

# COVER SHEET

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SEC Registration Number

[illegible]

(Company's Full Name)

[illegible]

(Business Address: No. Street City/Town/Province)

Mark H. Rilles

Mark H. Rilles

(Contact Person)

631-1381 to 88

631-1381 to 88

(Company Telephone Number)

1	2	3	1
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Month Day  
(Calendar Year)

SEC 17-A

SEC 17-A

(Form Type)

3<sup>rd</sup> Tuesday of May

## 3<sup>rd</sup> Tuesday of May

Month Day  
(Annual Meeting)

Not Applicable
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**Not Applicable**

(Secondary License Type, If Applicable)

\_\_\_\_\_

Dept. Requiring this Doc.

Not Applicable
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**Not Applicable**

Amended Articles Number/Section

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Total No. of Stockholders

Total Amount of Borrowings:

--

Domestic

--

Foreign

To be accomplished by SEC Personnel concerned

[illegible]

File Number

LCU

[illegible]

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**SECURITIES AND EXCHANGE COMMISSION**

**SEC FORM 17-A**

**ANNUAL REPORT PURSUANT TO SECTION 17  
OF THE SECURITIES REGULATION CODE AND SECTION 141  
OF THE CORPORATION CODE OF THE PHILIPPINES**

1. For the fiscal year ended **December 31, 2017**
2. SEC Identification Number **CS200719819** 3. BIR Tax Identification No. **006-940-588-000**
4. Exact name of issuer as specified in its charter **PXP ENERGY CORPORATION**
5. **Philippines**  
Province, Country or other jurisdiction of  
incorporation or organization
6.  (SEC Use Only)  
Industry Classification Code:
7. **2/F LaunchPad, Reliance cor. Sheridan St., Mandaluyong City** **1550**  
Address of principal office Postal Code
8. **(632) 631-1381**  
Issuer's telephone number, including area code
9. **N/A**

Former name, former address, and former fiscal year, if changed since last report.

10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sec. 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding
<b><u>Common Shares</u></b>	<b><u>1,700,000,000</u></b>
<b><u>Debt</u></b>	<b><u>₱2,906,490,000</u></b>

11. Are any or all of these securities listed on a Stock Exchange.

Yes [ **X** ] No [ ]

If yes, state the name of such stock exchange and the classes of securities listed therein:

**Philippine Stock Exchange** **Common Shares**

12. Check whether the issuer:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports);

Yes [ **X** ] No [ ]

(b) has been subject to such filing requirements for the past ninety (90) days.

Yes [ **X** ] No [ ]

13. Aggregate market value of the voting stock held by non-affiliates: **₱14.792 billion** based on closing prices of **₱18.34** per share at the Philippine Stock Exchange on February 28, 2018.

## **PART I - BUSINESS AND GENERAL INFORMATION**

### **Item 1. Business**

#### **CORPORATE PROFILE**

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

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

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

The Company holds a 78.98% controlling interest in Forum, with 72.18% held directly and 6.80% held indirectly through a 54.99%-owned subsidiary, FEC Resources, Inc. (“FEC”), a Canadian public company registered with the US Securities and Exchange Commission, the Alberta Securities Commission, and the British Columbia Securities Commission and quoted in North America. Forum, a UK incorporated company with focus on the Philippines, has: (a) a 70% operating interest in SC 72 Recto Bank which covers the Sampaguita natural gas discovery in offshore West Palawan, held through Forum (GSEC 101) Limited, (b) a 100% operating interest in SC 40 North Cebu held through Forum Exploration, Inc., and (c) minority interests in the SC 6 and SC 14 sub-blocks in offshore Northwest Palawan, including a 2.27% interest in the producing Galoc field, held through Forum Energy Philippines Corporation.

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

The Company owns 100% of Brixton Energy & Mining Corporation (“Brixton”), a coal mining company which operated Coal Operating Contract 130 in Zamboanga Sibugay in Mindanao until September 2013. On January 6, 2014, Brixton finalized agreements for the assignment of COC 130 to Grace Coal Mining and Development, Inc. which was approved by the Department of Energy (“DOE”) on May 27, 2015.

#### **PRODUCT AND DISTRIBUTION**

The Company’s primary business is the exploration and production of crude oil and natural gas, through interests in petroleum contracts and holdings in resource development companies with interests in petroleum service contracts. Crude oil and natural gas are fossil fuels that are derived from organic material deposited and buried in the earth’s crust millions of years ago. Fossil fuels (oil, natural gas and coal) currently account for 64.3% of the primary energy mix in the Philippines. Natural gas is also used to fuel about 22.4% of power generation in Luzon. It is likely that fossil fuels will continue to be the major energy source over the next decades, even with the development of alternative sources of energy.

Almost all of the Company’s revenues are currently sourced from Forum’s share of revenues from crude oil production in SC 14 in offshore Northwest Palawan.

The rest of the petroleum licenses are for projects still in the exploration or development stages and are not yet generating any revenues for the Company. Seventy-nine percent (79%) (2016: 84%; 2015: 91%) of Forum's share of revenues from crude oil production in SC 14 in 2016, 2015 and 2014 were from crude oil sales to Korean, Thailand and Singapore markets, while the rest are sold locally.

Crude oil sales are transported via marine crude oil tankers which are arranged either by the customer or the service contract operator depending on contract terms.

## **COMPETITION**

### **Petroleum Industry Overview**

The information presented in this section has been extracted from publicly available documents that have not been prepared nor independently verified by the Company, the Financial Adviser or any of their respective affiliates or advisers.

### **Petroleum Exploration and Production**

Crude oil and natural gas, collectively referred to as "petroleum", are natural deposits of hydrocarbons derived from organic material deposited and buried in the earth's crust millions of years ago. Crude oil can be refined to produce petroleum products such as transportation, domestic and industrial fuels, lubricants, asphalt and petrochemicals. Natural gas can be used for power generation, industrial, domestic and transportation fuel, and petrochemical feedstock.

Petroleum exploration in the Philippines dates back to 1896 with the drilling of Toledo-1 in Cebu Island by Smith Bell and Co. Exploration activities increased from the 1950s to 1970s, under Republic Act No. 387, known as the "Petroleum Act of 1949" which ushered in the era of the concession system.

The current Service Contract system was introduced in 1973 with the enactment of Presidential Decree No. 87, known as the "Oil Exploration and Development Act of 1972". Under the Service Contract system, the service contractor is obligated, among others, to perform all petroleum operations in the contract area and provide all necessary services, technology and financing for such operations. In consideration for the performance of its obligations as a service contractor, the contractor is entitled to a share in petroleum revenues in case of a commercial discovery and production.

Current petroleum production in the country is mainly from the Camago-Malampaya gas field and the Galoc oil field, which are both located offshore in the Northwest Palawan Basin. In 2017, total production from the Camago-Malampaya gas field, which started in October 2001, is approximately 138,497 million standard cubic feet of natural gas, and 3,913,669 barrels of condensate. The gas produced from the Camago-Malampaya field is used to fuel three natural gas-fired power stations with a total generating capacity of 2,700 megawatts to provide 30.5% of Luzon's power generation requirements. The Galoc oil field, which started production in October 2008, produced an average of approximately 4,003 barrels of oil per day in 2017.

As of December 2017, the DOE's estimated remaining reserves from the sedimentary producing basins of the Philippines totaled to 18.78 million barrels of oil initially in place, 43.86 million barrels of condensate initially in place, and 1,278.65 billion cubic feet of gas initially in place.

These petroleum reserves calculations are only based from the sedimentary producing fields in the country which include the Cagayan Valley Basin, Visayan Basin and the prolific Northwest Palawan Basin. These basins extend on both offshore and onshore areas.

Under PD 87, the following incentives are provided for petroleum service contractors:

- Service fee of up to 40% of net production
- Cost reimbursement of up to 70% gross production with carry-forward of unrecovered costs
- FPIA grants of up to 7.5% of the gross proceeds for service contract with minimum Filipino company participation of 15%
- Exemption from all taxes except income tax
- Income tax obligation paid out of government's share
- Exemption from all taxes and duties for importation of materials and equipment for petroleum operations
- Easy repatriation of investments and profits
- Free market determination of crude oil prices, i.e., prices realized in a transaction between independent persons dealing at arms-length
- Special income tax of 8% of gross Philippine income for subcontractors
- Special income tax of 15% of Philippine income for foreign employees of service contractors and subcontractors

### **Industry Competition**

Petroleum service contracts are awarded by the DOE through a competitive bidding process. Proposals are evaluated based on Department Circular ("DC") No. DC2006-12-0014 as amended by DC2009-04-0004, DC-2010-03-0005, DC2011-12-0010 and DC2014-02-0005. Indicative weighing factors published by the DOE for the Fifth Philippine Energy Contracting Round launched in May 2014 are as follows:

<b>Criteria</b>	<b>Key Elements</b>	<b>Weight in Percent</b>
Work Program	Resource potential and exploration approach Work commitment Development concepts	40%
Financial qualifications	Evidence of available funds Finance track record	40%
Technical qualifications	Experience and track record	20%
Legal qualifications	Completeness and validity of required legal documents	Pass or Fail

While there is competition in the acquisition of petroleum service contracts, the significant financial commitments and technical risks also provide opportunities for partnership, especially between local and international companies. Under a service contract, a substantial financial incentive is given to consortia with at least 15% aggregate Filipino equity. Thus, many international companies invite local companies to join their venture to benefit from the said incentive.

The other active foreign and domestic petroleum exploration and production companies in the Philippines include Shell, Chevron, Total, Mitra Energy, PNOC Exploration Corporation, Nido Petroleum, The Philodrill Corporation ("Philodrill"), Oriental Petroleum & Minerals Corp. ("OPMC"), PetroEnergy Resources Corporation ("PERC"), and others.

The success of the Company's petroleum business is highly dependent on the Company, along with its consortium partner's, ability to secure exclusive rights to explore and develop resources.

The Company is currently one of the more active players in the Philippines in terms of exploration activity and believes it can effectively compete in the industry on the basis of its strengths.

#### **SOURCES AND AVAILABILITY OF SERVICES, RAW MATERIALS AND SUPPLIES**

The Company and the operators of assets in which the Company has direct or indirect interest, have contracts with third party suppliers of services. The Company's business, however, is not dependent on any single supplier or a limited number of suppliers, and normally procures required third party services through a competitive bidding process.

#### **CUSTOMERS**

Crude oil liftings from the Galoc field were sold to customers from South Korea, Thailand and Singapore, while all crude oil liftings from the Nido, Matinloc and North Matinloc were sold to customers in the Philippines. Note 22 of the Notes to the Consolidated Financial Statements as of December 31, 2017, attached hereto, on Segment Information, is incorporated by reference.

Crude oil sales are transported via marine crude oil tankers which are arranged either by the customer or the service contract operator depending on contract terms,

#### **TRANSACTIONS AND DEPENDENCE ON RELATED PARTIES**

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:

- a. On November 24, 2010, Forum Philippine Holdings Limited (FPHL) entered into a US\$10 million loan facility agreement with Philex Mining Corporation ("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 Sub-phase work program over SC 72.

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

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 million 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 ₱674.8 million in 2013.

In 2015, a transfer agreement has been entered into by FPHL (the “Original Borrower”) and Forum GSEC 101 - Jersey (the “New Borrower” or “GSEC 101”). 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 agreed the conversion of US\$11.8 million 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\$15.5 million and interest accrued of US\$2.8 million. Of the remaining balance, US\$1.0 million 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 101 entered into a new loan facility amounting to US\$6.0 million. Of which US\$5.5 million was drawn out to fully settle the remaining portion of the long term loan.

Interest expense incurred for the old loan facility amounted to ₱11.7 million, ₱43.8 million and ₱38.0 million in 2017, 2016 and 2015, respectively. During the same years, commitment fees incurred amounted to ₱0.3 million, ₱1.2 million and ₱1.1 million, respectively.

Total drawdown from the new loan facility amounted to US\$5.5 million as at December 31, 2017.

Interest expense incurred for 2017 amounted to ₱11.1 million. 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 ₱275.7 million and ₱770.7 million, 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 billion 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 ₱25.2 million. As at December 31, 2017 and 2016, advances from PMC amounted to ₱2.2 million and ₱2.2 million, 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 ₱737.8 million.
- d. The compensation of key management personnel pertaining to short-term employees and retirement benefits amounted to ₱8.1 million, ₱8.7 million and ₱12.1 million in 2017, 2016 and 2015, respectively.

Note 16 of the Notes to the Consolidated Financial Statements as of December 31, 2017, attached hereto, on Related Party Transactions, is incorporated by reference. The Company or its related parties have no material transaction with parties falling outside the definition of “related parties” under the Philippine Accounting Standards No. 24 that are not available for other, more clearly independent parties on an arm’s length basis.

#### **PATENTS, TRADEMARKS AND LICENSES**

The Company currently has no registered patents, copyrights, licenses, and franchises. Service contracts are discussed under the heading “**Interests in Petroleum Service Contracts**”.

#### **GOVERNMENT APPROVALS**

Compliance with petroleum service contracts is primarily monitored through the submission of the annual work program and annual budget to the DOE. The annual work program and budget for a contract area must be submitted before the end of each contract year and would set forth the petroleum operations to be carried out during the ensuing contract year. The proposed annual work program and budget must be approved by the DOE. The approved annual work program and the budget serve as the contractor’s guide in conducting the petroleum operations over the contract area.

Should petroleum be discovered in commercial quantities, the contractor must delineate the discovered reservoir, which shall serve as the production area. The contractor must submit to the DOE an Appraisal Work Program for its approval, providing in detail the appraisal work and timetable for such discovery. Upon approval, the contractor must carry out the operations and thereafter prepare a detailed report on the appraisal of the commerciality of the discovery. Should the contractor and the DOE decide that the oil field may contain petroleum in commercial quantity, the contractor must submit an Overall Development Program to the DOE for its approval.

Operation of the field must be done in accordance with accepted good oil field practices using modern and scientific methods to enable maximum economic production of petroleum. Moreover, the contractor is required to: (a) promptly furnish the DOE with geological and other information, data and reports relative to the petroleum operations, (b) maintain detailed technical records and accounts of the petroleum operations, (c) maintain all meters and measuring equipment in good order and allow access to the exploration and production sites and operations to inspectors authorized by the DOE, (d) allow examiners of the BIR and other representatives authorized by the DOE full access to accounts, books and records relating to petroleum operations, and (e) post a bond or other security in favor of the Philippine government conditioned upon the contractor’s faithful performance of its obligations under a service contract.

#### **EXISTING AND PROBABLE GOVERNMENTAL REGULATIONS**

##### ***Existing Governmental Regulations***

Various laws and regulations in the Philippines regulate different aspects of the Company’s business. Below is a discussion of some of the principal laws that affect the Company’s business.

In the case of probable government regulations, the effect or impact of such probable governmental regulations on the Company’s operations could only be determined upon their passage and implementation. The Company continues to monitor any new law and/or regulations that may be passed or implemented that may have an impact to the Company.



## **OIL AND GAS EXPLORATION**

### **Oil Exploration and Development Act of 1972**

PD 87, as amended, aims to promote the discovery and production of indigenous petroleum through the use of government or private resources. Pursuant to this law, the government may, on its own, undertake the exploration and development of petroleum, or it may undertake the same through service contracts entered into with contractors (whether acting alone or in consortium with others) who must be technically competent and financially capable as determined by the Petroleum Board (now the DOE). Service contracts are executed after public bidding or concluded through negotiations.

