PXP Energy Corporation
(formerly Philex Petroleum Corporation)
and Subsidiaries

Consolidated Financial Statements
December 31, 2019 and 2018
and Years Ended December 31, 2019, 2018,
and 2017

and

Independent Auditor's Report

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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 Board of Directors and Stockholders
PXP Energy Corporation

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, 2019 and 2018, 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, 2019, 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, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2019 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

Key Audit Matters

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

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

Recoverability of Deferred Oil and Gas Exploration Costs

As at December 31, 2019, the carrying value of the Group's deferred oil and gas exploration costs amounted to ₱5,301 million. These deferred exploration costs pertain to the expenditures incurred in the exploration stage of the Group's 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 11 to the consolidated financial statements.

Audit response

We obtained management's assessment on whether there is any indication that deferred oil and gas exploration costs may be impaired. We reviewed the summary of status of each of the exploration projects as at December 31, 2019. 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 joint operation and the regulatory agency. We also obtained the latest management disclosures regarding the status of the Group's service contracts which supports the assessment of management regarding their 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, 2019, 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 discount rate used. We compared the key assumptions used including inflation rates used, forecasted oil and gas prices, estimated volume of resources and reserves, capital expenditures, production and operating costs, 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 have compared the production quantities in the future cash flows model against the estimated oil and gas resources and reserves declared by the competent person's report. 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.

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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, 2019, 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, 2019 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 PFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Alexis Benjamin C. Zaragoza III.

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Alexis Benjamin C. Zaragoza

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November 27, 2019, valid until November 26, 2022
PTR No. 8125326, January 7, 2020, Makati City

February 27, 2020

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	
	2019	2018
ASSETS		
Current Assets		
Cash and cash equivalents (Note 5)	**₱245,954**	₱342,374
Trade and other receivables - net (Note 6)	**33,516**	40,741
Inventories - net (Note 7)	**7,300**	32,398
Other current assets (Note 8)	**15,801**	13,351
Total Current Assets	**302,571**	428,864
Noncurrent Assets		
Deferred oil and gas exploration costs - net (Note 11)	**5,300,659**	5,310,477
Goodwill (Note 4)	**1,234,387**	1,238,583
Property and equipment - net (Note 9)	**18,725**	230,798
Right-of-use (ROU) asset (Note 10)	**4,715**	–
Deferred tax assets - net (Note 17)	**–**	35,003
Other noncurrent assets (Note 12)	**4,222**	3,629
Total Noncurrent Assets	**6,562,708**	6,818,490
TOTAL ASSETS	**₱6,865,279**	₱7,247,354
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Note 13)	**₱63,053**	₱33,957
Lease liability (Note 10)	**503**	–
Advances from related parties (Note 18)	**–**	2,125,184
Provision for plug and abandonment costs (Note 9)	**10,444**	–
Income tax payable	**615**	433
Total Current Liabilities	**74,615**	2,159,574
Noncurrent Liabilities		
Lease liability - net of current portion (Note 10)	**4,791**	–
Deferred tax liabilities - net (Note 17)	**1,077,098**	1,113,448
Other noncurrent liabilities (Notes 9 and 24)	**192,214**	191,914
Total Noncurrent Liabilities	**1,274,103**	1,305,362
Total Liabilities	**1,348,718**	3,464,936
Equity Attributable to Equity Holders of the Parent Company		
Capital stock - ₱1 par value (Note 16)		
Authorized - 6,800,000,000 common shares		
Issued and subscribed - 1,960,000,000 common shares	**1,960,000**	1,960,000
Additional paid-in capital (Note 16)	**2,816,545**	2,821,000
Subscription receivable	**(184,300)**	(2,310,750)
Equity reserves	**122,250**	122,062
Deficit	**(1,643,864)**	(1,371,720)
Cumulative translation adjustment on foreign subsidiaries	**87,713**	153,866
	3,158,344	1,374,458
Non-controlling interests (Note 16)	**2,358,217**	2,407,960
Total Equity	**5,516,561**	3,782,418
TOTAL LIABILITIES AND EQUITY	**₱6,865,279**	₱7,247,354

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		
	2019	2018	2017
PETROLEUM REVENUES (Note 23)	**₱72,499**	₱107,924	₱104,445
COSTS AND EXPENSES			
Petroleum production costs (Note 14)	**85,517**	130,973	108,851
General and administrative expenses (Note 14)	**105,079**	90,417	49,376
	190,596	221,390	158,227
OTHER INCOME (CHARGES)			
Provision for impairment of assets - net (Note 15)	**(194,557)**	–	(4,578)
Gain on termination of subscription agreement (Note 1)	**40,290**	–	–
Foreign exchange gains (losses) - net	**(12,396)**	18,685	(146)
Provision for plug and abandonment costs due to change in estimates (Note 9)	**(10,659)**	–	–
Loss on write-off of goodwill and other noncurrent assets (Notes 4 and 12)	**(4,520)**	–	–
Interest income (Note 5)	**2,566**	2,796	3,749
Interest expense (Notes 9 and 10)	**(1,003)**	(76)	(130)
	(180,279)	21,405	(1,105)
LOSS BEFORE INCOME TAX	**(298,376)**	(92,061)	(54,887)
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 17)			
Current	**783**	1,103	106
Deferred	**(1,939)**	3,267	2,150
	(1,156)	4,370	2,256
NET LOSS	**(₱297,220)**	(₱96,431)	(₱57,143)
NET LOSS ATTRIBUTABLE TO:			
Equity holders of the Parent Company	**(₱272,144)**	(₱77,028)	(₱39,125)
Non-controlling interests	**(25,076)**	(19,403)	(18,018)
	(₱297,220)	(₱96,431)	(₱57,143)
BASIC/DILUTED LOSS PER SHARE (Note 22)	**(₱0.139)**	(₱0.045)	(₱0.023)

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		
	2019	2018	2017
NET LOSS	**(₱297,220)**	(₱96,431)	(₱57,143)
OTHER COMPREHENSIVE INCOME			
Items to be reclassified to profit or loss in subsequent periods:			
Gain (loss) on translation of foreign subsidiaries	**(89,846)**	106,483	10,592
TOTAL COMPREHENSIVE INCOME (LOSS)	**(₱387,066)**	₱10,052	(₱46,551)
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO			
Equity holders of the Parent Company	**(₱338,297)**	₱580	(₱32,883)
Non-controlling interests	**(48,769)**	9,472	(13,668)
	(₱387,066)	₱10,052	(₱46,551)

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, 2019, 2018 and 2017
(Amounts in Thousands)

	Attributable to Equity Holders of the Parent Company								
	Capital Stock (Note 16)	Additional paid-in capital	Subscription Receivable (Note 16)	Equity Reserves	Deficit	Cumulative Translation on Foreign Subsidiaries	Subtotal	Non-controlling Interests (Note 16)	Total
BALANCES AT JANUARY 1, 2017	**₱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	–	–	–	(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
Effects of transactions with owners (Note 16)	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**
Net income (loss) for the year	–	–	–	–	(272,144)	–	(272,144)	(25,076)	(297,220)
Other comprehensive income:									
Items to be reclassified to profit or loss in subsequent periods:									
Loss on translation of foreign subsidiaries	–	–	–	–	–	(66,153)	(66,153)	(23,693)	(89,846)
Total comprehensive income (loss) for the year	–	–	–	–	(272,144)	(66,153)	(338,297)	(48,769)	(387,066)
Payment of subscription, net of transaction costs (Notes 1 and 16)	–	(4,455)	2,126,450	–	–	–	2,121,995	–	2,121,995
Effect of transactions with owners (Note 16)	–	–	–	188	–	–	188	(974)	(786)
BALANCES AT DECEMBER 31, 2019	**₱1,960,000**	**₱2,816,545**	**(₱184,300)**	**₱122,250**	**(₱1,643,864)**	**₱87,713**	**₱3,158,344**	**₱2,358,217**	**₱5,516,561**

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		
	2019	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before income tax	**(₱298,376)**	(₱92,061)	(₱54,887)
Adjustments for:			
Provision and reversal of impairment and loss on write-off of assets - net (Notes 9 and 15)	**194,557**	–	4,578
Depletion and depreciation (Note 14)	**35,340**	61,339	30,151
Unrealized foreign exchange losses (gains) - net	**12,396**	(17,260)	146
Provision for plug and abandonment costs due to change in estimates (Note 9)	**10,659**	–	–
Loss on write-off of goodwill and other noncurrent assets (Notes 4 and 12)	**4,520**	–	–
Interest income (Note 5)	**(2,566)**	(2,796)	(3,749)
Interest expense and other charges (Note 9)	**1,003**	76	130
Operating loss before working capital changes	**(42,467)**	(50,702)	(23,631)
Decrease (increase) in:			
Trade and other receivables - net	**6,954**	15,609	3,205
Inventories - net	**11,336**	(7,090)	(2,245)
Other current assets	**(2,467)**	(392)	1,468
Increase (decrease) in trade and other payables	**22,593**	19,078	(4,465)
Net cash generated from (used in) operations	**(4,051)**	(23,497)	(25,668)
Interest received	**2,689**	2,673	3,749
Income taxes paid	**(601)**	(699)	(101)
Interest paid	**(421)**	–	–
Net cash flows provided by (used in) operating activities	**(2,384)**	(21,523)	(22,020)
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to:			
Deferred oil and gas exploration costs (Notes 11 and 23)	**(66,930)**	(80,550)	(62,099)
Property and equipment (Note 9)	**(16,105)**	(1,220)	(675)
Payments to decommissioning fund (Note 12)	**(1,021)**	(1,225)	(1,429)
Increase (decrease) in other noncurrent assets	–	(4,699)	–
Net cash flows used in investing activities	**(84,056)**	(87,694)	(64,203)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from subscription agreement (Notes 1 and 16)	**2,126,450**	–	–
Payment of advances from related parties (Note 18)	**(2,125,184)**	(781,306)	(25,211)
Payment for stock issuance costs	**(4,455)**	–	–
Acquisition of non-controlling interest (Note 16)	**(786)**	–	(17,705)
Payment for principal portion of lease liability	**(36)**	–	–
Proceeds from additional shares subscription (Note 16)	–	770,250	–
Proceeds from issuance of subsidiary’s new shares (Note 16)	–	–	100,650
Acquisition by subsidiary of own shares (Note 16)	–	–	(92,788)
Increase (decrease) in other noncurrent liabilities	–	4,720	(1,875)
Net cash flows used in financing activities	**(4,011)**	(6,336)	(36,929)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(90,451)**	(115,553)	(123,152)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(5,969)**	7,888	(150)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**342,374**	450,039	573,341
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	**₱245,954**	₱342,374	₱450,039

See accompanying Notes to Consolidated Financial Statements.

