	254,397
Others	**4,197**	4,197
	₱1,238,584	₱1,238,584

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 or a total of US$34.8 million, 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 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 income 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 consolidated 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.

In 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 income 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.

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, 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, 2018 and 2017, the goodwill resulting from business combinations amounting to ₱1,238,583 are allocated to the Group's cash-generating units namely: SC 14 C-1 Galoc Oil Field, SC 14 A & B Nido - Matinloc, SC 72 Recto Bank and Peru Block Z38. The Group performed its annual impairment test in 2018 and 2017.

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) *forecasted oil and gas price* - 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, production and operating costs* - which are based on the Group's historical experience and latest life of well models; and
d) *discount rate* - which were estimated based on the industry weighted average cost of capital (WACC), which includes the cost of equity and debt after considering the gearing ratio. The post-tax discount rates applied to cash flow projections range from 11.87% to 13.44% and 10.96% to 12.51% as at December 31, 2018 and 2017, respectively.

Value in use is most sensitive to changes in discount rate. Management believes that the 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

	2018	2017
Cash on hand and in banks	**₱177,078**	₱272,535
Short-term investments	**165,296**	177,504
	₱342,374	₱450,039

Cash in banks earns interest at the respective bank deposit rates. Short-term investments are made for varying periods of up to three months depending on the cash requirements of the Group, and earn interest at the respective short-term investments rates. Interest income amounting to ₱2,796, ₱3,749, and ₱3,316 were recognized in 2018, 2017 and 2016, respectively. The Group has cash in bank denominated in US$ amounting to US$5,852 and US$8,490 as at December 31, 2018 and 2017, respectively (see Note 19).

6. Trade and Other Receivables - net

	2018	2017
Trade	**₱31,301**	₱31,197
Others	**10,147**	11,095
	41,448	42,292
Less allowance for ECL of receivables	**(707)**	(707)
	₱40,741	₱41,585

Trade receivables are non-interest bearing and are currently due and demandable. These include receivables from the sale of 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.

In 2017, the Group recognized an impairment on other receivables amounting to ₱707.

The Group has no related party balances included in the trade and other receivables account as at December 31, 2018 and 2017.

7. Inventories - net

	2018	2017
Coal - at cost	**₱220,045**	₱220,045
Petroleum - at cost	**32,398**	21,727
Materials and supplies - at cost	**46,058**	46,058
	298,501	287,830
Less allowance for probable inventory losses	**266,103**	266,103
	₱32,398	₱21,727

The cost of petroleum recognized as expense and included in 'Petroleum production costs' amounted to ₱130,973, ₱108,851, and ₱115,405 in 2018, 2017 and 2016, respectively (see Note 13).

Allowance for probable inventory losses in 2018 and 2017 pertains to the total of coal inventories and materials and supplies.

As at December 31, 2018 and 2017, depletion expense capitalized as part of petroleum inventories amounted to ₱17,129 and ₱10,675, respectively.

8. Other Current Assets

	2018	2017
Prepaid expenses	**₱5,447**	₱5,194
Input VAT	**7,904**	7,214
	₱13,351	₱12,408

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

9. Property and Equipment - net

	As at December 31, 2018				
	Oil and Gas, Properties	**Machinery and Equipment**	**Surface Structures**	**Construction in-progress**	**Total**
Cost					
Balances at January 1	**₱923,818**	**₱250,405**	**₱37,659**	**₱759**	**₱1,212,641**
Additions	**629**	**591**	**–**	**–**	**1,220**
Reclassifications	**24,798**	**–**	**–**	**–**	**24,798**
Effect of translation adjustment	**37,578**	**3,698**	**–**	**–**	**41,276**
Balances at December 31	**986,823**	**254,694**	**37,659**	**759**	**1,279,935**

(Forward)

	As at December 31, 2018				
	Oil and Gas, Properties	**Machinery and Equipment**	**Surface Structures**	**Construction in-progress**	**Total**
Accumulated depletion and depreciation					
Balances at January 1	**₱430,699**	**₱91,480**	**₱8,886**	**–**	**₱531,065**
Depletion and depreciation (Notes 7 and 13)	**77,954**	**514**	**–**	**–**	**78,468**
Effect of translation adjustment	**14,907**	**3,246**	**–**	**–**	**18,153**
Balances at December 31	**523,560**	**95,240**	**8,886**	**–**	**627,686**
Accumulated impairment					
Balances at January 1	**237,515**	**152,646**	**28,773**	**759**	**419,693**
Effect of translation adjustment	**1,660**	**98**	**–**	**–**	**1,758**
Balances at December 31	**239,175**	**152,744**	**28,773**	**759**	**421,451**
Net book values	**₱224,088**	**₱6,710**	**₱–**	**₱–**	**₱230,798**

	As at December 31, 2017				
	Oil and Gas, Properties	Machinery and Equipment	Surface Structures	Construction in-progress	Total
Cost					
Balances at January 1	₱914,296	₱249,437	₱37,659	₱759	₱1,202,151
Additions	–	675	–	–	675
Effect of translation adjustment	9,522	293	–	–	9,815
Balances at December 31	923,818	250,405	37,659	759	1,212,641
Accumulated depletion and depreciation					
Balances at January 1	390,799	89,075	8,886	–	488,760
Depletion and depreciation (Notes 7 and 13)	40,378	448	–	–	40,826
Effect of translation adjustment	(478)	1,957	–	–	1,479
Balances at December 31	430,699	91,480	8,886	–	531,065
Accumulated impairment					
Balances at January 1	223,290	152,734	28,773	759	405,556
Additions	15,211	–	–	–	15,211
Effect of translation adjustment	(986)	(88)	–	–	(1,074)
Balances at December 31	237,515	152,646	28,773	759	419,693
Net book values	₱255,604	₱6,279	₱–	₱–	₱261,883

In 2017, the Group has recognized provision for impairment of property and equipment amounting to ₱15,211 (see Note 14).

In 2018, deferred oil and gas exploration cost of Galoc Phase 3 amounting to ₱24,798 was transferred to wells.

The cost of fully depreciated machinery and equipment still being used in the Group's operation amounted to ₱349 as at December 31, 2018 and 2017.

Oil and gas properties include the rehabilitation and decommissioning costs amounting to ₱8,453 and ₱7,955 as at December 31, 2018 and 2017, respectively.

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

	2018	2017
Beginning balances	**₱7,955**	₱9,700
Accretion	**76**	130
Disposal	**–**	(1,875)
Effect of translation adjustment	**422**	–
Ending balances	**₱8,453**	₱7,955

The provision for rehabilitation and decommissioning costs amounting to ₱8,453 and ₱7,955 as at December 31, 2018 and 2017, respectively, are recorded under 'Other noncurrent liabilities' in the consolidated statements of financial position.

The Group incurred actual rehabilitation and decommissioning costs amounting to ₱1,875 related to the abandonment of the Libertad Field within SC 40 in November 2017.

Discount rate of 1.63% was used to compute the present values of provision for rehabilitation and decommissioning costs of FEL, for the years ended December 31, 2018 and 2017.

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

	2018	2017
Oil and gas exploration assets	**₱6,067,552**	₱5,836,878
Less allowance for unrecoverable portion	**757,075**	668,510
	₱5,310,477	₱5,168,368

As at December 31, 2018 and 2017, carrying value of Peru exploration assets amounted to ₱3,402,598 and ₱3,395,415, respectively, and the remaining balance pertain to Philippine exploration assets.

PXP, Pitkin and FEL, through their subsidiaries, have various participating interests in petroleum service contracts as follows as at December 31, 2018:

	Participating Interest		
Service Contract	PXP	Pitkin	FEL
SC 6 (Cadlao Block)	1.65%	–	–
SC 6A (Octon Block)	5.56%	–	5.56%
SC 6B (Bonita Block)[1]	–	–	8.18%
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-1 (Galoc)	–	–	2.28%
SC 14 Block C-2 (West Linapacan)	–	–	9.10%
SC 14 Block D (Retention Block)	–	–	8.17%
SC 40 (North Cebu Block)	–	–	100.00%
SC 72 (Recto Bank)	–	–	70.00%
SC 74 (Linapacan)[2]	70.00%	–	–
SC 75 (Northwest Palawan)	50.00%	–	–
Peru Block Z-38	–	25.00%	–

[1] *On June 28, 2018, DOE approved the assignment of Trans-Asia's relinquished participating interest in SC 6B to the remaining partners. As a result, Forum's interest in SC 6B has increased to 8.18%.*
[2] *On April 25, 2016, the DOE has approved the purchase and sale agreement (PSA) and deed of assignment (DOA) dated February 24, 2016 transferring the 70% interest and operatorship of PPP to PXP.*

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

In 2014, Pitkin elected not to enter Phase 2 of the Farm-in Agreement 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 1, 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 DOA on May 14, 2015.

In 2017, the SC 6A Consortium carried out a reprocessing of some 508 square kilometers of 3D seismic data using Pre-Stack Depth Migration (PSDM), which was then followed by a re-run of the quantitative interpretation (QI) study that was earlier undertaken on the 3D dataset using Pre-Stack Time Migration (PSTM) processing.

In 2018, Philodrill completed the seismic interpretation/mapping work on the northern sector of the block using the PSDM volume. The evaluation focused on the Malajon, Salvacion, and Saddle Rock prospects. The Malajon and Saddle Rock closures were previously tested by wells which encountered good oil shows in the Galoc Clastic Unit (GCU) interval. However, no tests were conducted in this interval due to operational constraints.

The forward program for the northern block will progress the mapping and understanding of the channel system in the area by doing additional attribute studies to identify and mature a drilling location in the area.

SC 6 and 6B (Cadlao and Bonita Block)
An in-house evaluation completed by Philodrill in early 2016 shows the East Cadlao Prospect has marginal resources which cannot be developed on a "stand-alone" basis. However, it remains prospective being near the Cadlao Field, which lies in another contract area. In view of this, the JV has requested for the reconfiguration of SC 6B to append the Cadlao Field for possible joint development in the future. On March 14, 2018, the DOE approved the annexation of SC 6 to SC 6B. Subsequently, a seismic reprocessing program over East Cadlao and Cadlao Field will now be undertaken.

On June 28, 2018, Philodrill received DOE's approval for the assignment of Trans-Asia's relinquished participating interest in SC 6B to the remaining consortium partners. As a result, Forum's interest in SC 6B has increased to 8.182%.

SC 14A, B&B-1 Nido, Matinloc & North Matinloc Fields
Total production from the Nido and Matinloc fields from January to December 31, 2018 was 94,790 barrels, or an average of 260 barrels of oil per day (bopd). The Nido Field accounted for 54.59% of the total while Matinloc Field contributed the remaining 45.41%. Shell Philippines remained as the sole buyer for the crude during the period.