Under the law, the government will oversee the management of the operations contemplated in the service contract. The contractor, on the other hand, will be required to, among other duties and responsibilities: (i) provide all necessary services and technology; (ii) provide the requisite financing; (iii) perform the exploration work obligations and program prescribed in the service contract; (iv) once petroleum in commercial quantity is discovered, operate the field on behalf of the government in accordance with accepted good oil field practices using modern and scientific methods to enable maximum economic production of petroleum; and (v) assume all exploration risks such that if no petroleum in commercial quantity is discovered and produced, it will not be entitled to reimbursement. The contractor may market petroleum either domestically or for export, subject to supplying the domestic requirements of the Philippine government on a *pro-rata* basis, as required by law.

Pursuant to the law, the contractor is entitled to a service fee which will not exceed 40% of the balance of the gross income after subtracting the Filipino participation incentive (if any) and operating expenses recovered pursuant to the provisions of the law. The Filipino participation incentive is the government subsidy granted by the DOE to contractors where Philippine citizens or corporations have a minimum participating interest of 15%. The amount of the subsidy depends upon the scope of Filipino participation. Such Filipino participation incentive as well as certain operating expenses (including amortization and depreciation) may be deducted by the contractor from its gross income.

In addition to the above, the contractor enjoys benefits, which include: (i) exemption from all taxes except for income tax; (ii) exemption from tariff duties for all machinery, equipment and spare parts necessary for petroleum operations, subject to certain conditions; and (iii) entry of foreign technical and specialized personnel to be employed by the contractor, provided approval of the DOE is obtained.

The exploration period for each service contract is seven years, extendible for three years and for another year if petroleum is discovered by the end of the 10<sup>th</sup> year for the purpose of determining whether it is in commercial quantity. If petroleum in commercial quantity has been discovered, the contractor may retain after the exploration period and during the effectivity of the contract 12.5% of the initial area in addition to the delineated production area, subject to payment of rentals by the contractor. If petroleum in commercial quantity is discovered during the exploration period in any area covered by the contract, the contract with respect to said area will remain in force for the remainder of the 10-year exploration period and for an additional period of 25 years, renewable for a period not to exceed 15 years.

It is mandated that the service contract provide for the compulsory relinquishment of 25% of the initial area after five years from the effective date of the contract, but in the event that the contract is extended from 7 to 10 years, there must be an additional relinquishment of 25% of the initial area after seven years. This requirement shall not include, however, the area designated as dedicated to production.

### **MINING OPERATIONS**

PXP does not have any other interest in any ongoing mining project other than its 1.08% indirect interest in Lascogon Mining Corporation (“LMC”).

### **RENEWABLE ENERGY**

#### **Renewable Energy Act of 2008**

R.A. No. 9513 establishes the Philippine framework for the accelerated development and advancement of renewable energy resources, and the development of a strategic program to increase its utilization. It was enacted to, among others, increase the utilization of renewable energy by institutionalizing the development of national and local capabilities in the use of renewable energy systems, and encourage the development and utilization of renewable energy resources as tools to effectively prevent or reduce harmful emissions. “Renewable Energy Resources” are energy resources that include, among others, biomass, solar, wind, geothermal, ocean energy, and hydropower.

To encourage the development of renewable energy facilities, renewable energy developers are entitled to incentives including, but not limited to: (i) income tax holiday for the first seven years of commercial operations, (ii) duty-free importation of renewable energy machinery, equipment and materials, (iii) special realty tax rates on equipment and machinery, (iv) corporate tax rate of 10% on its net taxable income after the lapse of the income tax holiday period, (v) zero-rated value added tax on the sale of fuel or power generated from renewable sources of energy, (vi) tax exemption from the sale of carbon emission credits, and (vii) tax credit on domestic capital equipment and services. Moreover, government financial institutions have been tasked to provide preferential financial packages for the development, utilization and commercialization of renewable energy projects.

Pursuant to this law, the government is entitled to a share on renewable energy development projects equal to 1% of the gross income of renewable energy resource developers resulting from the sale of renewable energy produced and such other income incidental to and arising from the renewable energy generation, transmission and sale of electric power.

The DOE is the lead agency mandated to implement the provisions of the Renewable Energy Act, which it does through the Renewable Energy Management Bureau. The Renewable Energy Act also created the National Renewable Energy Board which is tasked to, among others, recommend specific actions to facilitate the implementation of the National Renewable Energy Program (“NREP”) to be executed by the DOE and other appropriate agencies of government, monitor and review the implementation of the NREP and monitor the utilization of the Renewable Energy Trust Fund. The Renewable Energy Trust Fund was established to enhance the development and greater utilization of renewable energy and will be exclusively used to: (i) finance the research, development, demonstration, and promotion of the widespread and productive use of renewable energy systems for power and non-power applications, (ii) support the development and operation of new renewable energy resources to improve their competitiveness in the market, and (iii) conduct nationwide resource and market assessment studies for the power and non-power applications of renewable energy systems.

## **ENVIRONMENTAL LAWS**

Philippine environmental laws are primarily implemented by the Department of Environment and Natural Resources (“DENR”), which is responsible for carrying out the state’s constitutional mandate to control and supervise the exploration, development, utilization and conservation of the country’s natural resources.

Philippine environmental law compliance would include compliance with: (1) the terms and conditions of the Environmental Compliance Certificate (“ECC”) issued by the DENR certifying that based on the proponent’s representations and the DENR’s review, the proposed project or undertaking will not cause a significant negative environmental impact and that the proponent has complied with all the requirements of the Environmental Impact Statement System; (2) the terms and conditions of a permit to discharge, which allows the discharge of regulated effluents (i.e., discharges from known sources, such as manufacturing plants, industrial plants, including domestic, commercial and recreational facilities which traverse to the bodies of waters), pursuant to the Philippine Clean Water Act of 2004 and the Revised Effluent Regulations of 1990; (3) the guidelines imposed by the Marine Pollution Decree of 1976, which prohibits, among others, the discharging or dumping of oil, noxious gaseous and liquid substances, and other harmful substances from or out of any ship, vessel, barge or any other floating craft, or other man-made structures at sea, by any method, means or manner into or upon the territorial and inland navigable water of the Philippines; (4) the Water Code of the Philippines, which allows the dumping of tailings from mining operations into rivers and waterways upon prior approval by the National Water Resources Board; and (5) the Philippine Clear Air Act of 1999, which seeks to prevent air pollution by controlling emission, greenhouse gasses that could stimulate global warming, and, through the DENR, imposing emission fees from industrial dischargers through its emission permitting system.

## **RESEARCH AND DEVELOPMENT**

The Company spent minimal amounts for research and development activities during the last three fiscal years, equivalent to an insignificant percentage of revenues.

## **COMPLIANCE WITH ENVIRONMENTAL LAWS**

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

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

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

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

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

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

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

## **EMPLOYEES**

The Company is managed by its directors and executive officers with legal and technical support provided by specialist consultants. The day-to-day operations and administration of assets operated by the Company are handled by the employees of the Company, in accordance with established policies and agreed objectives. As of December 31, 2017, the Company has two management level regular employees and five supervisor level regular employees. For 2018, the Company may hire additional employees depending on the outcome of its business development and asset portfolio management activities. The Company has no collective bargaining agreement with its employees, and has not experienced any strikes from its employees. There are no supplemental benefits or incentive arrangements with employees.

No director or senior management employee of the Company is a former employee or partner of the current external auditor.

## **KEY RISKS RELATING TO THE COMPANY'S BUSINESS**

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

- **Failure to discover oil and gas resources that can be developed for commercial production**

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

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

- **Failure to fund expenditures and investments for exploration and development activities**

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

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

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

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

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

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

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

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

- **Price fluctuations and substantial or extended decline in prices**

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

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

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

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

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

- **International maritime issues over the West Philippine Sea**

The Company operates SC 72 in the Recto Bank Area, offshore west Palawan, which is subject to international maritime issues pertaining to certain areas of the West Philippine Sea ("WPS"). Another block affected by the dispute is SC 75 in Northwest Palawan, which was placed under Force Majeure in December 2015. The Permanent Court of Arbitration in The Hague released a ruling on July 12, 2016 on the maritime case filed by the Republic of the Philippines against the People's Republic of China. In particular, the Tribunal ruled that Reed Bank (Recto Bank), where Service Contract SC 72 lies, is within the Philippines' Exclusive Economic Zone (EEZ) as defined under the 1982 United Nations Convention on the Law of the Sea (UNCLOS).

On February 13, 2018, the Philippines and China held the second Bilateral Consultation Meeting ('BCM') on WPS in Manila. The two countries have agreed to set up a special panel to work out how they can jointly explore oil and gas in parts of the WPS that both sides claim without having to address the issue of sovereignty. In addition, they reaffirmed the importance of maintaining and promoting peace and stability, freedom of navigation in and over flight above the WPS, freedom of international commerce, and other peaceful uses of the sea. Finally, the two countries agreed to address territorial and jurisdictional disputes by peaceful means, without resorting to the threat or use of force, through friendly consultations and negotiations by sovereign states directly concerned, in accordance with universally recognized principles of international law, including the Charter of the United Nations and the UNCLOS.

The third meeting of the BCM will be held in China in the second half of 2018.

The uncertainty of how these issues will be resolved may be a source of continuing risk to the operations in offshore Palawan. The Company will take guidance from the Philippine Government in respect of any future activity in SC 72 and other areas that are under FM.

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

Substantially all of the Company's revenues are or will be derived from SCs, which give the Group and their respective joint venture partners exclusive rights to conduct exploration and development operations over certain blocks in the jurisdictions in which they have invested. The Group and their joint venture partners are also expected to secure business licenses and permits in relation to their operations. The Group and their joint venture partners' operations may be restricted, suspended or terminated if the Group, their joint venture partners or any of their respective contractors and assignees fail to satisfy their respective contractual obligations under the contracts, and the laws, rules and regulations governing such contracts, or to secure and maintain required licenses and permits. This may prevent the Group and their joint venture partners from further exploration and development activity within the relevant concession areas which in turn could materially and adversely affect the Company's business, financial condition, results of operations and prospects.

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

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

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

## **PETROLEUM SERVICE CONTRACTS**

The Company has interests in various petroleum service contracts in the Philippines, held directly and through subsidiaries Forum and Pitkin.

An independent estimate of reserves and resources of the petroleum assets held by the Company and its subsidiaries are as follows<sup>1</sup>:

Asset	Gross 100%	Net attributable to Company	Classification (Standard)	Independent Consultant/ Report Date
Oil Reserves – Galoc Oil Field	5.06 mln bbls	0.11 mln bbls	Best Proved & Probable Developed Reserves (PRMS) <sup>2</sup>	Gaffney, Cline & Associates March 2017
Oil & Liquids Contingent Resources - SC 72	65 mln bbls OIIP	26 mln bbls OIIP	Best Estimate Contingent Resources (PRMS)	Weatherford Petroleum Consultants 2012
Gas Contingent Resources - SC 72	2603 bcf GIIP	1060 bcf GIIP	Best Estimate Contingent Resources (PRMS)	Weatherford Petroleum Consultants 2012
Oil & Liquids Prospective Resources – SC 72	220 mln bbls OIIP	90 mln bbls OIIP	Best Estimate Prospective Resources (PRMS)	Weatherford Petroleum Consultants 2012
Gas Prospective Resources – SC 72	8799 bcf GIIP	3585 bcf GIIP	Best Estimate Prospective Resources (PRMS)	Weatherford Petroleum Consultants 2012

## **Interests in Petroleum Service Contracts**

A summary of the Group's interests in petroleum SCs and license are as follows:

Contract	Location	Area, square kms.	Interest Held	Operator	Status	Award & Expiry Dates
SC 6A Octon	Offshore Northwest Palawan	1,081	PXP 5.56% FEPC 5.56%	Philodrill	Production	September 1, 1973 February 28, 2024
SC 6 Cadlao	Offshore Northwest Palawan	34	PXP 1.65% ORRI <sup>3</sup>	Cadlao Development Company	Production Period*	September 1, 1973 February 28, 2024

<sup>1</sup> Independent resource estimates were submitted to the Department of Energy

<sup>2</sup> Petroleum Resources Management System approved in March 2007 by the Society of Petroleum Engineers, the World Petroleum Council, the American Association of Petroleum Geologists, and the Society of Petroleum Evaluation Engineers

<sup>3</sup> Overriding royalty interest



Contract	Location	Area, square kms.	Interest Held	Operator	Status	Award & Expiry Dates
				Limited ("Cadco")		
SC 6B Bonita	Offshore Northwest Palawan	533	FEPC 7.031%	Philodrill	Production	September 1, 1973 February 28, 2024
SC 14 NW Palawan	Offshore Northwest Palawan					December 17, 1975 December 17, 2025
- Block A Nido		23.8	FEPC 8.468%	Philodrill	Production	
- Block B Matinloc		15	FEPC 12.406%	Philodrill	Production	
- Block B-1 North Matinloc		8.0	FEPC 19.463%	Philodrill	Production	
- Block C-1 Galoc		163	FEPC 2.27575%	Galoc Production Company W.L.L. ("GPC")	Production	
- Block C-2 West Linapacan		176.5	FEPC 9.103%	Philodrill	Exploration	
- Tara		10.28	FEPC 10.000%	Trans-Asia	Exploration	
- Block D		185	FEPC 8.168%	Philodrill	Exploration	
SC 40 North Cebu	Northern Cebu	3,400	FEI 100% <sup>4</sup>	FEI	Production	February 9, 1995 November 24, 2030
SC 72 Recto Bank	Offshore West Palawan	8,880	Forum (GSEC 101) 70%	Forum (GSEC 101)	Exploration	February 15, 2010 February 14, 2017**
SC 74 Northwest Palawan	Offshore Northwest Palawan Basin	4,268	PXP 70%	PXP	Exploration	August 13, 2013 August 12, 2020
SC 75 Northwest Palawan	Offshore Northwest Palawan	6,160	PXP 50%	PXP	Exploration	December 27, 2013 to December 26, 2020***

<sup>4</sup> Forum holds a 66.67% interest in FEI

Contract	Location	Area, square kms.	Interest Held	Operator	Status	Award & Expiry Dates
Peru Block Z-38	Offshore Peru	4,875	Pitkin 25%	Karoon Gas Australia Ltd	Exploration	June 8, 2007 / Under Force Majeure

\* Original expiry date of Exploration Phase. Under Force Majeure since December 15, 2014. Currently under Sub-Phase 2

\*\* Original expiry date of Exploration Phase. Under Force Majeure since December 27, 2015, which was also the expiry date of Sub-Phase 1.

The following describes the Company's interest in various petroleum contracts. Additional information can also be obtained in Note 10: Deferred Oil and Gas Exploration Costs - net of the Company's Audited Financial Statements.

#### ***SC 6 Northwest Palawan: SC 6A Octon and SC 6B Bonita***

SC 6 presently covers three contract areas, namely: Cadlao production area, Block A Octon and Block B Bonita, all in offshore Northwest Palawan. The service contract has a seven-year Exploration Period, extendible by three years, and a 25-year Production Period, extendible by 15 years. SC 6 was awarded on September 1, 1973, and is presently in the 15-year Production Period extension ending on February 28, 2024.

