

# COVER SHEET

for  
**AUDITED FINANCIAL STATEMENTS**

SEC Registration Number

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**COMPANY NAME**

P	X	P	E	N	E	R	G	Y	C	O	R	P	O	R	A	T	I	O	N	(	f	o	r	m	e	r
l	y	P	h	i	l	e	x	P	e	t	r	o	l	e	u	m	C	o	r	p	o	r	a	t	i	o
n	)	A	N	D	S	U	B	S	I	D	I	A	R	I	E	S										

**PRINCIPAL OFFICE** ( No. / Street / Barangay / City / Town / Province )

2	/	F	L	a	u	n	c	h	P	a	d	,	R	e	l	i	a	n	c	e	c	o	r	n	e	r
S	h	e	r	i	d	a	n	S	t	r	e	e	t	s	,	M	a	n	d	a	l	u	y	o	n	g
C	i	t	y																							

Form Type  

1	7	-	A
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Department requiring the report  

N	/	A
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Secondary License Type, If Applicable  

N	/	A
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**COMPANY INFORMATION**

Company's Email Address <table border="1" style="width: 100%; text-align: center;"><tr><td>admin@pxpenergy.com.ph</td></tr></table>	admin@pxpenergy.com.ph	Company's Telephone Number <table border="1" style="width: 100%; text-align: center;"><tr><td>(632) 631-1381</td></tr></table>	(632) 631-1381	Mobile Number <table border="1" style="width: 100%; text-align: center;"><tr><td>N/A</td></tr></table>	N/A
admin@pxpenergy.com.ph					
(632) 631-1381					
N/A					
No. of Stockholders <table border="1" style="width: 100%; text-align: center;"><tr><td>38,926</td></tr></table>	38,926	Annual Meeting (Month / Day) <table border="1" style="width: 100%; text-align: center;"><tr><td>5/16</td></tr></table>	5/16	Fiscal Year (Month / Day) <table border="1" style="width: 100%; text-align: center;"><tr><td>12/31</td></tr></table>	12/31
38,926					
5/16					
12/31					

**CONTACT PERSON INFORMATION**

The designated contact person **MUST** be an Officer of the Corporation

Name of Contact Person <table border="1" style="width: 100%; text-align: center;"><tr><td>Daniel Stephen P. Carlos</td></tr></table>	Daniel Stephen P. Carlos	Email Address <table border="1" style="width: 100%; text-align: center;"><tr><td>admin@pxpenergy.com.ph</td></tr></table>	admin@pxpenergy.com.ph	Telephone Number/s <table border="1" style="width: 100%; text-align: center;"><tr><td>(632) 631-1381</td></tr></table>	(632) 631-1381	Mobile Number <table border="1" style="width: 100%; text-align: center;"><tr><td>N/A</td></tr></table>	N/A
Daniel Stephen P. Carlos							
admin@pxpenergy.com.ph							
(632) 631-1381							
N/A							

**CONTACT PERSON'S ADDRESS**

2/F LaunchPad, Reliance corner Sheridan Streets, Mandaluyong City
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**NOTE 1 :** In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

**2 :** All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.



## INDEPENDENT AUDITOR'S REPORT

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

### Opinion

We have audited the consolidated financial statements of PXP Energy Corporation and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, 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, 2017, 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, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2017 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, 2017, the carrying value of the Group's deferred oil and gas exploration costs amounted to ₱5,168 million. These deferred exploration costs pertain to the expenditures incurred in the exploration stage of its oil and gas assets. Under *PFRS 6, Exploration for and Evaluation of Mineral Resources*, these deferred exploration costs shall be assessed for impairment when facts and circumstances suggest that the carrying amounts exceeds the recoverable amounts. The ability of the Group to recover its deferred exploration costs would depend on the commercial viability of the reserves. We considered this as a key audit matter because of the materiality of the amount involved, and the significant management judgment required in assessing whether there is any indication of impairment.

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

### *Audit response*

We obtained management's assessment on whether there is any indication that deferred exploration costs may be impaired. We reviewed the summary of status of each of the exploration projects as at December 31, 2017. We inspected service contracts and relevant joint operations agreements of each exploration project to determine that the period for which the Group has the right to explore in the specific area has not expired and the Group has rights and obligations under the contracts through participating interests. We obtained and reviewed the work program and budget duly approved by the Consortium and the regulatory agency. We also obtained the latest management disclosures regarding the status of their service contracts which supports the assessment of management regarding its recoverability. We also inquired about the existing concession areas that are expected to be abandoned or any exploration activities that are planned to be discontinued in those areas.

### *Impairment Testing of Goodwill*

Under PFRS, the Group is required to annually test the amount of goodwill for impairment. As of December 31, 2017, 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 revenue base, gross margin/profit, operating margin, capital expenditures and discount rate.

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

### *Audit response*

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



## **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, 2017, 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, 2017 are expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

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

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

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



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.

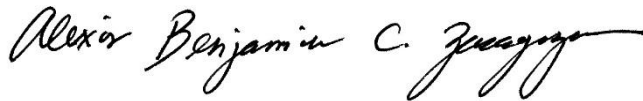
We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



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.

SYCIP GORRES VELAYO & CO.



Alexis Benjamin C. Zaragoza III  
Partner

CPA Certificate No. 109217

SEC Accreditation No. 1627-A (Group A),  
April 4, 2017, valid until April 3, 2020

Tax Identification No. 246-663-780

BIR Accreditation No. 08-001998-129-2017,  
February 9, 2017, valid until February 8, 2020

PTR No. 6621351, January 9, 2018, Makati City

February 27, 2018



**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	
	2017	2016
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 5)	₱450,039	₱573,341
Trade and other receivables - net (Note 6)	41,585	63,480
Inventories - net (Note 7)	21,727	19,160
Other current assets (Note 8)	12,408	13,231
<b>Total Current Assets</b>	<b>525,759</b>	<b>669,212</b>
<b>Noncurrent Assets</b>		
Property and equipment - net (Note 9)	261,883	307,835
Deferred oil and gas exploration costs - net (Note 10)	5,168,368	5,081,450
Deferred income tax assets (Note 16)	31,651	33,706
Goodwill (Note 4)	1,238,583	1,238,583
Other noncurrent assets (Note 11)	2,368	939
<b>Total Noncurrent Assets</b>	<b>6,702,853</b>	<b>6,662,513</b>
<b>TOTAL ASSETS</b>	<b>₱7,228,612</b>	<b>₱7,331,725</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Trade and other payables (Note 12)	₱19,410	₱27,937
Advances from related parties (Note 17)	2,906,490	2,931,701
Income tax payable	30	25
<b>Total Current Liabilities</b>	<b>2,925,930</b>	<b>2,959,663</b>
<b>Noncurrent Liabilities</b>		
Deferred income tax liabilities (Note 16)	1,109,853	1,109,848
Other noncurrent liabilities (Notes 9 and 24)	190,713	203,704
<b>Total Noncurrent Liabilities</b>	<b>1,300,566</b>	<b>1,313,552</b>
<b>Total Liabilities</b>	<b>4,226,496</b>	<b>4,273,215</b>
<b>Equity Attributable to Equity Holders of the Parent Company</b>		
Capital stock - ₱1 par value (Note 15)	1,700,000	1,700,000
Equity reserves (Notes 4 and 15)	122,062	128,842
Deficit	(1,294,692)	(1,255,567)
Cumulative translation adjustment on foreign subsidiaries	76,258	70,016
	<b>603,628</b>	<b>643,291</b>
<b>Non-controlling interests</b> (Note 15)	<b>2,398,488</b>	<b>2,415,219</b>
<b>Total Equity</b>	<b>3,002,116</b>	<b>3,058,510</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>₱7,228,612</b>	<b>₱7,331,725</b>

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)**

	<b>Years Ended December 31</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>PETROLEUM REVENUES</b> (Note 23)	<b>₱104,445</b>	₱101,579	₱172,250
<b>COSTS AND EXPENSES</b>			
Petroleum production costs (Note 13)	<b>108,851</b>	115,405	97,981
General and administrative expenses (Note 13)	<b>49,376</b>	55,415	228,822
	<b>158,227</b>	170,820	326,803
<b>OTHER INCOME (CHARGES)</b>			
Interest income (Note 5)	<b>3,749</b>	3,316	6,099
Foreign exchange gains - net	<b>(146)</b>	13,341	24,675
Interest expense and other charges (Notes 9)	<b>(130)</b>	(120)	-
Reversal of (provision for) impairment and loss on write off of assets - net (Note 14)	<b>(4,578)</b>	4,748	(39,847)
Others - net (Note 14)	<b>-</b>	(748)	19,615
	<b>(1,105)</b>	20,537	10,542
<b>LOSS BEFORE INCOME TAX</b>	<b>(54,887)</b>	(48,704)	(144,011)
<b>PROVISION FOR (BENEFIT FROM) INCOME TAX</b> (Note 16)			
Current	<b>106</b>	73	14
Deferred	<b>2,150</b>	(12,390)	2
	<b>2,256</b>	(12,317)	16
<b>NET LOSS</b>	<b>(₱57,143)</b>	(₱36,387)	(₱144,027)
<b>NET LOSS ATTRIBUTABLE TO:</b>			
Equity holders of the Parent Company	<b>(₱39,125)</b>	(₱22,362)	(₱87,540)
Non-controlling interests	<b>(18,018)</b>	(14,025)	(56,487)
	<b>(₱57,143)</b>	(₱36,387)	(₱144,027)
<b>BASIC/DILUTED LOSS PER SHARE</b> (Note 22)	<b>(₱0.023)</b>	(₱0.013)	(₱0.051)

*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		
	2017	2016	2015
<b>NET LOSS</b>	<b>(₱57,143)</b>	<b>(₱36,387)</b>	<b>(₱144,027)</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
<i>Items to be reclassified to profit or loss in subsequent periods:</i>			
Gain on translation of foreign subsidiaries	<b>10,592</b>	129,343	92,430
	<b>10,592</b>	129,343	92,430
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>	<b>(₱46,551)</b>	₱92,956	<b>(₱51,597)</b>
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>			
<b>ATTRIBUTABLE TO:</b>			
Equity holders of the Parent Company	<b>(₱32,883)</b>	₱51,612	<b>(₱34,480)</b>
Non-controlling interests	<b>(13,668)</b>	41,344	<b>(17,117)</b>
	<b>(₱46,551)</b>	₱92,956	<b>(₱51,597)</b>

*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, 2017, 2016 AND 2015**  
**(Amounts in Thousands)**

	Attributable to Equity Holders of the Parent				Subtotal	Non-controlling Interests (Note 15)	Total
	Capital Stock (Note 15)	Equity Reserves (Note 15)	Deficit	Cumulative Translation on Foreign Subsidiaries			
<b>BALANCES AT DECEMBER 31, 2014</b>	<b>₱1,700,000</b>	<b>₱48,970</b>	<b>(₱1,145,665)</b>	<b>(₱57,018)</b>	<b>₱546,287</b>	<b>₱3,126,404</b>	<b>₱3,672,691</b>
Net loss for the year	–	–	(87,540)	–	(87,540)	(56,487)	(144,027)
Other comprehensive income (loss):							
<i>Items to be reclassified to profit or loss in subsequent periods:</i>							
Gain on translation of foreign subsidiaries	–	–	–	53,060	53,060	39,370	92,430
Total comprehensive income (loss) for the year	–	–	(87,540)	53,060	(34,480)	(17,117)	(51,597)
Effects of transactions with owners (Note 15)	–	71,202	–	–	71,202	(725,048)	(653,846)
<b>BALANCES AT DECEMBER 31, 2015</b>	<b>1,700,000</b>	<b>120,172</b>	<b>(1,233,205)</b>	<b>(3,958)</b>	<b>583,009</b>	<b>2,384,239</b>	<b>2,967,248</b>
Net loss for the year	–	–	(22,362)	–	(22,362)	(14,025)	(36,387)
Other comprehensive income (loss):							
<i>Items to be reclassified to profit or loss in subsequent periods:</i>							
Gain on translation of foreign subsidiaries	–	–	–	73,974	73,974	55,369	129,343
Total comprehensive income (loss) for the year	–	–	(22,362)	73,974	51,612	41,344	92,956
Effects of transactions with owners (Note 15)	–	8,670	–	–	8,670	(10,364)	(1,694)
<b>BALANCES AT DECEMBER 31, 2016</b>	<b>1,700,000</b>	<b>128,842</b>	<b>(1,255,567)</b>	<b>70,016</b>	<b>643,291</b>	<b>2,415,219</b>	<b>3,058,510</b>
Net loss for the year	–	–	(39,125)	–	(39,125)	(18,018)	(57,143)
Other comprehensive income (loss):							
<i>Items to be reclassified to profit or loss in subsequent periods:</i>							
Gain on translation of foreign subsidiaries	–	–	–	6,242	6,242	4,350	10,592
Total comprehensive income (loss) for the year	–	–	(39,125)	6,242	(32,883)	(13,668)	(46,551)
Effects of transactions with owners (Note 15)	–	(6,780)	–	–	(6,780)	(3,063)	(9,843)
<b>BALANCES AT DECEMBER 31, 2017</b>	<b>₱1,700,000</b>	<b>₱122,062</b>	<b>(₱1,294,692)</b>	<b>₱76,258</b>	<b>₱603,628</b>	<b>₱2,398,488</b>	<b>₱3,002,116</b>

See accompanying Notes to Consolidated Financial Statements.