The permanent plug and abandonment of the Libro-1 and Tara South-1 wells was completed in early June 2018. The two wells had been shut-in since 1989 and 1990, respectively. The plug and abandon took 41.5 days to complete. In 2018, the Group incurred actual rehabilitation and decommissioning costs amounting to ₱29,378 related to the abandonment of the Libro-1 and Tara South-1 wells (see Note 15).

The Consortium plans to plug and abandon the remaining nine (9) wells at the Nido, Matinloc and North Matinloc Fields within the second quarter of 2019. These fields have already reached their end of life, having been in production since the late 1970's to early 1980's. The plug and abandonment operation will start in April 2019 and is expected to last for 54 days. In 2018, the Group incurred decommissioning costs amounting to ₱411 related to the plug and abandonment planning of Nido - Matinloc wells (see Note 15).

SC 14 Block C-1 (Galoc)
The Galoc field has already produced about 21.35 million barrels of oil since start of production in October 2008.

In October 2016, the Galoc Block Consortium approved the drilling of Galoc-7 to test the Mid Galoc Prospect, which is estimated to contain resources of 6.2 million to 14.6 million stock tank barrels. On November 8, 2016, the DOE approved the Galoc-7 drilling program, with an estimated budget amounting to US$31,000. Galoc Production Company (GPC) drilled the Galoc-7 well and a sidetrack, Galoc-7ST, from March to April 2017 using the drillship Deepsea Metro I. The wells encountered 9 to12 meters of net sand, which is below the prognosed thickness. After an extensive review of the well results and potential tie-back scenarios, the Consortium in consideration of the prevailing low crude prices decided to temporarily suspend all activities related to a possible Phase III development and concentrate its efforts in optimizing oil production at the Galoc Field from the current four (4) production wells in order to sustain profitability and prolong the field's economic life.

On July 12, 2018, Tamarind Galoc Pte Ltd, a subsidiary of Singapore-based Tamarind Resources, acquired Nido Petroleum's subsidiaries Galoc Production Company WLL (GPC) and Nido Production (Galoc) Pte Ltd, giving Tamarind 55.88% equity and operatorship of the Galoc Field. The new management plans to install a Condensate Recovery Unit (CRU) onboard the floating production and storage offloading (FPSO) vessel that is capable of recovering 15 to 20 barrels of oil condensate for every 1 million cubic feet of gas produced.

In 2018 and 2017, the field produced around 1.07 and 1.46 million barrels of oil, respectively.

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 NW Palawan Basin, Philippines. It comprises two (2) 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 FIA 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%.

The Consortium continues with evaluating the viability of redeveloping the West Linapacan "A" Field, which was discovered in 1990 and produced over 8 million barrels of oil from 1992 before being shut-in in 1996. An interpretation of the 3D seismic data was carried out in 2017.

In 2018, the Consortium headed by Philodrill completed the mapping and interpretation work on the reprocessed PSDM data by DownUnder GeoSolutions (DUG) in 2014. The study focused on the West Linapacan "B" structure, which was drilled in 1991. The Consortium is studying options to develop the field, which has estimated contingent resources of 8 million barrels of oil.

In 2019, the Consortium is planning to conduct QI using the reprocessed 3D data and data from previous West Linapacan A and B wells.

SC 40 (North Cebu Block)

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.

A land gravity survey was conducted in the municipalities of Daanbantayan and Medellin from April 2 to 27, 2018. A total of 94 gravity stations were acquired at a spacing of 200 to 500 meters. The survey was divided into a grid program and a traverse program. The grid program was designed with the objective of locating the apex of a high trend in the Dalingding area that was identified in previous gravity surveys. The traverse program, on the other hand, aimed to define faults through forward modeling and determine whether the mapped central depression is a graben or a trough.

The processing and interpretation of the gravity data will be carried out in two stages. The first stage is a 3D inverse grid depth modeling which was undertaken by contractor Cosine Ltd. (Cosine). The second stage is a detailed stratigraphic 3D multi-sectional model to be done in-house by the Forum technical team under Cosine's quality control supervision. This latter stage will be carried on to the following year. The results will be correlated later with seismic data, where possible.

Forum will start planning for the drilling of an onshore well, Dalingding-2, in 1Q 2020. Forum has engaged the services of an operations geologist to prepare the geological program and prospect montage. The Dalingding Prospect is a reefal structure defined by seismic with Barili Limestone as the primary target. A well, Dalingding-1, was drilled by Cophil Exploration in 1996 and was plugged and abandoned as a dry hole with minor gas shows after reaching a total depth of 1,508 feet. Following Forum's recent re-evaluation of the prospect, it was concluded that Dalingding-1 did not reach the Barili target, which is estimated at 1,740 feet, or 232 feet below the well's total depth. The current plan is to drill a well down to at least 2,000 feet to penetrate the Barili and secondary targets underneath.

SC 72 (Recto 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 and In-Place Prospective Resources of 5.4 trillion cubic feet as reported by Weatherford Petroleum Consultants (Weatherford) in 2012.

The results of the study were used to define the location of two (2) 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 (2) wells is part of the work programme of FEL for the SP 2 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 SC 72 while a maritime dispute between Philippines and China remains in parts of the West Philippine Sea. The suspension became effective from December 15, 2014 until the date when the DOE notifies FEL to resume operations.

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 United Nations Convention on the Law of the Sea (UNCLOS) dispute settlement procedures. On July 12, 2016, the UNAT ruled that Recto Bank (Reed Bank) where SC 72 lies, is within the Philippines' Exclusive Economic Zone (EEZ) as defined under the UNCLOS.

In October 2018, Forum started the Broadband and PSDM reprocessing of the Sampaguita 3D seismic data with DUG. The Sampaguita 3D was acquired in 2011 and has an area of 565 square kilometers. The reprocessing work is expected to cost around US$490,000, including quality control supervision, and will be completed within the second quarter of 2019.

On November 20, 2018, a Memorandum of Understanding (MOU) on Cooperation on Oil and Gas Development (COGD) between the Philippines and Chinese governments was signed by Philippines's Department of Foreign Affairs (DFA) Secretary Teodoro Locsin, Jr. and Chinese Foreign Minister Wang Yi. The MOU paves the way for the creation of an inter-governmental Steering Committee that will work out a program of cooperation that could lead to joint exploration, as well as the creation of one or more Inter-Entrepreneurial Working Groups.

The Steering Committee will be co-chaired by the DFA Secretary and the Chinese Foreign Minister, and co-vice chaired by their respective vice ministers, with the participation of relevant agencies of the two governments (the DOE in the case of the Philippines).

On the other hand, the Working Groups would consist of representatives authorized by China and Philippines for the inter-entrepreneurial, technical and commercial aspects. China has appointed China National Offshore Oil Corporation (CNOOC), while the Philippines will authorize other enterprises with SCs or the Philippine National Oil Company (PNOC).

The two governments will endeavor to agree on the cooperation arrangements within 12 months after signing of the MOU.

In early December 2018, the DOE directed FEL to request for the lifting of the *force majeure* over SC 72. Such request was made through a letter sent by FEL to DOE on December 21, 2018. As a service contractor in SC 72, FEL is bound by DOE's directive over the lifting of the *force majeure* and the resumption of activities in SC 72.

Upon lifting of the *force majeure*, FEL will have 20 months (equivalent to the remaining SP 2 period from the effective date of the *force majeure*) to complete the SP 2 work commitment comprising the drilling of two (2) wells. The terms of the succeeding SP will remain the same but will be adjusted accordingly.

As at December 31, 2018, *force majeure* is still enforced and FEL is awaiting DOE's response in order to commence the remaining SP 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 Philippine National Oil Company Exploration Corporation (PNOC EC) entered into a DOA 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 to PXP. In December 2016, processing of seismic data was completed.

On June 14, 2017, PXP requested a four-month extension of SP 2, or until December 13, 2017, to allow the completion of ongoing Geological and Geophysical (G&G) studies in SC 74. These include the interpretation of 2D seismic data that were acquired from May to June 2016, and the completion of Phase 2 of gravity and magnetic data processing and interpretation. The extension was granted on June 23, 2017.

In December 2017, PXP informed the DOE of the SC 74 Consortium's intention to enter SP 3. On March 27, 2018, the DOE approved the Consortium's entry to SP 3.

The first and second pass reprocessing of a test line from the multi-client 2D volume were completed by CGG in December 2017 and April 2018, respectively. The main objective of the test line reprocessing was to further resolve the deep prospective syn and pre-rift structures below the Nido Limestone formation. Unfortunately, due to the complex geology within SC 74 Block, the reprocessing results were still not satisfactory. The SC 74 Joint Venture is now evaluating the other options available or techniques to better image the pre-Nido section.

The geologic fieldwork in the Calamian Islands was conducted from June 17 to June 27, 2018. Rock samples collected from the field will be subjected to different analyses (dating, total organic content, vitrinite reflectance, pyrolysis, etc.).

The engineering and economic studies on Linapacan A and B Fields were completed with the PNOC-EC as lead company. Report writing is currently on-going.

<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 PetroEnergy Resources Corporation (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 SP 1 had been fulfilled in 2015 following the completion of the acquisition of 2,235 line-kilometers 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 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 SP 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*. All activities in SC 75, except for administration, remained suspended throughout 2018.

<u>Peru Block Z-38</u>
In April 2007, Block Z-38 was awarded to Pitkin. Farm-out agreement has been made by Pitkin in which it resulted to Karoon obtaining operating interest of 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, being unable to secure a suitable drilling unit within the required timeframe on the Pacific side of the Americas. The application of *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.

On January 10, 2018, Karoon announced that it has executed an FIA with Tullow Peru Limited, a wholly owned subsidiary of Tullow Oil plc (Tullow), wherein Tullow will acquire a 35% interest in the block on the following terms: a.) fund 43.75% of the cost of the first exploration well, Marina-1X, capped at US$27.5 million (at 100%), beyond which Tullow will pay its 35% share; and b.) pay US$2 million upon completion with a further US$7 million payable upon declaration of commercial discovery and submission of a development plan to Perupetro.

The agreement remains subject to the satisfaction of certain licensing conditions and regulatory approvals. Following completion of the farm-out, Tullow will have an option to assume operatorship of the block. Following the farm-in of Tullow, Karoon's interest reduced to 40% while Pitkin's interest remained at 25%.

Effective September 12, 2018, Perupetro approved the lifting of *force majeure* in Block Z-38 upon Karoon's request. In view of this, the third exploration period, will now expire on July 1, 2020.