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

Corporate Information

PXP Energy Corporation (formerly Philex Petroleum Corporation, the Ultimate 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 buy back 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 Corp. (DHC), signed a subscription agreement wherein the PMC and DHC will subscribe to 260 million and 340 million common shares of PXP, for a total consideration of ₱3,081,000 and ₱4,029,000, respectively.

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.

On January 7, 2019, DHC paid an initial downpayment of ₱40,290, with the remaining balance due on March 31, 2019. However, DHC failed to pay the remaining balance, thereby forfeiting its downpayment in favor of PXP.

In 2019, PMC paid subscription payable to PXP amounting to ₱1,386,450 and ₱740,000 on February 11, 2019 and December 31, 2019, respectively. The balance of subscription payable in relation to the subscription agreement with PXP amounted to ₱184,300 as at December 31, 2019 (see Note 16).

On March 31, 2019, PXP and DHC mutually agreed to terminate the subscription agreement. All rights of DHC to subscribe to the aforesaid common shares of PXP, and any obligation of PXP to issue such shares to DHC, are terminated without any residual rights of any kind remaining with DHC. Accordingly, all other rights of PXP under the agreement are terminated, including the right to receive payment of the remaining balance of the subscription price. Consequently, the Parent Company recognized ₱40,290 a gain on termination of the subscription agreement.

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

<u>Business Operations</u>

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, 2019.

On October 30, 2019, PXP submitted to the DOE the proposed work program and budget for 2020 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, 2019.

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 Notes 9 and 15). 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 third exploration period will expire on July 1, 2020.

In January 2020, the Stena Forth drillship commenced the drilling of the Marina 1X well. The drilling operation is estimated to take 30 days and shall drill to approximately 3,000 meters subsea.

In February 2020, the Stena Forth drillship drilled down to a depth of 3,021 meters. Mudlogging and logging while drilling results indicated that the well encountered thin water bearing sands with no oil and only minor gas shows. Final logging is now being completed and Marina 1X well will be plugged and abandoned. The results of the drilling of the Marina 1X well will be evaluated to define the strategy for the further assessment of reserves in other prospects within the Block.

Pitkin is carried in the cost of Marina 1X well and a second future well under the farm-in agreement signed with Karoon in 2008.

Recovery of Deferred Oil and Gas Exploration Costs
The Group's ability to realize its deferred oil and gas exploration costs with carrying values amounting to ₱5,300,659 and ₱5,310,477 as at December 31, 2019 and 2018, respectively (see Note 11), depends on the success of its exploration and future development work in proving the viability of its oil and gas properties to produce oil and gas in commercial quantities, which cannot be determined yet at this time. The consolidated financial statements do not include any adjustment that might result from these uncertainties.

Authorization for Issuance of the Consolidated Financial Statements
The accompanying consolidated financial statements of the Group as at December 31, 2019 and 2018, and for each of the three years in the period ended December 31, 2019, were authorized for issuance by the BOD on February 27, 2020.

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, 2019. Adoption of these pronouncements did not have any significant impact on the Group's financial position or performance, unless otherwise indicated.

- PFRS 16, *Leases*

  PFRS 16 supersedes Philippine Accounting Standard (PAS) 17, *Leases,* Philippine Interpretation based on International Financial Reporting Interpretations Committee (IFRIC) 4, *Determining whether an Arrangement contains a Lease,* Philippine Interpretation SIC-15, *Operating Leases-Incentives* and Philippine Interpretation SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of Lease.* The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize most leases on the balance sheet.

  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. Therefore, PFRS 16 did not have an impact for leases where the Group is the lessor.

The Group adopted PFRS 16 using 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. 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 effect of adoption of PFRS 16 as at January 1, 2019 is, as follows:

Consolidated statement of financial position:	Increase (decrease)
Asset	
ROU asset	₱5,330
Liabilities	
Lease liability	(457)
Lease of liability - net of current portion	(4,873)
	₱–

The Group has lease contracts for various items of office equipment, office space and a parcel of land. Before the adoption of PFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. Refer to Note 3 for the accounting policy prior to January 1, 2019.

The Group does not have finance leases as at January 1, 2019.

Leases previously accounted for as operating leases
Upon adoption of PFRS 16, the Group applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. Refer to Note 3 for the accounting policy beginning January 1, 2019.

The Group recognized ROU asset and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The ROU assets for these leases were recognized based on an amount equal to the lease liability, adjusted for previously recognized prepaid or accrued lease payments. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Group also applied the available practical expedients wherein it:
- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Relied on its assessment of whether leases are onerous immediately before the date of initial application
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease

Based on the above, as at January 1, 2019:
- ROU asset of ₱5,330 was recognized and presented separately in the consolidated statement of financial position.
- Lease liabilities of ₱5,330 were recognized.

Due to the adoption of PFRS 16, the Group's operating results in 2019 will improve, while its interest expense will increase. This is due to the accounting for rent expense related to leases that were classified as operating leases under PAS 17.

The adoption of PFRS 16 will not have an impact on equity in 2019, since the Group elected to measure the ROU assets at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statement of financial position immediately before the date of initial application.

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

  The entity is required to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and use the approach that better predicts the resolution of the uncertainty. The entity shall assume that the taxation authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes that it is not probable that the taxation authority will accept an uncertain tax treatment, it shall reflect the effect of the uncertainty for each uncertain tax treatment using the method the entity expects to better predict the resolution of the uncertainty.

  Upon adoption of the Interpretation, the Group has assessed whether it has any uncertain tax position. The Group applies significant judgement in identifying uncertainties over its income tax treatments. Since the Group operates in a complex multinational environment, it assessed whether the Interpretation had an impact on its consolidated financial statements. The Group determined, based on its tax compliance review/assessment, in consultation with its tax counsel, that it is probable that its uncertain tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. Accordingly, the interpretation did not have an impact on the consolidated financial statements of the Group.

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*
- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*
- Amendments to PAS 28, *Long-term Interests in Associates and Joint Venture*
- *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*
  - Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*
  - Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

<u>Standards and Interpretations Issued but not yet Effective</u>
Pronouncements issued but not yet effective are listed below. The Group intends to adopt the following pronouncements when they become effective. Adoption of these pronouncements is not expected to have a significant impact on the Group's consolidated financial statements unless otherwise indicated.

Effective beginning on or after January 1, 2020

- Amendments to PFRS 3, *Definition of a Business*
- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, *Definition of Material*

Effective beginning on or after January 1, 2021

- PFRS 17, *Insurance Contracts*

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*

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 other comprehensive income (OCI) in the consolidated statements of comprehensive income.

Current versus Noncurrent Classification
The Group presents assets and liabilities in the consolidated statement of financial position based on current or noncurrent classification. An asset as 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 or cash equivalent 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, respectively.

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 Parent Company 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 Parent Company has less than a majority of the voting or similar rights of an investee, the Parent Company 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 Parent Company reassesses 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 Parent Company obtains control over the subsidiary and ceases when the Parent Company 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 Parent Company gains control until the date the Parent Company ceases to control the subsidiary.

Profit or loss and each component of OCI are attributed to the equity holders of the Parent Company 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 in line with the Parent Company'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 Parent Company 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.
Forum Energy Philippines Corporation (FEPCO)	FEPCO was incorporated in the Philippines on March 27, 1988 and is involved in oil and gas exploration in the Philippines, particularly a 2.28% interest in SC 14 C-1 Galoc.
Forum Exploration, Inc. (FEI)	FEI was incorporated in the Philippines on September 11, 1997 and is involved in oil and gas exploration in the Philippines.
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.
Pitkin	Pitkin was incorporated and registered in UK of Great Britain and Northern Ireland on April 6, 2005 and is engaged primarily in the acquisition, exploration and development of oil and gas properties and the production of hydrocarbon products.

Subsidiary	Nature of Business
Pitkin Petroleum (Philippines) Plc (PPP)	PPP was registered as the Philippine Branch of Pitkin Petroleum 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, 2019 and 2018 is summarized as follows:

	2019			2018		
	Direct	**Indirect**	Total	Direct	Indirect	Total
FEL	**72.24**	**3.74**	75.98	72.18	3.74	75.92
FEPCO	–	**75.98**	75.98	–	75.92	75.92
FEI	–	**50.66**	50.66	–	50.62	50.62
FGSECL	–	**75.98**	75.98	–	75.92	75.92
GSEC	–	**75.98**	75.98	–	75.92	75.92
Pitkin	**53.43**	–	53.43	53.43	–	53.43
PPP	**53.43**	–	53.43	53.43	–	53.43
PVX	–	**53.43**	53.43	–	53.43	53.43
Z38	–	**40.07**	40.07	–	40.07	40.07
PPR	–	**53.43**	53.43	–	53.43	53.43
Z38	–	**13.36**	13.36	–	13.36	13.36
FEC	**54.99**	–	54.99	54.99	–	54.99
FEL	**72.24**	**3.74**	75.98	72.18	3.74	75.92
BEMC	**100.00**	–	100.00	100.00	–	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 OCI 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 Parent Company.