**PXP ENERGY CORPORATION**  
**(formerly Philex Petroleum Corporation)**  
**AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Amounts in Thousands)**

	<b>Years Ended December 31</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Loss before income tax	<b>(P54,887)</b>	(P48,704)	(P144,011)
Adjustments for:			
Depletion and depreciation (Note 13)	<b>30,151</b>	50,102	15,355
Provision and reversal of impairment and loss on write off of assets - net (Note 14)	<b>4,578</b>	(4,748)	39,847
Interest expense and other charges (Note 9)	<b>130</b>	(120)	-
Unrealized foreign exchange losses (gains) - net	<b>146</b>	(13,341)	24,675
Interest income (Note 5)	<b>(3,749)</b>	(3,316)	(6,099)
Gain on sale of property and equipment (Note 9)	<b>-</b>	-	(1,688)
Movement in retirement liability (Note 18)	<b>-</b>	-	(28,356)
Operating loss before working capital changes	<b>(23,631)</b>	(20,127)	(100,277)
Decrease (increase) in:			
Trade and other receivables - net	<b>3,205</b>	79,708	18,947
Inventories - net	<b>(2,245)</b>	(5,722)	10,890
Other current assets	<b>1,468</b>	18,975	19,973
Increase (decrease) in trade and other payables	<b>(4,465)</b>	33,550	(72,982)
Net cash generated from (used in) operations	<b>(25,668)</b>	106,384	(123,449)
Interest received	<b>3,749</b>	3,316	8,888
Income taxes paid	<b>(101)</b>	(81)	(634)
Net cash flows provided by (used in) operating activities	<b>(22,020)</b>	109,619	(115,195)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Increase (decrease) in other noncurrent assets (Note 11)	<b>(1,429)</b>	25,885	-
Additions to:			
Deferred oil and gas exploration costs - net (Notes 10 and 23)	<b>(62,099)</b>	(84,618)	(55,944)
Property and equipment - net (Note 9)	<b>(675)</b>	(5,251)	(6,701)
Proceeds from sale of property and equipment (Note 9)	<b>-</b>	-	4,033
Payment for cancellation of shares (Note 15)	<b>-</b>	(1,694)	-
Net cash flows used in investing activities	<b>(64,203)</b>	(65,678)	(58,612)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issuance of subsidiary's new shares (Note 15)	<b>100,650</b>	-	-
Decrease in other noncurrent liabilities	<b>(1,875)</b>	-	-
Acquisition of non-controlling interest (Note 15)	<b>(17,705)</b>	-	-
Decrease in advances from related parties (Note 17)	<b>(25,211)</b>	(243)	(489,892)
Acquisition by subsidiary of own shares (Note 15)	<b>(92,788)</b>	-	(715,143)
Net cash flows used in financing activities	<b>(36,929)</b>	(243)	(1,205,035)
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>			
	<b>(150)</b>	3,288	(3,168)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(123,302)</b>	46,986	(1,382,010)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>573,341</b>	526,355	1,908,365
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)</b>	<b>P450,039</b>	P573,341	P526,355

See accompanying Notes to Consolidated Financial Statements.



**PXP ENERGY CORPORATION**  
**(formerly Philex Petroleum Corporation)**  
**AND SUBSIDIARIES**

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

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**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 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 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 ordinary 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 ordinary 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 additional investment from NCI owners of FEL for 20 British Pence per share. The NCIs sold 2,383,777 shares for a total consideration of ₱33,889,615. Then in November of 2015, PXP further purchased additional shares of FEL from FEC for 21 British Pence per share. FEC sold 2,000,000 shares for a total consideration of ₱29,816,472. Following these transactions, PXP's interest in FEL increased from 36.44% to 48.77%.

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



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

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

On February 17, 2017, Pitkin tendered its offer to buyback 11,430,500 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 Forum GSEC 101 (GSEC) to capitalize a part of the long term loan of GSEC from PXP amounting to US\$11,805 into 39,350,920 new ordinary shares of FEL. 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 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).

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

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

### Business Operations

#### *PXP Parent Company*

The Parent Company's principal asset is a 50% operating interest in Service Contract (SC) 75. It covers an area of 6,160 square kilometers in the Northwest (NW) Palawan Basin. However, due to a *force majeure* issued by the Department of Energy (DOE), exploration activities in the area are temporarily suspended as at December 31, 2017.

In October 2017, the budget for 2018 which consists mostly of license and administration costs was approved by DOE. Once the *force majeure* is lifted, PXP will have 18 months to undertake the Sub-Phase (SP) 2 work program, comprising mainly of the acquisition, processing, and interpretation of at least 1,000 square kilometers of 3D seismic data.

#### *FEL and its subsidiaries*

FEL's principal asset is a 70% interest in SC 72 which covers an area of 8,800 square kilometers in the West Philippine Sea. FEL is scheduled to accomplish its SP 2 of exploration activities from August 2011 to August 2013. However, due to maritime disputes between the Philippine and Chinese governments, the service contract is under *force majeure* and exploration activities in the area are temporarily suspended as at December 31, 2017.

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



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

*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 the remaining 75% interest.

In November 2017, the Consortium approved the work program for 2018 consisting of: (a) Preparation for drilling of two (2) exploration wells, Marina and Bonito; (b) continuous evaluation of other prospects and leads within the block and; (c) ongoing social programs and projects. Pitkin is carried in the all costs up to the drilling of two (2) wells under a Farm-In Agreement ('FIA') with Karoon.

Recovery of Deferred Oil and Gas Exploration Costs

The Group's ability to realize its deferred oil and gas exploration costs amounting to ₱5,168,368 and ₱5,081,450 as at December 31, 2017 and 2016, respectively (see Note 10) depends on the success of its exploration and future development work in proving the viability of its oil and gas properties to produce oil and gas in commercial quantities, which cannot be determined at this time. The consolidated financial statements do not include any adjustment that might result from this uncertainty.

Authorization for Issuance of the Consolidated Financial Statements

The accompanying consolidated financial statements of the Group as at December 31, 2017 and 2016, and for each of the three years in the period ended December 31, 2017, were authorized for issuance by the BOD on February 27, 2018.

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**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, 2017. Adoption of these pronouncements did not have any significant impact on the Group's financial position or performance unless otherwise indicated.

- Amendment to PFRS 12, *Clarification of the Scope of the Standard* (Part of *Annual Improvements to PFRSs 2014-2016 Cycle*)



- Amendments to PAS 7, *Statement of Cash Flows, Disclosure Initiative*  
The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

The Group has provided the required information in Note 25 to the consolidated financial statements.

- Amendments to PAS 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses* Republic Act (RA) No.10963 or the Tax Reform for Acceleration and Inclusion Act (TRAIN) was signed into law on December 19, 2017 and took effect January 1, 2018, making the new tax law enacted as of the reporting date. Although the TRAIN changes existing tax law and includes several provisions that will generally affect businesses on a prospective basis, the management assessed that the same will not have any significant impact on the consolidated financial statement balances as of the reporting date.

#### Standards and Interpretations Issued but not yet Effective

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

#### *Effective beginning on or after January 1, 2018*

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

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

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

The Group has assessed that the adoption of these amendments will not have any impact on the 2018 consolidated financial statements.

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

The Group plans to adopt the new standard on the mandatory effective date and will not restate comparative information.



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

The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the new insurance contracts standard. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018. An entity may elect the overlay approach when it first applies PFRS 9 and apply that approach retrospectively to financial assets designated on transition to PFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying PFRS 9.

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

- PFRS 15, *Revenue from Contracts with Customers*

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

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Group plans to adopt the new standard on the required effective date using the full retrospective method.

The Group is currently assessing the impact of adopting PFRS 15 in 2018.

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

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

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

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

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment





property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.

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

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

Since the Group's current practice is in line with the clarifications issued, the Group does not expect any effect on its consolidated financial statements upon adoption of this interpretation.

*Effective beginning on or after January 1, 2019*

- **Amendments to PFRS 9, *Prepayment Features with Negative Compensation***  
The amendments to PFRS 9 allow debt instruments with negative compensation prepayment features to be measured at amortized cost or fair value through other comprehensive income. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

The Group is currently assessing the impact of adopting this amendment to PFRS 9.

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

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



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

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

Early application is permitted, but not before an entity applies PFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

The Group is currently assessing the impact of adopting PFRS 16.

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*  
The amendments to PAS 28 clarify that entities should account for long-term interests in an associate or joint venture to which the equity method is not applied using PFRS 9. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

The Group is currently assessing the impact of adopting the amendments to PAS 28.

- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*  
The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12 and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following:

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

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

The Group is currently assessing the impact of adopting this interpretation.

#### *Deferred effectivity*

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



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

## Summary of Significant Accounting Policies and Financial Reporting Practices

### Presentation of Consolidated Financial Statements

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

### Basis of Consolidation

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

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

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

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

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

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

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



A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognizes the assets (including goodwill), and liabilities, non-controlling interests and other components of equity while any resulting gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.

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

Subsidiary	Nature of Business
FEL	Incorporated on April 1, 2005 in England and Wales primarily to engage in the business of oil and gas exploration and production, with focus on the Philippines, particularly, a 70% interest in SC 72 Recto Bank.
Forum Energy Philippines Corporation (FEPCO)	FEPCO was incorporated in the Philippines on March 27, 1988 and is involved in oil and gas exploration in the Philippines, particularly a 2.28% interest in SC 14 C-1 Galoc.
Forum Exploration, Inc. (FEI)	FEI was incorporated in the Philippines on September 11, 1997 and is involved in oil and gas exploration in the Philippines.
Forum (GSEC101) Ltd. (FGSECL)	FGSECL was incorporated in Jersey on March 31, 2005 and is involved in oil and gas exploration in the Philippines.
Forum (GSEC101) Ltd. - Philippine Branch (GSEC)	GSEC was established as a Philippine branch on October 17, 2005 and is involved in oil and gas exploration in the Philippines, specifically, SC 72 Recto Bank.
Pitkin Petroleum Ltd. (Pitkin)	Pitkin was incorporated and registered in UK of Great Britain and Northern Ireland on April 6, 2005 and is engaged primarily in the acquisition, exploration and development of oil and gas properties and the production of hydrocarbon products.
Pitkin Petroleum (Philippines) Plc (PPP)	PPP was registered as the Philippine Branch of Pitkin Petroleum Ltd. 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. On January 6, 2014, BEMC has finalized the agreements for the assignment of Coal Operating Contract (COC) 130 to Grace Coal Mining and Development, Inc. (GCM DI). On May 27, 2015, the DOE has approved the assignment completing the transfer of COC 130 from BEMC to GCM DI.

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, 2017 and 2016 is summarized as follows:

	Percentages of Ownership			
	2017		2016	
	Direct	Indirect	Direct	Indirect
FEL	–	<b>75.92</b>	–	58.90
FEPCO	–	<b>75.92</b>	–	58.90
FGSECL	–	<b>75.92</b>	–	58.90
FEI	–	<b>50.62</b>	–	39.27
GSEC	–	<b>75.92</b>	–	58.90
Pitkin	<b>53.43</b>	–	53.43	–
PPP	<b>53.43</b>	–	53.43	–
PVX	–	<b>53.43</b>	–	53.43
Z38	–	<b>40.07</b>	–	40.07
PPR	–	<b>53.43</b>	–	53.43
Z38	–	<b>13.36</b>	–	13.36
FEC	<b>54.99</b>	–	54.99	–
FEL	<b>72.18</b>	<b>3.74</b>	48.77	10.13
BEMC	<b>100.00</b>	–	100.00	–

*Non-controlling interest (NCI)*

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

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

Business Combination and Goodwill

*Acquisition method*

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

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

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

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of PAS 39, *Financial Instruments: Recognition and Measurement*, is remeasured



at fair value with changes in fair value recognized either in profit or loss or as a change to OCI. If the contingent consideration is not within the scope of PAS 39, it is measured in accordance with the appropriate PFRS. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for NCI, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in profit or loss. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

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

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

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

#### Interest in Joint Arrangements

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

#### *Joint operations*

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

In relation to its interests in joint operations, the Group recognizes its:

- Assets, including its share of any assets held jointly
- Liabilities, including its share of any liabilities incurred jointly
- Revenue from the sale of its share of the output arising from the joint operation
- Share of the revenue from the sale of the output by the joint operation
- Expenses, including its share of any expenses incurred jointly



### Foreign Currency Translation of Foreign Operations

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

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

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of the consolidated statements of financial position
- income and expenses in the statements of income are translated at exchange rates at the average monthly prevailing rates for the year
- all resulting exchange differences in other comprehensive income

### Financial Instruments

#### *Date of recognition*

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

#### *Initial recognition and classification of financial instruments*

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

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

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

As at December 31, 2017 and 2016, the Group's financial instruments are in the nature of loans and receivables and other financial liabilities.