The Consortium plans to drill 2,450 meters total depth (TD) in Marina 1X well in first quarter of 2020. If there are oil and/or gas shows encountered at TD, there is an option to deepen the well to 2,900 meters to test the secondary targets below the main Upper Tumbes target. Pitkin is carried in the cost of Marina-1X and a second well under an FIA that was signed with Karoon in 2009.

The 2019 work program and budget was presented at the Technological Committee Meeting (TCM)/Operating Committee Meeting (OCM) held in Melbourne Australia on November 27, 2018. Most of the work programs planned for 2019 are related to preparations for the drilling of wells in 2020.

11. Other Noncurrent Assets

	2018	2017
Guarantee deposits	**₱625**	₱589
Decommissioning fund	**3,004**	1,779
	₱3,629	₱2,368

Guarantee deposits are related to certain exploration contract of the Group, which were made to ensure satisfactory completion of projects and work commitments.

Funding for the decommissioning costs of Galoc commenced in 2016. FEL's contribution to the decommissioning fund amounted to ₱1,225 and ₱1,429 as at December 31, 2018 and 2017, respectively.

12. Trade and Other Payables

	2018	2017
Trade	**₱9,243**	₱9,622
Accrued expenses	**19,781**	7,939
Withholding taxes	**455**	472
Other nontrade liabilities	**4,478**	1,377
	₱33,957	₱19,410

The Group's trade payables are non-interest 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 Social Security System (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, 2018 and 2017.

13. Costs and Expenses

	2018	2017	2016
Petroleum production costs (Note 7):			
Production costs	**₱70,148**	₱79,148	₱65,654
Depletion (Note 9)	**60,825**	29,703	49,751
	₱130,973	₱108,851	₱115,405
General and administrative expenses:			
Professional fees	**₱34,719**	₱27,063	₱27,851
Decommissioning costs (Note 10)	**29,789**	–	–
Personnel costs	**8,010**	6,856	10,760
Taxes and licenses	**1,436**	3,073	731
Directors' fees	**1,422**	889	4,152
Travel and transportation	**530**	238	528
Depreciation (Note 9)	**514**	448	351
Rental	**392**	389	806
Communications, light and water	**214**	47	173
Repairs and maintenance	**172**	76	70
Office supplies	**53**	64	315
Others	**13,166**	10,233	9,678
	₱90,417	₱49,376	₱55,415

The production and depletion cost of the Group is primarily attributable to SC14 C-1 Galoc producing oil field of FEL.

Decommissioning costs pertain to the planning and permanent plug and abandonment cost of wells. In 2018, the Group's share in actual rehabilitation and decommissioning costs related to the abandonment of the Libro-1 and Tara South-1 wells and P&A planning of Nido - Matinloc wells amounted to ₱29,378 and ₱411, respectively (see Note 10).

14. Other Income (Charges)

	2018	2017	2016
Reversal of (provision for) impairment and loss on write-off of assets - net:			
Reversal of impairment losses (Notes 7, 9 and 10)	**₱–**	₱11,340	₱4,748
Provision for impairment of receivables (Note 6)	**–**	(707)	–
Provision for impairment of property and equipment (Notes 9 and 10)	**–**	(15,211)	–
	₱–	(₱4,578)	₱4,748

15. **Equity**

Capital Stock
On 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	
	2018	2017
Common stock - ₱1 par value		
Authorized	**6,800,000,000**	6,800,000,000
Issued, outstanding and fully paid at beginning of the year	**1,700,000,000**	1,700,000,000
Subscribed during the year	**260,000,000**	–
Issued and subscribed shares at end of the year	**1,960,000,000**	1,700,000,000

Reconciliation of the capital stock at follows:

	2018	2017
Beginning at January 1	**1,700,000,000**	1,700,000,000
Issuance during the year	–	–
Subscribed during the year	**260,000,000**	–
Issued and subscribed shares at December 31	**1,960,000,000**	1,700,000,000

On October 26, 2018, PXP, Philex Mining Corporation (PMC), and Dennison Holdings Corporation (DHC) signed a subscription agreement wherein PMC and DHC subscribed to 260,000,000 and 340,000,000 common shares of PXP, respectively, for a total consideration of ₱3,081,000 and ₱4,029,000, respectively. Each share is valued at ₱11.85, which represents a 20% discount to the 90-day volume weighted average price (VWAP) of PXP shares. The agreement was approved by the Group or PXP's BOD on October 25, 2018. The subscription is payable in two (2) tranches.

On December 26, 2018, PXP and DHC agreed to reschedule and accelerate the full payment of its subscription agreement to not later than March 31, 2019. DHC shall also pay a downpayment equivalent to 1% of the total subscription on or before January 7, 2019.

On December 27, 2018, PMC paid the 25% downpayment of ₱770,250. The transaction resulted in increase in PXP equity balance of the same amount and increase of PMC's total ownership interest in PXP from 19.76% to 30.40% as at December 31, 2018.

On January 7, 2019, DHC paid an initial downpayment of ₱40,290, with the remaining balance due by March 31, 2019. In the event DHC fails to pay the entire subscription price on or before March 31, 2019, the entire amount of the downpayment shall be forfeited in favor of PXP and the subscription agreement shall be terminated at the option of PXP.

On February 11, 2019, PMC paid PXP an additional ₱1,385,700, which represents the 45% of the total consideration of the shares subscription agreement.

Upon full payment of both PMC and DHC, total estimated ownership interest in PXP will be 25.91% and 14.78%, respectively.

The related subscription receivable arising from the equity transactions and its related movements in 2018 and 2017 are as follows:

	2018	2017
Subscription during the year	₱3,081,000	₱–
Less collection of subscription receivable	770,250	–
	₱2,310,750	₱–

As at December 31, 2018 and 2017, the Parent Company's total stockholders totaled to 38,816 and 38,926, respectively.

Equity Reserves

In May 2012, certain directors and employees of FEL exercised their option over 2,185,000 common 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$1.00 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 the 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$0.75 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 the Parent Company 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 the Parent Company amounting to ₱8,670 resulted from the transaction.

On February 17, 2017, Pitkin tendered its offer to buyback 11,430,500 outstanding shares for a consideration of US$0.35 per share. The Parent Company surrendered 6,107,000 shares for a consideration of ₱107,717, while the NCI owners surrendered its proportionate stake of 5,323,500 shares for a total payment of ₱92,788. The transaction did not change the ownership percentages for both PXP and NCI owners.

On March 23, 2017, PXP entered into an agreement with FEL and FGSECL to capitalize a part of the maturing long-term loan of FGSECL from PXP amounting to US$11,805 into 39,350,920 new common shares of FEL.

In addition to conversion of FEL shares, Tidemark subscribed additional 6,600,000 shares in FEL for ₱100,650.

On May 17, 2017, PXP bought additional investment from the NCI owners of FEL, wherein Asia Link B. V. sold 1,185,000 shares valued at US$0.30 per share, for a total consideration of ₱17,705.

Furthermore, on November 23, 2017, PXP purchased additional 1,000,000 shares held by FEC in FEL for a total consideration of ₱15,219.

The loan to equity conversion and subsequent purchases of shares were all priced at US$0.30 per share.

As a result of the transactions, the Parent Company's economic interest in FEL increased from 58.90% to 75.92%.

Non-controlling Interest
Non-controlling interests consist of the following:

	Percentage of Ownership	Country of Incorporation and Operation	2018	2017
Non-controlling interests in the net assets of:				
Pitkin and its subsidiaries	46.57%	UK/Philippines	**₱1,983,878**	₱1,980,964
FEC	45.01%	Canada	**73,639**	78,953
FEL and its subsidiaries	24.08%	UK/Philippines	**350,443**	338,571
			₱2,407,960	₱2,398,488

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

Loss allocated to material non-controlling interest:

	2018	2017
FEL and its subsidiaries	**(₱10,307)**	(₱9,683)
FEC	**(5,320)**	(3,683)
Pitkin and its subsidiaries	**(3,776)**	(4,652)

Other comprehensive income allocated to material non-controlling interest:

	2018	2017
FEL and its subsidiaries	**₱22,179**	₱2,866
FEC	**6**	56
Pitkin and its subsidiaries	**6,690**	1,427

The summarized financial information of these subsidiaries before intercompany eliminations and purchase price allocations arising from the Parent Company's cost of acquisition of these subsidiaries is provided below:

Statements of comprehensive income as of December 31, 2018:

	Pitkin and its subsidiaries	FEC	FEL and its subsidiaries
Revenue	**₱–**	**₱–**	**₱107,924**
Cost of sales	**–**	**–**	**(130,973)**
General and administrative expenses	**(8,144)**	**(12,243)**	**(40,314)**
Other income	**35**	**87,970**	**9,309**
Interest expense	**–**	**–**	**(18,237)**
Income (loss) before tax	**(8,109)**	**75,727**	**(72,291)**
Provision for income tax	**–**	**–**	**1,323**
Net income (loss)	**(8,109)**	**75,727**	**(73,614)**
Other comprehensive income	**14,367**	**14**	**75,065**
Total comprehensive income	**₱6,258**	**₱75,741**	**₱1,451**
Attributable to non-controlling interests	**₱2,914**	**₱34,091**	**₱349**

Statements of comprehensive income as of December 31, 2017:

	Pitkin and its subsidiaries	FEC	FEL and its subsidiaries
Revenue	₱–	₱–	₱104,445
Cost of sales	–	–	(108,851)
General and administrative expenses	(10,665)	(8,380)	(10,451)
Other income (charges)	679	198	(5,866)
Interest expense	–	–	(23,675)
Loss before tax	(9,986)	(8,182)	(44,398)
Provision for income tax	–	–	2,256
Net loss	(9,986)	(8,182)	(46,654)
Other comprehensive income (loss)	3,065	124	(3,642)
Total comprehensive loss	(₱6,921)	(₱8,058)	(₱50,296)
Attributable to non-controlling interests	(₱3,223)	(₱3,627)	(₱12,111)

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 (benefit) 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 financial position as at December 31, 2018:

	Pitkin and its subsidiaries	FEC	FEL and its subsidiaries
Current assets	**₱112,705**	**₱12,493**	**₱102,387**
Noncurrent assets	**170,863**	**87,561**	**1,735,310**
Current liabilities	**(3,417)**	**(21,145)**	**(35,450)**
Noncurrent liabilities			**(483,490)**
Total equity	**280,151**	**78,909**	**1,318,757**
Attributable to:			
Equity holders of the Parent Company	**₱149,685**	**₱43,392**	**₱1,001,200**
Non-controlling interests	**130,466**	**35,517**	**317,557**

Statements of financial position as at December 31, 2017:

	Pitkin and its subsidiaries	FEC	FEL and its subsidiaries
Current assets	₱116,818	₱21,632	₱169,610
Noncurrent assets	162,430	21	1,632,162
Current liabilities	(5,354)	(18,486)	(18,026)
Noncurrent liabilities	–	–	(466,441)
Total equity	273,894	3,167	1,317,305
Attributable to:			
Equity holders of the Parent Company	₱146,342	₱1,742	₱1,000,098
Non-controlling interests	127,552	1,425	317,207

Statements of cash flows as at December 31, 2018:

Activities	**Pitkin and its subsidiaries**	**FEC**	**FEL and its subsidiaries**
Operating	**(₱929)**	**(₱9,187)**	**₱4,219**
Investing	**(2,012)**	**–**	**(95,690)**
Financing	**(1,383)**	**–**	**14,512**
Net decrease in cash and cash equivalents	**(₱4,324)**	**(₱9,187)**	**(₱76,959)**

Statements of cash flows as at December 31, 2017:

Activities	Pitkin and its subsidiaries	FEC	FEL and its subsidiaries
Operating	(₱7,439)	(₱9,512)	(₱39,945)
Investing	–	15,219	(36,989)
Financing	(200,505)	–	100,650
Net increase (decrease) in cash and cash equivalents	(₱207,944)	₱5,707	₱23,716

16. **Income Taxes**

a. In 2018 and 2017, current provision for income tax pertains to PXP and FEL's MCIT.

b. The components of the Group's deferred income tax assets (liabilities) as at December 31, 2018 and 2017 are as follows:

	2018	2017
Deferred income tax assets		
Impairment loss on deferred exploration costs	**₱16,303**	₱16,303
Unrealized foreign exchange loss	**17,699**	14,464
MCIT	**1,001**	672
Provision for impairment loss on receivables	–	212
	₱35,003	₱31,651
Deferred income tax liabilities		
Fair value adjustment as a result of business combination	**(₱979,990)**	(₱979,990)
Unrealized foreign exchange gain	**(6,843)**	(3,248)
Unrealized gain on dilution of interest	**(126,615)**	(126,615)
	(₱1,113,448)	(₱1,109,853)

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:

	2018	2017	2016
Benefit from income tax computed at the statutory income tax rate	**(₱5,517)**	(₱6,282)	(₱9,145)
Additions to (reductions in) income tax resulting from:			
Nondeductible petroleum production costs and depletion	**33,273**	36,900	32,291
Movement in unrecognized deferred tax asset	**2,990**	(1,125)	(5,935)
Interest income subjected to final tax	**(765)**	(74)	(57)
Nondeductible expenses and non-taxable income:			
Nontaxable petroleum revenue	**(30,258)**	(29,689)	(29,450)
Others	**4,647**	2,526	(21)
Provision for (benefit from) income tax	**₱4,370**	₱2,256	(₱12,317)

d. As at December 31, 2018, 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	Year of Expiration	NOLCO	Excess MCIT
2016	2019	₱47,789	₱74
2017	2020	2,699	771
2018	2021	23,271	504
		₱73,759	₱1,349

The following are the movements of the Group's NOLCO and excess MCIT as at December 31, 2018 and 2017:

	NOLCO		Excess MCIT	
	2018	2017	**2018**	2017
Beginning balance	**₱102,954**	₱616,419	**₱1,873**	₱2,530
Additions	**23,271**	2,699	**504**	771
Applications	**(21,495)**	(17,167)	**–**	–
Expirations	**(30,971)**	(498,997)	**(1,028)**	(1,428)
Ending balance	**₱73,759**	₱102,954	**₱1,349**	₱1,873

e. The Group did not recognize deferred income tax assets on the following deductible temporary differences as at December 31, 2018 and 2017:

	2018	2017
NOLCO	**₱73,759**	₱102,954
Excess MCIT	**348**	1,201

f. Tax Reform for Acceleration and Inclusion Act (TRAIN)
Republic Act No. 10963 or the TRAIN was signed into law on December 19, 2017 and took effect January 1, 2018, making the new tax law enacted as of the reporting date. Although the TRAIN changes existing tax law and includes several provisions that will generally affect businesses on a prospective basis, the management assessed that the same will not have any significant impact on the financial statement balances as of the reporting date.

17. **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:

	2018			
	Amount/ Volume	**Outstanding Balance**	**Terms**	**Conditions**
PMC				
Advances:				
PXP	**₱28**	**₱1,387,369**	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	**₱28**	**₱2,125,184**		

	2017			
	Amount/ Volume	Outstanding Balance	Terms	Conditions
PMC				
Advances:				
PXP	₱–	₱2,168,675	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	₱–	₱2,906,490		

a. On November 24, 2010, Forum Philippine Holdings Limited (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 London Interbank Offered Rate (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 SP work program over SC 72. Obligations arising from funds drawn under this facility agreement are not convertible into FEL's or FPHL's common 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 FGSECL (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.

   On March 23, 2017, PXP, FEL and FGSECL agreed the conversion of US$11,805 loan to equity, by subscribing to 39,350,920 new common shares of FEL. The loan payable consisted of total drawdowns from the loan facility of US$15,500 and interest accrued of US$2,828. Of the remaining balance, US$1,000 was paid through cash received from subscription of Tidemark to 6,666,667 new common shares of FEL.

On the same date, PXP and FGSECL entered into a new loan facility amounting to US$6,000. Of which US$5,522 was drawn out to fully settle the remaining portion of the long-term loan.

Interest expense incurred for the old loan facility amounted to ₱11,692 and ₱43,829 in 2017 and 2016, respectively. During the same years, commitment fees incurred amounted to ₱281 and ₱1,191, respectively.

Total drawdown from the new loan facility amounted to US$5,522 as at December 31, 2018. Interest expense incurred for 2018 and 2017 amounted to ₱18,213 and ₱11,102, respectively. The new loan facility does not include an agreement for commitment fee.

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, 2018, 2017 and 2016.

Loans receivable of PXP as at December 31, 2018 and 2017 amounted to ₱290,361 and ₱275,727 respectively.

b. 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 ₱2,200,000 as of pledge date, the Parent Company has pledged its shares in its subsidiaries, Pitkin and Forum to PMC. The contract was formally executed on August 17, 2015.

   During the year, the Group paid PMC amounting to ₱781,334. As at December 31, 2018 and 2017, advances from PMC amounted to ₱1,387,369 and ₱2,168,675, respectively.

   On February 11, 2019, PXP paid PMC amounting to ₱1,385,700. As a result, advances from PMC amounted to ₱1,669 as of that date.

c. BEMC has significant transactions with related parties involving advances to provide funding on BEMC's exploration and development activities. As at December 31, 2018 and 2017, the non-interest bearing advances from PMC amounted to ₱737,815.

d. The compensation of key management personnel pertaining to short-term employees and retirement benefits amounted to ₱8,436, ₱8,070, and ₱8,700 in 2018, 2017 and 2016, respectively.

18. Financial Instruments

The Group has determined that the carrying amounts of cash and cash equivalents, trade and other receivables, 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, 2018 and 2017.

19. **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:

	2018
Amortized cost:	
Cash in banks and short-term investments	**₱342,363**
Trade and other receivables	**41,448**
	₱383,811

	2017
Loans and receivables:	
Cash in banks and short-term investments	₱450,022
Trade and other receivables	42,292
	₱492,314

The following tables show the credit quality of the Group's financial assets by class as at December 31, 2018 and 2017 based on the Group's credit evaluation process.

As at December 31, 2018:

	Neither Past Due nor Impaired		**Past Due and Individually**	
	High-Grade	**Standard**	**Impaired**	**Total**
Amortized cost:				
Cash in banks	**₱177,067**	**₱–**	**₱–**	**₱177,067**
Short-term investments	**165,296**	**–**	**–**	**165,296**
Trade	**30,566**	**–**	**707**	**31,301**
Others	**10,147**	**–**	**–**	**10,147**
Total	**₱383,104**	**₱–**	**₱707**	**₱383,811**

As at December 31, 2017:

	Neither Past Due nor Impaired		Past Due and Individually	
	High-Grade	Standard	Impaired	Total
Loans and receivables:				
Cash in banks	₱272,518	₱–	₱–	₱272,518
Short-term investments	177,504	–	–	177,504
Trade	30,490	–	707	31,197
Others	11,095	–	–	11,095
Total	₱491,607	₱–	₱707	₱492,314

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. There were no financial assets assessed as impaired as at December 31, 2018 and 2017.

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 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, 2018 and 2017, respectively:

As at December 31, 2018:

	On Demand	Less than 3 Months	3 to 12 Months	Over 12 Months	Total
Amortized cost:					
Cash on hand	₱12	₱–	₱–	₱–	₱12
Cash in banks	177,067	–	–	–	177,067
Short-term investments	–	165,296	–	–	165,296
Trade	–	30,594	–	707	31,301
Others	–	10,147	–	–	10,147
Total undiscounted financial assets	₱177,079	₱206,037	₱–	₱707	₱383,823
	On Demand	**Less than 3 Months**	**3 to 12 Months**	**Over 12 Months**	**Total**
Trade and other payables:					
Trade	₱–	₱9,995	₱–	₱–	₱9,995
Accrued expenses	–	19,620	–	–	19,620
Other nontrade liabilities	–	4,478	–	–	4,478
Advances from related parties	2,125,184	–	–	–	2,125,184
Other noncurrent liabilities	–	–	–	183,461	183,461
Total undiscounted financial liabilities	₱2,125,184	₱34,093	₱–	₱183,461	₱2,342,738

As at December 31, 2017:

	On Demand	Less than 3 Months	3 to 12 Months	Over 12 Months	Total
Loans and receivables:					
Cash on hand	₱17	₱–	₱–	₱–	₱17
Cash in banks	272,518	–	–	–	272,518
Short-term investments	–	177,504	–	–	177,504
Trade	–	30,490	–	707	31,197
Others	–	11,095	–	–	11,095
Total undiscounted financial assets	₱272,535	₱219,089	₱–	₱707	₱492,331
Trade and other payables:					
Trade	₱–	₱9,622	₱–	₱–	₱9,622
Accrued expenses	–	7,919	–	–	7,919
Other nontrade liabilities	–	1,377	–	–	1,377
Advances from related parties	2,906,490	–	–	–	2,906,490
Other noncurrent liabilities	–	–	–	182,758	182,758
Total undiscounted financial liabilities	₱2,906,490	₱18,918	₱–	₱182,758	₱3,108,166

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 (₱146), ₱13,341 and ₱24,675 arising from the translation of these foreign currency-denominated financial instruments were recognized by the Parent Company in the years ended December 31, 2018, 2017 and 2016, respectively. The exchange rates of the Peso to US dollar were ₱52.58, ₱49.93, and ₱49.72 to US$1 in the years ended December 31, 2018, 2017 and 2016, respectively.