#### ***SC 6A Octon***

SC 6A covers an area of 1,080 square kilometers. The contract area contains the Octon field discovered in January 1991 and appraised in April 1992. The discovery well was drilled to a measured depth of 2,652 meters and yielded 1,816 barrels per day of oil and 1.8 million cubic feet of gas during testing.

The partners in SC 6A Octon and their respective participating interests are as follows:

Philodrill (Operator)	51.65%
PERC	16.67%
Anglo Philippine Holdings Corporation ("APHC")	11.11%
Trans-Asia Petroleum Corp ("Trans-Asia")	7.78%
PXP	5.56%
FEPC	5.56%
Alcorn Petroleum & Minerals Corp. ("APMC")	1.67%

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 6B Bonita***

SC 6B Bonita covers an area of 533 square kilometers adjacent to SC 6 Cadlao. The contract area contains the Bonita discovery by APPI in 1989 that yielded 765 to 2,107 barrels per day of oil during testing. The consortium members in SC 6B Bonita and their respective participating interests are as follows:

Philodrill (Operator)	50.000%
OPMC	14.063%
Trans-Asia	14.063%
Nido Petroleum	7.812%
<b>FEPC</b>	<b>7.031%</b>
APMC	7.031%

An in-house evaluation completed by Operator Philodrill in early 2016 shows the East Cadlao Prospect has marginal resources which cannot be developed on a “stand-alone” basis. However, it remains prospective being near the Cadlao Field, which lies in another contract area. In view of this, the JV has requested for the reconfiguration of SC 6B to append the Cadlao Field for possible joint development in the future. DOE action on the request is currently being awaited. A seismic reprocessing program over East Cadlao and Cadlao Field will be proposed if the said request is granted by the DOE.

#### **SC 14 Northwest Palawan**

SC 14 is located offshore Northwest Palawan covering an area of 720 square kilometers. The service contract has a seven-year Exploration Period, extendible by three years, and a 25-year Production Period, extendible by 15 years. SC 14 was awarded on December 17, 1975, and is presently in the 15-year Production Period extension ending on December 17, 2025. The SC 14 contract area is divided into seven blocks and FEPC’s respective participating interests in each contract area are as follows:

Block A Nido	8.468%
Block B Matinloc	12.406%
Block B-1 North Matinloc	19.463%
Block C-1 Galoc	2.27575%
Block C-2 West Linapacan	9.103%
Tara Block	10.00%
Block D Retention Block	8.168%

- **Block A Nido, Block B Matinloc and Block B-1 North Matinloc**

Block A has an area of 23.8 square kilometers and contains the Nido Production Area which was first put in production in 1979. Block B has an area of 154 square kilometers and contains the Matinloc Oil Production Complex which was first put in production in 1982. Block B1 has an area of 8 square kilometers and contains the North Matinloc field which was first put in production in 1989.

The partners in Block A Nido, Block B Matinloc and Block B-1 North Matinloc and their respective participating interests are as follows:

#### **Block A Nido**

OPMC	42.94%
Philodrill (Operator)	26.106%
Nido Petroleum	22.486%
<b>FEPC</b>	<b>8.468%</b>

#### **Block B Matinloc**

OPMC	17.703%
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Philodrill (Operator)	41.608%
Nido Petroleum	28.283%
<b>FEPC</b>	<b>12.406%</b>

#### Block B-1 North Matinloc

OPMC	33.111%
Philodrill (Operator)	27.772%
<b>FEPC</b>	<b>19.463%</b>
APMC	13.551%
Trans-Asia	6.103%

The Nido, Matinloc and North Matinloc fields are in late-life and cyclical production, meaning intermittent production to allow time for oil to accumulate on top of the reservoir. Aside from production performance of the wells, continued production from the three fields is dependent on oil price due to the relatively high operating cost and the ability to share operating expenses.

Total production from the three fields from January to December 2017 was 125,755 barrels, or an average of 345 barrels of oil per day (bopd). The Matinloc Field accounted for 53.67% of the total, followed by Nido (44.66%) and North Matinloc (1.67%) fields. Shell Philippines remained as the sole buyer for the crude during the period.

Production forecasts for 2018 for Nido and Matinloc Fields are as follows: Nido: 54,000 barrels, Matinloc: 63,206 barrels, for a total of 117,206 barrels.

The Joint Venture will conduct a P&A of Libro-1 and Tara South-1 wells, which have been shut-in since 1988 and 1990, respectively. Philodrill will use a coil tubing technology to access the wells and to plug the production zones using cement. The activity will be conducted within the second quarter of 2018 and will last for 40 days. It has a total budget of US\$5.63 million, with 52% allocated to Libro Block, and 48% to Tara Block.

- **Block C-1 Galoc**

Block C-1 Galoc has an area of 163 square kilometers and contains the producing Galoc Oil Field Development which was put into production in October 2008. Galoc crude oil is produced from four horizontal wells which are tied back via subsea riser to the Floating Production Storage and Offtake ("FPSO") vessel Rubicon Intrepid.

The partners in Block C-1 Galoc and their respective participating interests are as follows:

GPC (Operator)	33.00%
Galoc Production Company No. 2 Pte Ltd	26.84473%
Nido Petroleum	22.87952%
OPMC / Logpocor	7.78505%
Philodrill Corporation	7.21495%
FEPC	2.27575%

The Galoc Field produced a total of 1,460,431 barrels of oil from January to December 2017 or 4,001 bopd, as compared to 1,878,043 barrels or 5,134 bopd during the same period last year. This represents a year to year decline of 22.2%

Cumulative production from start of production in October 2008 up to 31 December 2017 was 20.18 million barrels of oil (mmbo). Production forecast for 2018 is 1.310 mmbo.

Four (4) liftings, Cargoes 55 to 58, were completed from January to December 2017, with approximately 1.41 mmbo exported to refineries in Thailand and Singapore. The cargoes were sold at an average price of US\$54.97 per barrel, which was 26.81% higher than the average price of US\$43.35 per barrel realized in 2016.

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 million. GPC drilled the Galoc-7 well and a sidetrack, Galoc-7ST, from March to April 2017 using the drillship Deepsea Metro I. The wells encountered 9-12 meters of net sand, which is below the prognosed thickness. After an extensive review of the well results and potential tie-back scenarios, the Consortium, in consideration of the prevailing low crude prices, decided to temporarily suspend all activities related to a possible Phase III development and concentrate its efforts in optimizing oil production at the Galoc Field in order to sustain profitability and prolong the field's economic life.

The Consortium submitted to the DOE a budget of US\$ 44.5 million 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.

- **Block C-2 West Linapacan**

Block C-2 West Linapacan has an area of 176.5 square kilometers and contains the West Linapacan A field which produced 8.5 million barrels from May 1992 until January 1996, when the field was shut-in due to low oil prices and high water production. Based on an independent assessment prepared by Gaffney, Cline & Associates, the gross Proved + Probable Undeveloped Reserves of the West Linapacan A field as at February 28, 2014 is estimated to be 18.2 million barrels assuming a three-well development scenario.

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.

In 2014, the former Block C-2 operator RMA failed to secure funding for the drilling of West Linapacan A-7 well, which was part of the agreed work program under Phase 2 of a Farm-In Agreement signed in May 2008. 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 remaining members subsequently appointed Philodrill as Operator.

The partners in Block C-2 West Linapacan and their respective participating interests are as follows:

The Philodrill Corporation (Operator)	28.070%
Nido Petroleum	22.279%
OPMC / Logpocor	30.288%
FEPC	9.103%
APMC	6.123%
PERC	4.137%

The Consortium continues with its evaluation of the viability of redeveloping the West Linapacan “A” Field. 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. The risks on the volume of remaining resources, and the complexity of the Linapacan Limestone reservoir will be among the factors to be considered during the evaluation.

- **Block D Retention Block and Tara Block**

There is currently no production or exploration activity in these two blocks.

The partners in Block D Retention Block and their respective participating interests are as follows:

The Philodrill Corporation (Operator)	33.751%
Nido Petroleum	31.417%
OPMC	20.829%
FEPC	8.168%
APMC	5.835%

On the other hand, the partners in Tara Block and their respective participating interests are as follows:

Philodrill	27.5%
Trans-Asia (Operator)	22.5%
Phoenix Gas & Oil	22.5%
OPMC	10%
FEPC	10%
Seafront	5%
APHC	2.5%

#### **SC 40 North Cebu**

SC 40 covers the northern area of Cebu Island and the adjacent offshore areas in the Central Tañon Strait and Visayan Sea, with a total area of 3,400 square kilometers. The service contract has a seven-year Exploration Period, extendible by three years, and a 25-year Production Period, extendible by 15 years. SC 40 was awarded on February 9, 1995, and is presently in the 25-year Production Period ending on November 24, 2030. SC 40 contains the Libertad gas field and other onshore and offshore prospects.

The operator, Forum Exploration, Inc. (“FEI”) is a 66.67% owned subsidiary of Forum and has a 100% participating interest in the block.

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 1km to 2km. The survey was aimed to fully delineate the high relief structures that were identified in previous gravity surveys. Processing and interpretation of the gravity data were completed in December 2017.

The Libertad Field in Bogo City, Cebu had been shut-in since August 2015. It was deemed that Forum will not be able to resume operations due to fluctuating pressure, thus Forum decided to decommission the field and to plug and abandon (P&A) the L95-1 production well permanently. A P&A program was submitted to the DOE on July 21, 2017, which was approved on August 01, 2017.

From November 8-11, 2017, Forum's contractor Desco was able to successfully plug and abandon the L95-1 well. In the meantime, Desco's GE Jenbacher engine will remain on site and will be transferred to another location sometime in 2018. Libertad gas field produced 208.9 million cubic feet of gas from February 2012 to December 31, 2015. The revenues derived from Libertad gas sales are not material to FEP's cash flow.

In December 2017, Forum submitted a work program and budget for 2018 to the DOE. The proposed exploration activity for 2018 is a land gravity survey in the Daanbantayan-Medellin area consisting of two parts: a traverse program and a grid program. The traverse survey aims to produce a gravity profile to be subjected to forward modeling, and to define fault structures in order to confirm if the mapped central depression in onshore Cebu is a graben or a trough. The grid survey, on the other hand, would help locate the apex of an identified lead near Dalingding-1 well.

### ***SC 72 Recto Bank***

SC 72 is located offshore West Palawan covering an area of 8,800 square kilometers and contains the Sampaguita gas discovery. The service contract has a seven-year Exploration Period consisting of 4 Sub-Phases, extendible by three years, and a 25-year Production Period, extendible by 15 years. SC 72 was awarded on February 15, 2010, and is presently in 2nd Exploration Sub-Phase.

Based on an independent assessment prepared by Weatherford Petroleum Consultants, the Sampaguita gas field is estimated to contain 2.6 trillion cubic feet of in-place Contingent Resources and 5.5 trillion cubic feet of in-place Prospective Resources.

The partners in the SC 72 consortium and their respective participating interests are as follows:

Forum (GSEC 101) (Operator)	70%
Monte Oro Resources and Energy, Inc.	30%

On March 2, 2015, Forum confirmed that the Philippine Department of Energy ("DOE") has granted a Force Majeure on SC 72 because the contract area falls within the territorial disputed area of the West Philippine Sea which is the subject of an United Nations arbitration process between the Republic of Philippines and the People's Republic of China. Under the terms of the FM, all exploration work at SC 72 is immediately suspended (effective from 15 December 2014) until the DOE notifies the Forum that it may commence drilling. As a result, the second sub-phase of SC 72 has been put on hold until further notice.

On July 12, 2016, the Permanent Court of Arbitration in The Hague released a ruling on the maritime case filed by the Republic of the Philippines against the People's Republic of China. In particular, the Tribunal ruled that Reed Bank (Recto Bank), where Service Contract SC 72 lies, is within the Philippines' Exclusive Economic Zone (EEZ) as defined under the United Nations Convention on the Law of the Sea (UNCLOS).

As at December 31, 2017, FM is still enforced and Forum (GSEC 101) is awaiting its lifting in order to commence the remaining SP 2 work commitment. The DOE-approved budget for 2018 consists mostly of license administration costs. Forum will have 20 months upon lifting of the FM to drill its two commitment wells, Sampaguita-4 and Sampaguita-5.

### **SC 74 Northwest Palawan**

SC 74 is located offshore Northwest Palawan covering an area of 4,268 square kilometers. The service contract has a seven-year Exploration Period consisting of four (4) Sub-Phases, extendible by three years, and a 25-year Production Period, extendible by 15 years. SC 74 was awarded on August 13, 2013.

The partners in SC 74 and their respective participating interests are as follows:

PXP (Operator)	70%
The Philodrill Corporation	25%
PNOC Exploration Corporation ("PNOC EC")	5%

CGG conducted a multi-client 2D seismic survey over SC 74 from May 30 to June 10, 2016 using the vessel Binh Minh 2. A total of 1,614.30 line-km of 2D seismic data was acquired using Broadband technology, in addition to 1,718 km of marine gravity data and 1,623 km of marine magnetic data.

Processing of seismic data was completed by CGG in December 2016.

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 in May-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 Joint Venture's intention to enter SP 3, subject to DOE's approval of the proposed amendments to the work program under the said SP, which are as follows:

#### **SP 3A - Firm**

1. Interpretation of the Linapacan A and B Fields using a portion of reprocessed West Linapacan PSDM 3D seismic volume to be purchased from SC 14C2 JV;
2. Feasibility/market study on Linapacan A and B Fields; and
3. Geologic fieldwork & biostratigraphy

#### **SP 3B - Contingent**

1. Reprocessing of 2016 MC2D seismic data with the aim of further enhancing the Pre-Nido section; and
2. New geological, geophysical and/or geochemical data acquisition.



The Work Program and Budget (WP&B) for year 2018 was formally submitted to the DOE On December 27, 2017.

### **SC 75 Northwest Palawan**

SC 75 is located offshore Northwest Palawan covering an area of 6,160 square kilometers. The service contract has a seven-year Exploration Period consisting of 5 Sub-Phases, extendible by three years, and a 25-year Production Period, extendible by 15 years. SC 75 was awarded on December 27, 2013, and the 1st Exploration Sub-Phase expired on December 26, 2015.

The partners in the SC 75 consortium and their respective participating interests are as follows:

PXP (Operator)	50%
PNOC-EC	35%
PERC	15%

On April 15, 2014, the operator completed the acquisition of 2,237 line-kilometers of 2D seismic data in SC 75 which is located offshore Northwest Palawan. The processing and interpretation of the 2D seismic data was completed in the second quarter of 2015.

All activities in SC 75 remained suspended throughout 2016 due to FM that was imposed on December 27, 2015.

The DOE-approved budget for 2018 consists mostly of license administration costs. PXP will have 18 months, once the FM is lifted, to undertake the SP 2 work program comprising mainly of the acquisition, processing, and interpretation of at least 1,000 sq km of 3D seismic data.

As at December 31, 2017, FM is still enforced and PXP is awaiting its lifting in order to commence with the SP 2 work commitment.