#### *Determination of fair value*

The Group measures financial instruments at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

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

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

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

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

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

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

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest rate (EIR) method, less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes transaction costs and fees that are an integral part of the EIR. Gains and losses are recognized in the consolidated statements of income when the loans and receivables are derecognized or impaired, as well as through the amortization process. These financial assets are included in current assets if maturity is within 12 months from the end of the reporting period. Otherwise, these are classified as noncurrent assets.

As at December 31, 2017 and 2016, included under loans and receivables are the Group's trade and other receivables and refundable deposits (see Note 20).





#### *Other financial liabilities*

Other financial liabilities are initially recorded at fair value, less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses are recognized in the consolidated statements of income when the liabilities are derecognized as well as through the amortization process.

As at December 31, 2017 and 2016, included in other financial liabilities are the Group's trade and other payables, advances from related parties and other noncurrent liabilities (see Note 20).

#### Offsetting Financial Instruments

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

#### Impairment of Financial Assets

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

#### *Loans and receivables*

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

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

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



## Derecognition of Financial Assets and Financial Liabilities

### *Financial assets*

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

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

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

### *Financial liabilities*

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statements of income.

## Cash and Cash Equivalents

Cash consists of cash on hand and in banks. Cash in banks earns interest at the respective bank deposit rates. Short-term investments are made for varying periods of up to three (3) months depending on the cash requirements of the Group, and earn interest at the respective short-term investments rates.

## Inventories

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

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

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



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

#### Other Current Assets

Other current assets are expenses paid in advance and recorded as asset before they are utilized. Other current assets that are expected to be realized for no more than twelve (12) months after the end of the reporting period are classified as current assets, otherwise, these are classified as other noncurrent assets.

#### *Input value-added tax (VAT)*

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

#### *Prepaid expenses*

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

#### Property and Equipment

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

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

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

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

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

Depletion of oil and gas, properties is calculated using the units-of-production method based on estimated proved reserves.



Depreciation of other items of property and equipment is computed using the straight-line method over the estimated useful lives of the assets as follows:

<u>Asset Category</u>	<u>Number of Years</u>
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' account shown under the 'Property and equipment' account in the consolidated statements of financial position.

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

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

#### Impairment of Nonfinancial Assets

This accounting policy applies primarily to the Group's property and equipment (see Note 9), deferred oil and gas exploration costs (see Note 10) and goodwill.

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

Impairment losses are recognized in the consolidated statements of income.

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

#### *Goodwill*

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



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

#### Retirement Benefits Liability

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

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

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

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

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

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

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

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

#### Provision for Rehabilitation and Decommissioning Costs

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

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



### Capital Stock

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

### Equity Reserve

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

### Retained Earnings

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

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

#### *Revenue from sale of petroleum products*

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

#### *Interest income*

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

### Costs and Expenses Recognition

Costs and Expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of that result in decreases in equity, other than those relating to distributions to equity participants. Costs and expenses are recognized in the consolidated statements of income in the year they are incurred.

#### *Petroleum production costs*

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

#### *General and administrative expenses*

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



*Others*

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

Other Comprehensive Income (Loss)

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

Foreign Currency-Denominated Transactions and Translations

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

Income Taxes

*Current income tax*

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

*Deferred income tax*

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

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

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

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





reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred income tax amount to be utilized.

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

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

#### Provisions and Contingencies

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

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

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

#### Earnings (Loss) per Share

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

Diluted earnings (loss) per share is calculated by dividing the net loss attributable to equity holders of the Parent Company by the weighted average number of ordinary shares issued during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all potentially dilutive ordinary shares into ordinary shares. As at December 31, 2017 and 2016, there are no potentially dilutive ordinary shares.

#### Segment Reporting

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



#### Events after the Reporting Period

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

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### 3. **Summary of Significant Judgments, Estimates and Assumptions**

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

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

#### Judgments

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

##### *Determination of the functional currency*

The Parent Company and BEMC, based on the relevant economic substance of the underlying circumstances, have determined their functional currency to be the Philippine Peso. FEC's functional currency is the Canadian Dollar while the United States (US) Dollar for FEL and Pitkin. These are the currencies of the primary economic environments in which the entities primarily operate.

##### *Determination and classification of a joint arrangement*

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

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

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

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

As at December 31, 2017 and 2016, the Group's joint arrangement is in the form of a joint operation.



### Accounting Estimates and Assumptions

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

#### *Estimation of reserves*

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

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

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

#### *Estimation of allowance for impairment on trade and other receivables*

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

The Group did not assess its trade and other receivables for collective impairment due to the few counterparties that can be specifically identified. Any impairment loss is recognized in the consolidated statements of income with a corresponding reduction in the carrying value of the loans and receivables through an allowance account. Total carrying value of trade and other receivables amounted to ₱41,585 and ₱63,480 as at December 31, 2017 and 2016, respectively (see Note 6). Allowance for impairment losses on other receivables amounted to ₱707 and nil as at December 31, 2017 and 2016, respectively (see Note 6).



*Assessment of impairment of property and equipment*

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

As at December 31, 2017 and 2016, the carrying value of property and equipment amounted to ₱261,883 and ₱307,835, respectively, net of allowance for impairment loss of ₱15,211 and nil as at December 31, 2017 and 2016, respectively (see Note 9).

*Impairment testing of goodwill*

The Group reviews the carrying values of goodwill for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs impairment test of goodwill annually every December 31. Impairment is determined for goodwill by assessing the recoverable amount of the CGU or group of CGUs to which the goodwill relates. Assessments require the use of estimates, judgements and assumptions such as forecasted revenue base, gross margin/profit, operating margin, capital expenditures and discount rate. If the recoverable amount of the unit exceeds the carrying amount of the CGU, the CGU and the goodwill allocated to that CGU shall be regarded as not impaired. Where the recoverable amount of the CGU or group of CGUs is less than the carrying amount of the CGU or group of CGUs to which goodwill has been allocated, an impairment loss is recognized. No impairment losses were recognized for the years ended December 31, 2017 and 2016. The carrying value of goodwill as at December 31, 2017 and 2016 amounted to ₱1,238,583 (see Note 4).

*Determination of the NRV of inventories*

The NRV of coal and petroleum inventory is computed based on estimated selling price less estimated costs to sell. The NRV of materials and supplies is computed based on their estimated sales value at their current condition. Based on these estimates, an inventory write-down is recognized for any excess of carrying value over the NRV of the inventory. The carrying values of the inventories of the Group amounted to ₱21,727 and ₱19,160 as at December 31, 2017 and 2016, respectively (see Note 7). Allowance for probable inventory losses amounted to ₱266,103 as at December 31, 2017 and 2016 (see Note 7).

*Estimation of provision for rehabilitation and decommissioning costs*

Significant estimates and assumptions are made in determining the provision for rehabilitation and decommissioning costs. Factors affecting the ultimate amount of liability include estimates of the extent and costs of rehabilitation activities, technological changes, regulatory changes, cost increases, and changes in discount rates. Those uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision at each reporting period represents management's best estimate of the present value of the future rehabilitation costs required. Changes to estimated future costs are recognized in the consolidated statements of financial position by adjusting the rehabilitation asset and liability. Assumptions used to compute for the provision for rehabilitation and decommissioning costs are reviewed and updated annually. Provision for rehabilitation and decommissioning costs amounted to ₱7,955 and ₱9,700 as at December 31, 2017 and 2016, respectively (see Note 9). The Group recognized accretion of interest amounting to ₱130 and ₱120 for 2017 and 2016, respectively. The discount rate used by the Group to value the provision as at December 31, 2017 and 2016 is 1.63% 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 costs shall be assessed for impairment when the facts and circumstances suggest that the carrying amount exceeds the recoverable amount. 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 have been provided for these oil and gas assets that are specifically identified to be unrecoverable. There was no allowance for impairment loss recognized in 2017 and 2016.

The deferred oil and gas exploration costs have a carrying value amounting to ₱5,168,368 and ₱5,081,450 as at December 31, 2017 and 2016, respectively, net of allowance for unrecoverable portion amounting to ₱668,510 and ₱662,896 for December 31, 2017 and 2016, respectively (see Note 10).

*Assessing realizability of deferred tax assets*

The Group reviews the carrying amounts at each reporting period and adjusts the balance of deferred income tax assets to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. However, there is no assurance that the Group will utilize all or part of the deferred income tax assets. The carrying amount of deferred income tax assets amounted to ₱31,651 and ₱33,706 as at December 31, 2017 and 2016, respectively (see Note 16).

*Provision for losses*

The Group provides for present obligations (legal or constructive) where it is probable that there will be an outflow of resources embodying economic benefits that will be required to settle the said obligations. An estimate of the provision is based on known information at each reporting period, net of any estimated amount that may be reimbursed to the Group. The amount of provision is re-assessed at least on an annual basis to consider new relevant information. As at December 31, 2017 and 2016, provision for losses recorded under noncurrent liabilities amounted to ₱182,758 and ₱194,004, respectively (see Note 24).

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#### 4. Business Combination

*Acquisition of Pitkin*

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

The goodwill of ₱1,534,168 arising from the acquisition pertains to the revenue potential the Group expects from Pitkin's Peru Block Z-38 and other blocks.



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

	Carrying Value in the Subsidiary	Fair Value Recognized on Acquisition
<b>Assets</b>		
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
<b>Liabilities</b>		
Accounts payable and accrued liabilities	48,391	48,391
Deferred income tax liability	-	1,534,168
	48,391	1,582,559
<b>Total identifiable net assets</b>	<b>₱1,213,801</b>	<b>₱4,793,527</b>
Total identifiable net assets		₱4,793,527
Total consideration		6,327,695
<b>Goodwill arising from acquisition</b>		<b>₱1,534,168</b>

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

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

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

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



The aggregate consideration follows:

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

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
	<u>₱629,953</u>

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

*Acquisition of BEMC and FEC*

On September 24, 2010, pursuant to an internal reorganization whereby all of the energy assets of PMC are to be held by the Parent Company, PMC transferred all of its investment in shares of stock in BEMC and FEC (see Note 1). This qualified as a business combination under common control. The investment in FEL was previously recognized as an investment in associate.

The business combinations under common control were accounted for using the pooling-of-interests method since PMC, 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, 2017 and 2016, the goodwill resulting from business combinations amounting to ₱1,238,583 are allocated to the Group's cash-generating units namely: SC 14 C1 Galoc Oil Field, SC 14 A&B Nido-Matinloc, SC 72 Reed Bank and Peru Z38. The Group performed its annual impairment test in 2017 and 2016.

The recoverable amount of the CGUs were determined based on a value in use calculation using cash flow projections from financial budgets covering the expected life of the oil and gas fields. Based on its analysis, management concluded that the goodwill is recoverable. The calculation of the value in use for the CGUs incorporates the following key assumptions: a) oil prices which are estimated with reference to external market forecasts; b) volume of resources and reserves which are based on resources and reserves report prepared by third party; c) capital expenditure and production and operating costs which are based on the Group's historical experience and latest life of well models; and



d) discount rate at the weighted average cost of capital (WACC). Management believes that the key assumptions used in determining the recoverable amount at reasonable possible changes would not cause the CGUs carrying amount to exceed its recoverable amount.

## 5. Cash and Cash Equivalents

	2017	2016
Cash on hand and in banks	<b>₱272,535</b>	₱251,549
Short-term investments	<b>177,504</b>	321,792
	<b>₱450,039</b>	₱573,341

Interest income amounted to ₱3,749, ₱3,316, and ₱6,099 in 2017, 2016 and 2015, respectively. The Group has cash in bank denominated in US Dollar (\$) amounting to US\$8,263 and US\$9,483 as at December 31, 2017 and 2016, respectively (see Note 20).