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 PFRS 9 is remeasured at fair value, with changes in fair value recognized either in OCI in accordance with PFRS 9. If the contingent consideration is not within the scope of PFRS 9, it is measured at fair value at each reporting date with changes in fair value recognized in the consolidated statements of income. Contingent consideration classified as equity is not remeasured 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 each cash-generating unit (CGU) or group of CGUs to which the goodwill relates. Where the recoverable amount of the CGU is less than its carrying amount including goodwill, 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

<u>Foreign Currency Translation of Foreign Operations</u>
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 by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rates of exchange at the reporting date.

Differences arising on settlement or translation of monetary items 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 is determined. The gain or loss on translation of non-monetary items measured at fair value of the item is treated in line with the recognition of the gain or loss arising on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognized in OCI or profit or loss are also recognized in OCI or profit or loss, respectively).

For purposes of consolidation, the financial statements of FEL, Pitkin and FEC, which are expressed in United States dollar (US$) 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 OCI

On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is recognized in the consolidated statements of income.

<u>Financial Instruments</u>
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.

Initial Recognition and Subsequent Measurement of Financial Assets

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, FVOCI, and FVPL.

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 FVPL, 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.

Subsequent Measurement

Financial assets at amortized cost (debt instruments)

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 effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

The Group's financial assets at amortized cost include cash and cash equivalents, trade receivables and guarantee deposits (see Note 19).

Impairment of Financial Assets

The Group recognizes an allowance for ECLs for all debt instruments not held at FVPL. 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).

In determining the credit risk exposure for cash in banks and short term investments, the Group has established probability of default rates based on available credit ratings published by third party credit rating agencies. The credit ratings already considered forward-looking information. When a counterparty does not have published credit ratings, the Group benchmarks the credit ratings of comparable companies, adjusted to account for the difference in size and other relevant metrics.

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 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.

Derecognition of Financial Assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group 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, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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.

Financial Liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at FVPL, 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 and other payables (except government payables) and other noncurrent liabilities.

Subsequent measurement
After initial recognition, trade payables and accrued expenses are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in the consolidated statements of income when the liabilities are derecognized, as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the consolidated statements of income.

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. The difference in the respective carrying amounts is recognized in the consolidated statements of income.

Offsetting of Financial Instruments
Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Determination of Fair Value
An analysis of the fair values of financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed and further details as to how they are measured are provided in the Note 19.

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 earn interest at the respective bank deposit rates. Short-term investments are made for varying periods of up to three months depending on the immediate 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 weighted 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 technical feasibility is demonstrated and commercial quantities are discovered and are subsequently reclassified to ‘Property and equipment’ from ‘Deferred oil and gas exploration costs’ account upon commercial viability.

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 (UOP) method based on estimated proved and probable 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 goodwill, property and equipment, ROU asset and deferred oil and gas exploration costs (see Notes 4, 9, 10 and 11).

The Group assesses at each reporting period whether there is an indication that its property and equipment, ROU asset 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.

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.

Provisions
General
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. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognized a separate asset, but only when the reimbursement is virtually certain.

The expense relating to any provision is presented in the consolidated statement of income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, 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.

Provision for Plug and Abandonment Costs
Plug and abandonment 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 plug and abandonment costs of the consortium on initial recognition.

The obligation generally arises when the asset is installed or the ground/environment is disturbed at the field location. When the liability is initially recognized, the present value of the estimated costs is capitalized by increasing the carrying amount of the related oil and gas properties to the extent that it was incurred by the development/construction of the field. Any plug and abandonment obligations that arise through the production of inventory are expensed when the inventory item is recognized in petroleum production costs.

Changes in the estimated timing or cost of plug and abandonment are dealt with prospectively by recording an adjustment to the provision and a corresponding adjustment to oil and gas properties. Any reduction in the plug and abandonment liability and, therefore, any deduction from the asset to which it relates, may not exceed the carrying amount of that asset. If it does, any excess over the carrying value is taken immediately to the consolidated statements of income.

If the change in estimate results in an increase in the plug and abandonment liability and, therefore, an addition to the carrying value of the asset, the Group considers whether this is an indication of impairment of the asset as a whole, and if so, tests for impairment. If, for mature fields, the estimate for the revised value of oil and gas assets net of plug and abandonment provisions exceeds the recoverable value, that portion of the increase is charged directly to expense.

Over time, the discounted liability is increased for the change in present value based on the discount rate that reflects current market assessments and the risks specific to the liability. The periodic unwinding of the discount is recognized in the consolidated statements of income as 'interest expense'.

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'.

For closed sites or areas, changes to estimated costs are 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 Reserves
Equity reserves 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. This is derecognized when the subsidiaries are deconsolidated, which is the date on which control ceases.

An increase or decrease in the Parent Company's ownership interest that does not result in a loss of control of a subsidiary is accounted for as an equity transaction, i.e. a transaction with owners in their capacity as owners. The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary in this account.

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

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 an amount that reflects the consideration to which the Group expects to be entitled in exchange of those goods, which is typically 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.

Under the terms of the relevant joint operating agreements, the Group is entitled to its participating share in the sale of petroleum products based on the Group's participative interest. 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*.

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.

Leases (applicable prior to January 1, 2019)

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at the date of inception. The arrangement is assessed to determine whether fulfilment is depended on the use of a specific asset (or assets) and the arrangement conveys a right to use the asset (or assets), even if that asset is (or those assets are) not explicitly specified in an arrangement. The Group is not a lessor in any transaction, it is only a lessee.

Operating Leases - the Company as a Lessee
Operating leases represent those leases under which substantially all risks and rewards of ownership of the leased assets remain with the lessors. Lease payments under an operating lease are recognized as expense in the parent company statements of income on a straight-line basis over the lease term.

Leases (applicable starting January 1, 2019)
The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognizes lease liabilities at the present value of lease payments and ROU assets representing the right to use the underlying assets.

ROU assets
The Group recognizes ROU assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). ROU assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of ROU assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received and estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized ROU assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. The estimated useful life of the asset is 11 years.

ROU assets are also subject to impairment. Refer to the accounting policies for impairment of nonfinancial assets.

Lease liabilities
At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets
The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the leases of low-value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

OCI

OCI 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.

Foreign Currency-Denominated Transactions and Translations

Transactions in foreign currencies are initially recorded using the prevailing functional currency exchange rate at the date of the transaction. Outstanding monetary assets and monetary liabilities denominated in foreign currencies are restated at the closing exchange rate at the end of the reporting period. Nonmonetary 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 reporting date in the countries where the Group operates and generates taxable income.

Management periodically evaluates positions taken in the tax returns with respect to situations where applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

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

Deferred tax liabilities are recognized for all taxable temporary differences, except when the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit.

In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled by the parent, investor or venturer and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred 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 carry-over (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, except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available, against which the temporary differences can be utilized

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

Deferred 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 have been enacted or substantively enacted at the end of the reporting period.

Deferred tax relating to items outside of profit or loss is recognized in profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in OCI or directly in equity.

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

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognized subsequently if new information about facts and circumstances arises. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it occurred during the measurement period or recognized in the consolidated statement of income.

Earnings Per Share (EPS)

Basic EPS is computed by dividing the net income 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. Shares subscriptions that are entitled to dividends are part of the computation of the weighted average number of common shares outstanding for basic EPS computation.

Diluted EPS is calculated by dividing the net income 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.

Segment assets include operating assets used by a segment and consist principally of operating cash and cash equivalents, trade and other receivables, inventories, property and equipment and ROU asset, net of allowances and provisions.

Segment liabilities include all operating liabilities and consist principally of trade and other payables.

Contingencies

Contingent liabilities are not recognized in financial statements. These are disclosed 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 when an inflow of economic benefits is probable.

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

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

Judgments

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

Determination of the functional currency

The Parent Company and BEMC, based on the relevant economic substance of the underlying circumstances, have determined their functional currency to be the Philippine Peso. FEL's, Piktin's and FEC' functional currency is the United States dollar. 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 its 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, 2019 and 2018, 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.

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

Estimation of 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 ECLs on the Group's trade and other receivables was recognized in 2019 and 2018. Total carrying value of trade and other receivables amounted to ₱33,516 and ₱40,741 as at December 31, 2019 and 2018, respectively (see Note 6). Allowance for ECLs on other receivables amounted to ₱709 and ₱728 as at December 31, 2019 and 2018, respectively (see Note 6).

Estimation of the incremental borrowing rate (IBR)
The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its IBR to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest

rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

The Group's lease liabilities amounted to ₱5,294 as at December 31, 2019 (see Note 10).

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 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 service contracts. 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 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 income may change where such charges are determined using the UOP method, or where the useful life of the related assets change.
- Provisions for plug and abandonment 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, 2019 and 2018, the carrying values of wells, platforms, and other facilities, shown as 'Oil and gas properties' under 'Property and equipment', amounted to ₱9,747 and ₱224,088, respectively. In 2019, 2018 and 2017, depletion expense incurred by the Group amounted to ₱34,535, ₱60,825 and ₱29,703 respectively (see Notes 9 and 14).