### **Peru Block Z-38**

Peru Block Z-38 is located in the Tumbes Basin, offshore Northwest Peru in water depths ranging from less than 100 meters to over 3,000 meters, covering an area of 4,875 square kilometers. The license contract has a seven-year Exploration Stage, subdivided into four Work Periods; and a 30- and 40-year Exploitation Stage for oil and gas, respectively. Z-38 is presently in the Third Work Period.

The partners in the license contract and their respective participating interests are as follows:

KEI (Peru Z-38) Pty Ltd Sucursal del Peru (Operator)	75%
Pitkin Petroleum Peru Z-38 SRL	25%

Exploration activities completed to date include the acquisition, processing and interpretation of 2,393 kilometers of 2D seismic data, 2,350 kilometers of magnetic data, and 1,500 square kilometers of 3D seismic data.

The block is currently under FM since 01 September 2013 and will remain so until a drilling rig is procured and all remaining regulatory permits have been secured.

In November 2017, the Consortium approved the work program for 2018 consisting of preparation for drilling of two exploration wells (Marina and Bonito), continued evaluation of other prospects and leads within Block Z-38, and continued social programs and projects.

For the G&G activities, Karoon has identified seismic amplitude anomalies at the shallower intervals which could be additional potential reservoirs in Z-38 block.

On January 10, 2018, Karoon announced the farm-in of Tullow Oil plc (UK) to Z-38, wherein Tullow has agreed to partially carry Karoon in the cost of one well, Marina-1, to earn 35% interest subject to certain conditions. Following the farm-in of Tullow, the resulting participating interests in Z-38 are as follows: Karoon – 40%; Tullow – 35%; and Pitkin – 25%.

Under a previous farm-in agreement with Karoon, Pitkin will be carried in the cost of two wells, including Marina-1 and Karoon will remain as Operator of Z-38.

## **Item 2. Properties**

Please see “Petroleum Service Contracts” which constitutes the principal properties of the Company.

### **OTHER PROPERTIES**

Oil and Gas and other Properties consist mainly of the Company’s share in the wells, platform and facilities in various operating service contracts as well as Machinery and Equipment for its oil exploration activities, transportation equipment, and surface structures and facilities and office equipment amounting to ₱261.8 million as of December 31, 2017 compared to ₱307.8 million as of December 31, 2016.

There are no mortgages, liens and/or encumbrances over the foregoing property, plant and equipment which are under the full use and control of the Company.

The Company has not entered into any leases of property.

There is no intention to acquire additional property, plant and equipment other than those that may be required for the continued activities.

## **Item 3. Legal Proceedings**

*There are currently no legal proceedings involving the Company during the past three years.*

## **Item 4. Submission of Matters to a Vote of Security Holders**

There were no matters covered under this item submitted in the 4th quarter of 2017 to the security holders for a vote.

## PART II - OPERATIONAL AND FINANCIAL INFORMATION

### Item 5. Market for Issuer's Common Equity and Related Stockholder Matters

#### **MARKET INFORMATION**

On September 12, 2011, the Philippine Stock Exchange listed by way of introduction the Company's shares at the initial listing price of ₱1.20 per share with the Company symbol PXP.

On August 8, 2016 from the Securities and Exchange Commission approved the change in the Company's corporate name from "Philex Petroleum Corporation" to "PXP Energy Corporation."

The Company's public float as of December 31, 2017 is 33.71%.

The average stock prices for the Company's common shares within the last two years and for the first two months of 2018 were as follows:

Period	High	Low
1Q 2016	2.78	1.16
2Q 2016	5.29	2.01
3Q 2016	5.70	2.80
4Q 2016	4.75	3.20
1Q 2017	3.90	2.88
2Q 2017	3.85	2.84
3Q 2017	10.10	2.96
4Q 2017	12.34	6.35
Jan 2018	9.91	7.81
Feb 2018	19.42	7.99

The Company's stock was traded at P18.34 per share as of February 28, 2018.

#### **HOLDERS**

Prior to the distribution of the Company's shares as property dividend in 2011, the Company had ten stockholders, nine of whom were individuals with one share each. Subsequently, the number of shareholders totaled to 38,896. The top 20 stockholders as of March 14, 2018 are as follows:

	STOCKHOLDERS' NAME	NUMBER OF SHARES	% OF OWNERSHIP
1)	PCD NOMINEE CORPORATION (exclusive of Philex Mining and SSS shares held through PCD Nominee)	391,489,131	23.03%
2)	PHILEX MINING CORPORATION (held through PCD Nominee)	335,864,728	19.76%
3)	ASIA LINK B.V.	284,470,725	16.73%

STOCKHOLDERS' NAME		NUMBER OF SHARES	% OF OWNERSHIP
4)	SOCIAL SECURITY SYSTEM (Direct and through PCD Nominee)	214,916,805	12.64%
5)	TWO RIVERS PACIFIC HOLDINGS CORP.	125,608,156	7.39%
6)	KIRTMAN LIMITED	65,221,981	3.84%
7)	MAXELLA LIMITED	64,539,833	3.80%
8)	PCD NOMINEE CORPORATION (NON-FILIPINO)	50,202,838	2.95%
9)	ARTINO LIMITED	10,193,136	0.60%
10)	MAKATI SUPERMARKET CORP.	2,464,201	0.14%
11)	THE FIRST NATIONAL INVESTMENT COMPANY INC.	2,073,157	0.12%
12)	MANUEL V. PANGILINAN	1,603,466	0.09%
13)	THE FIRST NATIONAL INVESTMENT COMPANY,	1,524,380	0.09%
14)	PHILIPPINE REMNANTS CO., INC.	1,438,125	0.08%
15)	FRANK PAO	1,011,714	0.06%
16)	PAULINO DE UGARTE &/OR ELENA E. DE UGARTE	852,943	0.05%
17)	CAROL JOAN REIF	826,795	0.05%
18)	RELIGIOUS OF THE VIRGIN MARY-B	789,846	0.05%
19)	ROBIN JOHN PETTYFER	735,239	0.04%
20)	SKYSIDE DEVELOPMENT CORP.	694,810	0.04%
TOTAL		1,556,522,008	91.55%

#### **DIVIDENDS**

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

Apart from legal restrictions governing the declaration of dividends, the Company declares dividends, consistent with its dividend policy as stated in the Company By-Laws, and pays in an equitable and timely manner. The Company's dividend policy is to distribute up to 25% of core net income and to pay cash dividends within thirty (30) calendar days to shareholders of record from date of declaration.

#### **RECENT SALES OF UNREGISTERED OR EXEMPT SECURITIES (INCLUDING RECENT ISSUANCE OF SECURITIES CONSTITUTING AN EXEMPT TRANSACTION)**

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

No securities were sold by the Company within the past three years which were not registered under the Code.

#### **DESCRIPTION OF THE SECURITIES OF THE COMPANY**

The Company's authorized capital consists of 6,800,000,000 common shares, of which 1,700,000,000 shares are issued and outstanding. The Company's shares have the following features:

### **Dividend Rights**

The Company declares dividends, consistent with its dividend policy as stated in the Company By-Laws, and pays in an equitable and timely manner. The Company's dividend policy is to distribute up to 25% of core net income and to pay cash dividends within thirty (30) calendar days to shareholders of record from date of declaration. The Company's By-laws provide that dividends shall be declared and paid out of the unrestricted retained earnings which shall be payable in cash, property or stock to all shareholders on the basis of outstanding stock held by them, as often and at such times as the Board may determine and in accordance with law and applicable rules and regulations. No fractional shares shall be issued from any declaration of stock dividends.

### **Voting Rights**

Each holder of share has full voting rights. At each meeting of the stockholders, every stockholder entitled to vote on a particular question or matter involved shall be entitled to one vote for each share of stock standing in his name in the books of the Company at the time of closing of the transfer books for such meeting.

### **Pre-Emptive Rights**

The Company's Articles of Incorporation provide that there shall be no pre-emptive rights with respect to shares of stock to be issued, sold or otherwise disposed of by the Company for any corporate purpose, including shares of stock to be issued pursuant to a duly approved stock option, stock purchase, stock subscription or similar plans.

### **Change in Control**

There is no provision in the Company's Articles of Incorporation and By-laws which may delay, deter, or prevent a change in control in the Company.

### **Item 6. Management's Discussion and Analysis or Plan of Operation.**

#### **FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015**

Information on the Group's results of operations and financial position presented in the 2017 Audited Consolidated Financial Statements and accompanying Notes to the Consolidated Financial Statements are incorporated hereto by reference.

Consolidated operating revenues amounted to ₱104.4 million in 2017 (2016: ₱101.6 million; 2015: ₱172.3 million) consisting solely of revenues from petroleum.

The higher revenue was due to the (1) the rise in average crude oil prices to \$54 per barrel (2016: \$43 per barrel; 2015: \$54 per barrel) offset by; (2) the normal decline in the oil production of Service Contract (SC) 14 C-1 Galoc, which yielded a gross volume of 1.4 million barrels (2016: 1.7 million barrels; 2015: 2.4 million barrels) from four (4) offtakes (2016: 5 offtakes; 2015: 7 offtakes). The revenues were contributed by Forum Energy Limited ("Forum"), a 79.0% direct and indirectly owned subsidiary, from its participating interests in the oil fields of Galoc, Nido, Matinloc and North Matinloc, and from its gas field in Libertad.

Production data from oil and gas during the year were as follows:

	2017	2016	2015
Revenues (In millions ₱)			
Oil and gas	<b>₱104.4</b>	₱101.6	₱172.3
Coal	–	–	–
	<b>₱104.4</b>	<b>₱101.6</b>	<b>₱172.3</b>
Sales			
Oil (barrels)*	<b>41,270</b>	49,585	69,646
Gas (mmbTU)	–	–	15,549

\*sale of petroleum, net to Forum

Costs and expenses totaled ₱158.2 million (2016: ₱170.8 million; 2015: ₱326.8 million). Petroleum production costs were lower at ₱108.9 (2016: ₱115.4 million; 2015: ₱98.0 million), resulting from lower depletion on lesser oil output. General and administrative expenses decreased to ₱49.4 million (2016: ₱55.5 million; 2015: ₱228.8 million), resulting from management's continuing cost control and sharing of costs between subsidiaries.

A net other charge of ₱1.1 million was recorded in 2017 (2016: ₱20.5 million; 2015: net other income ₱10.5 million) consisting of the following: (1) Interest income at ₱3.7 million (2016: ₱3.3 million; 2015: ₱6.1 million); (2) Foreign exchange loss ₱0.1 million (2016: net forex gain ₱13.3 million; 2015: ₱24.7 million) resulting from a weaker foreign exchange rate of ₱50.4 = \$1 (2016: ₱49.72 = \$1; 2015: ₱47.0 = \$1); and (3) Provision of impairment and loss on write off of assets at ₱4.6 million (2016: reversal of impairment ₱4.7 million; 2015: provision for impairment ₱39.8 million). This was a result of the rehabilitation and decommissioning of the Libertad Gas Field in SC 40, offset by the Reversal of impairment losses at ₱11.3 million, representing accrued expenses reversed during the year. In 2015, impairment charges of ₱39.8 million were incurred as a result of Pitkin's exit in SC 53 Mindoro and Peru Block XXVIII.

	Years Ended December 31		
(in Millions)	2017	2016	2015
Interest income	<b>₱3.7</b>	₱3.3	₱6.0
Foreign exchange gains - net	<b>(0.1)</b>	13.3	24.7
Interest expense and other charges	<b>(0.1)</b>	(0.1)	–
Provision and reversal of impairment and loss on write off of assets - net	<b>(4.6)</b>	4.7	(39.8)
Others - net (Note 15)	–	(0.7)	19.6
Total	<b>(₱1.1)</b>	<b>₱20.5</b>	<b>₱10.5</b>

Consolidated net loss stood at ₱57.1 million (2016: ₱36.4 million; 2015: ₱144.0 million) primarily as a result of slightly higher revenues due to: (1) higher crude oil prices amidst lower output and production cost from SC 14-C1 Galoc and; (2) containment of group overhead; offset by a higher net other charges resulting from foreign exchange losses and provision for income tax of ₱2.3 million (2016: benefit from income tax ₱12.3; 2015: provision for income tax ₱2 thousand). A higher net loss of ₱144.0 million was posted in 2015 as a result of higher overhead in PXP's subsidiaries. As such, net loss attributable to equity holders of the Parent stood at ₱39.1 million (2016: ₱22.4 million; 2015: ₱87.5 million), and core net loss was ₱37.3 million (2016: ₱50.0 million; 2015: ₱129.9 million), with both basic and diluted loss per share amounted to ₱0.023 (2016: ₱0.013; 2015: ₱0.051).

As at December 31, 2017, the Company's total assets stood at ₱7.229 billion as against ₱7.332 billion as at December 31, 2016. Total current assets dropped to ₱525.8 million from ₱669.2 million as Cash and cash equivalents decreased from ₱573.3 to ₱450.0 million. Said decrease was attributable to the cash infusion from Tidemark Holdings Limited, a major shareholder of Forum, representing additional share subscription to the latter, which was offset by cash disbursements incurred for the: (1) Cost of appraisal well in SC 14 C-1 Galoc; (2) Exploration activities in SC 74; (3) Share repurchase by Pitkin of its shareholders; (3) Purchase of additional shares of Forum from a subsidiary and an affiliate; and (4) partial payment of debt to Philex Mining Corporation ("PMC"). Trade and other receivables decreased from ₱63.5 million to ₱41.6 million as a result of reclassification to deferred exploration costs in SC 74.

Noncurrent assets slightly rose to ₱6.702 billion from ₱6.663 billion, largely arising from the increase in deferred exploration costs to ₱5.168 billion from ₱5.081 billion, resulting from the costs spent in the Galoc appraisal well and exploration activities in SC 74, offset by the decrease in property and equipment from ₱307.8 million to ₱261.9 million due to depletion and the decommissioning of the Libertad Gas field in SC 40.

Current liabilities as at the December 31, 2017 were marginally lower at ₱2.926 billion from ₱2.960 billion from the previous year. This was primarily due to the decrease in Advances from related parties following the partial payment of debt to PMC, in addition to the reduction in accounts payable and other accrued liabilities to PXP's consortium partners in SC 74.

Noncurrent Liabilities was reduced to ₱4.226 billion from ₱4.273 billion following the reversal of provision for losses in other noncurrent liabilities, which resulted in the reduction of the balance from ₱203.7 million to ₱190.7 million. Total liabilities were lower at ₱4.226 billion from ₱4.273 billion at the end of the prior year, following the reduction in current liabilities by ₱33.7 million and a drop in non-current liabilities by ₱13.0 million.

As of December 31, 2017, total equity reached ₱3.002 billion as against ₱3.058 billion at the end of 2016. This was a result of the slight decrease in non-controlling interest attributable to the (1) Net loss incurred in the current year at ₱57.1 million (2016: ₱36.4 million; 2015: ₱144.0 million) and (2) Effect of transactions with owners, which resulted in a reduction of ₱9.8 million (2016: ₱1.7 million; 2015: ₱653.8 million), following the share repurchase by Pitkin and the additional capital infusion in Forum; but was offset by (3) Gain on translation of foreign subsidiaries at ₱10.6 million (2016: ₱129.3 million; ₱92.4 million).