## 6. Trade and Other Receivables - net

	2017	2016
Trade	<b>₱31,197</b>	₱55,785
Others	<b>11,095</b>	7,695
	<b>42,292</b>	63,480
Less allowance for impairment losses on receivables	<b>(707)</b>	-
	<b>₱41,585</b>	₱63,480

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.

During the year the Group recognized an impairment on other receivables amounting to ₱707. This is recorded under 'Other income (charges)' in the consolidated statements of income (see Note 14).

## 7. Inventories - net

	2017	2016
Coal - at cost	<b>₱220,045</b>	₱220,045
Petroleum - at cost	<b>21,727</b>	19,160
Materials and supplies - at cost	<b>46,058</b>	46,058
	<b>287,830</b>	285,263
Less allowance for probable inventory losses	<b>266,103</b>	266,103
	<b>₱21,727</b>	₱19,160

The cost of petroleum recognized as expense and included in 'Petroleum production costs' amounted to ₱108,851, ₱115,405, and ₱97,981 in 2017, 2016, and 2015, respectively (see Note 13).

Allowance for probable inventory losses pertains to coal inventories and materials and supplies (see Notes 9 and 13).





As at December 31, 2017 and 2016, depletion expense capitalized as part of petroleum inventories amounted to ₱10,675 and ₱7,288, respectively.

8. **Other Current Assets**

	2017	2016
Prepaid expenses	₱5,194	₱6,691
Input VAT	7,214	6,501
Deposits	–	39
	<b>₱12,408</b>	<b>₱13,231</b>

9. **Property and Equipment - net**

	December 31, 2017				Total
	Oil and Gas, Properties	Machinery and Equipment	Surface Structures	Construction in-progress	
<b>Cost</b>					
Balances at January 1	₱914,296	₱249,437	₱37,659	₱759	₱1,202,151
Additions	–	675	–	–	675
Effect of translation adjustment	9,522	293	–	–	9,815
Balances at December 31	923,818	250,405	37,659	759	1,212,641
<b>Accumulated depletion and depreciation</b>					
Balances at January 1	390,799	89,075	8,886	–	488,760
Depletion and depreciation (Notes 7 and 13)	40,378	448	–	–	40,826
Effect of translation adjustment	(478)	1,957	–	–	1,479
Balances at December 31	430,699	91,480	8,886	–	531,065
<b>Accumulated impairment</b>					
Balances at January 1	223,290	152,734	28,773	759	405,556
Additions	15,069	–	–	–	15,069
Effect of translation adjustment	(844)	(88)	–	–	(932)
Balances at December 31	237,515	152,646	28,773	759	419,693
<b>Net book values</b>	<b>₱255,604</b>	<b>₱6,279</b>	<b>₱–</b>	<b>₱–</b>	<b>₱261,883</b>



	December 31, 2016				
	Oil and Gas, Properties	Machinery and Equipment	Surface Structures	Construction in-progress	Total
<b>Cost</b>					
Balances at January 1	₱869,943	₱250,957	₱37,659	₱759	₱1,159,318
Additions	569	115	–	–	684
Disposals	–	(5,649)	–	–	(5,649)
Effect of translation adjustment	43,784	4,014	–	–	47,798
Balances at December 31	914,296	249,437	37,659	759	1,202,151
<b>Accumulated depletion and depreciation</b>					
Balances at January 1	321,091	90,813	8,886	–	420,790
Depletion and depreciation (Notes 7 and 13)	57,039	351	–	–	57,390
Disposals	–	(5,647)	–	–	(5,647)
Effect of translation adjustment	12,669	3,558	–	–	16,227
Balances at December 31	390,799	89,075	8,886	–	488,760
<b>Accumulated impairment</b>					
Balances at January 1	223,221	152,726	28,773	759	405,479
Effect of translation adjustment	69	8	–	–	77
Balances at December 31	223,290	152,734	28,773	759	405,556
Net book values	₱300,207	₱7,628	₱–	₱–	₱307,835

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

In 2015, the Group reversed a provision for impairment loss of property and equipment amounting to ₱1,371 due to sale of BEMC's machinery and equipment to GCMDI, Silangan Mindanao Mining Company (SMMCI) and other third parties.

Proceeds totaling to ₱4,033 in 2015 from the disposal of property and equipment resulted in gain on sale of ₱1,688.

The cost of fully depreciated machinery and equipment still being used in the Group's operation amounted to ₱349 and ₱72 as at December 31, 2017 and 2016, respectively.

Oil and gas properties include the rehabilitation and decommissioning costs amounting to ₱7,955 and ₱9,700 as at December 31, 2017 and 2016, respectively.

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

	2017	2016
Beginning balances	₱9,700	₱9,174
Accretion	130	120
Disposal	(1,875)	–
Effect of translation adjustment	–	406
Ending balances	₱7,955	₱9,700

The provision for rehabilitation and decommissioning costs amounting to ₱7,955 and ₱9,700 as at December 31, 2017 and 2016, respectively, are recorded under 'Other noncurrent liabilities' in the consolidated statements of financial position.



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

Discount rates of 1.63% and 1.63% were used to compute the present values of provision for rehabilitation and decommissioning costs of FEL, for the years ended December 31, 2017 and 2016, respectively.

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

	2017	2016
Oil and gas exploration assets	<b>₱5,836,878</b>	₱5,744,346
Less allowance for unrecoverable portion	<b>668,510</b>	662,896
	<b>₱5,168,368</b>	₱5,081,450

As at December 31, 2017 and 2016, carrying value of Peru exploration assets amounted to ₱3,395,415 and ₱3,395,272, respectively and the remaining balance pertain to Philippine exploration assets.

In 2015, the Group recognized provision for impairment losses on deferred oil and gas exploration costs amounting to ₱359,595.

In 2015, the Group wrote off deferred oil and gas exploration costs amounting to ₱338,525 and ₱70,453 on SC 6A and Peru Block XXVIII, respectively. In 2015, the Group recognized a reversal of impairment amounting to ₱388,630 on SC 40.

PXP, Pitkin and FEL, through their subsidiaries, have various participating interests in petroleum service contracts as follows as at December 31, 2017:

Service Contract	Participating Interest		
	PXP	Pitkin	FEL
SC 6 (Cadlao Block)	1.65%	—	—
SC 6A (Octon Block)	5.56%	—	5.56%
SC 6B (Bonita Block)	—	—	8.18%
SC 14 (Tara PA)	—	—	10.00%
SC 14 Block A (Nido)	—	—	8.47%
SC 14 Block B (Matinloc)	—	—	12.41%
SC 14 Block B-1 (North Matinloc)	—	—	19.46%
SC 14 Block C (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 53 (Mindoro) <sup>1</sup>	—	—	—
SC 72 (Reed Bank)	—	—	70.00%
SC 74 (Linapacan) <sup>2</sup>	70.00%	—	—
SC 75 (Northwest Palawan)	50.00%	—	—
Peru Block Z-38	—	25.00%	—

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

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



SC 6A (Octon Block)

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

In 2014, Pitkin elected not to enter Phase 2 of the FIA and returned its 70% participating interest to the farm-out partners. As a result of Pitkin's exit, Philodrill re-assumed the block's operatorship beginning January 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 PSDM ('Pre-Stack Depth Migration'), which was then followed by a re-run of the quantitative interpretation ('QI') study that was earlier undertaken on the 3D dataset using PSTM ('Pre-Stack Time Migration') processing. The consortium will undertake an interpretation of the newly reprocessed 3D seismic data in 2018.

SC 14 Block C (Galoc)

The Galoc field has already produced about 20.18 million barrels of oil since start of production in October 2008.

In October 2016, the Galoc Block Consortium approved the drilling of Galoc-7 to test the Mid Galoc Prospect, which is estimated to contain resources of 6.2 million to 14.6 million stock tank barrels. On November 8, 2016, the DOE approved the Galoc-7 drilling program, with an estimated budget amounting to US\$31,000. Galoc Production Company (GPC) drilled the Galoc-7 well and a sidetrack, Galoc-7ST, from March to April 2017 using the drillship Deepsea Metro I. The wells encountered 912 meters of net sand, which is below the prognosed thickness. After an extensive review of the well results and potential tie-back scenarios, the Joint Venture (JV) in consideration of the prevailing low crude prices decided to temporarily suspend all activities related to a possible Phase III development and concentrate its efforts in optimizing oil production at the Galoc Field from the current four (4) production wells in order to sustain profitability and prolong the field's economic life.

The Consortium submitted to the DOE a budget of US\$ 44,500 for 2018, of which 75% is allotted for floating production storage and offloading (FPSO) related costs and the rest for field operations and management costs. A total of four (4) liftings is also forecasted for 2018, with cargo volume of between 325,000 and 330,000 barrels.

In 2017 and 2016, the field produced around 1.46 and 1.88 million barrels of oil, respectively.

SC 14 Block C-2 (West Linapacan)

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

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



The consortium continues with evaluating the viability of redeveloping the West Linapacan “A” Field, which was discovered in 1990 and produced over 8 million barrels of oil from 1992 before being shut-in in 1996. An interpretation of the 3D seismic data was carried out in 2017 while for 2018, further assessment of viable options to redevelop the field will be undertaken, taking into consideration the risks on the volume of remaining resources, and the complexity of the Linapacan Limestone reservoir.

#### SC 40 (North Cebu)

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 San Remigio and Tabogon in Northern Cebu from March 16, 2017 to April 10, 2017. A total of 83 gravity stations were acquired at a spacing of 1 to 2 kilometers. The survey was aimed at delineating the high relief structures that were identified in previous gravity surveys. Processing and interpretation of the gravity data were completed in December 2017.

#### SC 72 (Reed Bank)

SC 72 was awarded on February 15, 2010. It covers an area of 8,800 square kilometers and contains the Sampaguita Gas Discovery which has a potential to contain In-Place Contingent Resources of 2.6 trillion cubic feet (TCF) and In-Place Prospective Resources of 5.4 TCF as reported by Weatherford Petroleum Consultants (Weatherford) in 2012.

The results of the study were used to define the location of two (2) wells, to be named Sampaguita-4 and Sampaguita-5, which if successfully drilled, would be expected to increase the amount of potentially recoverable resources. The drilling of two (2) wells is part of the work programme of FEL for the SP 2 of SC 72 which was supposed to be accomplished by August 2013. However, FEL was unable to commence the drilling programme because of maritime disputes between the Philippine and Chinese governments.

In February 2015, FEL received a letter from the DOE confirming the suspension of offshore exploration activities in SC 72 while a maritime dispute between Philippines and China remains in parts of the West Philippine Sea. The suspension became effective from December 15, 2014 until the date when the DOE notifies FEL to resume operations.

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

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 Reed Bank (Recto Bank) where SC 72 lies, is within the Philippines’ Exclusive Economic Zone (EEZ) as defined under the UNCLOS.



As at December 31, 2017, *force majeure* is still enforced and FEL is awaiting its lifting in order to commence the remaining SP 2 work commitment.

#### SC 74 (Linapacan)

In September 2013, Pitkin, with its consortium partner, Philodrill, acquired acreage on SC 74 in a competitive bid under the PECR4, with operating interest of 70% and participating interest of 30%, respectively. It covers an area of 4,240 square kilometers and is located in shallow waters of the NW Palawan area.

In June 2015, Philodrill and Philippine National Oil Company Exploration Corporation (PNOC EC) entered into a DOA whereby Philodrill transferred a 5% participating interest to PNOC EC.

On April 25, 2016, the DOE has approved the PSA and DOA dated February 24, 2016 transferring the 70% interest and operatorship of Pitkin to PXP. In December 2016, processing of seismic data was completed.

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

In December 2017, PXP informed the DOE of the SC 74 consortium's intention to enter SP 3, subject to DOE's approval of the proposed amendments to the work program under the said SP.

#### SC 75 (Northwest Palawan)

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 2017.

#### 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 twenty-two (22) months remaining once the *force majeure* is lifted.



In 2017, Peruvian Government has approved the work program consisting of preparation for drilling of two (2) exploration wells, subject to rig availability and securing of remaining regulatory permits, continued evaluation of other prospects and leads within the block and continuous social programs and projects.

In November 2017, the Consortium approved the work program for 2018 consisting of preparation for drilling of two (2) exploration wells (Marina and Bonito), continued evaluation of other prospects and leads within Block Z-38, and continued social programs and projects. Pitkin is carried in the cost of drilling the two (2) wells under a FIA with Karoon.

#### SC 53 (Mindoro)

SC 53 measures 7,240 square kilometers and is mostly located in onshore Mindoro Island. The SC was entered into on July 8, 2005 between the DOE and Laxmi Organic Industries Ltd. On September 5, 2007, Pitkin executed a FIA with the existing partners of SC 53. The agreement was subsequently approved by the DOE on June 11, 2008.