Assessment of impairment of property and equipment
The Group assesses whether there are indicators 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.

In 2019, 2018 and 2017, the Group recognized provision for impairment losses on property and equipment amounting to ₱194,557, nil and ₱15,211, respectively. As at December 31, 2019 and 2018, the carrying value of property and equipment amounted to ₱18,725 and ₱230,798, respectively, net of allowance for impairment loss of ₱613,497 and ₱421,451 as at December 31, 2019 and 2018, respectively (see Notes 9 and 15).

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 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.

In 2019, the Group wrote off goodwill amounting to ₱4,196 while in 2018, the Group did not recognize any impairment loss. The carrying value of goodwill as at December 31, 2019 and 2018 amounted to ₱1,234,387 and ₱1,238,583, respectively (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 ₱7,300 and ₱32,398 as at December 31, 2019 and 2018, respectively (see Note 7). Allowance for probable inventory losses amounted to nil and ₱266,103 as at December 31, 2019 and 2018, respectively (see Note 7).

Estimation of provision for plug and abandonment costs
Significant estimates and assumptions are made in determining the provision for plug and abandonment 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 plug and abandonment costs are reviewed and updated annually. Provision for plug and abandonment costs amounted to ₱19,241 and ₱8,453 as at December 31, 2019 and 2018, respectively (see Note 9). The Group recognized accretion of interest amounting to ₱582, ₱76 and ₱130 in 2019, 2018 and 2017, respectively. The discount rate used by the Group to value the provision as at December 31, 2019 and 2018 is 6.89% and 1.63%, respectively.

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 2019 and 2018.

The deferred oil and gas exploration costs have a carrying value amounting to ₱5,300,659 and ₱5,310,477 as at December 31, 2019 and 2018, respectively, net of allowance for unrecoverable portion amounting to ₱696,188 and ₱757,075 as at those dates (see Note 11).

Assessing realizability of deferred tax assets
The Group reviews the carrying amounts at each reporting period and adjusts the balance of deferred 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 tax assets to be utilized.

The carrying amount of deferred tax assets amounted to ₱35,095 and ₱35,003 as at December 31, 2019 and 2018, respectively. Details of excess MCIT, NOLCO and temporary differences in which no deferred tax assets were recognized are provided in Note 17.

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, 2019 and 2018, provision for losses recorded under noncurrent liabilities amounted to ₱183,417 and ₱183,461, respectively (see Note 24).

4. **Business Combination**

The following table summarizes the Group's goodwill:

	2019	2018
Peru block Z-38	**₱979,990**	₱979,990
SC 72 (Recto Bank)	**254,397**	254,397
Others	–	4,196
	₱1,234,387	₱1,238,583

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 Vietnam Block 07/03.

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 Vietnam Block 07/03.

As at the acquisition date, the carrying value and fair value of the net identifiable assets and liabilities of the Pitkin are as follows:

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

Total identifiable net assets	₱4,793,527
Total consideration	6,327,695
Goodwill arising from acquisition	₱1,534,168

The fair values of deferred oil and gas exploration costs recognized as at December 31, 2013 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 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 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

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, 2019 and 2018, the goodwill resulting from business combinations amounting to ₱1,238,583 are allocated to the Group's CGUs namely: SC 14 C-1 Galoc Oil Field, SC 14 A & B Nido - Matinloc, SC 72 Recto Bank and Peru block Z-38. The Group performed its annual impairment test in 2019 and 2018.

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 remaining goodwill as at December 31, 201 9 and 2018 is recoverable.

The calculation of the value in use for the CGUs incorporates the following key assumptions:
a) *forecasted oil and gas prices* - which are estimated with reference to external market forecasts of Brent crude prices;
b) *volume of resources and reserves* - which are based on resources and reserves report prepared by third parties;
c) *capital expenditure, production and operating costs* - which are based on the Group's historical experience, approved work programs and budgets, 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 pre-tax discount rates applied to cash flow projections range from 12.40% to 13.50% and 11.87% to 13.44% as at December 31, 2019 and 2018, respectively.

Value in use is most sensitive to changes in forecasted oil and gas prices and discount rate. With regard to the assessment of value in use for Peru block Z-38 and SC72 Recto Bank, management believes that there are no reasonably possible changes in any of the above key assumptions that would cause the carrying value of the CGUs to materially exceed its recoverable amount.

In 2019, management wrote off goodwill amounting to ₱4,196.

5. Cash and Cash Equivalents

	2019	2018
Cash on hand and in banks	**₱152,394**	₱177,078
Short-term investments	**93,560**	165,296
	₱245,954	₱342,374

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 ₱2,566, ₱2,796, and ₱3,749 was recognized in 2019, 2018 and 2017, respectively. The Group has cash in bank denominated in US$ amounting to US$2,645 and US$5,852 as at December 31, 2019 and 2018, respectively (see Note 20).

6. Trade and Other Receivables - net

	2019	2018
Trade	**₱27,945**	₱31,301
Others	**6,280**	10,168
	34,225	41,469
Less allowance for ECL of receivables	**(709)**	(728)
	₱33,516	₱40,741

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.

The Group has no related party balances included in the trade and other receivables account as at December 31, 2019 and 2018.

Movements in allowance for impairment loss on trade receivables in 2019 and 2018 are as follows:

	2019	2018
Balances at January 1	**₱728**	₱700
Translation adjustment	**(19)**	28
Balances at December 31	**₱709**	₱728

7. **Inventories** - net

	2019	2018
Petroleum - at cost	**₱7,300**	₱32,398
Coal - at cost	**–**	220,045
Materials and supplies - at cost	**–**	46,058
	7,300	298,501
Less allowance for probable inventory losses	**–**	266,103
	₱7,300	₱32,398

The cost of petroleum recognized as expense and included in 'Petroleum production costs' amounted to ₱85,517, ₱130,973, and ₱108,851 in 2019, 2018 and 2017, respectively (see Note 14).

In 2018, allowance for probable inventory losses in pertains to the total of coal inventories and materials and supplies. In 2019, the Group wrote off these coal inventories and materials and supplies totaling ₱266,103, which are provided with full allowance.

As at December 31, 2019 and 2018, depletion expense capitalized as part of petroleum inventories amounted to ₱3,279 and ₱17,129, respectively.

8. **Other Current Assets**

	2019	2018
Input VAT	**₱9,531**	₱7,904
Prepaid expenses	**6,270**	5,447
	₱15,801	₱13,351

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

9. **Property and Equipment -** net

	2019				
	Oil and Gas Properties	**Machinery and Equipment**	**Surface Structures**	**Construction in-progress**	**Total**
Cost					
Balances at January 1	**₱986,823**	**₱254,694**	**₱37,659**	**₱759**	**₱1,279,935**
Additions	**15,632**	**473**	**–**	**–**	**16,105**
Change in estimate on provision for plug and abandonment costs	**69**	**–**	**–**	**–**	**69**
Effect of translation adjustment	**(26,923)**	**(1,253)**	**–**	**–**	**(28,176)**
Balances at December 31	**975,601**	**253,914**	**37,659**	**759**	**1,267,933**
Accumulated depletion and depreciation					
Balances at January 1	**₱523,560**	**₱95,240**	**₱8,886**	**₱–**	**₱627,686**
Depletion and depreciation (Notes 7 and 14)	**20,685**	**561**	**–**	**–**	**21,246**
Effect of translation adjustment	**(10,973)**	**(2,248)**	**–**	**–**	**(13,221)**
Balances at December 31	**533,272**	**93,553**	**8,886**	**–**	**635,711**
Accumulated impairment					
Balances at January 1	**239,175**	**152,744**	**28,773**	**759**	**421,451**
Impairment (Note 15)	**194,557**	**–**	**–**	**–**	**194,557**
Effect of translation adjustment	**(1,150)**	**(1,361)**	**–**	**–**	**(2,511)**
Balances at December 31	**432,582**	**151,383**	**28,773**	**759**	**613,497**
Net book values	**₱9,747**	**₱8,978**	**₱–**	**₱–**	**₱18,725**

	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
Accumulated depletion and depreciation					
Balances at January 1	430,699	91,480	8,886	–	531,065
Depletion and depreciation (Notes 7 and 14)	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

In 2019, 2018 and 2017, the Group has recognized provision for impairment of property and equipment amounting to ₱194,557, nil and ₱15,211, respectively (see Note 15).

In 2018, deferred oil and gas exploration cost of the Galoc field amounting to ₱24,798 was transferred to oil and gas properties.

The cost of fully depreciated machinery and equipment still being used in the Group's operations amounted to ₱349 as at December 31, 2019 and 2018.

The details of the Group's provision for plug and abandonment costs are as follows:

	2019	2018
Beginning balances	**₱8,453**	₱7,955
Effect of change in estimate:		
Recognized in profit or loss (Note 11)	**10,659**	–
Recognized as adjustment to oil and gas properties	**69**	–
Accretion	**582**	76
Effect of translation adjustment	**(522)**	422
	19,241	8,453
Less noncurrent portion	**8,797**	8,453
Current portion	**₱10,444**	₱–

The noncurrent portion of the provision for plug and abandonment costs amounting to ₱8,797 and ₱8,453 as at December 31, 2019 and 2018, respectively, are recorded under 'Other noncurrent liabilities' in the consolidated statements of financial position.

Discount rate of 6.89% and 1.63% in 2019 and 2018, respectively, was used to compute the present values of provision for plug and abandonment costs for the Galoc field.

SC 14A, B&B-1 Nido, Matinloc & North Matinloc Fields

Production in the Nido and Matinloc fields was terminated permanently on March 13, 2019. Total production was 22,173 barrels (bbls) and 94,790 bbls in 2019 and 2018, respectively, or an average of 185 and 260 barrels of oil per day (bopd), respectively. Pilipinas Shell remained the sole buyer of the crude oil in 2019 and 2018.