The Group's foreign currency-denominated monetary assets and monetary liabilities as at December 31, 2018 and 2017 are as follow:

	2018		2017	
	US$	**Peso Equivalent**	US$	Peso Equivalent
Assets				
Cash in banks and short term investments	**US$5,852**	**₱307,698**	US$8,490	₱423,884
Trade and other receivables	**766**	**40,279**	625	31,206
Net monetary assets	**US$6,618**	**₱347,977**	US$9,115	₱455,090

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
2018	
Appreciate by 5%	**(₱17,399)**
Depreciate by (5%)	**17,399**
2017	
Appreciate by 9%	(₱40,958)
Depreciate by (9%)	40,958

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

20. 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:

	2018	2017
Capital stock (Note 15)	**₱1,700,000**	₱1,700,000
Subscribed capital (Note 15)	**260,000**	–
Subscription receivable (Note 15)	**(2,310,750)**	–
Additional paid-in capital (Note 15)	**2,821,000**	–
Deficit	**(1,371,720)**	(1,294,692)
	₱1,098,530	₱405,308

21. Basic/Diluted Loss per Share

Basic loss per share is computed as follows:

	2018	2017	2016
Net loss attributable to equity holders of the Parent Company	**(₱77,028)**	(₱39,125)	(₱22,362)
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 loss per share	**(₱0.045)**	(₱0.023)	(₱0.013)

The following table reflects the share data used in the diluted EPS computations:

	2018	2017	2016
Weighted average number of common shares for basic loss per share	**1,700,000,000**	1,700,000,000	1,700,000,000
Effect of dilution from additional common shares subscribed by PMC (Note 15)	**3,561,644**	–	–
Weighted average number of common shares adjusted for the effect of dilution	**1,703,561,644**	1,700,000,000	1,700,000,000

	2018	2017	2016
Net loss attributable to equity holders of the Parent Company	**(₱77,028)**	(₱39,125)	(₱22,362)
Divided by weighted average number of common shares adjusted for the effect of dilution	**1,703,561,644**	1,700,000,000	1,700,000,000
Diluted loss per share	**(₱0.045)**	(₱0.023)	(₱0.013)

There have been no other transactions involving potential common shares between the reporting date and the date of authorization of the consolidated financial statements.

22. **Segment Information**

The Group currently has two (2) 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 (2) 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 (1) 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.

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

	2018	2017	2016
SC 14 Block C (Galoc)	**₱88,273**	₱82,519	₱85,379
SC 14 Block B (Matinloc)	**11,218**	13,555	1,874
SC 14 Block A (Nido)	**8,433**	7,604	9,566
SC 14 Block B-1 (North Matinloc)	–	767	4,760
	₱107,924	₱104,445	₱101,579

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

	2018	2017	2016
SK Energy International Pte Ltd	**₱56,729**	₱61,490	₱26,710
Chinaoil Oil Hong Kong Corporation Limited	**31,544**	–	–
Pilipinas Shell Petroleum Corporation	**19,651**	21,926	–
Thai Oil Public Company Limited	–	21,029	26,872
Chevron USA Inc. (Singapore Branch)	–	–	16,031
Singapore Petroleum Corporation	–	–	15,766
	₱107,924	₱104,445	₱85,379

Revenues amounting to nil, nil, and ₱16,291 pertain to external customers with individual revenue amounts less than 10% of the Group's revenue for the years ended December 31, 2018, 2017 and 2016, respectively.

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

Revenues from oil and gas operations of the Group based on geographic location of customers are as follows:

	2018	2017	2016
South Korea	**₱56,729**	₱61,490	₱26,710
Hongkong	**31,544**	–	–
Philippines	**19,651**	21,926	16,200
Thailand	**–**	21,029	26,872
Singapore	**–**	–	31,797
	₱107,924	₱104,445	₱101,579

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, 2018:

	Oil and Gas	**Coal**	**Eliminations**	**Total**
Consolidated revenue				
External customers	**₱107,924**	**₱–**	**₱–**	**₱107,924**
Results				
EBITDA	**612**	**(186)**	**(103,357)**	**(102,931)**
Depreciation and depletion	**(514)**	**–**	**–**	**(514)**
Income tax expense	**4,370**	**–**	**–**	**4,370**
Interest expense and other charges - net	**2,819**	**–**	**(175)**	**2,644**
Consolidated net loss	**(₱7,287)**	**(₱186)**	**(₱103,532)**	**(₱96,431)**
Core net loss	**(₱102,979)**	**(₱186)**	**(₱4,614)**	**(₱98,551)**
Consolidated total assets	**₱6,123,746**	**₱2,168**	**₱1,121,440**	**₱7,247,354**
Consolidated total liabilities	**₱2,076,621**	**₱737,835**	**₱650,480**	**₱3,464,936**
Other segment information				
Capital expenditures	**₱86,433**	**₱–**	**₱–**	**₱86,433**
Non-cash expenses other than depletion and depreciation	**–**	**–**	**–**	**–**

As at December 31, 2017:

	Oil and Gas	Coal	Eliminations	Total
Consolidated revenue				
External customers	₱104,445	₱–	₱–	₱104,445
Results				
EBITDA	(171,558)	(35)	112,765	(58,828)
Depreciation and depletion	(441)	–	–	(441)
Income tax expense	2,256	–	–	2,256
Interest expense and other charges - net	(23,675)	–	23,545	(130)
Consolidated net loss	(₱193,418)	(₱35)	₱136,310	(₱57,143)
Core net loss	(₱50,653)	(₱35)	₱13,371	(₱37,317)
Consolidated total assets	₱5,983,927	₱2,354	₱1,242,331	₱7,228,612
Consolidated total liabilities	₱2,805,893	₱737,835	₱682,768	₱4,226,496
Other segment information				
Capital expenditures	₱62,774	₱–	₱–	₱62,774
Non-cash expenses other than depletion and depreciation	–	–	–	–

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 benefit	(12,257)	(60)	–	(12,317)
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	–	–	–	–

The table below shows the Group's reconciliation of core net loss to the consolidated net loss for the years ended December 31, 2018, 2017 and 2016:

	2018	2017	2016
Core net loss	**(₱98,551)**	(₱37,317)	(₱49,952)
Non-recurring gains (losses)			
Foreign exchange gains - net	**16,556**	(277)	10,348
Gain on reversal on provision for losses	**–**	11,340	–
Provision for impairment of assets (Notes 6, 7, 9 and 11)	**–**	(15,918)	–
Gain on reversal of impairment loss on assets (Note 9)	**–**	–	(192)
Loss on sale of assets	**–**	–	(221)
Net tax effect of aforementioned adjustments	**4,967**	3,047	17,655
Net loss attributable to:			
Equity holders of the Parent Company	**(77,028)**	(39,125)	(22,362)
Non-controlling interests	**(19,403)**	(18,018)	(14,025)
	(₱96,431)	(₱57,143)	(₱36,387)

23. 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 ₱183,461 and ₱182,758 as at December 31, 2018 and 2017, respectively, are recorded under 'Other noncurrent liabilities' in the consolidated statements of financial position.

24. Changes in Liabilities Arising from Financing Activities

	January 1, 2018	**Cash flows**	**Others**	**December 31, 2018**
Current non-interest bearing loans and borrowings (Note 17)	**₱2,906,490**	**(₱781,306)**	**₱–**	**₱2,125,184**
Others	**7,955**	**–**	**498**	**8,453**
Total liabilities from financing activities	**₱2,914,445**	**(₱781,306)**	**₱498**	**₱2,133,637**

	January 1, 2017	Cash flows	Others	December 31, 2017
Current non-interest bearing loans and borrowing (Note 17)	₱2,931,701	(₱25,211)	₱–	₱2,906,490
Others	9,700	(1,875)	130	7,955
Total liabilities from financing activities	₱2,941,401	(₱27,086)	₱130	₱2,914,445

Others pertain to the provision for decommissioning costs. Changes during the year are attributable to accretion of interest amounting to ₱76 and ₱130, and cumulative translation adjustment of ₱422 and nil in 2018 and 2017, respectively.

25. **Events After the Reporting Period**

Operating lease commitment between PXP and SMMC

On February 1, 2019, the Parent Company entered into a non-cancellable operating lease contract with SMMC, for a period of one (1) year commencing on February 1, 2019 up to January 31, 2020. The lease agreement has a total annual payment of ₱4,282 and is renewable at the option of either party subject to mutually agreed upon terms and conditions. The lease agreement covers the: a.) 2nd floor of the LaunchPad Building with a total area of 359.97 square meters, which the Group leases as office space; b.) 117.2 square meters of common area; and c.) two (2) parking slots. The contract requires PXP to pay security deposit amounting to ₱637, which is refundable within 60 days from the termination of the contract.

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.

On July 31, 2018, the Company has been awarded by the Institute of Corporate Directors as one of the top-performing

publicly-listed company in the Philippines under the ASEAN Corporate Governance Scorecard (ACGS) 2017.

A. Rights of Stakeholders

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 Revised Manual of Corporate Governance ("MCG").

A.1 Basic Shareholders Rights

Dividend Policy

The Company's dividend policy is to distribute up to 25% of core net income and to pay cash dividends within thirty (30) calendar days to shareholders of record from date of declaration.

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.

A.2 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:

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

A.3 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 2019, the deadline for nominations was announced by the Company last March 21, 2019 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, or such other date as may be determined by the Board of Directors. 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 ASM are posted in the Company's website within five (5) days from the date of the meeting. The minutes consist 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 a matter of practice, the members of the Board, the Chairman, the President, Audit Committee Chairman, Board Risk and Resource Oversight Committee Chairman, representatives of the external auditor, 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 disclosed to the PSE the Company's SEC Form 20IS or the Definitive Information Statement

(DIS) on April 11, 2019. The Company likewise sent out the 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.

The ASM was announced two (2) months before the actual date of the meeting and was published in at least two major newspapers of general circulation.

A.4 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.

A.5 Institutional Investors

The exercise of ownership rights by all the shareholders, including institutional investors is recognized by PXP. The Philippine Social Security System (SSS) is the only institutional investor with a share of ownership greater than 5% as of March 31, 2019. The Company does not have any shareholder earning more than 50%.

B. Equitable Treatment of Shareholders

B.1 Shares and Voting Rights

The Company has only one class of common share, each entitled to one vote. Cumulative voting, which enhances the ability of minority shareholders in voting the election of directors is allowed.

B.2 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:

1. The profiles of each director seeking for election or re-election: age, academic qualification, date of first appointment, experience, and directorships in other listed companies;
2. External auditors seeking appointment or re-appointment are clearly identified;
3. Dividend policy; and
4. 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

B.3 Trading and Abusive Self-Dealing Policies
Trading Blackouts

The Company strictly enforces 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:

1. Board of Directors;
2. Management Team; and
3. 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.

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.