In 2015, Pitkin recognized impairment loss amounting to ₱359,395 after it has expressed intention to exit from the JV therefore reducing the carrying value of SC 53 to nil as at December 31, 2015. On October 24, 2016, the DOE approved the PSA and DOA dated April 27, 2016 transferring the 70% interest of Pitkin to MPOGI.

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

#### Peru Block XXVIII

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

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

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### 11. Other Noncurrent Assets

	2017	2016
Guarantee deposits	₱589	₱589
Decommissioning fund	1,779	350
	<b>₱2,368</b>	<b>₱939</b>

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

Funding for the decommissioning costs of Galoc commenced in 2016. FEL's contribution to the decommissioning fund amounted to ₱1,429 and ₱350 as at December 31, 2017 and 2016, respectively.



## 12. Trade and Other Payables

	2017	2016
Trade	<b>₱9,622</b>	₱12,794
Accrued expenses	<b>7,939</b>	13,461
Withholding taxes	<b>472</b>	310
Other nontrade liabilities	<b>1,377</b>	1,372
	<b>₱19,410</b>	₱27,937

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

Accrued expenses primarily include the accruals for light and water, payroll and security fees. Other non-trade liabilities include accrued royalties payable to DOE and payroll-related liabilities such as payable to Social Security System (SSS), Philhealth and Home Development Mutual Fund.

The Group has no related party balances included in the trade and other payables account as at December 31, 2017 and 2016.

## 13. Costs and Expenses

	2017	2016	2015
Petroleum production costs (Note 7):			
Production costs	<b>₱79,148</b>	₱65,654	₱86,801
Depletion (Note 9)	<b>29,703</b>	49,751	11,180
	<b>₱108,851</b>	₱115,405	₱97,981
General and administrative expenses:			
Professional fees	<b>₱27,063</b>	₱27,851	₱60,577
Personnel costs	<b>6,856</b>	10,760	99,087
Taxes and licenses	<b>3,073</b>	731	15,873
Directors' fees	<b>889</b>	4,152	20,266
Depreciation (Note 9)	<b>448</b>	351	4,175
Rental	<b>389</b>	806	4,978
Travel and transportation	<b>238</b>	528	1,307
Repairs and maintenance	<b>76</b>	70	159
Office supplies	<b>64</b>	315	216
Communications, light and water	<b>47</b>	173	1,580
Others	<b>10,233</b>	9,678	20,604
	<b>₱49,376</b>	₱55,415	₱228,822

The production and depletion cost of the Group is primarily attributable to the Libertad and Galoc producing blocks of FEL.





#### 14. Other Income (Charges)

	2017	2016	2015
Reversal of (provision for) impairment and loss on write off of assets - net:			
Reversal of impairment losses (Notes 7, 9 and 10)	₱11,340	₱4,748	₱390,001
Loss on write-off of assets (Notes 7 and 10)	(707)	-	(70,453)
Provision for impairment of property and equipment (Notes 9 and 10)	(15,211)	-	(359,395)
	<b>(₱4,578)</b>	<b>₱4,748</b>	<b>(₱39,847)</b>
Others - net:			
Reversal of accrual for retirement liability (Note 18)	₱-	₱-	₱28,356
Gain (loss) on sale of assets (Note 9)	-	-	1,688
Others - net	-	(748)	(10,429)
	<b>₱-</b>	<b>(₱748)</b>	<b>₱19,615</b>

#### 15. Equity

##### Capital Stock

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

Details of the Parent Company's capital stock follow:

	Number of Shares	
	2017	2016
Common stock - ₱1 par value		
Authorized	6,800,000,000	6,800,000,000
Issued, outstanding and fully paid:		
January 1	1,700,000,000	1,700,000,000
Issuance during the year	-	-
December 31	1,700,000,000	1,700,000,000

As at December 31, 2017 and 2016, the Parent Company's total stockholders totaled to 38,926 and 39,146, respectively.

##### Equity Reserves

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



In July 2014, Pitkin tendered an offer to buy back 11,972,500 of its outstanding shares for a consideration of US\$1.00 per share. The Parent Company surrendered 2,000,000 of its shares wherein non-controlling interests surrendered 9,099,000 shares. As a result of the share buyback transaction, the Parent Company's ownership interest increased from 50.28% to 53.07%. The total consideration paid by Pitkin to shareholders amounted to ₱482,363, wherein ₱395,733 is attributable to non-controlling interest. An increase in equity of the Parent Company amounting to ₱46,382 resulted from the transaction, while the rest of the movement was due to share option cancellation during the period.

In May 2015, Pitkin tendered another offer to buy back its outstanding shares for a consideration of US\$0.75 per share. The Parent Company and the non-controlling interests surrendered 21,373,000 shares and 19,499,500 shares, respectively. As a result, the Parent Company's interest in Pitkin has increased from 53.07% to 53.43%. The total consideration paid by Pitkin to shareholders amounted to ₱1,365,404, wherein ₱651,436 is attributable to non-controlling interests. An increase in equity of Parent amounting to ₱102,949 resulted from the transaction.

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

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

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

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

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

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

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

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

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



Non-controlling Interest

Non-controlling interests consist of the following:

	Percentage of Ownership	Country of Incorporation and Operation	2017	2016
Non-controlling interests in the net assets of:				
Pitkin and its subsidiaries	46.57%	UK/Philippines	<b>₱1,980,964</b>	₱2,068,140
FEC	45.01%	Canada	<b>78,953</b>	82,580
FEL and its subsidiaries	24.08%	UK/Philippines	<b>338,571</b>	264,499
			<b>₱2,398,488</b>	₱2,415,219

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

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

	2017	2016
FEL and its subsidiaries	<b>(₱9,683)</b>	(₱3,731)
FEC	<b>(3,683)</b>	(6,101)
Pitkin and its subsidiaries	<b>(4,652)</b>	(4,193)

Other comprehensive income allocated to material non-controlling interest:

	2017	2016
FEL and its subsidiaries	<b>₱2,866</b>	₱42,242
FEC	<b>56</b>	1,086
Pitkin and its subsidiaries	<b>1,427</b>	12,041

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

Statements of comprehensive income as of December 31, 2017:

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



Statements of comprehensive income as of December 31, 2016:

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

Statements of comprehensive income as of December 31, 2015:

	Pitkin and its Subsidiaries	FEC	FEL and its subsidiaries
Revenue	₱-	₱-	₱172,250
Cost of sales	-	-	(97,981)
General and administrative expenses	(95,859)	(11,740)	(56,733)
Other income (charges)	(441,077)	29,026	7,815
Interest expense	-	-	(39,124)
Income (loss) before tax	(536,936)	17,286	(13,773)
Provision for income tax	14	-	2
Net income (loss)	(536,950)	17,286	(13,775)
Other comprehensive income (loss)	(4,122)	901	54,118
Total comprehensive income (loss)	(₱541,072)	₱18,187	₱40,343
Attributable to non-controlling interests	(₱252,159)	₱8,868	₱18,921

Statements of financial position as at December 31, 2017:

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



Statements of financial position as at December 31, 2016:

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

Statements of cash flows as at December 31, 2017:

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

Statements of cash flows as at December 31, 2016:

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



## Income Taxes

- a. In 2017, current provision for income tax pertains to PXP and FEL's MCIT.
- b. The components of the Group's deferred income tax assets (liabilities) as at December 31, 2017 and 2016 are as follows:

	2017	2016
<b>Deferred income tax assets</b>		
Impairment loss on deferred exploration costs	<b>₱16,303</b>	₱16,303
Unrealized foreign exchange loss	<b>14,464</b>	16,736
MCIT	<b>672</b>	667
Provision for impairment loss on receivables	<b>212</b>	-
NOLCO	-	-
	<b>₱31,651</b>	<b>₱33,706</b>
<b>Deferred income tax liabilities</b>		
Fair value adjustment as a result of business combination	<b>(₱979,990)</b>	(₱979,990)
Unrealized foreign exchange gain	<b>(3,248)</b>	(3,243)
Unrealized gain on dilution of interest	<b>(126,615)</b>	(126,615)
	<b>(₱1,109,853)</b>	<b>(₱1,109,848)</b>

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

	2017	2016	2015
Benefit from income tax computed at the statutory income tax rate	<b>(₱6,282)</b>	(₱9,145)	(₱102,736)
Additions to (reductions in) income tax resulting from:			
Nondeductible petroleum production costs and depletion	<b>36,900</b>	32,291	41,756
Gain on sale of AFS financial assets	-	-	(7,256)
Interest income subjected to final tax	<b>(74)</b>	(57)	(806)
Movement in unrecognized deferred tax asset	<b>(1,125)</b>	(5,935)	109,713
Nondeductible expenses and non-taxable income:			
Nontaxable petroleum revenue	<b>(29,689)</b>	(29,450)	(40,676)
Others	<b>2,526</b>	(21)	21
Provision for (benefit from) income tax	<b>₱2,256</b>	(₱12,317)	₱16

- d. As at December 31, 2017, 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
2015	2018	₱52,466	₱1,028
2016	2019	47,789	74
2017	2020	2,699	771
		<b>₱102,954</b>	<b>₱1,873</b>



The following are the movements of the Group's NOLCO and excess MCIT as at December 31, 2017 and 2016:

	NOLCO		Excess MCIT	
	2017	2016	2017	2016
Beginning balance	<b>₱616,419</b>	₱678,451	<b>₱2,530</b>	₱3,478
Additions	<b>2,699</b>	47,789	<b>771</b>	74
Applications	<b>(17,167)</b>	–	–	–
Expirations	<b>(498,997)</b>	(109,821)	<b>(1,428)</b>	(1,022)
Ending balance	<b>₱102,954</b>	₱616,419	<b>₱1,873</b>	₱2,530

- e. The Group did not recognize deferred income tax assets on the following deductible temporary differences as at December 31, 2017 and 2016:

	2017	2016
NOLCO	<b>₱102,954</b>	₱616,419
Excess MCIT	<b>1,201</b>	1,863

## 16. 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:

	2017		Terms	Conditions
	Amount/ Volume	Outstanding Balance		
<b>PMC</b>				
<i>Advances:</i>				
PXP	<b>₱25,211</b>	<b>₱2,168,675</b>	Collectible in cash; On demand; non-interest bearing	Secured, no impairment
BEMC	–	<b>737,815</b>	Collectible in cash; On demand; non-interest bearing	Unsecured, no impairment
<b>Total</b>	<b>₱25,211</b>	<b>₱2,906,490</b>		



	2016			
	Amount/ Volume	Outstanding Balance	Terms	Conditions
<b>PMC</b>				
<i>Advances:</i>				
PXP	₱104	₱2,193,886	Collectible in cash; On demand; non-interest bearing	Secured, no impairment
BEMC	-	737,815	Collectible in cash; On demand; non-interest bearing	Unsecured, no impairment
<b>Total</b>	<b>₱104</b>	<b>₱2,931,701</b>		

- 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 ordinary shares.

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

On November 21, 2013, PMC assigned its rights and obligations under the facility agreement to the Parent Company. On the same date, the loan facility was increased to US\$18,000 and has been extended for an additional three (3) years. The loans receivable from FPHL and loan payable to PMC recorded in the Parent Company amounted to ₱674,804 in 2013.

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

On March 23, 2017, PXP, FEL and GSEC 101 - Jersey agreed the conversion of US\$11,805 loan to equity, by subscribing to 39,350,920 new ordinary 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 ordinary shares of FEL.

On the same date, PXP and GSEC 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, ₱43,829 and ₱37,986 in 2017, 2016 and 2015, respectively. During the same years, commitment fees incurred amounted to ₱281, ₱1,191 and ₱1,138, respectively.

Total drawdown from the new loan facility amounted to US\$5,522 as at December 31, 2017. Interest expense incurred for 2017 amounted to ₱11,102. 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, 2017, 2016 and 2015.

Loans receivable of PXP as at December 31, 2017 and 2016 amounted to ₱275,727 and ₱770,660, respectively.

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

On August 11, 2015, the BOD has agreed that a pledge agreement with PMC (pledgee) be entered into by PXP (pledgor). In order to secure the balance of ₱2,200,000 as of pledge date, the Parent Company has pledged its shares in its subsidiaries, Pitkin and Forum to PMC. The contract was formally executed on August 17, 2015.

During the year, the Group paid PMC amounting to ₱25,198. As at December 31, 2017 and 2016, advances from PMC amounted to ₱2,168,675 and ₱2,193,886, respectively.

- c. BEMC has significant transactions with related parties involving advances to provide funding on BEMC's exploration and development activities. As at December 31, 2017 and 2016, the non-interest bearing advances from PMC amounted to ₱737,815.
- d. The compensation of key management personnel pertaining to short-term employees and retirement benefits amounted to ₱8,070, ₱8,700 and ₱12,135 in 2017, 2016 and 2015, respectively.