Nido started oil production in 1979 while Matinloc was put in place in 1982. The final inception-to-date production figures for the two fields are: 18,917,434 bbls for Nido and 12,582,585 bbls for Matinloc. The North Matinloc Field, which was in production from 1988 to 2017 produced a total of 649,765 bbls. The total production for the three fields is 32,149,784 barrels.

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 since 1989 and 1990, respectively. The plug and abandonment took 41.5 days to complete. In 2018, the Group incurred actual plug and abandonment costs amounting to ₱29,789 related to the abandonment of the Libro-1 and Tara South-1 wells (see Note 14).

In May 2019, seven production wells in Nido (3 out of 5), Matinloc (3), and North Matinloc (1) were successfully plugged and abandoned, while two remaining Nido wells were only partially abandoned due to difficulties encountered during operations. The plug and abandonment of these wells will be completed in 2020. Consequently, the Group incurred plug and abandonment costs amounting to ₱38,428 and accrued a provision of ₱10,659 for the plug and abandonment of the remaining Nido wells (see Notes 9 and 14).

Following the suspension of field operations and the plug and abandonment of the wells, Philodrill conducted the stripping and disposal of equipment and materials aboard the production platforms from June to October 2019.

SC 14 Block C-1 (Galoc)
The Galoc field has already produced about 22.15 million barrels of oil since start of production in October 2008.

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 that is capable of recovering 15 to 20 barrels of oil condensate for every 1 million cubic feet of gas produced in the first half of 2020.

Three liftings were made in January, June, and November 2019 with a total of 993,761 barrels sold to refineries in the region. GPC plans to have two liftings in 2020 with up to 300,000 barrels per cargo.

The planned reinstatement of Galoc-4 by nitrogen bullheading was conducted in 4Q 2019, however, it was not successful in bringing back the well online. A modified reinstatement operation will be implemented in 2Q 2020 consisting of nitrogen gas-lifting and, if unsuccessful, another bullheading attempt but using much higher nitrogen volumes.

10. **Leases**

The Company has a lease contract for a parcel of land in used in its operations. Term of lease is 27 years.

The Group also has certain leases of office space and machinery and equipment with lease terms of 12 months or less and leases of machinery and equipment with low value. The Company applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

The rollforward analysis of this account follows:

	2019
Cost	
Balances at January 1	₱–
Effect of adoption of PFRS 16 (Note 2)	5,330
Effect of translation adjustment	(180)
Balances at December 31	5,150
Accumulated depreciation	
Balances at January 1	–
Depreciation (Note 14)	444
Effect of translation adjustment	(9)
Balances at December 31	435
	₱4,715

The following are the amounts recognized in the consolidated statement of income:

	2019
Expenses relating to short-term leases (included in general and administrative expenses)	₱4,876
Depreciation expense of ROU assets	444
Interest expense on lease liabilities	421
Expenses relating to low-value assets (included in general and administrative expenses)	224
	₱5,965

The rollforward analysis of lease liabilities follows:

	2019
As at January 1, 2019, as previously reported	₱–
Effect of adoption of PFRS 16 (Note 2)	5,330
As at January 1, 2019, as restated	5,330
Payments	(457)
Interest expense	421
	5,294
Less noncurrent portion	4,791
Current portion	₱503

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

	2019
1 year	₱822
more than 1 year to 2 years	553
more than 2 years to 3 years	609
more than 3 years to 4 years	670
more than 5 years	5,883

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

	2019	2018
Cost		
Balances at January 1	**₱6,067,552**	₱5,836,878
Additions	**66,930**	80,550
Translation adjustment	**(137,635)**	150,124
Balances at December 31	**5,996,847**	6,067,552
Allowance for impairment losses		
Balances at January 1	**757,075**	668,510
Translation adjustment	**(60,887)**	88,565
Balances at December 31	**696,188**	757,075
Net book values	**₱5,300,659**	₱5,310,477

As at December 31, 2019 and 2018, carrying value of Peru exploration assets amounted to ₱3,430,207 and ₱3,402,598, 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, 2019:

	Participating Interest		
Service Contract	PXP	Pitkin	FEL
SC 6 (Cadlao Block)	1.65%	–	–
SC 6A (Octon Block) [1]	5.56%	–	5.56%
SC 6B (Bonita Block) [2]	–	–	2.46%
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)[3]	70.00%	–	–
SC 75 (Northwest Palawan)	50.00%	–	–
Peru Block Z-38	–	25.00%	–

[1]*In December 2019, DOE approved the farm-in agreement with Manta Oil Company Ltd. As a result, FEL's interest in SC 6B has decreased to 2.46%.*
[2]*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, FEL's interest in SC 6B has increased to 8.18%.*
[3]*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.*

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

In 2014, Pitkin elected not to enter Phase 2 of the Farm-in Agreement 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 interval. However, no tests were conducted in this interval due to operational constraints.

The 2019 work program included the completion of seismic attribute analysis of the northern part of SC 6A to characterize the target reservoirs and determine their distribution in terms of porosity, thickness, and lithology.

On October 30, 2019, Philodrill submitted to the DOE the proposed work program for 2020 which consists of the following:
– Geological and geophysical (G&G) studies in support of establishing a final well location and well design to test the hydrocarbon potential of the Malajon-Salvacion-Saddle Rock anticlinorium.
– Continue to do G&G work to identify additional resources at the Octon South structure and other opportunities immediately around the Octon Field to support its development.

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 Consortium 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 October 17, 2019, Philodrill received DOE's approval for the transfer of 70% participating interest in SC 6B to Manta Oil Company Ltd. related to the letter dated October 30, 2018 submitted by Philodrill to the DOE documenting the request for the approval of the Deed of Assignment and transfer of participating interest. As a result, Forum's interest in SC 6B decreased to 2.4546%

A plan of development for the Cadlao Field and East Cadlao Prospect will be submitted to the DOE around June 2020. It will include the drilling of 1-2 deviated production wells. Cadlao has an estimated Recoverable Reserves (P50) of 6.32 million barrels of oil while East Cadlao has an estimated In-Place Prospective Resources of 3.59 million barrels of oil (Best Case).

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 C-2 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 farm-in agreement approved by the DOE on September 11, 2008. However, on February 7, 2011, Pitkin concluded a farm-out agreement whereby it transferred 29.15% participating interest to RMA (HK) Limited in exchange for being carried through the drilling and testing of the West Linapacan A appraisal/development well. The farm-out agreement was approved by the DOE on July 4, 2011.

On March 12, 2015, the farm-in agreement 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.

The SC 14C2 and SC 74 Consortia have a joint Rock Physics Quantitative Interpretation (QI) studies over the West Linapacan and Linapacan areas using existing 3D seismic and well data. The initial phases of the study were carried out and completed by Ikon Science in Kuala Lumpur, Malaysia. The SC 14C2 Consortium decided not to proceed with Phase 2 QI Study.

Management intends to sell the 9.10% interest of the Group in West Linapacan (see Note 26). This plan will not result in a material impact on the consolidated financial statements.

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 first phase of gravity data processing and interpretation was completed in early 2019 and comprised 3D inverse grid depth modeling. The second stage is a detailed stratigraphic 3D multi-sectional model to be done in-house by the Forum technical team under the quality control supervision of Cosine Ltd. This is currently ongoing. The results will be correlated later with existing well and seismic data in the area.

FEL has started planning for the drilling of an onshore well, Dalingding-2, in 2020-21. FEL 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 ft. 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 ft, or 232 ft below the well's total depth. The current plan is to drill a well down to at least 4,000 ft to penetrate the Barili and secondary targets underneath.

In addition to the drilling of Dalingding-2, FEL plans to move the rig to Brgy. Maya, Daanbantayan, Cebu for the permanent plugging and abandonment of Forum-1X and Forum-2X wells, which were drilled in 2003.

On November 21, 2019, FEL submitted the work program and budget (WP&B) for 2020, which includes the continuation of the Gravity Interpretation - Stage 2, Radioactive Waste Management, and the conduct of a Land Gravity Survey. This was approved by the DOE on December 2, 2019.

The current Land Gravity Survey is for the acquisition of gravity data along profiles in parts of the Municipality of Daanbantayan and Bogo City that aims to further delineate the carbonate bodies detected in the said areas by the initial 3D gravity modelling exercise. The survey began on February 18, 2020 and will be completed before the end of March 2020. A total of 84 stations, 300m to 500m apart will be acquired during the survey. The data acquired will be incorporated results of the gravity survey will be used to update the current depth model for northern Cebu.

The radioactive waste materials were safely transported to Philippine Nuclear Research Institute for proper disposal. A radiation safety officer monitored the transit from Daanbantayan, Cebu to Diliman, Quezon City on February 19-24, 2020. The termination of radioactive material license is currently being processed by the RSO.

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 wells, to be named Sampaguita-4 and Sampaguita-5, which if successfully drilled, would be expected to increase the amount of potentially recoverable resources. The drilling of two wells is part of the work programme of FEL for the 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 the Philippines's Department of Foreign Affairs (DFA) Secretary and the Chinese Foreign Minister. 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.

In October 2019, the Steering Committee was established with the Philippine contingent to be comprised of officials from the DFA and the DOE while the Chinese contingent will be comprised of officials of their Ministry of Foreign Affairs, the National Energy Administration, the Office of Foreign Affairs Commission and the Communist Party of China Central Committee.