Net Cash Used in Operating Activities during the year amounted to ₱22.0 million (2016: net inflow ₱109.7 million 2015: net outflow ₱115.2 million) resulting mainly from an operating loss of ₱23.6 million (2016: ₱20.1 million; 2015: ₱100.3 million). In 2016, the increased inflow came from collection of Trade and other receivables, due to cash collection for the sale of oil from Galoc in December 2015. In addition, Trade and other payables increased for the collection of cash calls by PXP from the SC 74 consortium members. In 2015, the higher operating cash outflow 2014 was a result of higher cash operating costs, lower petroleum revenues, payment to trade creditors and suppliers and reorganizational costs.

Net Cash from Investing Activities resulted in a net outflow of ₱64.2 million (2015: ₱65.7 million; 2015: ₱58.6 million) mainly due to additions in exploration activities in SC74 and the drilling of the appraisal well in SC 14 C-1 Galoc. For 2016, the outflows came from exploration activities in SC75 and SC74, while for 2014, the net outflow was associated with the exploration activities related to Peru Block XXVIII, SC 53, SC 74, and SC 75.

Net Cash used in Financing Activities stood at ₱36.9 million resulting from the following: (1) Proceeds from issuance of subsidiary's new shares at ₱100.7 million, representing the cash infused by a major shareholder of Forum for the subscription of additional shares; (2) Acquisition of non-controlling interest at ₱17.7 million accounting for the cash paid for the additional interests acquired by PXP in Forum; (3) Decrease in advances from related parties ₱25.2 million, representing partial payment of debt with PMC; and (4) Acquisition by subsidiary of own shares at ₱92.8 million which was the amount of the cash spent for Pitkin's share repurchase. In 2015, the net cash outflow arose from the \$10 million partial payment of PMC's Advances to PXP and the cash spent from the acquisition of Pitkin's own shares.

Effect of exchange rate changes in cash and cash equivalents representing fluctuations in foreign currency exchange rates amounted to an outflow of ₱150 thousand (2016: net inflow ₱3.3 million; 2015: net outflow ₱3.2 million). At the end of the current year, Cash and cash equivalents amounted to ₱573.3 million (2016: ₱573.3 million; 2015: ₱526.4 million).

Whilst PXP had a deficit as at year end, the Group has sufficient cash to operate and may not need to raise funds in the next 12 months. PXP does not expect to purchase or sell any significant equipment and did not have any significant change in the number of its employees.

#### **TOP FIVE (5) KEY PERFORMANCE INDICATORS**

##### **1) Enhance Value of Assets**

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

The key activities in 2017 which were aimed at enhancing asset value included: (a) preparations for the drilling of two exploration wells in Peru Block Z-38 [Pitkin 25%] and; (b) continuing exploration in SC 74 (PXP 70%), where processing and interpretation of marine gravity and magnetic data Phase 2 is ongoing and expected to be completed by April 2018. The Consortium has agreed to proceed to Sub-Phase 3 starting 13 December 2017 with the interpretation of Linapacan A and B fields 3D seismic data, and Linapacan engineering and market study among the work activities submitted to the DOE.

In SC 40 North Cebu (Forum 66.67%), Forum completed the plugging and abandonment (P&A) of L95-1 well in Libertad Field. A detailed land gravity survey in northern Cebu was approved as part of the work program scheduled to commence in April 2018.

The SC 14C1 Consortium has finished the drilling of an appraisal well, Galoc-7, within the first half of 2017. 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. Instead, efforts are concentrated on optimizing oil production at the Galoc Field from the existing four (4) production wells in order to sustain profitability and prolong the field's economic life.



In SC 14C2 West Linapacan (Forum 9.103%), interpretation of Pre-Stack Depth Migrated 3D seismic data is ongoing, while in SC 6A Octon Block (PXP 5.56% / Forum 5.56%), a Pre-Stack Depth Migration (PSDM) processing and quantitative interpretation (QI) of the 2013 3D seismic data has been completed. The work program for the first half of 2018 includes 3D seismic interpretation, which will integrate the results of the QI work.

## **2) Portfolio Management**

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

In 2017, PXP increased its direct shareholding in Forum through the subscription of new ordinary shares of Forum and the purchase of shares from its affiliates. This was settled through a combination of cash and conversion of debt. This resulted in an increase in PXP's total direct and indirect interest in Forum from 77.5% to 79.0% or an economic interest of 58.9% to 75.9%.

On 10 January 2018, Karoon announced the farm-in of Tullow Oil plc (UK) to Z-38, wherein Tullow has agreed to partially carry Karoon in the cost of one well, Marina-1, to earn 35% interest subject to certain conditions. Following the farm-in of Tullow, the resulting participating interests in Z-38 are as follows: Karoon – 40%; Tullow – 35%; and Pitkin – 25%. Under a separate farm-in agreement with Karoon, Pitkin will be carried in the cost of two wells, including Marina-1 and Karoon will remain as Operator of Z-38.

## **3) Control of Costs and Expenses**

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

General and administrative expenses was reduced to ₱49.4 million (₱55.4 million; 2015: ₱228.8 million) attributed to management's continued cost containment. To sustain this level of General and Administrative Expenses, management continuously monitors opportunities to rationalize and share the resources within the Company and its subsidiaries.

## **4) Financial Management**

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

PMC provided cash advances for the Company's working capital, exploration activities and acquisition of assets. These advances are covered by a Pledge Agreement, approved by the shareholders on August 11, 2015, whereby such advances shall be payable within nine (9) months from the date of demand. It is not known as to when PMC will be making a repayment demand. Thus, it is important for the Company to develop sources of cash for its funding needs, particularly in Forum, to the extent possible.

## **5) Health, Safety and Environment**

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

No lost-time injuries, fatalities, or environmental-related incidents were recorded by the Company and its subsidiaries during the year.

### **KNOWN TRENDS, EVENTS OR UNCERTAINTIES**

On 10 January 2018, Karoon announced the farm-in of Tullow Oil plc (UK) to Z-38, wherein Tullow has agreed to partially carry Karoon in the cost of one well, Marina-1, to earn 35% interest subject to certain conditions. Following the farm-in of Tullow, the resulting participating interests in Z-38 are as follows: Karoon – 40%; Tullow – 35%; and Pitkin – 25%. Under a separate farm-in agreement with Karoon, Pitkin will be carried in the cost of two wells, including Marina-1 and Karoon will remain as Operator of Z-38.

There is no known event that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation that has not been booked, although the Company could be contingently liable for lawsuits and claims arising from the ordinary course of business of which no material claims have been identified.

Other than what have been discussed above, there are no known significant trends, demands, commitments or uncertainties that will result in or that are reasonably likely to result in the Company's liquidity increasing or decreasing in a material way. There are no material commitments for capital expenditures not reflected in the Company's financial statements. There is likewise no significant seasonality or cyclicity in its business operation that would have material effect on the Company's financial condition or results of operation. There were no other significant elements of income or loss that did not arise from the Company's continuing operations. There are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationship of the Company with unconsolidated entities or other persons created during the reporting period. There are no line items in the Company's financial statements not already explained for causes either above or in the Notes to the Consolidated Financial Statements other than due to the usual period-to-period fluctuations in amounts natural in every business operations.

The Company has not, in the past year, revised its financial statements for reasons other than changes in accounting policies.

### **Item 7. Financial Statements**

The audited financial statements are presented in Part IV, Exhibits and Schedules.

### **Item 8. Information on Independent Public Auditor and other Related Matters**

The appointment, approval or ratification of the Company's independent public auditor will be submitted to the shareholders for approval at the Annual Stockholders' Meeting on June 1, 2018.

The Audit Committee has recommended, and the Board of Directors has approved, the reappointment of the accounting firm of Sycip Gorres Velayo & Co ("SGV & Co"). SGV & Co has been the Company's independent auditor since its incorporation in December 2007. The Audit Committee has recommended their reappointment for the current year. The recommended audit engagement partner for the ensuing year is Mr. Alexis Benjamin C. Zaragosa III.

The Company's Audited Financial Statements for 2017 was certified by Mr. Alexis Benjamin C. Zaragosa III of SGV & Co, the audit engagement partner for the 2017 audit, and is attached to this Information Statement as an Exhibit to the Annual Report. The Company has been advised that the SGV & Co auditors assigned to render audit-related services have no shareholdings in the Company, or a right, whether legally enforceable or not, to nominate persons or to subscribe to the securities of the Company, consistent with the professional standards on independence set by the Board of Accountancy and the Professional Regulation Commission.

Representatives of SGV & Co will be present at the scheduled stockholders meeting. They will have the opportunity to make a statement should they desire to do so and will be available to respond to appropriate questions.

### **EXTERNAL AUDIT FEES AND SERVICES**

#### **Audit and Audit-Related Fees**

For 2017, 2016 and 2015, independent accountants were engaged to express an opinion on the consolidated and stand-alone financial statements of the Company and its Subsidiaries (the "Group"), and to assist in the preparation of the income tax returns of the Company and its subsidiaries. A regular audit was carried out based on Philippine Standards on Auditing. The audit fees for these services were for P4.3 million for 2017, P4.9 million for 2016 and P5.0 million for 2015.

There were no non-regular audit conducted during the years 2017, 2016 and 2015.

#### **Tax Fees**

There were no tax-related services rendered by the independent auditors other than the assistance rendered in the preparation of the income tax returns which formed part of the regular audit engagement.

#### **All Other Fees**

There were no other professional services rendered by the independent accountants.

#### **Audit Committee's Approval of Policies and Procedures**

Prior to the commencement of audit work, the independent accountants make a presentation of their audit program and schedule to the Company's Audit Committee, which includes a discussion of anticipated issues. The Group's audited consolidated financial statements for the year are presented by the external auditors to the Audit Committee for their endorsement to the Board and the Board's final approval. Prior to endorsement by the Audit Committee, the independent auditors present a comprehensive report discussing the work carried out, areas of interest and their key findings and observations.

The independent accountants also provide limited review to the Group's quarterly financial reports. This, together with the financial reports, is then presented to the Audit Committee for their endorsement to the Board of Directors for final approval and subsequent filing with the Securities and Exchange Commission.

## **CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

There has been no change in the Company's independent accountants since the Company's incorporation in 2007, except for a change in the audit engagement partner from Mr. Jose Pepito E. Zabat III in 2016 to Mr. Alexis Benjamin C. Zaragoza III starting the 2017 audit, and there have been no unresolved disagreements.

## **PART III - CONTROL AND COMPENSATION INFORMATION**

### **Item 9. Directors and Executive Officers**

The overall management and supervision of the Company is undertaken by the Board. There are nine members of the Board. The regular and independent directors were elected during the annual meeting of the stockholders held on May 17, 2016, to serve for a term of one year and until their successors are elected and qualified.

#### **Directors**

The names of the incumbent directors of the Company, their respective ages, citizenship, period of service, directorships in other companies and positions are as follows:

- 1) MANUEL V. PANGILINAN** – 71, Filipino citizen; first elected Director of the Company on December 8, 2009; Chairman of the Board since December 8, 2009; last re-elected on May 16, 2017.

#### **Academic background**

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

#### **Business and Professional Background/Experience**

Mr. Pangilinan founded First Pacific Company Limited ("First Pacific"), a corporation listed on the Hong Kong Stock Exchange, in May 1981. He served as Managing Director of First Pacific since its founding in 1981 until 1999. He was appointed Executive Chairman until June 2003, after which he was named Managing Director and Chief Executive Officer. Mr. Pangilinan is the President and CEO of PLDT Incorporated, the country's dominant telecom company and Smart Communications Incorporated - the largest mobile phone operator in the Philippines, and continues to serve as their Chairman concurrently.

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

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

Listed companies of which Mr. Pangilinan is presently a director

***Philippines***

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

***Hong Kong***

8. First Pacific Co. Ltd.

- 2) **DANIEL STEPHEN P. CARLOS** – 54, Filipino citizen; first elected Director on August 16, 2015; last re-elected on May 16, 2017.

Academic Background

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

*Business and Professional Background/Experience*

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

*Listed companies of which Mr. Carlos is presently a director*

***Philippines***

1. PXP Energy Corporation

- 3) **EULALIO B. AUSTIN, JR.** – 56, Filipino citizen; first elected May 18, 2010; last re-elected May 16, 2017.

*Academic background*

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

*Business and Professional Background/Experience*

Mr. Austin has been a Director of the Company since May 17, 2012. He is also a Director of Philex Mining Corporation (“Philex Mining”) and Philex Gold Philippines, Inc. since June 29, 2011. He became President and Chief Operating Officer of Philex Mining on January 1, 2012 and President and Chief Executive Officer on April 3, 2013. He previously served Philex Mining as its Senior Vice President for Operations and Padcal Resident Manager in 2011, Vice President and Resident Manager for Padcal Operations from 2004 to 2010, Mine Division Manager (Padcal) from 1999 to 2003, Engineering Group Manager in 1998 and Mine Engineering & Draw Control Department Manager from 1996 to 1998. Mr. Austin concurrently serves as Chairman and Director of Silangan Mindanao Mining Co., Inc. Outside of Philex Mining, he serves as a member of the Chamber of Mines of the Philippines’ Nominations Committee and Board of Trustees. Mr. Austin also sits as a member of the Executive Committee of the Board of Trustees and the Chairman of the Towards Sustainable Mining Initiative Committee. He likewise serves in the Board of Directors of the Philippine Society of Mining Engineers (PSEM), and was Founding President of PSEM’s Philex Chapter. He was awarded as the CEO of the year on Mining by The Asset last December 14, 2015 in Hong Kong and was recently an Asia Pacific Entrepreneurship Awardee by the Enterprise Asia, awarded November 2016.

*Listed companies of which Mr. Austin is presently a director*

***Philippines***

1. PXP Energy Corporation
2. Philex Mining Corporation

- 4) **ROBERT C. NICHOLSON** – 62, British citizen; first elected February 23, 2011; last re-elected May 17, 2016.

Academic background

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

Business and Professional Background/Experience

Mr. Nicholson has been a Director of the Company since February 23, 2011. He has been a Director of the Philex Mining and PGPI since November 28, 2008. He is the Chairman of Goodman Fielder Pty Limited (since March 2015), a Commissioner of PT Indofood Sukses Makmur Tbk and a Director of Metro Pacific Investments Corporation, Philex Mining Corporation, PXP Energy Corporation, PacificLight Power Pte. Ltd. and an Executive Chairman of Forum Energy Limited, all of which are First Pacific Group subsidiaries, associates or joint venture.

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

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

Listed companies of which Mr. Nicholson is currently a director

Philippines

Listed companies of which Mr. Nicholson is currently a director

**Philippines**

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

**Hong Kong and Indonesia**

4. First Pacific Co. Ltd.
5. Pacific Basin Shipping Limited
6. PT Indofood Sukses Makmur Tbk

- 5) **BENJAMIN S. AUSTRIA** – Independent Director; 72, Filipino citizen; first elected Independent Director on August 4, 2011; last re-elected on May 16, 2017.

Academic background

Dr. Austria received his Bachelor of Science degree in Geology from the University of the Philippines in 1965. He earned his Master and Doctorate degrees in Geology from Harvard University in 1968 and 1975, respectively. Dr. Austria retired in 2011 from the University of the Philippines (UP) as Professor of Geology after 45 years of service, teaching courses in Economic Geology, Geochemistry and Crystallography. The UP National Institute of Geological Sciences building was completed and inaugurated while he was Director of the Institute from 1987 to 1993.