B.4 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.

All material and/or significant Related Party Transactions (RPT) are subject to review and endorsement by the Corporate Governance & Related Party Transaction Committee with the concurrence of all Independent Directors prior to approval of the Board to ensure that they are in 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.

B.5 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:

1. 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;
2. Avoidance of conflicts of interest and prompt disclosure of potential conflict;
3. Prompt, full, and fair disclosure of material information;
4. 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
5. Adoption of policies on RPTs.
    a. RPTs that can be classified as financial assistance to entities that are considered as Company's subsidiaries are all disclosed in the Company's financial statements; and
    b. RPTs should be conducted in a way that ensures fair and at arm's length dealings.

C. Role of Stakeholders

C.1. Respecting Rights 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 the following link (http://www.pxpenergy.com.ph/corporate-governance/cg-disclosures/supplier) 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:

1. The Company shall seek and maintain mutually beneficial relationships with suppliers that uphold the Company's principles and core values;
2. The Company shall give qualified Suppliers adequate, fair, and equal opportunity to bid on goods and services for the Company's projects or requirements;
3. 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

4. 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.

Compliance with Environmental Laws
A Certificate of Non-Coverage (CNC) was issued by the Environmental Management Bureau ("EMB") of the DENR to Forum (GSEC 101) on December 22, 2010 for the 2D and 3D seismic surveys conducted in the Recto Bank area from January to March 2011. Forum (GSEC 101) allotted approximately US$50,000 for costs to ensure compliance with environmental laws.

Another CNC was issued by the EMB on May 23, 2012 to cover all exploration activities in SC 72, including the drilling of exploration wells.

An ECC was issued by the EMB to FEI on February 19, 2010 for the extraction of natural gas from the SC 40 contract area and for up to two MW natural gas-fired power plant project in Barangay Libertad, Bogo City, Cebu.

CNCs were issued by the EMB to FEI on November 18, 2009 and April 13, 2012 to cover land gravity surveys in SC 40.

A CNC was issued by the EMB to the Company on February 28, 2014 to cover all exploration activities in SC 75.

Another CNC was issued by the EMB to the Company on March 22, 2016 to cover all exploration activities in SC 74.

Compliance by the Group with environmental laws helps assure the management that the Group's business can be operated in a sustainable manner. As far as the Company is aware, the Group has complied with all environmental regulations with regard to the SCs.

Communities
PXP Energy Corporation's subsidiary, Forum Energy Philippines Corporation, has undertaken community assistance programs, through the SC 1C-1 Galoc consortium, to various areas in Palawan, its host province.

The Company's community assistance and corporate social responsibility programs are available at the Company's website:
http://www.pxpenergy.com.ph/corporate-governance/corporate-social-responsibility

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.

a. Policy on Gifts, Entertainment and Sponsored Travel

   The Company's Policy on Gifts, Entertainment, and Sponsored Travel is available on the Company's website through the following link: http://www.pxpenergy.com.ph/corporate-governance/company-policy/policy-on-gifts

   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.

b. Vendor Relations

   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.

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

Creditors
As a matter of policy, the Company upholds the rights of our creditors by publicly disclosing all material information relating to loan covenant.

C.2. 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
Paul C. Cheah,
Investor Relations Officer

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

C.3. 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 2018, 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.

Level	Program Title
All levels	New employee orientation
Managers and Officers	Sustainability Strategy in a Disruptive Business Environment: ESG Best Practices and Compliance Issues; and Blockchain Technology Use Cases and Strategic Benefits, Risks and Governance Issues
Senior Officers and Directors	Sustainability, Block Chain Technology and Data Privacy

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;
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; and
5. Benchmark against an effective Performance Management Process.

C.4. Means of Communication of Illegal or Unethical Practices by Employees

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 Discipline or Equivalent Policy.

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

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

D. Disclosure and Transparency

D.1. Transparent ownership structure

The following stockholders own more than five percent (5%) of the Company's stock as of March 31, 2019:

Name and Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	No. of Shares	Percent
PCD Nominee Corporation ("PCD Nominee")	See Note 1.	388,662,481 (excludes shares of Philex Mining and SSS held through PCD Nominee)	19.8297%
Philex Mining Corporation ("Philex Mining") 2nd Floor LaunchPad, Reliance Street corner Sheridan Street, Mandaluyong City, Metro Manila	Philex Mining (held through PCD Nominee) See Note 1.	595,864,728	30.4013%
Asia Link B.V. PrinsBernhardplein 200, 1097 JB Amsterdam, The Netherlands	First Pacific Company, Ltd. See Note 2.	284,470,725	14.5138%
Social Security System c/o Loan and Investment Office, 7/F SSS Building, Diliman, Quezon City	Social Security System (Direct and through PCD Nominee) See Note 3.	213,587,405	10.8973%
Two Rivers Pacific Holdings Corp. 10/F MGO Building, Legaspi cor. Dela Rosa Sts., Legaspi Village, Makati City	Two Rivers Pacific Holdings Corporation. See Note 4.	125,608,156	6.4086%

1. PCD Nominee Corporation ("PCD Nominee"), 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 Nominee's participants who hold the shares on their own behalf or in behalf of their clients. PCD Nominee 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. The 388,662,481 shares shown above are exclusive of the 335,864,728 shares owned by Philex Mining and the 66,631,767 shares owned by SSS, held through PCD Nominee.
2. Asia Link B.V. is a wholly owned subsidiary of First Pacific Company, Ltd. ("First Pacific"). Kirtman Limited, part of the First Pacific Group, is the registered shareholder of 65,221,981, shares or 3.328% of the outstanding shares of the Company. Maxella Limited, also part of the First Pacific Group, is the registered shareholder of 64,539,833 shares or 3.293% of the outstanding shares of the Company. Artino Limited, also part of the First Pacific Group, is the registered owner of 10,193,136 shares or 0.520% of the outstanding shares of the Company.
3. Of the 213,587,405 shares of the Social Security System ("SSS"), 66,631,797 shares are held through PCD Nominee. Ms. Diana V. Pardo-Aguilar has been nominated to the Board of Directors of the Company to represent the SSS.
4. Two Rivers Pacific Holdings Corporation designated the Chairman of the Company, or in his absence Mr. Robert C. Nicholson, or in his absence, Atty. Marilyn V. Aquino, or in her absence, Mr. Danny Y. Yu as proxies to vote its shares at the annual shareholders' meeting in 2018. To date, the Company has not received information on who will vote the said shares in the 2019 Meeting.

D.2. Quality of Annual Report

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

Information	Page(s)
Major Business Risks and How They are Being Managed	127
Corporate Objectives	137
Key Performance Indicators (Financial and Non-Financial)	138
Dividend Payment Policy	108
Details of Whistle Blowing Policy	116
Biographical Details of Directors	25-29
Training and/or Continuing Education Program Attended by Each Director	134
Number of Board Directors' Meetings Held and Attendance during the Year	125
Corporate Governance Confirmation Statement	107

D.3. Disclosure of Related Party Transactions

Related Party Transaction: Please see page 123 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 32-106 of this Annual Report.

Directors' Dealings in Company shares

DIRECTORS AND OFFICERS' DEALING AND SHAREHOLDINGS					
Name of Director	Number of Direct Shareholdings as of January 1, 2018	Changes in 2018	Number of Direct Shareholdings as of December 31, 2018	Number of Indirect Shares	% of Capital Stock
Manuel V. Pangilinan (Chairman)	1,603,465	-	1,603,465	1	0.09%
Daniel Stephen P. Carlos (President)	765	-	765	1	0.00%
Robert C. Nicholson (Non-Executive Director)*	337	-	337	1	0.00%
Marilyn A. Victorio-Aquino (Non-Executive Director)	76,529	-	76,529	-	0.00%
Eulalio B. Austin, Jr. (Non-Executive Director)	208,223	-	208,223	1	0.02%
Diana Pardo-Aguilar (Non-Executive Director)	1	-	1	-	0.00%
Oscar S. Reyes (Director)	-	-	-	1	0.00%
Benjamin S. Austria (Independent Director)	191	-	191	-	0.00%
Emerlinda R. Roman (Independent Director)	1	-	1	-	0.00%
Barbara Anne C. Migallos (Corporate Secretary)	71,677	-	71,677	-	0.00%
Paraluman M. Navarro (Treasurer)	2,431	-	2,431	-	0.00%
TOTAL	**1,963,620**	**-**	**1,963,620**	**5**	**0.013%**

*Mr. Joseph H.P. Ng has been elected to the Board of Directors of the Company to fill up the vacancy due to the resignation of Mr. Robert C. Nicholson as a director of the Company on March 21, 2019

The Company's Corporate Structure can be found on page 8.

D.5. Audit and Non-Audit Fees

For 2018, 2017 and 2016, 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 PhP4.3 million for 2018, PhP4.3 million for 2017, and PhP4.9 million for 2016.

There were no non-regular audit conducted during the years 2018, 2017, and 2016.

D.6 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

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)

D.7. 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 90 calendar 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-disclosure/mar-29-2019-3

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 16, 2018. 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.

Company Website

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

INFORMATION	LINK
Business operations	http://www.pxpenergy.com.ph/home/our-business/philex-petroleum
Financial statements (current and prior years)	http://www.pxpenergy.com.ph/company-disclosure/sec-fillings
Materials provided in briefings to analysts and media	http://www.pxpenergy.com.ph/press-materials/press-materials

Shareholding structure
http://www.pxpenergy.com.ph/home/our-company/shareholding-structure

Group corporate structure
http://www.pxpenergy.com.ph/home/our-company/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-agmminutes-of-agm

Company's by-laws and Articles of Incorporation
http://www.pxpenergy.com.ph/home/our-company/articles

D.8. Investor Relations

The contact details of the officer / office responsible for investor relations are as follows:

Mr. Paul C. Cheah
Investor Relations Officer
Telephone No.: (632) 631-1381
local 8885
Email: philex@philexmining.com.ph

E. Responsibilities of the Board

E.1. Board Duties and Responsibilities

Manual on Corporate Governance
On May 31, 2017, the Company's Revised Manual of Corporate Governance were filed with the Securities and Exchange Commission in compliance with SEC Memorandum Circular No. 19, series of 2016, which were duly approved by the Company's Board of Directors on May 30, 2017.
http://www.pxpenergy.com.ph/corporate-governance/cg-manuals/pxp-corporate-governance-manual-2017

The Company's Revised Manual of Corporate Governance can be found at the Company's website at the following link: http://www.pxpenergy.com.ph/corporate-governance/cg-manuals/pxp-corporate-governance-manual-2017

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:

a. Act in the best interest of the Company and for the common benefit of the Company's shareholders and all stakeholders;
b. Exercise their best care, skill, and judgment, and observe utmost good

faith in the conduct and management of the business and affairs of the Company; and

c. Act 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.