Under the MOU, the Steering Committee will create one or more inter-Entrepreneurial Working Groups that will agree on entrepreneurial, technical, and commercial aspects of cooperation on certain areas in the West Philippine Sea. China has appointed China National Offshore Oil Corporation as representative to the Working Groups. FEL will be the representative to the SC 72 Working Group.

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 wells. The terms of the succeeding SP will remain the same but will be adjusted accordingly.

As at December 31, 2019, *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 Philippine Energy Contracting Round 4, 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 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 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 stratigraphic and structural reports were presented to the Consortium on August 16, 2019. Four formational units and folding events were established by the University of the Philippines National Institute of Geological Sciences (UP NIGS) 215 graduate students and professors from the fieldwork conducted in the Calamian Islands in June 2018.

Preliminary paleodating done by UP NIGS in 2018 was unsuccessful due to the absence of calcareous nannofossils in the collected samples. This led to the decision to engage the services of Core Laboratories (CoreLab) Malaysia to conduct biostratigraphic and geochemical analyses. An initial 12 samples were sent to Selangor, Malaysia on October 31, 2019, and the results were submitted to PXP in December 2019. A palynological test on one sample registered a Mesozoic age. On the other hand, radiolarian samples were assigned a Late Permian age. Samples tested for Total Organic Content measured poor to good organic richness. Additional samples will be sent to CoreLab in the first quarter of 2020 for further testing.

A gravity modeling exercise write-up was submitted by Cosine Global Limited in September 2019. It is currently being reviewed by PXP geologists alongside with the ongoing leads and prospect generation using the gravity model.

The results of the Phase 1A test inversion under the joint QI study of SC 74 and SC 14C2 were presented to the Consortium on October 29, 2019. This involved inversion studies over a 30 square kilometers 3D area that includes Linapacan A-1A, Linapacan B-1, West Linapacan A-1, A-2, and A-3, and West Linapacan B-1X wells. From the test, it was concluded that lithology is easier to identify than fluid type in limestone due to the latter's overlapping elastic properties. In December 2019, the Consortium decided to proceed to Phase 2 of the project which is an inversion study over a wider, 400 square kilometers 3D data. Phase 2 commenced on February 10, 2020 and is expected to be completed on April 30, 2020. Seismic data conditioning is underway.

The 2020 WP&B was submitted to the DOE on December 12, 2019 and was later approved on December 20, 2019. The 2020 work program focuses on the continuation of the current G&G studies that include the completion of the Biostratigraphic Age Dating Program and Geochemical Analyses of samples collected from the Calamian Islands, and the conduct of the Phase 2 of the QI study. Results of the QI study will then be incorporated in the interpretation of the PSDM 3D seismic volume. The integration of the onshore geologic mapping results and offshore seismic data is a contingent plan for 2020.

There is a pending request with the DOE for a one year extension of SP 3 from December 13, 2019 to December 13, 2020 to allow the completion of the activities described above prior to entering the next SP. The DOE's formal approval for the extension is expected to be received in March 2020.

<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 2019.

On October 30, 2019, PXP submitted to the DOE the proposed WP&B for 2020 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 FM is lifted. The survey will fulfill the Consortium's minimum work commitment under SP 2. The DOE approved the WP&B on November 6, 2019.

Peru Block Z-38

In April 2007, Block Z-38 was awarded to Pitkin. Farm-out agreement has been made by Pitkin in which it resulted to Karoon 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 a farm-in agreement 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.

Following the farm-in of Tullow, Karoon's interest decreased 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 Marina-1X well was spudded on January 26, 2020 in 362m water depth. It reached a total depth of 3,021 meters MD (2,889 meters TVD) on February 15, 2020. Mudlogging and Logging While Drilling results from the primary targets in the Tumbes Formation indicated that the well encountered thin water-bearing sands with no oil and only minor gas shows. Plug and abandonment was completed on February 20, 2020.

Marina-1X provided a large amount of valuable data on the geological setting for this region of the Tumbes Basin. Several potential reservoir sequences were encountered in the well, unfortunately these sections were water wet and provide no prospectivity at this location. The well results will now be thoroughly analyzed, but no further drilling is planned in Block Z-38 in this campaign.

The deadline to notify Perupetro of the decision to enter the fourth exploration period as well as to present the work program is on May 31, 2020. The joint venture is required to surrender 20% of the block area upon entry of the fourth exploration period. A block relinquishment program will be submitted by Karoon in May 2020 for the approval of the joint venture.

12. **Other Noncurrent Assets**

	2019	2018
Decommissioning fund	**₱3,923**	₱3,004
Guaranteed deposits	**299**	625
	₱4,222	₱3,629

Funding for the plug and abandonment costs of the Galoc field commenced in 2016. FEL's contribution to the decommissioning fund amounted to ₱1,021 and ₱1,225 in 2019 and 2018, respectively.

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

In 2019 and 2018, the Group wrote off guaranteed deposits amounting to ₱324 and nil, respectively, as management assessed that these are no longer recoverable.

13. Trade and Other Payables

	2019	2018
Trade	**₱10,217**	₱9,243
Accrued expenses	**49,863**	19,781
Withholding taxes	**371**	455
Other nontrade liabilities	**2,602**	4,478
	₱63,053	₱33,957

The Group's trade payables are non-interest bearing and are generally settled within 30 to 60 days.

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

Other nontrade liabilities include payroll-related liabilities such as payable to Social Security System, 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, 2019 and 2018.

14. Costs and Expenses

	2019	2018	2017
Petroleum production costs (Note 7):			
Production costs	**₱50,982**	₱70,148	₱79,148
Depletion (Note 9)	**34,535**	60,825	29,703
	₱85,517	₱130,973	₱108,851

	2019	2018	2017
General and administrative expenses:			
Plug and abandonment costs (Note 11)	**₱38,428**	₱29,789	₱–
Professional fees	**26,488**	34,719	27,063
Personnel costs	**14,111**	8,019	6,856
Rental	**5,100**	392	389
Insurance	**3,329**	501	–
Taxes and licenses	**2,176**	1,436	3,073
Donations	**2,260**	2,991	–
Directors' fees	**1,120**	1,422	889
Travel and transportation	**1,112**	530	238
Office supplies	**1,111**	53	64
Stock transfer expenses	**1,065**	942	–
Depreciation (Notes 9 and 10)	**1,005**	514	448
Repairs and maintenance	**169**	172	76
Communications, light and water	**98**	214	47
Others	**7,507**	8,723	10,233
	₱105,079	₱90,417	₱49,376

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

In 2019 and 2018, the Group's share in actual plug and abandonment costs related to the abandonment of SC 14 Nido, Matinloc and North Matinloc wells amounted to ₱38,428 and ₱29,789.

15. Reversal of (Provision for) Impairment of Assets - net

	2019	2018	2017
Provision for impairment of property and equipment (Note 9)	**(₱194,557)**	₱–	(₱15,211)
Reversal of impairment losses (Note 9)	–	–	11,340
Provision for impairment of receivables (Note 6)	–	–	(707)
	(₱194,557)	₱–	(₱4,578)

16. **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 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	
	2019	2018
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 shares	**260,000,000**	260,000,000
Issued and subscribed shares at end of the year	**1,960,000,000**	1,960,000,000

Reconciliation of the capital stock follows:

	2019	2018
Beginning at January 1	**1,960,000,000**	1,700,000,000
Subscribed during the year	–	260,000,000
Issued and subscribed shares at December 31	**1,960,000,000**	1,960,000,000

On October 26, 2018, PXP, PMC, and 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 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. 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.

On January 7, 2019, DHC paid an initial downpayment of ₱40,290, with the remaining balance due on March 31, 2019. However, DHC failed to pay the remaining balance, thereby forfeiting its downpayment in favor of PXP.

In 2019, PMC paid subscription payable to PXP amounting to ₱1,386,450 and ₱740,000 on February 11, 2019 and December 31, 2019, respectively. The balance of subscription payable in relation to the subscription agreement with PXP amounted to ₱184,300 as at December 31, 2019.

On March 31, 2019, PXP and DHC mutually agreed to terminate the subscription agreement. All rights of DHC to subscribe to the aforesaid common shares of PXP, and any obligation of PXP to issue such shares to DHC, are terminated without any residual rights of any kind remaining with DHC. Accordingly, PXP recognized the forfeited down payment amounting to ₱40,290 as other income (see Note 1).

The related subscription receivable arising from the equity transactions and its related movements in 2019 and 2018 are as follows:

	2019	2018
Balance at January 1	**₱2,310,750**	₱–
Collection of subscription receivable	**(2,126,450)**	(770,250)
Subscription during the year	**–**	3,081,000
Balance at December 31	**₱184,300**	₱2,310,750

As at December 31, 2019 and 2018, the Parent Company's total stockholders totaled to 38,712 and 38,816, 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 buy back 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 to 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%.

In December 2019, PXP bought additional investment from the NCI owners of FEL, wherein PXP purchased 50,000 shares in FEL for a total consideration of ₱786. As a result of the transaction, the Parent Company's interest in FEL increased to 75.98%.