Business and Professional Background/Experience

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

Listed corporations of which Dr. Austria is currently a director

***Philippines***

1. PXP Energy Corporation (Independent Director)

- 6) **EMERLINDA R. ROMAN – Independent Director**; 68, Filipino citizen; first elected Independent Director August 4, 2011; last re-elected May 16, 2017.

Academic Background

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

Business and Professional Background/Experience

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

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

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



Listed companies of which Dr. Roman is currently a director:

**Philippines**

1. PXP Energy Corporation (Independent Director)

- 7) **MARILYN A. VICTORIO-AQUINO** - 62, Filipino citizen; first elected April 18, 2013; last re-elected on May 16, 2017.

Academic Background

Ms. Aquino graduated cum laude (class salutatorian) from the University of the Philippines College of Law in 1980 and placed second in the Philippine Bar Examinations.

Business and Professional Background/Experience

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

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

Listed companies of which Ms. Aquino is currently a director

**Philippines**

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

**Hong Kong**

4. First Pacific Co. Ltd. (Assistant Director)

- 8) **OSCAR S. REYES** – 72, Filipino citizen; first elected August 2, 2017.

Academic Background

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

Management Program at the Lensbury Centre, Shell International Petroleum Corporation.

**Business and Professional Background/Experience**

Mr. Reyes is the President and Chief Executive Officer of the Manila Electric Company. He serves as Chairman of the Board of Pepsi Cola Products Philippines, Inc., Atimonan One Energy, Inc., CIS Bayad Center, Inc., Meralco Industrial Engineering Services Corporation, Meralco Energy Inc. MRail, Inc., MSpectrum Inc., PacificLight Power Pte. Ltd., and Redondo Peninsula Energy, Inc. He is also a Director of Manila Electric Company, Basic Energy Corporation, Cosco Capital Inc., Manila Water Company, Clark Electric Development Corporation, Eramen Minerals, Inc. Grepalife Mutual Funds, Petrolift Corporation, Meralco Powergen Corporation, PLDT Communications and Energy Ventures, Inc., Republic Surety & Insurance Co., Inc., Sunlife Financial Plans, Inc. Sun Life Prosperity Funds, and Asian Eye Institute. He also serves as a member of the Advisory Council of the Bank of the Philippine Islands and member of the Advisory Board of the Philippine Long Distance Telephone Co. He is Vice Chairman of the Board of One Meralco Foundation, Inc. and a Trustee of Pilipinas Shell Foundation, Inc., El Nido Foundation, Inc. and SGV Foundation. Mr. Reyes was formerly with the Shell companies in the Philippines, wherein he served in various capacities, including Managing Director of Shell Phils. Exploration B.V. and Country Chairman, President, and Chief Executive Officer of Pilipinas Shell Petroleum Corporation.

**Listed companies of which Mr. Reyes is currently a director**

**Philippines**

1. PXP Energy Corporation
2. Basic Energy Corporation
3. Cosco Capital Inc.
4. Manila Electric Company
5. Manila Water Company
6. Pepsi Cola Products Philippines, Inc.

There is no director who has resigned or declined to stand for re-election to the board of directors since the May 16, 2017 Annual General Stockholders' Meeting because of a disagreement with the Company on any matter relating to the Company's operations, policies or practices. No director has furnished the Company with a letter describing such disagreement and requesting that the matter be disclosed.

**Executive Officers**

The following persons are the present executive officers of the Company:

**MANUEL V. PANGILINAN** – 71, Filipino citizen. Mr. Pangilinan graduated cum laude from the Ateneo de Manila University with a Bachelor of Arts degree in Economics. He received his Master of Business Administration degree from Wharton School of the University of Pennsylvania in 1968.

Mr. Pangilinan is the Chairman of the Board of Directors of the Company. Mr. Pangilinan has been a Director of Philex Mining Corporation and Philex Gold Philippines, Inc. since November 2008. He also serves as Chairman of Manila Electric Company (MERALCO), Metro Pacific Investments Corporation, Metro Pacific Tollways Corporation, and of non-listed companies including Beacon Electric Asset Holdings

Inc., PLDT Communications and Energy Ventures Inc. (formerly Piltel), Maynilad Water Services Corporation (Maynilad), Mediaquest Incorporated, Associated Broadcasting Corporation (TV5), Landco Pacific Corporation, Makati Medical Center, Cardinal Santos Medical Center, Our Lady of Lourdes Hospital, Asian Hospital Incorporated, Central Luzon Doctor's Hospital, De Los Santos Medical Center, Manila Doctors Hospital, Jesus Delgado Memorial Hospital, Marikina Valley Medical Center, Sacred Heart of Malolos (Bulacan), Davao Doctors Incorporated, Riverside Medical Center Incorporated (Bacolod), West Metro Medical Center Hospital (Zamboanga), and Megaclinic,. In 2012, he was appointed as Vice Chairman of Roxas Holdings, Incorporated which owns and operates the largest sugar milling operations in the Philippines.

**DANIEL STEPHEN P. CARLOS** – 54, Filipino citizen. Mr. Carlos obtained his Bachelor of Science degree in Geology from the University of the Philippines (1984) and holds a Master of Science degree in Petroleum Geoscience from the Norwegian University of Science and Technology or NTNU (2002). He also has a Diploma in Petroleum Exploration and Reservoir Evaluation from the University of Trondheim, now NTNU (1988). He is a licensed Geologist and placed 3rd in the 1985 Geologist Licensure Examination.

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

**PARALUMAN M. NAVARRO** – 49, Filipino citizen. Ms. Navarro is the Company's Treasurer. She is also Assistant Vice President for Corporate Finance of Philex Mining Corporation. She has been with Philex Mining Corporation since 1990. Ms. Navarro, a CPA, graduated cum laude from Saint Louis University, Baguio City, Bachelor of Science in Commerce, major in Accounting, in 1990.

**BARBARA ANNE C. MIGALLOS** – 63, Filipino citizen. Ms. Migallos received her Bachelor of Arts degree in Political Science from the University of the Philippines and graduated cum laude. She obtained her Bachelor of Laws from the University of the Philippine College of Law, graduating cum laude and Class Salutatorian, and ranked 3rd in the 1979 Bar Examinations.

Ms. Migallos is the Company's Corporate Secretary. Ms. Migallos has been a Director of Philex Mining Corporation since June 26, 2013. She is also a Director of Mabuhay Vinyl Corporation since 2000, Philippine Resins Industries since 2001, and Forum Energy Philippines Corporation since 2013. She is the Corporate Secretary of Philex Mining since July 1998, Philex Gold Philippines, Inc., Silangan Mindanao Mining Co., Inc., Eastern Telecommunications Philippines Inc. since 2005, Nickel Asia Corporation since 2010, Emerging Power Inc. since 2015, Cordillera Exploration Co., Inc., Forum Energy Philippines Corporation since 2013, and Alliance Select Foods International, Inc. since 2015. She is a professorial lecturer in Corporations Law, Insurance, Securities Regulation, Credit Transactions, and Mergers and Acquisitions at the De La Salle University College of Law. She was a Senior Partner of Roco Kapunan Migallos and

Luna Law Offices from 1988 to 2006. She is the Managing Partner of the Migallos & Luna Law Offices.

**Significant Employees**

No single person is expected to make a significant contribution to the business since the Company considers the collective efforts of all its employees as instrumental to the overall success of the Company's performance.

**Family Relationships**

There are no family relationships up to the fourth civil degree either of consanguinity or affinity among any of the directors, executive officers and persons nominated or chosen to become directors or executive officers.

**Involvement in Certain Legal Proceedings**

None of the directors, nominees for election as a director, executive officers or control persons of the Company have been involved in any legal proceeding, including without limitation being the subject of any:

- a. bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two (2) years prior to that time;
- b. conviction by final judgment, including the nature of the offense, in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses;
- c. order, judgment or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities commodities or banking activities; and
- d. order or judgment of a domestic or foreign court of competent jurisdiction (in a civil action), the Commission or comparable foreign body, or a domestic or foreign Exchange or other organized trading market or self-regulatory organization finding him/her to have violated a securities or commodities law or regulation,

for the past five (5) years up to the latest date, that is material to the evaluation of ability or integrity to hold the relevant positions in the Company.

**Item 10. Executive Compensation**

At present, only independent directors receive per diems of ₱30,000 per board meeting and ₱20,000 per committee meeting attended. Directors other than the independent directors do not receive per diems. While the Company's By-Laws provide that the directors shall, at the Board's discretion, receive as compensation a share in the Company's net income before tax, but not to exceed one and a half (1 ½%) percent, the Company has not paid its directors any fees under this provision since its incorporation in 2007. There are no other arrangements as regards directors' compensation.

Officers of the Company receive such remuneration as the Board may determine upon recommendation of the Compensation Committee.

The following table shows the compensation of the directors and officers for the past three completed fiscal years and estimated to be paid for the ensuing fiscal year.

<b>SUMMARY OF COMPENSATION TABLE</b> (In Millions)		
<b>DIRECTORS</b>		
	<u>Year</u>	<u>Directors' Fee</u>
	2018 (Estimated)	P1.18
	2017	0.94
	2016	0.67
	2015	0.60
<b>OFFICERS</b>		
	<u>NAME</u>	<u>POSITION</u>
	Manuel V. Pangilinan	<i>Chairman</i>
	Daniel Stephen P. Carlos	<i>President</i>
	Paraluman M. Navarro	<i>Treasurer/ Compliance Officer</i>
	Barbara Anne C. Migallos	<i>Corporate Secretary and Corporate Governance Officer</i>
		<u>Total Officers'</u>
	<u>Year</u>	<u>Salary</u> <u>Bonus</u>
	2018 (Estimated)	P8.1      NIL
	2017	8.1      NIL
	2016	8.7      NIL
	2015	12.1      NIL
<b>ALL DIRECTORS &amp; OFFICERS AS A GROUP</b>		
	<u>Year</u>	<u>Total Amount</u>
	2018 (Estimated)	P9.3
	2017	9.4
	2016	9.4
	2015	12.7

**Compensation of Directors**

There are no other arrangements under which the Company's directors and officers were compensated, or are to be compensated, directly or indirectly, since the Company's incorporation in December 2007, except as described above.

### **Employment Contracts**

There are no special employment contracts between the Company and its named executive officers.

### **Warrants and Options Outstanding**

None of the Company's directors and executive officers hold any warrants or options in the Company.

### **Other Arrangements**

Except as described above, there are no other arrangements pursuant to which any of the Company's directors and officers was compensated, or is to be compensated, directly or indirectly since the Company's incorporation in December 2007.

### **Item 11. Security Ownership of Certain Beneficial Owners and Management**

The following stockholders own more than five percent (5%) of the Company's stock as of March 13, 2018:

<b>Title of Class</b>	<b>Name and Address of Record Owner and Relationship with Issuer</b>	<b>Name of Beneficial Owner and Relationship with Record Owner</b>	<b>Citizenship</b>	<b>No. of Shares Held</b>	<b>% of Total Outstanding Shares</b>
Common	PCD Nominee Corporation ("PCD Nominee")	See Note 1.	Filipino	391,489,131 (excludes shares of Philex Mining and SSS held through PCD Nominee)	23.0288%
Common	Philex Mining Corporation ("Philex Mining") 2 <sup>nd</sup> Floor LaunchPad, Reliance Street corner Sheridan Street, Mandaluyong City, Metro Manila	Philex Mining (held through PCD Nominee)  See Note 1.	Filipino	335,864,728	19.7567%
Common	Asia Link B.V. PrinsBernhardplein 200, 1097 JB Amsterdam, The Netherlands	First Pacific Company, Ltd.  See Note 2.	Non-Filipino	284,470,725	16.7336%
Common	Social Security System c/o Loan and Investment Office, 7/F SSS Building,	Social Security System	Filipino	214,916,805	12.6421%

Title of Class	Name and Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	% of Total Outstanding Shares
	Diliman, Quezon City	(Direct and through PCD Nominee)  See Note 3.			
Common	Two Rivers Pacific Holdings Corp. 10/F MGO Building, Legaspi cor. Dela Rosa Sts., Legaspi Village, Makati City	Two Rivers Pacific Holdings Corporation	Filipino	125,608,156	7.3887%

- (1) PCD Nominee Corporation ("PCD Nominee"), the nominee of the Philippine Depository & Trust Corp., is the registered owner of the shares in the books of the Company's transfer agent. The beneficial owners of such shares are PCD Nominee's participants who hold the shares on their own behalf or in behalf of their clients. PCD Nominee is a private company organized by the major institutions actively participating in the Philippine capital markets to implement an automated book-entry system of handling securities transactions in the Philippines. The 391,489,131 shares shown above are exclusive of the 335,864,728 shares owned by Philex Mining Corporation and the 67,961,166 shares owned by SSS, held through PCD Nominee.
- (2) Asia Link B.V. is a wholly owned subsidiary of First Pacific Company, Ltd. ("First Pacific"). Kirtman Limited, part of the First Pacific Group, is the registered shareholder of 65,221,981, shares or 3.837% of the outstanding shares of the Company. Maxella Limited, also part of the First Pacific Group, is the registered shareholder of 64,539,833 shares or 3.796% of the outstanding shares of the Company. Artino Limited, also part of the First Pacific Group, is the registered owner of 10,193,136 shares or 0.600% of the outstanding shares of the Company.
- (3) Of the 214,916,804 shares of the Social Security System ("SSS"), 67,961,166 shares are held through PCD Nominee. Ms. Diana V. Pardo-Aguilar has been nominated to the Board of Directors of the Company to represent the SSS.

### **Security Ownership of Management**

The beneficial ownership of the Company's directors and executive officers as of March 13, 2018, is as follows:

Title of Class	Name of Beneficial Owner	Nature of Ownership	Amount Beneficial Ownership	Citizenship	% of Class
Common	Manuel V. Pangilinan	Direct	1,603,466	Filipino	0.094%
Common	Daniel Stephen P. Carlos	Direct	766	Filipino	0.000%
Common	Eulalio B. Austin, Jr.	Direct	208,224	Filipino	0.012%
Common	Robert C. Nicholson	Direct	338	British	0.000%
Common	Benjamin S. Austria	Direct	191	Filipino	0.000%

Title of Class	Name of Beneficial Owner	Nature of Ownership	Amount Beneficial Ownership	Citizenship	% of Class
Common	Emerlinda R. Roman	Direct	1	Filipino	0.000%
Common	Marilyn A. Victorio-Aquino	Direct	76,529	Filipino	0.005%
Common	Oscar S. Reyes	Direct	1	Filipino	0.000%
Common	Barbara Anne C. Migallos	Direct	71,677	Filipino	0.004%
Common	Paraluman M. Navarro	Direct	2,431	Filipino	0.000%
Directors and Executive Officers as a Group			1,963,624		0.115%

#### **Voting Trust Holders/Changes in Control**

There are no voting trust holders of 5% or more of the Company's stock. There are no arrangements that may result in a change of control of the Company.

#### **Item 12. Certain Relationships and Related Transactions**

The Company was not involved in transactions or series of similar transactions in the last two years with a corporation (or any of its subsidiaries) in which any of the Company's directors, executive officers or stockholders owned 10% or more of the total outstanding shares, and members of their immediate family had or is to have a direct or indirect material interest.