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## 17. Retirement Benefits Liability

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

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

In 2015, the principal assumptions used in determining retirement benefits liability for the defined benefit plans are shown below:

	2015
Discount rates	3.50% - 5.77%
Future salary increases	5.00%



Present value of defined benefit obligation:

	2015
Net benefit cost in consolidated statements of comprehensive income	
January 1	₱15,623
Current service cost	6,814
Interest cost	2,595
Gain on curtailment	(1,682)
Subtotal	23,350
Re-measurements in OCI	
Experience adjustments	2,267
Actuarial changes from changes in financial assumptions	(1,065)
Subtotal	1,202
Ending balance	₱24,552

In 2015, Pitkin approved the plan to terminate all its employees effective end of January 2016. FEPCO also terminated its employees in August 2015. These resulted in absolute and full extinguishment of the obligation of the Group to pay retirement benefits under the existing regulatory framework. Consequently, the outstanding retirement benefits liabilities of the Group at the date of extinguishment were recognized as gain in the statement of comprehensive income. The reversal of accrual for retirement benefits liability of Pitkin and FEPCO in 2015 amounted to ₱28,356.

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## 18. Financial Instruments

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

There were no transfers between Level 1 and 2 fair value measurements and no transfers into and out of Level 3 fair value measurement as at December 31, 2017 and 2016.

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## 19. Financial Risk Management Objectives and Policies

The Group's financial instruments consist of cash and cash equivalents, trade and other receivables, trade and other payables, and advances from related parties. The main purpose of these financial instruments is to provide financing for the Group's operations.

### Risk Management Structure

The BOD is mainly responsible for the overall risk management and approval of the risk strategies and principles of the Group.

### Financial Risks

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



*Credit risk*

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

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

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

	2017	2016
Cash in banks and cash equivalents	P450,022	P573,276
Trade and other receivables	42,292	63,480
Refundable deposits	-	389
	<b>P492,314</b>	<b>P637,145</b>

The following tables show the credit quality of the Group's financial assets by class as at December 31, 2017 and 2016 based on the Group's credit evaluation process.

**As at December 31, 2017:**

	Neither Past Due nor Impaired		Past Due and Individually	Total
	High-Grade	Standard	Impaired	
Cash and cash equivalents, excluding cash on hand:				
Cash in banks	P272,518	P-	P-	P272,518
Short-term investments	177,504	-	-	177,504
Trade and other receivables:				
Trade	30,490	-	707	31,197
Others	11,095	-	-	11,095
<b>Total</b>	<b>P491,607</b>	<b>P-</b>	<b>P707</b>	<b>P492,314</b>

As at December 31, 2016:

	Neither Past Due nor Impaired		Past Due and Individually	Total
	High-Grade	Standard	Impaired	
Cash and cash equivalents, excluding cash on hand:				
Cash in banks	P251,484	P-	P-	P251,484
Short-term investments	321,792	-	-	321,792
Trade and other receivables:				
Trade	55,785	-	-	55,785
Others	7,695	-	-	7,695
Refundable deposits under:				
Other current assets	-	39	-	39
Other noncurrent assets	-	350	-	350
<b>Total</b>	<b>P636,756</b>	<b>P389</b>	<b>P-</b>	<b>P637,145</b>



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

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

*Liquidity risk*

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

The 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, 2017 and 2016, respectively:

**As at December 31, 2017:**

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



As at December 31, 2016:

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

***Market Risk***

***Foreign currency risk***

Foreign currency risk is the risk where the value of the Group's financial instruments diminishes due to unfavorable changes in foreign exchange rates. The Parent Company's transactional currency exposures arise from both cash in banks and advances from PMC. The corresponding net foreign exchange gains (losses) amounting to (₱146), ₱13,341 and ₱24,675 arising from the translation of these foreign currency-denominated financial instruments were recognized by the Parent Company in the years ended December 31, 2017, 2016 and 2015, respectively. The exchange rates of the Peso to US dollar were ₱49.93, ₱49.72 and ₱47.06 to US\$1 in the years ended December 31, 2017, 2016 and 2015, respectively.

The Group's foreign currency-denominated monetary assets and monetary liabilities as at December 31, 2017 and 2016 are as follow:

	2017		2016	
	US\$	Peso Equivalent	US\$	Peso Equivalent
<b>Assets</b>				
Cash in banks	US\$8,263	₱412,572	US\$9,483	₱471,495
Trade receivables	625	31,206	1,250	62,150
<b>Net monetary assets</b>	<b>US\$8,888</b>	<b>₱443,778</b>	<b>US\$10,733</b>	<b>₱533,645</b>

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

	US Dollar (Depreciates) Appreciates	Effect on Income (Loss) Before Income Tax
<b>2017</b>		
	Appreciate by 9%	₱39,940
	Depreciate by (9%)	(39,940)
<b>2016</b>		
	Appreciate by 4%	₱21,346
	Depreciate by (4%)	(21,346)

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



## 20. Capital Management

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

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

	2017	2016
Capital stock	₱1,700,000	₱1,700,000
Deficit	(1,294,692)	(1,255,567)
	<b>₱405,308</b>	<b>₱444,433</b>

## 21. Basic/Diluted Loss per Share

Basic/diluted loss per share is computed as follows:

	2017	2016	2015
Net loss attributable to equity holders of the Parent Company	(₱39,125)	(₱22,362)	(₱87,540)
Divided by weighted average number of common shares issued during the year	1,700,000,000	1,700,000,000	1,700,000,000
Basic/diluted loss per share	<b>(₱0.023)</b>	<b>(₱0.013)</b>	<b>(₱0.051)</b>

As at December 31, 2017, 2016, and 2015, the Parent Company does not have any potentially dilutive securities.

## 22. Segment Information

The Group currently has two (2) reportable segments, namely oil and gas activities and coal mining activities. The coal mining operations of BEMC ended in 2014. No operating segments have been aggregated to form the two (2) reportable operating segments.

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

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

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



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

The Group's capital expenditures include acquisitions of property and equipment, and the incurrence of deferred oil and gas exploration costs. The Group has only one (1) geographical segment as the Group operates and derives all its revenue from domestic operations. The Group's operating assets are principally located in the Philippines. Thus, geographical business operation is not required.

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

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

	2017	2016	2015
SC 14 Block C (Galoc)	<b>₱82,519</b>	₱85,379	₱157,539
SC 14 Block A (Nido)	<b>7,604</b>	9,566	5,156
SC 14 Block B-1 (North Matinloc)	<b>767</b>	4,760	1,938
SC 14 Block B (Matinloc)	<b>13,555</b>	1,874	6,556
SC 40 Libertad	-	-	1,061
	<b>₱104,445</b>	₱101,579	₱172,250

On January 6, 2014, BEMC finalized the agreement regarding the assignment and sale of its Coal Operating Contract (COC). On January 8, 2014, BEMC requested to DOE the approval of the DOA executed by BEMC and Grace Coal Mining and Development, Inc. On May 27, 2015, the DOE approved the assignment and sale of COC 130 to GCMDI.

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

**As at December 31, 2017:**

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



As at December 31, 2016:

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

As at December 31, 2015:

	Oil and Gas	Coal	Eliminations	Total
Consolidated revenue				
External customers	₱172,250	₱-	₱-	₱172,250
Results				
EBITDA	611,572	4,514	(757,292)	(141,206)
Depreciation and depletion	(4,175)	-	-	(4,175)
Income tax (expense) benefit	16	-	-	16
Interest Income	40,462	-	(40,462)	-
Interest expense and other charges - net	(39,124)	-	40,462	1,338
Consolidated net income (loss)	₱608,751	₱4,514	(₱757,292)	(₱144,027)
Core net income (loss)	(₱931,422)	(₱317)	₱801,846	(₱129,893)
Consolidated total assets	₱6,234,649	₱2,643	₱990,888	₱7,228,180
Consolidated total liabilities	₱3,347,458	₱737,907	₱175,567	₱4,260,932
Other segment information				
Capital expenditures	₱66,886	₱-	₱-	₱66,886
Non-cash expenses other than depletion and depreciation	469,878	-	-	469,878

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

	2017	2016	2015
SK Energy International Pte Ltd	₱61,490	₱26,710	₱41,264
Pilipinas Shell Petroleum Corporation	21,926	-	-
Thai Oil Public Company Limited	21,029	26,872	37,272
Chevron USA Inc. (Singapore Branch)	-	16,031	-
Singapore Petroleum Corporation	-	15,766	79,002
	₱104,445	₱85,379	₱157,538





Revenues amounting to nil, ₱16,291, and ₱14,711 pertain to external customers with individual revenue amounts less than 10% of the Group's revenue for the years ended December 31, 2017, 2016 and 2015, respectively.

The table below shows the Group's reconciliation of core net loss to the consolidated net loss for the years ended December 31, 2017, 2016 and 2015:

	2017	2016	2015
Core net loss	<b>(₱37,317)</b>	(₱49,952)	(₱129,893)
Non-recurring gains (losses)			
Gain on reversal on provision for losses	<b>11,340</b>	-	-
Net tax effect of aforementioned adjustments	<b>3,047</b>	17,655	18,954
Foreign exchange gains - net	<b>(277)</b>	10,348	21,997
Provision for impairment of assets (Notes 6, 7, 9 and 11)	<b>(15,918)</b>	-	(229,650)
Gain on reversal of impairment loss on assets (Note 9)	-	(192)	231,052
Loss on sale of assets	-	(221)	-
Net loss attributable to:			
Equity holders of the Parent Company	<b>(39,125)</b>	(22,362)	(87,540)
Non-controlling interests	<b>(18,018)</b>	(14,025)	(56,487)
	<b>(₱57,143)</b>	(₱36,387)	(₱144,027)

### 23. Provisions and Contingencies

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

*Share Purchase Agreement (SPA) between FEL and Forum Pacific, Inc.*

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

The disclosure of additional details beyond the present disclosures may seriously prejudice the Group's position and negotiation strategies with respect to these matters. Thus, as allowed by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, only a general description is provided. The provision for losses for the above mentioned transactions amounting to ₱182,758 and ₱194,004 as at December 31, 2017 and 2016, respectively, are recorded under 'Other noncurrent liabilities' in the consolidated statements of financial position.



## 24. Changes in Liabilities Arising from Financing Activities

	January 1, 2017	Cash flows	Business Combination	Others	December 31, 2017
<b>Current non-interest bearing loans and borrowings</b>	<b>₱2,931,701</b>	<b>(₱25,211)</b>	<b>₱-</b>	<b>₱-</b>	<b>₱2,906,490</b>
<b>Others</b>	<b>9,700</b>	<b>(1,875)</b>	<b>-</b>	<b>130</b>	<b>7,955</b>
<b>Total liabilities from financing activities</b>	<b>₱2,941,401</b>	<b>(₱27,086)</b>	<b>₱-</b>	<b>₱130</b>	<b>₱2,914,445</b>

	January 1, 2016	Cash flows	Business Combination	Others	December 31, 2016
Current non-interest bearing loans and borrowings	₱2,931,944	(₱243)	₱-	₱-	₱2,931,701
Others	9,174	-	-	526	9,700
Total liabilities from financing activities	₱2,941,118	(₱243)	₱-	₱526	₱2,941,401

Others pertain to the provision for decommissioning costs. Changes during the year are attributable to rehabilitation and decommissioning costs amounting to ₱1,875 related to the abandonment of the Libertad Field within SC 40 in November 2017 and accretion of interest amounting to ₱130 and ₱526 in 2017 and 2016, respectively.

## 25. Events After the Reporting Period

On January 10, 2018, Karoon announced the farm-out of its 35% interest in offshore exploration Block Z-38, Tumbes Basin Peru to Tullow Peru Limited. As a result of the agreement, Karoon's interest in the block will decrease from 75% to 40%, subject to certain conditions. Pitkin's interest will remain at 25%. Other than that, there have been no events or transactions that have occurred since December 31, 2017 or are pending that would have a material effect on the consolidated financial statements at that date or for the period then ended, or that are of such significance in relation to the Group's affairs to required mention in a note to the consolidated financial statements in order to make them not misleading regarding the consolidated financial position, consolidated financial performance or consolidated cash flows of the Group.




## INDEPENDENT AUDITOR'S REPORT

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

We have examined the accompanying consolidated financial statements of PXP Energy Corporation and its subsidiaries as at and for the year ended December 31, 2017, on which we have rendered the attached report dated February 27, 2018.

In compliance with Securities Regulation Code Rule 68, As Amended (2011), we are stating that the said Company has a total number of thirty thousand, nine hundred thirty-six (30,936) stockholders owning one hundred (100) or more shares each.

SYCIP GORRES VELAYO & CO.