Non-controlling Interest

Non-controlling interests consist of the following:

	Percentage of Ownership				
	2019	2018	Country of Incorporation and Operation	**2019**	2018
Non-controlling interests in the net assets of:					
Pitkin and its subsidiaries	**46.57%**	46.57%	UK/Philippines	**₱1,975,608**	₱1,983,878
FEC	**45.01%**	45.01%	Canada	**68,153**	73,639
FEL and its subsidiaries	**24.02%**	24.08%	UK/Philippines	**314,456**	350,443
				₱2,358,217	₱2,407,960

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

Loss allocated to material non-controlling interest:

	2019	2018
FEL and its subsidiaries	**(₱16,359)**	(₱10,307)
FEC	**(4,934)**	(5,320)
Pitkin and its subsidiaries	**(3,783)**	(3,776)

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

	2019	2018
FEL and its subsidiaries	**(₱19,440)**	₱22,179
FEC	**235**	6
Pitkin and its subsidiaries	**(4,488)**	6,690

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, 2019:

	Pitkin and its subsidiaries	FEC	FEL and its subsidiaries
Revenue	**₱–**	**₱–**	**₱72,499**
Cost of sales	**–**	**–**	**(85,517)**
General and administrative expenses	**(8,188)**	**(11,061)**	**(49,765)**
Other income	**65**	**97**	**(104,162)**
Interest expense	**–**	**–**	**(16,600)**
Loss before tax	**(8,123)**	**(10,964)**	**(183,545)**
Benefit from income tax	**–**	**–**	**792**
Net loss	**(8,123)**	**(10,964)**	**(184,337)**
OCI	**(9,638)**	**523**	**(67,456)**
Total comprehensive income	**(₱17,761)**	**(₱10,441)**	**(₱250,209)**
Attributable to non-controlling interests	**(₱8,271)**	**(₱4,699)**	**(₱52,594)**

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)
OCI	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)
OCI	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 financial position as at December 31, 2019:

	Pitkin and its subsidiaries	FEC	FEL and its subsidiaries
Current assets	**₱102,673**	**₱2,685**	**₱63,686**
Noncurrent assets	**164,595**	**87,556**	**1,626,779**
Current liabilities	**(4,876)**	**(21,773)**	**(26,972)**
Noncurrent liabilities	**–**	**–**	**(593,911)**
Total equity	**262,392**	**68,468**	**1,069,582**
Attributable to:			
Equity holders of the Parent Company	**₱140,196**	**₱37,651**	**₱844,756**
Non-controlling interests	**122,196**	**30,817**	**224,826**

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 cash flows as at December 31, 2019:

Activities	**Pitkin and its subsidiaries**	**FEC**	**FEL and its subsidiaries**
Operating	**(₱6,250)**	**(₱9,881)**	**₱21,921**
Investing	**344**	**–**	**(34,354)**
Financing	**–**	**–**	**6,394**
Net decrease in cash and cash equivalents	**(₱5,946)**	**(₱9,881)**	**(₱6,039)**

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)

17. **Income Taxes**

a. In 2019 and 2018, current provision for income tax pertains to PXP and FEL's MCIT.

b. The components of the Group's deferred tax assets (liabilities) as at December 31, 2019 and 2018 are as follows:

	2019	2018
Deferred tax assets		
Unrealized foreign exchange loss	**₱16,868**	₱17,699
Allowance for impairment loss on deferred exploration costs	**16,303**	16,303
MCIT	**1,711**	1,001
Allowance for impairment loss on receivables	**213**	–
	35,095	35,003
Deferred tax liabilities		
Fair value adjustment as a result of business combination	**(979,990)**	(979,990)
Unrealized gain on dilution of interest	**(126,615)**	(126,615)
Unrealized foreign exchange gain	**(5,588)**	(6,843)
	(1,112,193)	(1,113,448)
Deferred tax assets - net	**₱–**	₱35,003
Deferred tax liabilities - net	**(₱1,077,098)**	(₱1,113,448)

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

	2019	2018	2017
Benefit from tax computed at the statutory tax rate	**(₱89,513)**	(₱27,618)	(₱16,466)
Additions to (reductions in) income tax resulting from:			
Nondeductible provision for impairment of assets and write-off of goodwill	**59,626**	–	–
Movement in unrecognized deferred tax assets	**55,543**	2,990	(1,125)
Permanent difference due to foreign exchange translation	**(29,656)**	26,822	13,760
Nondeductible petroleum production costs and depletion	**24,702**	33,273	36,900
Nontaxable petroleum revenue	**(21,088)**	(30,258)	(29,689)
Interest income subjected to final tax	**(770)**	(839)	(1,124)
Provision for (benefit from) income tax	**(₱1,156)**	₱4,370	₱2,256

d. As at December 31, 2019, 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
2017	2020	2,699	771
2018	2021	23,271	504
2019	2022	174,336	783
		₱200,306	₱2,058

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

	NOLCO		Excess MCIT	
	2019	2018	**2019**	2018
Beginning balance	**₱73,759**	₱102,954	**₱1,349**	₱1,873
Additions	**174,336**	23,271	**783**	504
Applications	**–**	(21,495)	**–**	–
Expirations	**(47,789)**	(30,971)	**(74)**	(1,028)
Ending balance	**₱200,306**	₱73,759	**₱2,058**	₱1,349

e. The Group did not recognize deferred tax assets on the following NOLCO, excess MCIT and deductible temporary differences as at December 31, 2019 and 2018:

	2019	2018
NOLCO	**₱200,306**	₱73,759
Provision for plug and abandonment costs	**10,444**	–
Excess MCIT	**347**	348
Excess of depreciation expense and interest expense over lease payments	**120**	–

18. Related Party Transactions

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

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

Intercompany transactions are eliminated in the consolidated financial statements.

The Group's significant related party transactions, which are under terms that are no less favorable than those arranged with third parties, are as follows:

	Year	Amount/ Volume	Outstanding Balance	Terms	Conditions
PMC					
Advances from:					
PXP	**2019**	**₱–**	**₱–**	Collectible in cash; On demand; non-interest bearing	Secured, no impairment
	2018	28	1,387,369	Collectible in cash; On demand; non-interest bearing	Secured, no impairment
BEMC	**2019**	**–**	**–**	Collectible in cash; On demand; non-interest bearing	Unsecured, no impairment
	2018	–	737,815	Collectible in cash; On demand; non-interest bearing	Unsecured, no impairment
Total	**2019**	**₱–**	**₱–**		
Total	2018	28	2,125,184		

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 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 to 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 in 2017. During the same year, commitment fees incurred amounted to ₱281.

Total drawdown from the new loan facility amounted to US$5,522 as at December 31, 2019 and 2018. Interest expense incurred for 2019, 2018 and 2017 amounted to ₱16,018, ₱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, 2019, 2018 and 2017.

Loans receivable of PXP as at December 31, 2019 and 2018 amounted to ₱279,621 and ₱290,361, respectively which was eliminated upon consolidation.

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.

   In 2018, the Group paid PMC amounting to ₱781,334 while in 2019, PXP fully paid the cash advances from PMC. As a result, the related pledge was extinguished.

   As at December 31, 2019 and 2018, advances from PMC amounted to nil and ₱1,387,389, respectively.

c. BEMC has significant transactions with related parties involving advances to provide funding for BEMC's exploration and development activities.

   On August 5, 2019, a deed of assignment was entered by BEMC and PXP transferring BEMC's advances from PMC to PXP amounting to ₱737,815.

   On December 19, 2019, PXP paid the advances from PMC amounting ₱737,815.

d. The compensation of key management personnel pertaining to short-term employees and retirement benefits amounted to ₱8,436, ₱8,436 and ₱8,070 in 2019, 2018 and 2017, respectively.

19. Financial Instruments

PFRS 13 defines fair value as 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. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models, as appropriate.

The carrying values of the Group's assets and liabilities approximate their fair values as at December 31, 2019 and 2018.

Cash and cash equivalents, trade receivables, trade and other payables (except government payables), advances from related parties and other noncurrent liabilities
The carrying amounts of these financial instruments reasonably approximate their fair values because these are mostly short-term in nature.

Guarantee deposits and other noncurrent liabilities
The carrying amounts of these financial instruments reasonably approximate their fair values since the difference between the present value of all future cash receipts/payments discounted at the prevailing market interest rates and the carrying amount is not material.

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, 2019 and 2018.

20. 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:

	2019
Cash in banks and short-term investments	**₱245,941**
Trade receivables	**27,945**
Guaranteed deposits	**299**
	₱274,185

	2018
Cash in banks and short-term investments	₱342,363
Trade receivables	31,301
Guaranteed deposits	625
	₱374,289

The following tables show the credit quality of the Group's financial assets by class as at December 31, 2019 and 2018 based on the Group's credit evaluation process.

As at December 31, 2019:

	Neither Past Due nor Impaired		**Past Due and Individually**	
	High-Grade	**Standard**	**Impaired**	**Total**
Cash in banks	**₱152,381**	**₱–**	**₱–**	**₱152,381**
Short-term investments	**93,560**	**–**	**–**	**93,560**
Trade receivables	**27,236**	**–**	**709**	**27,945**
Guaranteed deposits	**299**	**–**	**–**	**299**
Total	**₱273,476**	**₱–**	**₱709**	**₱274,185**

As at December 31, 2018:

	Neither Past Due nor Impaired		Past Due and Individually	
	High-Grade	Standard	Impaired	Total
Cash in banks	₱177,067	₱–	₱–	₱177,067
Short-term investments	165,296	–	–	165,296
Trade receivables	30,573	–	728	31,301
Guaranteed deposits	625	–	–	625
Total	₱373,561	₱–	₱728	₱374,289

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, 2019 and 2018.