### **PART IV – CORPORATE GOVERNANCE**

#### **Item 13. Corporate Governance**

##### **Conformance to Corporate Governance Standards & Best Practices**

As a publicly-listed Philippine corporation, PXP strives to fully comply with the code of corporate governance and conforms to the corporate governance rules, requirements, and regulations of the Philippine Securities and Exchange Commission and the Philippine Stock Exchange.

PXP is likewise committed to the highest standards of corporate governance and continues to benchmark against recognized international best practices and monitor developments in corporate governance in order to elevate the Company's corporate governance structures, processes, and practices to global standards to promote ethical corporate culture guided by core values of Integrity, Teamwork, Respect for Individuals, Work Excellence, Corporate Responsibility, Social & Environment Responsibility.

On February 20, 2014, the Company constituted a Corporate Governance Committee composed of two independent directors, Dr. Emerlinda R. Roman and Dr. Benjamin S. Austria, and one regular director, Atty. Marilyn A. Victorio-Aquino. The Corporate Secretary, Atty. Barbara Anne C. Migallos, was designated Corporate Governance Officer. The Committee has oversight responsibility in ensuring that the Company adopts and complies with leading corporate governance practices.

In January 2017, the Company submitted its 2016 Annual Corporate Governance Report (ACGR) to the Securities and Exchange Commission. A copy of the ACGR from 2016 and earlier is available on the Company's website at <http://www.pxpenergy.com.ph/corporate-governance/cg-manual>. The Company continues to review its corporate governance policies and practices to further enhance adherence to principles and practices of good corporate governance.



On May 30, 2017, the Company's Board of Directors approved and adopted a Revised Corporate Governance Manual in compliance with the Code of Corporate Governance for Publicly Listed Companies, SEC Memorandum Circular No. 19, series of 2016. The Board also adopted a Board Charter; the Board Diversity Policy; the Directors and Officers Orientation Policy; and the Policy on Related Party Transactions. The Committees of the Board, each with its own Committee Charter, are: (1) the Audit Committee; (2) Board Risk and Resource Oversight Committee; (3) Corporate Governance and Related Party Transactions Committee; (4) Nominations Committee; (5) Compensation (Remuneration) Committee; and (6) Finance Committee.

The Audit Committee and the Board Risk and Resource Oversight Committee each conduct, on a twice-yearly basis, a review of the effectiveness of the Group's internal control system. The review covers all material controls, including financial, operational and compliance controls and risk management functions. The Audit Committee and the Board Risk and Resource Oversight Committee Chairs execute statements on the determination of major control issues, identification of risk and corresponding mitigation and adequacy and effectiveness of internal controls.

The Corporate Governance Manual, the Board Charter, the Board Diversity Policy, the Directors and Officers Orientation Policy, the Policy on Related Party Transactions, the Code of Business Conduct and Ethics, and various Corporate Governance Policies including policies on Conflict of Interest, Gifts, Entertainment and Sponsored Travels, Supplier Contractor Relations, Whistle Blowing, as well as the Committee Charters, are available on the Company's website at <http://www.pxpenenergy.com.ph/corporate-governance/companies-policies>. The Company's list of Corporate Governance Officers can be found at <http://www.pxpenenergy.com.ph/corporate-governance/board-committee/board-of-directors-2017-updated>.

## **PART V - EXHIBITS AND SCHEDULES**

### **Item 14. Exhibits and Reports on SEC Form 17-C**

#### **(a) Exhibits and Schedules**

Statement of Management's Responsibility for Financial Statements

Report of Independent Auditors

Audited Consolidated Financial Statements and Notes for the year ended December 31, 2016

Schedule A - Financial Assets

Schedule B - Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Affiliates)

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

Schedule D - Deferred Oil and Gas Exploration Costs and Other Noncurrent Assets

Schedule E - Long-Term Debt

Schedule F - Indebtedness to Related Parties

Schedule G - Capital Stock

Other Schedules:

- 1) Financial Soundness Indicators
- 2) Listing of Shares with Philippine Stock Exchange
- 3) Corporate Structure
- 4) Current Adoption of PFRS

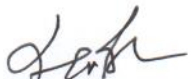
**(b) Reports on SEC Form 17-C**

There were twenty-six (26) reports filed by the Company on SEC Form 17-C from March 31, 2016 to present covered by this report, part of which follows:


<b>Report Date</b>	<b>Item Reported</b>
March 31, 2017	Commencement of Operations- Galoc 7/7ST
April 18, 2017	Drilling Update and Results- Galoc 7
April 21, 2017	Notice of Analysts' / Investors' Briefing
April 26, 2017	Financial and Operating Highlights for the Three-Months ended March 31, 2017
April 26, 2017	Resignation of Director and Appointment of New Director
May 3, 2017	Drilling Results – Galoc 7ST-1
May 3, 2017	Demobilisation of DSM I – Galoc 7/7ST
May 16, 2017	Results of Annual General Meeting
May 16, 2017	Results of Organizational Meeting
May 24, 2017	Corporate Governance Seminar of Director and Officers
May 25, 2017	Clarification and/or confirmation of news article: “Tycoon hopeful of Xi-Duterte energy deal in South China Sea” posted in Business Mirror (Internet Edition) on May 24, 2017
May 31, 2017	Composition of Board Committee for the year 2017 – 2018
July 27, 2017	Notice of Analysts' / Investors' Briefing
July 28, 2017	Amendments to Articles of Incorporation – Change in Principal Address
August 2, 2017	Resignation of Director and Appointment of New Director
August 2, 2017	Financial and Operating Highlights for the Six-Months ended June 30, 2017
August 7, 2017	Clarification and/or confirmation of the news article – “MVP: Oil, gas exploration in SCS could come soon” posted in philSTAR.com on August 6, 2017
September 8, 2017	Corporate Governance Seminar Attendance: Annual Corporate Governance Enhancement Session
November 3, 2017	Notice of Analysts' / Investors' Briefing
November 7, 2017	Financial and Operating Highlights for the Nine Months ended September 30, 2017
January 10, 2018	PXP Announcement re: Progress in Pitkin's Peru Block Z-38
February 22, 2018	Notice of Analysts' / Investors' Briefing
February 22, 2018	Resignation of Director
February 27, 2018	Notice of Annual Stockholders' Meeting
February 27, 2018	Audited Financial and Operating Highlights for the year ended December 31, 2017
February 28, 2018	Release of PXP 2017 Audited Consolidated Financial Statements

### SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Mandaluyong on April 16, 2018.

  
**MANUEL V. PANGILINAN**  
Chairman

  
**BARBARA ANNE C. MIGALLOS**  
Corporate Secretary

  
**DANIEL STEPHEN P. CARLOS**  
President


  
**PARALUMAN M. NAVARRO**  
Treasurer

  
**MARK RAYMOND H. RILLES**  
Finance Controller

SUBSCRIBED AND SWORN TO.....before me this 16 day of APR 2018 at Mandaluyong City. Affiants exhibiting to me their respective Competent Evidence of Identity indicated opposite their names:

<u>Name</u>	<u>Competent Evidence of Identity</u>	<u>Date of Issue</u>	<u>Place of Issue</u>
Manuel V. Pangilinan	EC1452578	20-Jun-14	Manila, Phils
Daniel Stephen P. Carlos	P5757485A	25-Jan-18	NCR South, Phils
Paraluman M. Navarro	EC0588618	18-Mar-14	NCR East, Phils
Barbara Anne C. Migallos	EC0356963	20-Mar-14	Manila, Phils
Mark Raymond H. Rilles	P0559840A	7-Oct-16	NCR Northeast, Phils

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Page No. 31  
Book No. III  
Series of 2018

  
**MA. KARLA JOSEE C. ILAGAN**  
NOTARY PUBLIC FOR AND IN THE CITY OF MAKATI  
APPOINTMENT NO. M-417 (2017-2018)  
COMMISSION EXPIRES ON DECEMBER 31, 2018  
7<sup>th</sup> Floor, The PHINMA Plaza, 39 Plaza Drive  
Rockwell Center, Makati City 1210  
PTR No. 6615276; Makati City; 1/4/2018  
IBP O.R. No. 020916; Davao City; 1/4/2018  
TIN 500-038-433  
Attorney's Roll No. 64586, APRIL 2015



PXP ENERGY CORPORATION  
(formerly Philex Petroleum Corporation)  
Philex Building  
2F LaunchPad, Reliance cor. Sheridan Sts.  
Mandaluyong City, 1550, Philippines  
Tel.: (632) 631-1381 to 88  
Fax: (632) 570-0686

## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

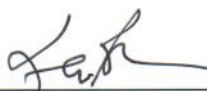
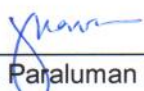
The management of **PXP ENERGY CORPORATION (formerly Philex Petroleum Corporation)** ("the Company") is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended **December 31, 2017 and 2016**, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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


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

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

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

  
\_\_\_\_\_  
Mr. Manuel V. Pangilinan  
Chairman of the Board  
\_\_\_\_\_  
Mr. Daniel Stephen P. Carlos  
President  
\_\_\_\_\_  
Ms. Paraluman M. Navarro  
Treasurer

Signed this 27<sup>th</sup> day of February 2018






**SUBSCRIBED AND SWORN** to before me this 19th day of March 2018, affiants exhibiting to me the following:

Name	Government Issued ID Card No.	Date and Place Issued
Manuel V. Pangilinan	Philippine Passport No. EC1452578	Issued on 20 June 2014 at DFA Manila
Daniel Stephen P. Carlos	Philippine Passport No. P5757485A	Issued on 25 January 2018 at DFA NCR South
Paraluman M. Navarro	PRC ID Card Registration No. 0084884	Issued on 9 February 2016 at PRC Manila

each bearing their photographs and signatures, in accordance with Rule II, Section 12 and Rule IV Section 2 (b) of the 2004 Rules on Notarial Practice.

Doc No.: 99  
Page No.: 21  
Book No.: 111  
Series of 2018:

  
**MA. KARLA JOSEE C. ILAGAN**  
NOTARY PUBLIC FOR AND IN THE CITY OF MAKATI  
APPOINTMENT NO. M-417 (2017-2018)  
COMMISSION EXPIRES ON DECEMBER 31, 2018  
7<sup>th</sup> Floor, The PHINMA Plaza, 39 Plaza Drive  
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PTR No. 6615276; Makati City; 1/4/2018  
IBP O.R. No. 020816; Davao City; 1/4/2018  
TIN 500-038-433  
Attorney's Roll No. 64586, APRIL 2015

# COVER SHEET

for

## AUDITED FINANCIAL STATEMENTS

SEC Registration Number

C	S	2	0	0	7	1	9	8	1	9
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### COMPANY NAME

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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	
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		C	i	t	y																									

Form Type

1	7	-	A
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Department requiring the report

N	/	A	
---	---	---	--

Secondary License Type, If Applicable

N	/	A	
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### COMPANY INFORMATION

Company's Email Address

admin@pxpenenergy.com.ph

Company's Telephone Number

(632) 631-1381

Mobile Number

N/A

No. of Stockholders

38,926

Annual Meeting (Month / Day)

5/16

Fiscal Year (Month / Day)

12/31

### CONTACT PERSON INFORMATION

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

Name of Contact Person

Daniel Stephen P. Carlos

Email Address

admin@pxpenenergy.com.ph

Telephone Number/s

(632) 631-1381

Mobile Number

N/A

### CONTACT PERSON'S ADDRESS

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

**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.

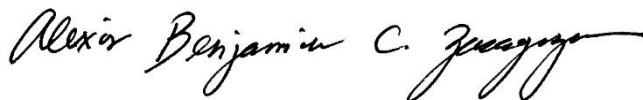
We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



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)

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

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>	<b>₱101,579</b>	<b>₱172,250</b>
<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>	<b>(₱36,387)</b>	<b>(₱144,027)</b>
<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>	<b>(₱36,387)</b>	<b>(₱144,027)</b>
<b>BASIC/DILUTED LOSS PER SHARE</b> (Note 22)	<b>(₱0.023)</b>	<b>(₱0.013)</b>	<b>(₱0.051)</b>

*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>(P57,143)</b>	<b>(P36,387)</b>	<b>(P144,027)</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
<i>Items to be reclassified to profit or loss</i>			
<i>in subsequent periods:</i>			
Gain on translation of foreign subsidiaries	10,592	129,343	92,430
	<b>10,592</b>	<b>129,343</b>	<b>92,430</b>
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>	<b>(P46,551)</b>	<b>P92,956</b>	<b>(P51,597)</b>
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>			
<b>ATTRIBUTABLE TO:</b>			
Equity holders of the Parent Company	(P32,883)	P51,612	(P34,480)
Non-controlling interests	(13,668)	41,344	(17,117)
	<b>(P46,551)</b>	<b>P92,956</b>	<b>(P51,597)</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				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>
Net loss for the year	—	—	(87,540)	—	(87,540)	(144,027)
Other comprehensive income (loss):						
Items to be reclassified to profit or loss in subsequent periods:						
Gain on translation of foreign subsidiaries	—	—	—	53,060	53,060	92,430
Total comprehensive income (loss) for the year	—	—	(87,540)	53,060	(34,480)	(51,597)
Effects of transactions with owners (Note 15)	—	71,202	—	—	71,202	(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>2,967,248</b>
Net loss for the year	—	—	(22,362)	—	(22,362)	(36,387)
Other comprehensive income (loss):						
Items to be reclassified to profit or loss in subsequent periods:						
Gain on translation of foreign subsidiaries	—	—	—	73,974	73,974	129,343
Total comprehensive income (loss) for the year	—	—	(22,362)	73,974	51,612	92,956
Effects of transactions with owners (Note 15)	—	8,670	—	—	8,670	(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>3,058,510</b>
Net loss for the year	—	—	(39,125)	—	(39,125)	(57,143)
Other comprehensive income (loss):						
Items to be reclassified to profit or loss in subsequent periods:						
Gain on translation of foreign subsidiaries	—	—	—	6,242	6,242	10,592
Total comprehensive income (loss) for the year	—	—	(39,125)	6,242	(32,883)	(46,551)
Effects of transactions with owners (Note 15)	—	(6,780)	—	—	(6,780)	(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>₱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>	<b>(P48,704)</b>	<b>(P144,011)</b>
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)	—	—	(1,688)
Movement in retirement liability (Note 18)	—	—	(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)	—	—	4,033
Payment for cancellation of shares (Note 15)	—	(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>	<b>P573,341</b>	<b>P526,355</b>

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. (GCMDI). On May 27, 2015, the DOE has approved the assignment completing the transfer of COC 130 from BEMC to GCMDI.

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	—	75.92	—	58.90
FEPCO	—	75.92	—	58.90
FGSECL	—	75.92	—	58.90
FEI	—	50.62	—	39.27
GSEC	—	75.92	—	58.90
Pitkin	53.43	—	53.43	—
PPP	53.43	—	53.43	—
PVX	—	53.43	—	53.43
Z38	—	40.07	—	40.07
PPR	—	53.43	—	53.43
Z38	—	13.36	—	13.36
FEC	54.99	—	54.99	—
FEL	72.18	3.74	48.77	10.13
BEMC	100.00	—	100.00	—

*Non-controlling interest (NCI)*

NCI represents interest in a subsidiary that is not owned, directly or indirectly, by the Parent Company. Profit or loss and each component of 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:

Asset Category	Number of Years
Machinery and equipment	2 to 20
Surface structures	10

Depletion of oil and gas properties commences upon commercial production. Depreciation of an item of property and equipment begins when it becomes available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation ceases at the earlier of the date that the item is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, and the date the asset is derecognized.