Alexis Benjamin C. Zaragoza III  
Partner  
CPA Certificate No. 109217  
SEC Accreditation No. 1627-A (Group A),  
April 4, 2017, valid until April 3, 2020  
Tax Identification No. 246-663-780  
BIR Accreditation No. 08-001998-129-2017,  
February 9, 2017, valid until February 8, 2020  
PTR No. 6621351, January 9, 2018, Makati City

February 27, 2018

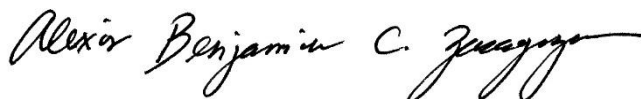


## **INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES**

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

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of PXP Energy Corporation and its subsidiaries as at December 31, 2017 and 2016, and each of the three years in the period ended December 31, 2017 included in this Form 17-A and have issued our report thereon dated February 27, 2018. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011), and are not part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Alexis Benjamin C. Zaragoza III  
Partner  
CPA Certificate No. 109217  
SEC Accreditation No. 1627-A (Group A),  
April 4, 2017, valid until April 3, 2020  
Tax Identification No. 246-663-780  
BIR Accreditation No. 08-001998-129-2017,  
February 9, 2017, valid until February 8, 2020  
PTR No. 6621351, January 9, 2018, Makati City

February 27, 2018



**PXP ENERGY CORPORATION AND SUBSIDIARIES**  
**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND**  
**SUPPLEMENTARY SCHEDULES**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

Consolidated Financial Statements:

Statement of Management's Responsibility for Consolidated Financial Statements

Independent Auditors' Report

Consolidated Statements of Financial Position

Consolidated Statements of Comprehensive Income

Consolidated Statements of Cash Flows

Consolidated Statements of Changes in Equity

Notes to Consolidated Financial Statements

Supplementary Schedules:

Independent Auditors' Report on Supplementary Schedules

Schedule I - Reconciliation of Retained Earnings Available for Declaration\*

Schedule II - Schedule Showing Financial Soundness

Schedule III - A Map Showing the Relationship between the Parent Company and its Subsidiaries

Schedule IV - Schedule of Effective Standards and Interpretations

Schedule V - Supplementary Schedules Required under Annex 68-E

Schedule A: Financial Assets\*

Schedule B: Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)\*

Schedule C: Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements

Schedule D: Intangible Assets - Other Assets

Schedule E: Long-term debt

Schedule F: Indebtedness to Related Parties (Long-Term Loans from Related Companies)\*

Schedule G: Guarantees of Securities of Other Issuers\*

Schedule H: Capital Stock

\*These schedules, which are required by SRC Rule 68, have been omitted because they are either not required, not applicable or the information required to be presented is included/shown in the related consolidated financial statements or in the notes thereto.

**SCHEDULE I**  
**RECONCILIATION OF RETAINED EARNINGS**  
**AVAILABLE FOR DIVIDEND DECLARATION**  
**As of December 31, 2017**

**PXP ENERGY CORPORATION**  
**2/F LaunchPad, Reliance corner Sheridan Streets, Mandaluyong City**  
**(Amounts in Thousands)**

**Unappropriated retained earnings, as adjusted to available for dividend distribution, as at December 31, 2015**

**Net income during the year closed to retained earnings**

Less: Non-actual/unrealized income net of tax  
Equity in net income of associate/joint venture  
Unrealized foreign exchange gains - net (except those attributable to cash and cash equivalents)  
Recognized deferred tax asset that increased the net income

Subtotal

Add: Non-actual loss

Unrealized actuarial losses  
Other realized gains or adjustments of certain transactions accounted for under PFRS

**NOT APPLICABLE**

**Net income actually earned during the year**

Add (less):

Dividend declarations during the year

**Unappropriated retained earnings as at December 31, 2016, as adjusted**

**Add: Net income actually earned/realized during the year**

**Net income during the year closed to retained earnings**

Less: Non-actual/unrealized income net of tax  
Equity in net income of associate/joint venture  
Unrealized foreign exchange gains - net (except those attributable to cash and cash equivalents)  
Unrealized actuarial gain  
Fair value adjustment (mark-to-market gains)  
Fair value adjustment of investment property resulting to gain  
Recognized deferred tax asset that increased the net income  
Adjustment due to deviation from PFRS/GAAP - gain  
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under PFRS

Subtotal

Add: Non-actual losses

Depreciation on revaluation increment (after tax)  
Adjustment due to deviation from PFRS/GAAP - loss  
Loss on fair value adjustment of investment property (after tax)  
Other realized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS

Subtotal

**Net income actually earned during the year**

Add (less):

Dividend declarations during the year  
Appropriations of retained earnings during the year  
Reversals of appropriations  
Effects of prior period adjustments  
Treasury shares

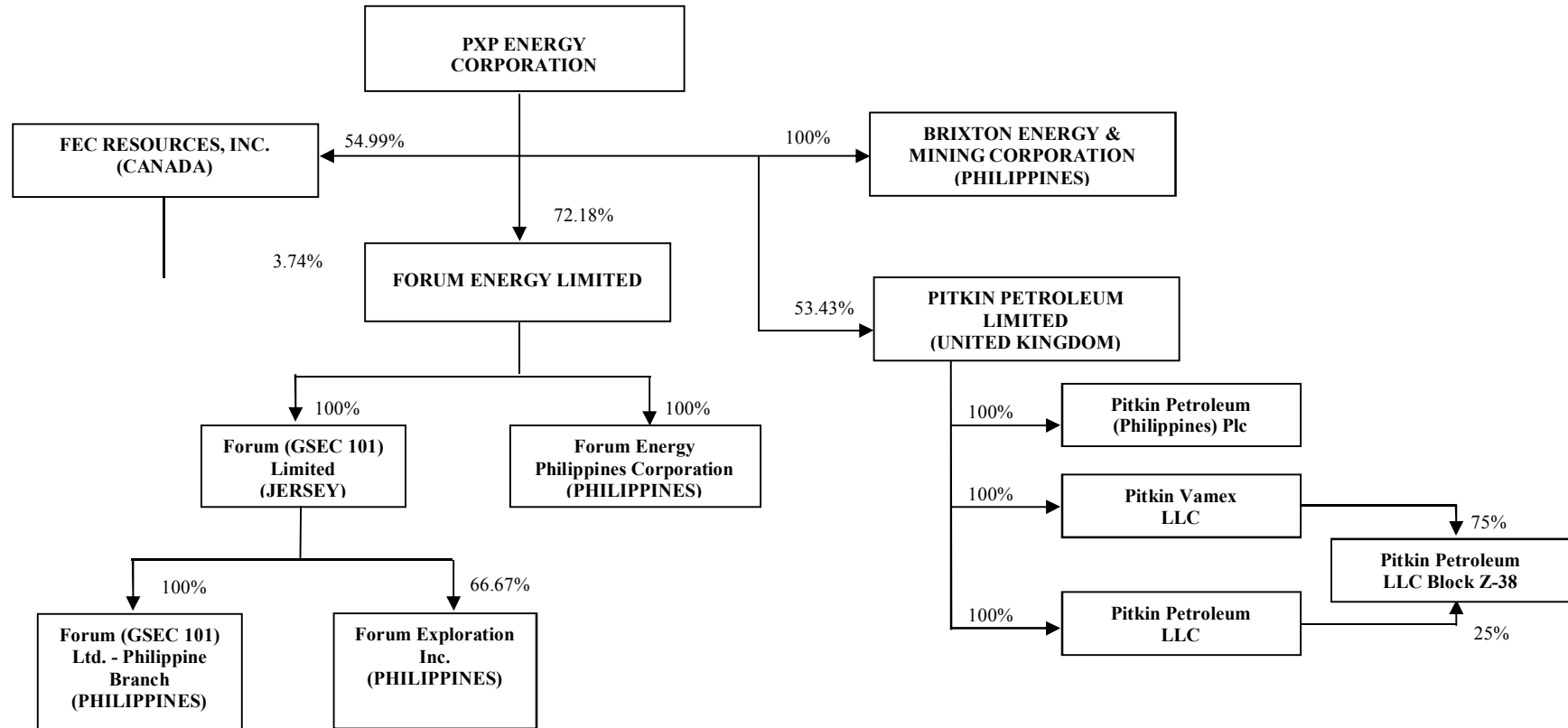
**Subtotal**

**Unappropriated retained earnings as at December 31, 2017, as adjusted**

**SCHEDULE II**  
**PXP ENERGY CORPORATION AND SUBSIDIARIES**  
**SCHEDULE SHOWING FINANCIAL SOUNDNESS**  
**PURSUANT TO SRC RULE 68, AS AMENDED**  
**DECEMBER 31, 2017**

	<b>2017</b>	2016	2015
Current ratio	<b>0.18</b>	0.23	0.23
Debt-to-equity ratio	<b>1.41</b>	1.40	1.44
Asset-to-equity ratio	<b>2.41</b>	2.40	2.44
Interest rate coverage ratio	—	—	—
Net income ratio	<b>(0.55)</b>	(0.36)	(0.84)

**SCHEDULE III**  
**PXP ENERGY CORPORATION AND SUBSIDIARIES**  
**A MAP SHOWING THE RELATIONSHIP BETWEEN THE PARENT COMPANY**  
**AND ITS SUBSIDIARIES**  
**PURSUANT TO SRC RULE 68, AS AMENDED**  
**DECEMBER 31, 2017**





**SCHEDULE IV**  
**PXP ENERGY CORPORATION AND SUBSIDIARIES**  
**TABULAR SCHEDULE OF ALL EFFECTIVE STANDARDS AND**  
**INTERPRETATIONS PURSUANT TO SRC RULE 68, AS AMENDED**  
**DECEMBER 31, 2017**

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b> Effective as of December 31, 2017		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>Framework for the Preparation and Presentation of Financial Statements</b> Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
<b>PFRSs Practice Statement Management Commentary</b>		✓		
<b>Philippine Financial Reporting Standards</b>				
<b>PFRS 1 (Revised)</b>	First-time Adoption of Philippine Financial Reporting Standards			✓
	Amendments to PFRS 1 and PAS 27: <i>Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate</i>	✓		
	Amendments to PFRS 1: <i>Additional Exemptions for First-time Adopters</i>			✓
	Amendment to PFRS 1: <i>Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters</i>			✓
	Amendments to PFRS 1: <i>Severe Hyperinflation and Removal of Fixed Date for First-time Adopters</i>			✓
	Amendments to PFRS 1: <i>Government Loans</i>			✓
	Amendments to PFRS 1: <i>Borrowing Costs</i>			✓
	Amendment to PFRS 1: <i>Meaning of Effective PFRSs</i>	✓		
<b>PFRS 2</b>	<i>Share-based Payment</i>			✓
	Amendments to PFRS 2: <i>Vesting Conditions and Cancellations</i>			✓
	Amendments to PFRS 2: <i>Group Cash-settled Share-based Payment Transactions</i>			✓
<b>PFRS 3 (Revised)</b>	<i>Business Combinations</i>	✓		
<b>PFRS 4</b>	<i>Insurance Contracts</i>			✓
	Amendments to PAS 39 and PFRS 4: <i>Financial Guarantee Contracts</i>			✓
<b>PFRS 5</b>	<i>Non-current Assets Held for Sale and Discontinued Operations</i>			✓
	Amendment to PFRS 5: <i>Changes in Methods of Disposal</i>			✓
<b>PFRS 6</b>	<i>Exploration for and Evaluation of Mineral Resources</i>	✓		