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, 2019 and 2018, respectively:

As at December 31, 2019:

	On Demand	**Less than 3 Months**	**3 to 12 Months**	**Over 12 Months**	**Total**
Amortized cost:					
Cash in banks	**₱152,381**	**₱–**	**₱–**	**₱–**	**₱152,381**
Short-term investments	–	**93,560**	–	–	**93,560**
Trade	–	**27,236**	–	**709**	**27,945**
Guaranteed deposits	–	**299**	–	–	**299**
Total undiscounted financial assets	**₱152,381**	**₱121,095**	**₱–**	**₱709**	**₱274,185**

	On Demand	**Less than 3 Months**	**3 to 12 Months**	**Over 12 Months**	**Total**
Trade and other payables:					
Trade	**₱–**	**₱10,217**	**₱–**	**₱–**	**₱10,217**
Accrued expenses	**–**	**49,863**	**–**	**–**	**49,863**
Other nontrade liabilities	**–**	**2,426**	**–**	**–**	**2,426**
Advances from related parties	**–**	**–**	**–**	**–**	**–**
Other noncurrent liabilities	**–**	**–**	**–**	**183,417**	**183,417**
Total undiscounted financial liabilities	**₱–**	**62,506**	**₱–**	**₱183,417**	**₱245,923**

As at December 31, 2018:

	On Demand	Less than 3 Months	3 to 12 Months	Over 12 Months	Total
Amortized cost:					
Cash in banks	₱177,067	₱–	₱–	₱–	₱177,067
Short-term investments	–	165,296	–	–	165,296
Trade	–	30,594	–	707	31,301
Guaranteed deposits	–	625	–	–	625
Total undiscounted financial assets	₱177,067	₱196,515	₱–	₱707	₱374,289

	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

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 (₱18,415), ₱25,383 and ₱13,341 arising from the translation of these foreign currency-denominated financial instruments were recognized by the Parent Company in the years ended December 31, 2019, 2018 and 2017, respectively. The exchange rates of the Peso to US dollar were ₱50.74, ₱52.58, and ₱49.93 to US$1 in the years ended December 31, 2019, 2018 and 2017, respectively.

The Group's foreign currency-denominated monetary assets and monetary liabilities as at December 31, 2019 and 2018 are as follow:

	2019		2018	
	US$	Peso Equivalent	US$	Peso Equivalent
Assets				
Cash in banks and short-term investments	**US$2,645**	**₱134,218**	US$5,852	₱307,698
Trade receivables	**295**	**14,969**	625	31,715
Net monetary assets	**US$2,940**	**₱149,187**	US$6,477	₱339,413

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

US Dollar (Depreciates) Appreciates	Effect on Loss Before Income Tax
2019	
Appreciate by 4%	**(₱8,386)**
Depreciate by (4%)	**8,386**
2018	
Appreciate by 5%	(₱17,399)
Depreciate by (5%)	17,399

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

21. 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:

	2019	2018
Capital stock (Note 16)	**₱1,700,000**	₱1,700,000
Subscribed capital (Note 16)	**260,000**	260,000
Subscription receivable (Note 16)	**(184,300)**	(2,310,750)
Additional paid-in capital	**2,816,545**	2,821,000
Deficit	**(1,643,864)**	(1,371,720)
	₱2,948,381	₱1,098,530

22. Basic/Diluted Loss per Share

Basic loss per share is computed as follows:

	2019	2018	2017
Net loss attributable to equity holders of the Parent Company	**(₱272,144)**	(₱77,028)	(₱39,125)
Divided by weighted average number of common shares issued during the year	**1,960,000,000**	1,700,000,000	1,700,000,000
Basic loss per share	**(₱0.139)**	(₱0.045)	(₱0.023)

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

	2019	2018	2017
Weighted average number of common shares for basic loss per share	**1,960,000,000**	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	**1,960,000,000**	1,703,561,644	1,700,000,000

	2019	2018	2017
Net loss attributable to equity holders of the Parent Company	**(₱272,144)**	(₱77,028)	(₱39,125)
Divided by weighted average number of common shares adjusted for the effect of dilution	**1,960,000,000**	1,703,561,644	1,700,000,000
Diluted loss per share	**(₱0.139)**	(₱0.045)	(₱0.023)

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

23. **Segment Information**

The Group currently has two reportable segments, namely oil and gas activities and coal mining activities. The coal mining operations of BEMC ended in 2014. No operating segments have been aggregated to form the two reportable operating segments.

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

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

EBITDA is not a 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 PFRSs and uses EBITDA only as supplementary information.

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

The Group's capital expenditures include acquisitions of property and equipment, and the incurrence of deferred oil and gas exploration costs. The Group has only one geographical segment as the Group operates and derives all its revenue from domestic operations. The Group's operating assets are principally located in the Philippines. Thus, geographical business operation is not required.

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

	2019	2018	2017
SC 14 Block C (Galoc)	**₱69,057**	₱88,273	₱82,519
SC 14 Block A (Nido)	**3,095**	11,218	7,604
SC 14 Block B (Matinloc)	**347**	8,433	13,555
SC 14 Block B-1 (North Matinloc)	**–**	–	767
	₱72,499	₱107,924	₱104,445

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

	2019	2018	2017
Trafigura Pte. Ltd.	**₱43,378**	₱–	₱–
Hyundai Oilbank Company Ltd	**25,679**	–	–
Pilipinas Shell Petroleum Corporation	**3,442**	19,651	21,926
SK Energy International Pte Ltd	**–**	56,729	61,490
Chinaoil Hong Kong Corporation Limited	**–**	31,544	–
Thai Oil Public Company Limited	**–**	–	21,029
	₱72,499	₱107,924	₱104,445

Revenues amounting to ₱3,442 pertain to external customers with individual revenue amounts less than 10% of the Group's revenue in 2019 while the comparative revenues in 2018 and 2017 amounted to nil.

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 oil fields were sold to a customer in the Philippines.

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

	2019	2018	2017
Singapore	**₱43,378**	₱–	₱–
South Korea	**25,679**	56,729	61,490
Philippines	**3,442**	19,651	21,926
Hongkong	**–**	31,544	–
Thailand	**–**	–	21,029
	₱72,499	₱107,924	₱104,445

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, 2019:

	Oil and Gas	Coal	Eliminations	Total
Consolidated revenue				
External customers	**₱72,499**	**₱–**	**₱–**	**₱72,499**
Results				
EBITDA	**(164,655)**	**(41)**	**(99,703)**	**(264,399)**
Depreciation and depletion	**(34,507)**	**–**	**(1,033)**	**(35,540)**
Interest income	**18,916**	**–**	**(16,350)**	**2,566**
Income tax benefit	**1,156**	**–**	**–**	**1,156**
Interest expense and other charges - net	**(17,021)**	**–**	**16,018**	**(1,003)**
Consolidated net loss	**(₱196,111)**	**(₱41)**	**(₱101,068)**	**(₱297,220)**
Core net loss	**(₱60,905)**	**(₱41)**	**(₱18,849)**	**(₱79,795)**
Consolidated total assets	**₱6,692,713**	**₱2,128**	**₱170,438**	**₱6,865,279**
Consolidated total liabilities	**₱796,274**	**₱737,835**	**(₱185,391)**	**₱1,348,718**
Other segment information				
Capital expenditures	**₱83,035**	**₱–**	**₱–**	**₱83,035**
Non-cash expenses other than depletion and depreciation	**198,753**	**–**	**–**	**198,753**

As at December 31, 2018:

	Oil and Gas	Coal	Eliminations	Total
Consolidated revenue				
External customers	₱107,924	₱–	₱–	₱107,924
Results				
EBITDA	55,603	(186)	(88,859)	(33,442)
Depreciation and depletion	(61,339)	–	–	(61,339)
Interest income	21,056	–	(18,260)	2,796
Income tax expense	4,370	–	–	4,370
Interest expense and other charges - net	(18,237)	–	18,161	(76)
Consolidated net loss	(₱7,287)	(₱186)	(₱88,958)	(₱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	₱81,770	₱–	₱–	₱81,770
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	(118,291)	(35)	89,971	(28,355)
Depreciation and depletion	(30,151)	–	–	(30,151)
Interest income	(19,045)	–	22,794	3,749
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)	₱16,501	(₱34,187)
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	4,578	–	–	4,578

The table below shows the Group’s reconciliation of core net loss to the consolidated net loss for the years ended December 31, 2019, 2018 and 2017:

	2019	2018	2017
Core net loss	**(₱79,795)**	(₱98,551)	(₱34,187)
Non-recurring gains (losses)			
Provision for impairment of assets (Notes 6, 7, 9 and 11)	**(173,782)**	–	(15,918)
Foreign exchange gains - net	**(10,805)**	16,556	(277)
Loss on write-off of goodwill (Note 4)	**(4,196)**	–	–
Loss on write-off of other noncurrent assets (Note 12)	**(324)**	–	–
Gain on reversal on provision for losses	**–**	–	11,340
Net tax effect of aforementioned adjustments	**(3,242)**	4,967	(83)
Net loss attributable to:			
Equity holders of the Parent Company	**(272,144)**	(77,028)	(39,125)
Non-controlling interests	**(25,076)**	(19,403)	(18,018)
	(₱297,220)	(₱96,431)	(₱57,143)

24. **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 ₱183,417 and ₱183,461 as at December 31, 2019 and 2018, respectively, are recorded under 'Other noncurrent liabilities' in the consolidated statements of financial position.

25. Changes in Liabilities Arising from Financing Activities

	January 1, 2019	**Cash flows**	**December 31, 2019**
Advances to related parties (Note 16)	**₱2,125,184**	**(₱2,125,184)**	**₱–**

	January 1, 2018	Cash flows	December 31, 2018
Advances to related parties (Note 16)	₱2,906,490	(₱781,306)	₱2,125,184

26. Events after the Reporting Period

SPA in respect of SC 14 Block C-2 West Linapacan
On January 7, 2020, FEL and other parties to the service contract entered into a SPA with a third party for the sale and assignment of the 9.10% interest of the Group in SC 14 Block.

As of February 27, 2020, the SPA has not yet completed the relevant closing conditions, which include regulatory approval.