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 MCG.

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

The Company's Board Charter can be found at the Company's website at the following link:
http://www.pxpenergy.com.ph/corporate-governance/cg-manuals/pxp-board-charter.

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.

The Company's Vision and Mission can be found at the Company's website at the following link:
http://www.pxpenergy.com.ph/home/our-company/vision-mission

E.2. 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/corporategovernance/company-policy/code-of-businessconduct-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.

Independent Directors shall serve for a maximum cumulative term of nine (9) years, reckoned in accordance with pertinent rules of the SEC after which the Independent Director shall be perpetually barred from re-election as such in the Company, but may continue to qualify for nomination and election as a Non-Independent Director. In the instance that the Company wants to retain an Independent Director who has served nine (9) years beginning 2012, the Board should provide meritorious justification/s and seek shareholders' approval during the Annual Stockholders' Meeting.

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 25-29 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 different Committee Charters set forth its purposes, authority, duties and responsibilities, structure and procedures in accordance with the Company's Revised MCG.

The full list of PXP's board committees can be found in the Company's website: http://www.pxpenergy.com.ph/corporate-governance/board-committees

Nominations Committee

Charter and Purpose

The primary purpose of the Committee is to assist the Board in dealing with matters relating to the appointment and removal of directors, to formulate nomination policy for the Board's consideration, and to implement the approved nomination policy.

The complete details of the Company's Nominations Committee Charter can be accessed through the following link in the Company's website:
http://www.pxpenergy.com.ph/corporate-governance/cg-manuals/pxp-nominations-committee-charter

Compensation Committee

Charter and Purpose

The primary purpose of the Committee is to establish a formal and transparent procedure for recommending the appropriate remuneration of directors consistent with Corporation Code and officers (Vice President and above, as per the Company's By-Laws) of the Company to ensure that their compensation is consistent with the Company's financial strategy, sound risk culture as well as the business environment in which it operates.

The complete details of the Company's Compensation Committee Charter can be accessed through the following link in the Company's website:
http://www.pxpenergy.com.ph/corporate-governance/cg-manuals/pxp-compensation-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 Revised 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:

1. 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
2. The Company's compliance with legal and regulatory requirements
3. 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.

The complete details of the Company's Audit Committee Charter can be accessed through the following link in the Company's website:
http://www.pxpenergy.com.ph/corporate-governance/cg-disclosures/audit-committee

Corporate Governance and Related Party Transactions Committee

Charter and Purpose

The Charter of the Corporate Governance and Related Party Transactions 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 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 and Related Party Transactions Committee Charter can be accessed through the following link in the Company's website:
http://www.pxpenergy.com.ph/corporate-governance/cg-manuals/pxp-cg-rpt-committee-charter

Finance Committee

Charter and Purpose

The Committee has the primary oversight responsibility of the Company's corporate finance activities, including the management of its equity, financial risk (credit and concentration risks, liquidity, market, including foreign currency, interest rate, equity price, commodity risk, hedging, and derivative financial instruments) and the financing of major acquisitions.

The complete details of the Company's Finance Committee Charter can be accessed through the following link in the Company's website:
http://www.pxpenergy.com.ph/corporate-governance/cg-manuals/pxp-finance-committee-charter

Board Risk and Resource Oversight Committee

Charter and Purpose

The primary purpose of the Committee is to assist the Board in assessing and managing enterprise risks, including financial, regulatory, strategic and operational risks, and ensuring that there is an effective and integrated risk management process developed for the benefit of the Company and its shareholders, discharging other duties and powers as may be delegated to the Committee by the Board, subject to such limitation as the Board may determine. The complete details of the Company's Board Risk and Resource Oversight Committee Charter can be accessed through the following link in the Company's website:
http://www.pxpenergy.com.ph/corporate-governance/cg-manuals/pxp-board-risk

E.3 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 telecommunication or other electronic media.

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.

DIRECTORS' ATTENDANCE IN BOARD MEETINGS FOR 2018				
Board	**Name**	**No. Of Meeting Held during the Year**	**No. of Meeting Attended**	**%**
Chairman	Manuel V. Pangilinan	10	10	100%
Member	Daniel Stephen P. Carlos	10	10	100%
Member	Marilyn A. Victorio-Aquino	10	10	100%
Member	Eulalio B. Austin, Jr.	10	9	90%
Member	Robert C. Nicholson[1]	10	7	70%
Member	Joseph H.P. Ng[2]	10	0	0%
Member	Benjamin S. Austria (Independent Director)	10	10	100%
Member	Emerlinda R. Roman (Independent Director)	10	9	90%
Member	Diana V. Pardo - Aguilar[3]	10	9	100%
Member	Jose Gabriel M. La Viña[4]	10	0	0%
Member	Oscar S. Reyes[4]	10	9	90%

1. Robert C. Nicholson resigned as a Director on 21 March 2019, effective on even date. There were ten (10) meetings held in 2018 while he was a Director. The percentage reported above is based on such number.
2. Joseph H.P. Ng was elected as a Director and appointed as a Member of the Audit Committee on 21 March 2019, effective on even date, to fill the vacancy caused by the resignation of Mr. Nicholson. Thus, he was not a Director during any of the 2018 meetings.
3. Diana V. Pardo – Aguilar was elected as Director on 9 May 2017, effective on even date to fill-up the vacancy due to the resignation of Mr. Jose Gabriel M. La Vina. There was nine (9) meetings held since she was elected Director and the percentage reported above is based on such number.
4. Jose Gabriel M. La Viña resigned as Director on 09 May 2018, effective on even date. There was one (1) meeting held while he was elected Director and the percentage reported above is based on such number.

DIRECTORS' ATTENDANCE COMMITTEE MEETINGS FOR 2018				
Audit Committee				
Board	**Name**	**No. Of Meeting Held during the Year**	**No. of Meeting Attended**	**%**
Chairman	Emerlinda R. Roman	5	5	100%
Member	Benjamin S. Austria	5	5	100%
Member	Robert C. Nicholson[1]	5	5	100%
Member	Joseph H.P. Ng[2]	5	0	0%

1. Robert C. Nicholson resigned as a Director on 21 March 2019, effective on even date. There were five (5) meetings held in 2018 while he was a member of the Audit Committee. The percentage reported above is based on such number.
2. Joseph H.P. Ng was elected as a Director and appointed as a Member of the Audit Committee on 21 March 2019, effective on even date, to fill the vacancy caused by the resignation of Mr. Nicholson. Thus, he was not a member of the Committee during any of the 2018 meetings.

Board Risk & Resource Oversight Committee				
Board	**Name**	**No. Of Meeting Held during the Year**	**No. of Meeting Attended**	**%**
Chairman	Benjamin S. Austria	4	4	100%
Member	Emerlinda R. Roman	4	4	100%
Member	Marilyn A. Victorio-Aquino	4	3	75%
Member	Eulalio B. Austin, Jr.	4	3	75%
Member	Jose Gabriel M. La Viña[1]	4	1	50%
Member	Diana V. Pardo-Aguilar[2]	4	2	100%

1. Jose Gabriel M. La Viña resigned as Director on 09 May 2018, effective on even date. There were (2) meetings held while he was a member of the Board Risk and Resource Oversight Committee and the percentage reported above is based on such number.
2. Diana V. Pardo-Aguilar was elected as a Director on 09 May 2018, effective on even date, to fill the vacancy caused by the resignation of Mr. Jose Gabriel M. La Viña. She was appointed as a member of the Board Risk and Resource Oversight Committee on 01 June 2018. There were two (2) meetings held since she was appointed as a Member of the Committee and the percentage reported above is based on such number.

Corporate Governance & Related Party Transaction Committee				
Board	**Name**	**No. Of Meeting Held during the Year**	**No. of Meeting Attended**	**%**
Chairman	Marilyn A. Victorio-Aquino	2	2	100%
Member	Benjamin S. Austria	2	2	100%
Member	Emerlinda R. Roman	2	2	100%

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's Corporate Secretary plays a significant role in supporting the Board in discharging its responsibilities. Among her functions are safekeeping and preservation of the integrity of the minutes of the meetings; informing the members of the Board of the Agenda of their meetings; ensuring that the members of the Board of the Agenda of their meetings; ensuring that the members have before them accurate information and ensuring that all Board procedures, rules and regulations are strictly followed by the members.

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 vacancies of the Board. The guidelines are set forth in the link provided below: http://www.pxpenergy.com.ph/corporate-governance/cgmanuals/pxp-board-charter

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 a matter of policy, the remuneration of the directors and other officers must be competitive and at a level that will attract and retain talent and will motivate them to continue their efforts in contributing to the long-term success of PXP. The compensation is in accordance with the

Corporation Code of the Philippines, 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. In accordance with company's employment requirements and policies, the Chief Audit Executive functionally reports 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 group 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, socioecological and economic risks inherent in its business thereby ensuring a productive and profitable operation."

Key Risk and how these are managed:
There are risks and uncertainties inherent in the business of petroleum exploration and development. To mitigate these risks, the Group has its own Board Risk and Resource Oversight Committee ("BRROC") that conducts a review of the effectiveness of PXP Energy Group's (including its subsidiaries, major associated companies and joint ventures) Enterprise Risk Management ("ERM") systems. The bi-annual review covers all material strategic, financial, operational and compliance risks and the corresponding mitigation measures to address these risks.

The most recent evaluation of PXP's ERM process, review of the periodic ERM report, and the discussion with the

Chief Risk Officer as well as the external auditor, have assured the BRROC that material risks have been identified, evaluated, managed, and reported appropriately.

The following are the Group's material strategic, financial, operational and compliance risks and the corresponding mitigation measures to address these risks:

- **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.

- **International maritime issues over the West 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 West Philippine Sea ("WPS"). Another block affected by the dispute is SC 75 in Northwest Palawan, which was placed under Force Majeure ("FM") 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 1982 United Nations Convention on the Law of the Sea ("UNCLOS").