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b> Effective as of December 31, 2017		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>PFRS 7</b>	<i>Financial Instruments: Disclosures</i>	✓		
	Amendments to PFRS 7: <i>Transition</i>			✓
	Amendments to PAS 39 and PFRS 7: <i>Reclassification of Financial Assets</i>			✓
	Amendments to PAS 39 and PFRS 7: <i>Reclassification of Financial Assets - Effective Date and Transition</i>			✓
	Amendments to PFRS 7: <i>Improving Disclosures about Financial Instruments</i>	✓		
	Amendments to PFRS 7: <i>Disclosures - Transfers of Financial Assets</i>			✓
	Amendments to PFRS 7: <i>Disclosures - Offsetting Financial Assets and Financial Liabilities</i>			✓
	Amendments to PFRS 7: <i>Mandatory Effective Date of PFRS 9 and Transition Disclosures</i>			✓
	Amendment to PFRS 7: <i>Servicing Contracts</i>			✓
	Amendment to PFRS 7: <i>Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements</i>			✓
<b>PFRS 8</b>	<i>Operating Segments</i>	✓		
<b>PFRS 9</b>	<i>Financial Instruments</i>	✓		
	Amendments to PFRS 9: <i>Mandatory Effective Date of PFRS 9 and Transition Disclosures</i>			✓
<b>PFRS 10</b>	<i>Consolidated Financial Statements</i>	✓		
	Amendments to PFRS 10: <i>Investment Entities</i>			✓
	Amendments to PFRS 10, PFRS 12 and PAS 28: <i>Investment Entities: Applying the Consolidation Exception</i>			✓
<b>PFRS 11</b>	<i>Joint Arrangements</i>	✓		
	Amendments to PFRS 11: <i>Accounting for Acquisitions of Interests in Joint Operations</i>	✓		
<b>PFRS 12</b>	<i>Disclosure of Interests in Other Entities</i>			✓
	Amendments to PFRS 12: <i>Investment Entities</i>			✓
<b>PFRS 13</b>	<i>Fair Value Measurement</i>	✓		
	Amendment to PFRS 13: <i>Short-term Receivables and Payables</i>	✓		
<b>PFRS 14</b>	<i>Regulatory Deferral Accounts</i>			✓
<b>Philippine Accounting Standards</b>				
<b>PAS 1 (Revised)</b>	<i>Presentation of Financial Statements</i>	✓		
	Amendment to PAS 1: <i>Capital Disclosures</i>			✓
	Amendments to PAS 32 and PAS 1: <i>Puttable Financial Instruments and Obligations Arising on Liquidation</i>			✓

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b> <b>Effective as of December 31, 2017</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
	Amendments to PAS 1: <i>Presentation of Items of Other Comprehensive Income</i>	✓		
	Amendments to PAS 1: <i>Clarification of the requirements for comparative information</i>	✓		
	Amendments to PAS 1: <i>Disclosure Initiative</i>			✓
<b>PAS 2</b>	<i>Inventories</i>	✓		
<b>PAS 7</b>	<i>Statement of Cash Flows</i>	✓		
<b>PAS 8</b>	<i>Accounting Policies, Changes in Accounting Estimates and Errors</i>	✓		
<b>PAS 10</b>	<i>Events after the Balance Sheet Date</i>	✓		
<b>PAS 11</b>	<i>Construction Contracts</i>			✓
<b>PAS 12</b>	<i>Income Taxes</i>	✓		
	Amendment to PAS 12 - <i>Deferred Tax: Recovery of Underlying Assets</i>	✓		
<b>PAS 16</b>	<i>Property, Plant and Equipment</i>	✓		
	Amendments to PAS 16: <i>Classification of servicing equipment</i>			✓
	Amendments to PAS 16 and PAS 38: <i>Clarification of Acceptable Methods of Depreciation and Amortization</i>			✓
	Amendments to PAS 16 and PAS 41: <i>Agriculture: Bearer Plants</i>			✓
<b>PAS 17</b>	<i>Leases</i>	✓		
<b>PAS 18</b>	<i>Revenue</i>	✓		
<b>PAS 19</b>	<i>Employee Benefits</i>	✓		
	Amendments to PAS 19: <i>Actuarial Gains and Losses, Group Plans and Disclosures</i>			✓
	Amendment to PAS 19: <i>Discount Rate: Regional Market Issue</i>			✓
<b>PAS 19 (Amended)</b>	<i>Employee Benefits</i>	✓		
<b>PAS 20</b>	<i>Accounting for Government Grants and Disclosure of Government Assistance</i>			✓
<b>PAS 21</b>	<i>The Effects of Changes in Foreign Exchange Rates</i>	✓		
	Amendment: <i>Net Investment in a Foreign Operation</i>			✓
<b>PAS 23 (Revised)</b>	<i>Borrowing Costs</i>			✓
<b>PAS 24 (Revised)</b>	<i>Related Party Disclosures</i>	✓		
<b>PAS 26</b>	<i>Accounting and Reporting by Retirement Benefit Plans</i>			✓

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b> Effective as of December 31, 2017		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>PAS 27 (Amended)</b>	<i>Separate Financial Statements</i>	✓		
	<i>Amendments to PAS 27: Equity Method in Separate Financial Statements</i>			✓
<b>PAS 28</b>	<i>Investments in Associates</i>			✓
<b>PAS 28 (Amended)</b>	<i>Investments in Associates and Joint Ventures</i>			✓
<b>PAS 29</b>	<i>Financial Reporting in Hyperinflationary Economies</i>			✓
<b>PAS 31</b>	<i>Interests in Joint Ventures</i>			✓
<b>PAS 32</b>	<i>Financial Instruments: Disclosure and Presentation</i>	✓		
	<i>Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation</i>			✓
	<i>Amendment to PAS 32: Classification of Rights Issues</i>			✓
	<i>Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities</i>	✓		
<b>PAS 33</b>	<i>Earnings per Share</i>	✓		
<b>PAS 34</b>	<i>Interim Financial Reporting</i>			✓
	<i>Amendment to PAS 34: Disclosure of Information 'Elsewhere in the Interim Financial Report'</i>			✓
<b>PAS 36</b>	<i>Impairment of Assets</i>	✓		
<b>PAS 37</b>	<i>Provisions, Contingent Liabilities and Contingent Assets</i>	✓		
<b>PAS 38</b>	<i>Intangible Assets</i>	✓		
<b>PAS 39</b>	<i>Financial Instruments: Recognition and Measurement</i>	✓		
	<i>Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities</i>			✓
	<i>Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions</i>			✓
	<i>Amendments to PAS 39: The Fair Value Option</i>			✓
	<i>Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts</i>			✓
	<i>Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets</i>			✓
	<i>Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition</i>			✓
	<i>Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives</i>			✓
	<i>Amendment to PAS 39: Eligible Hedged Items</i>			✓
<b>PAS 40</b>	<i>Investment Property</i>			✓
<b>PAS 41</b>	<i>Agriculture</i>			✓

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b> <b>Effective as of December 31, 2017</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<i>Philippine Interpretations</i>				
<i>IFRIC 1</i>	<i>Changes in Existing Decommissioning, Restoration and Similar Liabilities</i>	✓		
<i>IFRIC 2</i>	<i>Members' Share in Co-operative Entities and Similar Instruments</i>			✓
<i>IFRIC 4</i>	<i>Determining Whether an Arrangement Contains a Lease</i>			✓
<i>IFRIC 5</i>	<i>Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds</i>	✓		
<i>IFRIC 6</i>	<i>Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment</i>			✓
<i>IFRIC 7</i>	<i>Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies</i>			✓
<i>IFRIC 8</i>	<i>Scope of PFRS 2</i>			✓
<i>IFRIC 9</i>	<i>Reassessment of Embedded Derivatives</i>			✓
	<i>Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives</i>			✓
<i>IFRIC 10</i>	<i>Interim Financial Reporting and Impairment</i>			✓
<i>IFRIC 11</i>	<i>PFRS 2 - Group and Treasury Share Transactions</i>			✓
<i>IFRIC 12</i>	<i>Service Concession Arrangements</i>			✓
<i>IFRIC 13</i>	<i>Customer Loyalty Programmes</i>			✓
<i>IFRIC 14</i>	<i>The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</i>			✓
	<i>Amendments to Philippine Interpretations IFRIC - 14, Prepayments of a Minimum Funding Requirement</i>			✓
<i>IFRIC 16</i>	<i>Hedges of a Net Investment in a Foreign Operation</i>			✓
<i>IFRIC 17</i>	<i>Distributions of Non-cash Assets to Owners</i>			✓
<i>IFRIC 18</i>	<i>Transfers of Assets from Customers</i>			✓
<i>IFRIC 19</i>	<i>Extinguishing Financial Liabilities with Equity Instruments</i>			✓
<i>IFRIC 20</i>	<i>Stripping Costs in the Production Phase of a Surface Mine</i>			✓
<i>SIC-7</i>	<i>Introduction of the Euro</i>			✓
<i>SIC-10</i>	<i>Government Assistance - No Specific Relation to Operating Activities</i>			✓
<i>SIC-12</i>	<i>Consolidation - Special Purpose Entities</i>			✓
	<i>Amendment to SIC - 12: Scope of SIC 12</i>			✓
<i>SIC-13</i>	<i>Jointly Controlled Entities - Non-Monetary Contributions by Venturers</i>			✓
<i>SIC-15</i>	<i>Operating Leases - Incentives</i>			✓

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b> <b>Effective as of December 31, 2017</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<i>SIC-25</i>	<i>Income Taxes - Changes in the Tax Status of an Entity or its Shareholders</i>			✓
<i>SIC-27</i>	<i>Evaluating the Substance of Transactions Involving the Legal Form of a Lease</i>			✓
<i>SIC-29</i>	<i>Service Concession Arrangements: Disclosures.</i>			✓
<i>SIC-31</i>	<i>Revenue - Barter Transactions Involving Advertising Services</i>			✓
<i>SIC-32</i>	<i>Intangible Assets - Web Site Costs</i>			✓

**SCHEDULE V**  
**PXP ENERGY CORPORATION AND SUBSIDIARIES**  
**SCHEDULE A**  
**FINANCIAL ASSETS**  
**December 31, 2017**  
**(Amounts in Thousands, Except Number of Shares)**

Name of issuing entity and association of each issue	Number of shares or principal amount of bonds and notes	Amount shown in the balance sheet	Income received and accrued
<b>NOT APPLICABLE</b>			

**PXP ENERGY CORPORATION AND SUBSIDIARIES**  
**SCHEDULE B**  
**AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES AND PRINCIPAL**  
**STOCKHOLDERS (OTHER THAN RELATED PARTIES)**  
**December 31, 2017**

Name and Designation of debtor	Balance at beginning of period	Additions	Amounts collected	Amounts written off	Current	Not Current	Balance at end of period
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**NOT APPLICABLE**



**PXP ENERGY CORPORATION AND SUBSIDIARIES**  
**SCHEDULE C**  
**AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED**  
**DURING CONSOLIDATION**  
**December 31, 2017**  
**(Amounts in Thousands)**

Name and Designation of Debtor	Balance at beginning of period	Additions	Amounts collected	Amounts written off	Current	Not Current	Balance at end of period
<b>Subsidiary</b>							
<i>Receivables:</i>							
Forum (GSEC 101) Limited ( <i>Jersey</i> )	₱770,660	₱275,727	(₱770,660)	₱-	₱-	₱-	₱275,727
	₱770,660	₱275,727	(₱770,660)	₱-	₱-	₱-	₱275,727

**PXP ENERGY CORPORATION AND SUBSIDIARIES**  
**SCHEDULE D**  
**INTANGIBLE ASSETS - OTHER ASSETS**  
**December 31, 2017**  
**(Amounts in Thousands)**

Description	Beginning balance	Additions at Cost	Charged to cost and expenses	Charged to other accounts	Other changes additions (deductions)	Ending balance
(i) Intangible Assets						
Goodwill	₱1,238,583	₱-	₱-	₱-	₱-	₱1,238,583
(ii) Other Assets						
Deferred oil and gas exploration costs	5,744,346	92,532	-	-	-	5,836,878
Allowance for unrecoverable portion	(662,896)	-	-	-	(5,614)	(668,510)
	5,081,450	92,532	-	-	(5,614)	5,168,368
	₱6,320,033	₱92,532	₱-	₱-	(₱5,614)	₱6,406,951

**PXP ENERGY CORPORATION AND SUBSIDIARIES**  
**SCHEDULE E**  
**LONG TERM DEBT**  
**December 31, 2017**  
**(Amounts in Thousands)**

Title of Issue and type of obligation	Amount authorized by indenture	Amount shown under caption "Current portion of long-term debt"	Amount shown caption "Long-term Debt"
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**NOT APPLICABLE**

**PXP ENERGY CORPORATION AND SUBSIDIARIES**  
**SCHEDULE F**  
**INDEBTEDNESS TO RELATED PARTIES (LONG - TERM LOANS FROM RELATED COMPANIES)**  
**December 31, 2017**

Name of the Related Party

Balance at beginning of period

Balance at end of period

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<b>NOT APPLICABLE</b>
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**PXP ENERGY CORPORATION AND SUBSIDIARIES**  
**SCHEDULE G**  
**GUARANTEES OF SECURITIES OF OTHER ISSUERS**  
**December 31, 2017**

Name of the issuing entity of securities guaranteed by the company for which the statement is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding	Amount owned by person for which statement is lifted	Nature of guarantee
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<b>NOT APPLICABLE</b>
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**PXP ENERGY CORPORATION AND SUBSIDIARIES**  
**SCHEDULE H**  
**CAPITAL STOCK**  
**December 31, 2017**

Title of Issue	Number of Shares Authorized	Number of shares issued and outstanding and shown under related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by related parties	Directors, officers and employees	Others
Common	6,800,000,000	1,700,000,000	–	–	1,963,635	–