  On November 20, 2018, a Memorandum of Understanding ("MOU") on oil and gas development between the Philippines and China was signed by the Department of Foreign Affairs ("DFA") Secretary Teodoro Locsin, Jr. and Chinese Foreign Minister Wang Yi. This will pave the way for the creation of an inter-governmental Steering Committee that will work out a program of cooperation that could lead to joint exploration, and the creation of one or more Inter-Entrepreneurial Working Groups. The Steering Committee will be co-chaired by the DFA Secretary and the Chinese Foreign Minister, and co-vice chaired by the vice ministries with the participation of relevant agencies of the two governments (the DOE in the case of the Philippines). The Working Groups would consist of representatives authorized by China and Philippines for the inter-entrepreneurial, technical, and commercial aspects. China has appointed China National Offshore Oil Corporation ("CNOOC"), while the Philippines will authorize other enterprises with service contracts or the Philippine National Oil Company ("PNOC"). The two governments will endeavor to agree on the cooperation arrangements endeavor within 12 months after signing of the MOU. All discussions, negotiations, and activities of the two governments, or the authorized enterprises under or pursuant to this MOU will be without prejudice to the respective legal positions of both governments. The MOU also does not create rights or obligations under international or domestic law.

The DOE Secretary said the DOE and DFA are closely working on the lifting of moratorium on exploration activities involving SC 72. He assured that, whatever the outcome of the MOU, the rights of existing Service Contract holders will be protected.

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 FM.

- **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 which may include raising capital depending on the importance of the asset.

- **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.

- **Laws, regulations, and contingencies adding to the cost and effort of doing business**

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

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

- **Estimates used in the business may be unreliable or incorrect**

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

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

- **Compliance with laws, regulations, and contracts, failing of which the Company may lose its contracts, licenses, and approvals from both the Philippines and Peru governments or otherwise be penalized**

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

- **Operating risks and natural disasters resulting in losses**

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

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

- **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.

Statement of adequacy of the Company's internal controls and risk management system can be found on the Company's website at the following link: http://www.pxpenergy.com.ph/corporate-governance/enterprise-risk-management

E.4. 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.

The Company's Board Diversity policy is set forth in the link provided below: http://www.pxpenergy.com.ph/corporate-governance/company-policy/board-diversity-policy

E.5. 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 are annually requested to complete a standard self-assessment as follows:

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

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 the 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 PROGRAM ATTENDED BY EACH DIRECTOR			
Name of Director/Officer	**Date of Training**	**Program**	**Name of Training Institution**
Manuel V. Pangilinan Chairman	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	First Pacific Company Limited, Philex Mining Corporation, PLDT, MPIC and Meralco
	09/07/2017	Charting the Digital Age, its Risks and Strategies, through Governance, and a Responsive Corporate Culture	Philex Mining Corporation, PLDT,MPIC,MERALCO
	12/12/2017	Board Evaluation Training Session by Ms. Wendy Yung of Practicing Governance	First Pacific Company Limited
	10/19/2018	Cyber Security and Synopsis on Corporate Governance, Legal and Regulatory Issues	PWC and Mr. Graham Winter of Gibson Dunn/ First Pacific Co. Limited
Daniel Stephen P. Carlos, Director & President	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.
	05/24/2017	Good Governance, Ethics and Compliance - Gaps and Bridges: the Future of Philippine Governance	GGAPP (Good Governance Advocates & Practitioners of the Philippines
	12/13-14/2017	GEOCON 2017. Geologist: Partners for Common Good and Social Justice Conference featured a Keynote Presentation by Justice Carpio on the West Philippine Sea and a session on Petroleum Energy Resources	Geological Society of the Philippines
	11/16/2018	Sustainability Strategy in a Disruptive Business Environment: ESG Best Practices and Compliance Issues; and Blockchain Technology Use Cases and Strategic Benefits, Risks and Governance Issues	Annual Corporate Governance Enhancement Session of PLDT, SMART, MERALCO, MPIC and Philex Mining Corporation
	12/11-12/2018	GEOCON 2018 - Building the Country, Securing the Future: The Role of Filipino Geoscientists	Geological Society of the Philippines
Eulalio B. Austin, Jr. Director	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

TRAINING AND/OR CONTINUING PROGRAM ATTENDED BY EACH DIRECTOR			
Name of Director/Officer	**Date of Training**	**Program**	**Name of Training Institution**
	5/24/2017	5th Annual GGAPP Forum on Good Governance, Ethics and Compliance "Gap and Bridges: the future of Philippine Governance"	Good governance advocate and Practitioners in the Philippines
	10/11/2018	Sustainability, Block Chain Technology and Data Privacy	GGAPP 6th Annual Forum on Good Governance, Ethics and Compliance: Keeping Pace with a Dynamic Corporate Landscape
Marilyn V. Aquino Director	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
	09/07/2017	Charting the Digital Age, its Risks and Strategies, through Governance, and a Responsive Corporate Culture	Philex Mining Corporation with PLDT, MPIC and Meralco
	11/16/2018	Sustainability Strategy in a Disruptive Business Environment: ESG Best Practices and Compliance Issues; and Blockchain Technology Use Cases and Strategic Benefits, Risks and Governance Issues	Annual Corporate Governance Enhancement Session of PLDT, SMART, MERALCO, MPIC and Philex Mining Corporation
Oscar S. Reyes Director	09/07/2017	Charting the Digital Age, its Risks and Strategies, through Governance, and a Responsive Corporate Culture	Philex Mining Corporation PLDT, MPIC and Meralco
	11/16/2018	Sustainability Strategy in a Disruptive Business Environment: ESG Best Practices and Compliance Issues; and Blockchain Technology Use Cases and Strategic Benefits, Risks and Governance Issues	Annual Corporate Governance Enhancement Session of PLDT, SMART, MERALCO, MPIC and Philex Mining Corporation
Benjamin S. Austria Independent Director	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
	07/26/2017	Adopting Changes in the Corporate Governance Code and Internal Control Environment	Sycip Gorres Velayo (SGV)
	12/13-14/2017	GEOCON 2017. Geologist: Partners for Common Good and Social Justice Conference featured a Keynote Presentation by Justice Carpio on the West Philippine Sea and a session on Petroleum Energy Resources	Geological Society of the Philippines
	08/15/2018	Adapting Changes in the Corporate Governance Code and Sustainability Reporting	Phinma, Sycip Gorres Velayo (SGV)
	09/20-21/2018	Engaging the Youth in Science, Technology and Innovation	Philippine Association for the Advancement of Science and Technology (PhilAAST)

TRAINING AND/OR CONTINUING PROGRAM ATTENDED BY EACH DIRECTOR			
Name of Director/Officer	**Date of Training**	**Program**	**Name of Training Institution**
	10/15-16/2018	The Challenges to Global Professionals-Environment, Socio-Economic and Health Issues	Philippine Association of Professional Regulatory Board Members, Inc.
	12/11-12/2018	GEOCON 2018. Building the Country, Securing the Future: The Role of Filipino Geoscientists	Geological Society of the Philippines
Emerlinda R. Roman Independent Director	08/03/2016	SEC CG Forum	SEC
	09/07/2017	Charting the Digital Age, its Risks and Strategies, through Governance, and a Responsive Corporate Culture	Philex Mining Corporation PLDT, MPIC and Meralco
	11/16/2018	Sustainability Strategy in a Disruptive Business Environment: ESG Best Practices and Compliance Issues; and Blockchain Technology Use Cases and Strategic Benefits, Risks and Governance Issues	Annual Corporate Governance Enhancement Session of PLDT, SMART, MERALCO, MPIC and Philex Mining Corporation
Diana V. Pardo – Aguilar Independent Director	2/2/2016	Cybersecurity in the 21st Century	Corporate Governance Group, MVP Group of Companies
	04/24/2018	Advanced Corporate Governance Training Program	Institute of Corporate Directors
Barbara Anne C. Migallos Corporate Secretary	08/03/2016	SEC CG Forum	SEC
	12/7/2017	Corporate Governance Forum	Sycip Gorres Velayo (SGV)
	11/16/2018	Sustainability Strategy in a Disruptive Business Environment: ESG Best Practices and Compliance Issues; and Blockchain Technology Use Cases and Strategic Benefits, Risks and Governance Issues	Annual Corporate Governance Enhancement Session of PLDT, SMART, MERALCO, MPIC and Philex Mining Corporation
Paraluman M. Navarro Treasurer	2/2/2016	Cybersecurity in the 21st Century	Corporate Governance Group, MVP Group of Companies
	5/24/2017	Good Governance, Ethics and Compliance – Gaps and Bridges: the Future of Philippine Governance	GGAPP (Good Governance Advocates & Practitioners of the Philippines)
	10/11/2018	Sustainability, Block Chain Technology and Data Privacy	GGAPP 6th Annual Forum on Good Governance, Ethics and Compliance: Keeping Pace with a Dynamic Corporate Landscape

CORPORATE STRENGTHS, OBJECTIVES AND STRATEGIES

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

Strengths

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

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

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

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

Objectives

- Enhance Value of Assets

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

- Manage Portfolio

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

- Control of Costs and Expenses

  The minimization of costs and expenses by the Company and its subsidiaries would consequently result in improved net income and better financial stability for the Company.

- Manage Financials

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

- Promote Health and Safety and Preserve Environment

  A commitment to undertake activities without endangering the environment and the health and safety of people is key to maintaining the Company's license to operate.

Strategies

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

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

- Continuously evaluate the PXP group structure to ensure optimal use and allocation of management, technical and financial resources.

- Access global technical expertise and technology through partnerships with international oil companies and the deployment of international contractors, and technical consultants.

COMPANY OFFICERS

Manuel V. Pangilinan
Chairman

Daniel Stephen P. Carlos
President

Barbara Anne C. Migallos
Corporate Secretary

Paraluman M. Navarro
Treasurer

CORPORATE GOVERNANCE OFFICERS:

Paraluman M. Navarro
Compliance Officer

Mark Raymond H. Rilles
Chief Risk Officer

Geraldine B. Ateo-an
Chief Audit Executive

Paul C. Cheah
Investor Relations Officer

CORPORATE DIRECTORY

PXP Energy Corporation
2F LaunchPad
Reliance corner Sheridan Streets
Mandaluyong City 1550
Philippines
Telephone : (632) 631-1381
Facsimile : (632) 570-0686
Email : admin@pxpenergy.com.ph

Attorneys
- Migallos & Luna Law Offices
- SyCip Salazar Hernandez & Gatmaitan (SyCipLaw)
- Picazo Buyco Tan Fider & Santos (Picazo Law)

Bankers
- BDO Unibank, Inc.
- Union Bank of the Philippines
- Land Bank of the Philippines
- China Banking Corporation
- The Hongkong and Shanghai Banking Corporation

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

Independent Auditor
- SyCip Gorres Velayo & Co.

Major Subsidiaries
- Forum Energy Limited
- Pitkin Petroleum Limited
- FEC Resources, Inc.

PXP ENERGY

(formerly Philex Petroleum Corporation)

2/F LaunchPad, Reliance corner Sheridan Streets
Mandaluyong City 1550, Philippines
Telephone: (+632) 631-1381