When assets are sold or retired, the cost and related accumulated depletion and depreciation and accumulated impairment in value are removed from the accounts and any resulting gain or loss is recognized in the consolidated statements of income.

The estimated recoverable reserves, useful lives, and depletion and depreciation methods are reviewed periodically to ensure that the estimated recoverable reserves, periods and methods of depletion and depreciation are consistent with the expected pattern of economic benefits from the items of property and equipment.

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

#### Deferred Oil and Gas Exploration Costs

Exploration and evaluation activity involves the search for hydrocarbon resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource. Once the legal right to explore has been acquired, costs directly associated with exploration are capitalized under 'Deferred oil and gas exploration costs' account. The Group's deferred oil and gas exploration costs are specifically identified of each SC area. All oil and gas exploration costs relating to each SC are deferred pending the determination of whether the contract area contains oil and gas reserves in commercial quantities. Capitalized expenditures include costs of license acquisition, technical services and studies, exploration drilling and testing, and appropriate technical and administrative expenses.

General overhead or costs incurred prior to having obtained the legal rights to explore an area are recognized as expense in the consolidated statements of income when incurred.

If no potentially commercial hydrocarbons are discovered, the deferred oil and gas exploration asset is written off through the consolidated statements of income. If extractable hydrocarbons are found and, subject to further appraisal activity (e.g., the drilling of additional wells), it is probable that they can be commercially developed, the costs continue to be carried under deferred oil and gas exploration costs account while sufficient/continued progress is made in assessing the commerciality of the hydrocarbons. Costs directly associated with appraisal activity undertaken to determine the size, characteristics and commercial potential of a reservoir following the initial discovery of hydrocarbons, including the costs of appraisal wells where hydrocarbons were not found, are initially capitalized as deferred oil and gas exploration costs.

At the completion of the exploration phase, if technical feasibility is demonstrated and commercial reserves are discovered, then, following the decision to continue into the development phase, the oil and gas exploration costs relating to the SC, where oil and gas in commercial quantities are discovered,



is first assessed for impairment and (if required) any impairment loss is recognized, then the remaining balance is transferred to 'Oil and gas' 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>
<b>Total identifiable net assets</b>		<b>₱4,793,527</b>
<b>Total consideration</b>		<b>6,327,695</b>
<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				
	Oil and Gas, Properties	Machinery and Equipment	Surface Structures	Construction in-progress	Total
<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
Cost					
Balances at January 1	₱869,943	₱250,957	₱37,659	₱759	₱1,159,318
Additions	569	115	—	—	684
Disposals	—	(5,649)	—	—	(5,649)
Effect of translation adjustment	43,784	4,014	—	—	47,798
Balances at December 31	914,296	249,437	37,659	759	1,202,151
Accumulated depletion and depreciation					
Balances at January 1	321,091	90,813	8,886	—	420,790
Depletion and depreciation (Notes 7 and 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
Accumulated impairment					
Balances at January 1	223,221	152,726	28,773	759	405,479
Effect of translation adjustment	69	8	—	—	77
Balances at December 31	223,290	152,734	28,773	759	405,556
Net book values	₱300,207	₱7,628	₱—	₱—	₱307,835

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	<b>₱589</b>	₱589
Decommissioning fund	<b>1,779</b>	350
	<b>₱2,368</b>	₱939

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	<b>6,800,000,000</b>	6,800,000,000
Issued, outstanding and fully paid:		
January 1	<b>1,700,000,000</b>	1,700,000,000
Issuance during the year	—	—
December 31	<b>1,700,000,000</b>	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
Deferred income tax assets		
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>
Deferred income tax liabilities		
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:			
Non deductible 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
Non deductible expenses and non-taxable income:			
Non taxable 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>	<b>(₱12,317)</b>	<b>₱16</b>

- 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			
	Amount/ Volume	Outstanding Balance	Terms	Conditions
<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
Total	<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.

## 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.

## 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	<b>₱450,022</b>	₱573,276
Trade and other receivables	<b>42,292</b>	63,480
Refundable deposits	—	389
	<b>₱492,314</b>	<b>₱637,145</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 Impaired	Total
	High-Grade	Standard		
Cash and cash equivalents, excluding cash on hand:				
Cash in banks	<b>₱272,518</b>	<b>₱—</b>	<b>₱—</b>	<b>₱272,518</b>
Short-term investments	<b>177,504</b>	—	—	<b>177,504</b>
Trade and other receivables:				
Trade	<b>30,490</b>	—	<b>707</b>	<b>31,197</b>
Others	<b>11,095</b>	—	—	<b>11,095</b>
<b>Total</b>	<b>₱491,607</b>	<b>₱—</b>	<b>₱707</b>	<b>₱492,314</b>

**As at December 31, 2016:**

	Neither Past Due nor Impaired		Past Due and Individually Impaired	Total
	High-Grade	Standard		
Cash and cash equivalents, excluding cash on hand:				
Cash in banks	<b>₱251,484</b>	<b>₱—</b>	<b>₱—</b>	<b>₱251,484</b>
Short-term investments	<b>321,792</b>	—	—	<b>321,792</b>
Trade and other receivables:				
Trade	<b>55,785</b>	—	—	<b>55,785</b>
Others	<b>7,695</b>	—	—	<b>7,695</b>
Refundable deposits under:				
Other current assets	—	39	—	39
Other noncurrent assets	—	350	—	350
<b>Total</b>	<b>₱636,756</b>	<b>₱389</b>	<b>₱—</b>	<b>₱637,145</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:	<b>₱17</b>	<b>₱—</b>	<b>₱—</b>	<b>₱—</b>	<b>₱17</b>
Cash in banks	<b>272,518</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>272,518</b>
Short-term investments	<b>—</b>	<b>177,504</b>	<b>—</b>	<b>—</b>	<b>177,504</b>
Trade and other receivables:					
Trade	<b>—</b>	<b>30,490</b>	<b>—</b>	<b>707</b>	<b>31,197</b>
Others	<b>—</b>	<b>11,095</b>	<b>—</b>	<b>—</b>	<b>11,095</b>
<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	<b>₱—</b>	<b>₱9,622</b>	<b>₱—</b>	<b>₱—</b>	<b>₱9,622</b>
Accrued expenses	<b>—</b>	<b>7,919</b>	<b>—</b>	<b>—</b>	<b>7,919</b>
Other nontrade liabilities	<b>—</b>	<b>1,377</b>	<b>—</b>	<b>—</b>	<b>1,377</b>
Advances from related parties	<b>2,906,490</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>2,906,490</b>
Other noncurrent liabilities	<b>—</b>	<b>—</b>	<b>—</b>	<b>182,758</b>	<b>182,758</b>
<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
Cash and cash equivalents:					
Cash on hand:	₱65	₱—	₱—	₱—	₱65
Cash in banks	251,484	—	—	—	251,484
Short-term investments	—	321,792	—	—	321,792
Loans and receivables:					
Trade and other receivables	—	63,480	—	—	63,480
Refundable deposits under:					
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>
Trade and other payables:					
Trade	₱—	₱12,794	₱—	₱—	₱12,794
Accrued expenses	—	13,461	—	—	13,461
Other nontrade liabilities	—	1,372	—	—	1,372
Advances from related parties	2,931,701	—	—	—	2,931,701
Other noncurrent liabilities	—	—	—	194,004	194,004
<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	<b>₱1,700,000</b>	₱1,700,000
Deficit	<b>(1,294,692)</b>	(1,255,567)
	<b>₱405,308</b>	₱444,433

## 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	<b>(₱39,125)</b>	(₱22,362)	(₱87,540)
Divided by weighted average number of common shares issued during the year	<b>1,700,000,000</b>	1,700,000,000	1,700,000,000
Basic/diluted loss per share	<b>(₱0.023)</b>	(₱0.013)	(₱0.051)

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	<b>₱62,774</b>	₱—	₱—	<b>₱62,774</b>
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	(₱37,317)	(₱49,952)	(₱129,893)
Non-recurring gains (losses)			
Gain on reversal on provision for losses	11,340	—	—
Net tax effect of aforementioned adjustments	3,047	17,655	18,954
Foreign exchange gains - net	(277)	10,348	21,997
Provision for impairment of assets (Notes 6, 7, 9 and 11)	(15,918)	—	(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	(39,125)	(22,362)	(87,540)
Non-controlling interests	(18,018)	(14,025)	(56,487)
	(₱57,143)	(₱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
Current non-interest bearing loans and borrowings	₱2,931,701	(₱25,211)	₱–	₱–	₱2,906,490
Others	9,700	(1,875)	–	130	7,955
<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
<b>Total liabilities from financing activities</b>	<b>₱2,941,118</b>	<b>(₱243)</b>	<b>₱–</b>	<b>₱526</b>	<b>₱2,941,401</b>

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.



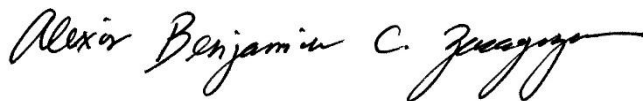
## INDEPENDENT AUDITOR'S REPORT

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



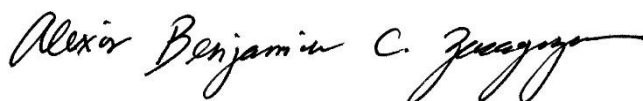


## **INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES**

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  
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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

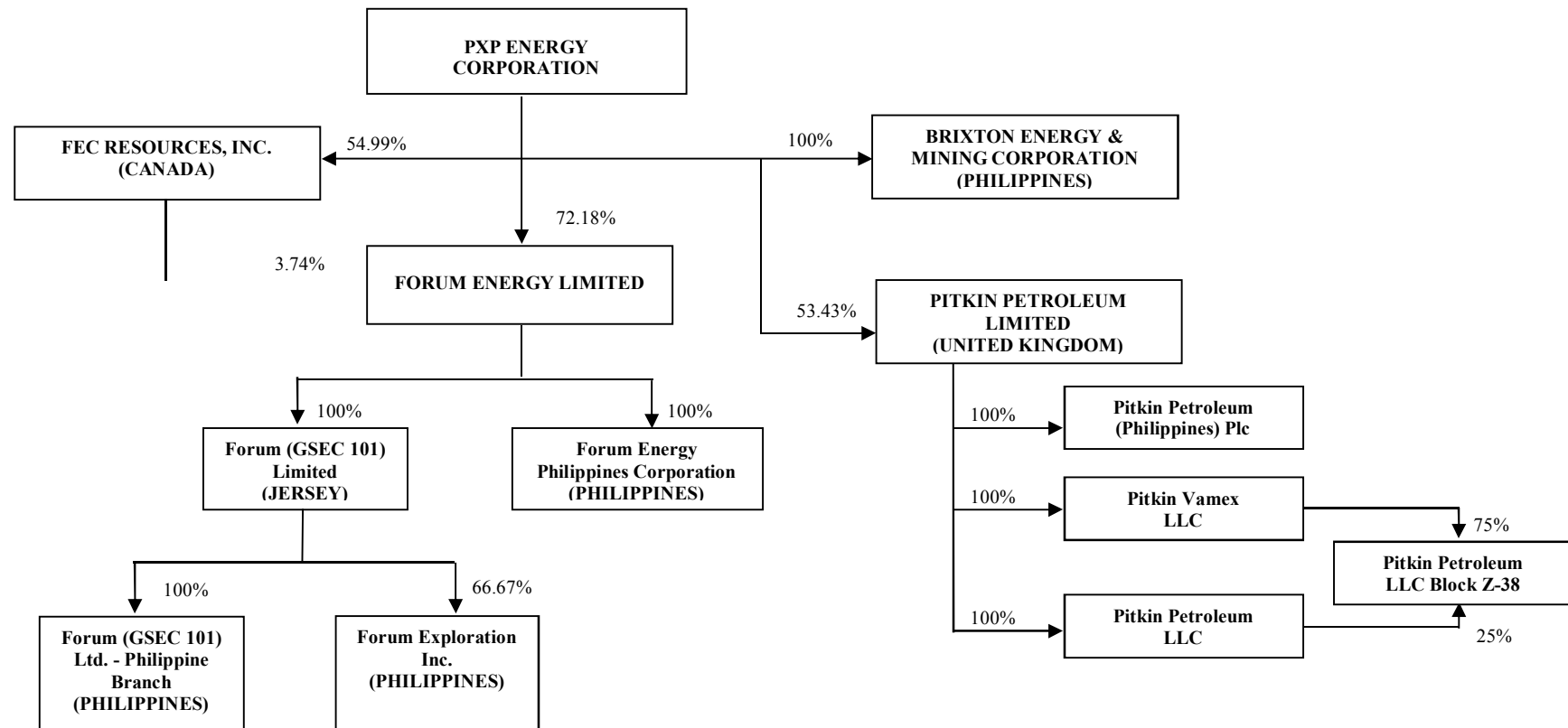
Subtotal

**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**

	2017	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**

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
<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>	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
PFRS 7	<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>			✓
PFRS 8	<i>Operating Segments</i>	✓		
PFRS 9	<i>Financial Instruments</i>	✓		
	Amendments to PFRS 9: <i>Mandatory Effective Date of PFRS 9 and Transition Disclosures</i>			✓
PFRS 10	<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>			✓
PFRS 11	<i>Joint Arrangements</i>	✓		
	Amendments to PFRS 11: <i>Accounting for Acquisitions of Interests in Joint Operations</i>	✓		
PFRS 12	<i>Disclosure of Interests in Other Entities</i>			✓
	Amendments to PFRS 12: <i>Investment Entities</i>			✓
PFRS 13	<i>Fair Value Measurement</i>	✓		
	Amendment to PFRS 13: <i>Short-term Receivables and Payables</i>	✓		
PFRS 14	<i>Regulatory Deferral Accounts</i>			✓
Philippine Accounting Standards				
PAS 1 (Revised)	<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>			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
	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>			✓



PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
PAS 27 (Amended)	<i>Separate Financial Statements</i>	✓		
	<i>Amendments to PAS 27: Equity Method in Separate Financial Statements</i>			✓
PAS 28	<i>Investments in Associates</i>			✓
PAS 28 (Amended)	<i>Investments in Associates and Joint Ventures</i>			✓
PAS 29	<i>Financial Reporting in Hyperinflationary Economies</i>			✓
PAS 31	<i>Interests in Joint Ventures</i>			✓
PAS 32	<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>	✓		
PAS 33	<i>Earnings per Share</i>	✓		
PAS 34	<i>Interim Financial Reporting</i>			✓
	<i>Amendment to PAS 34: Disclosure of Information 'Elsewhere in the Interim Financial Report'</i>			✓
PAS 36	<i>Impairment of Assets</i>	✓		
PAS 37	<i>Provisions, Contingent Liabilities and Contingent Assets</i>	✓		
PAS 38	<i>Intangible Assets</i>	✓		
PAS 39	<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>			✓
PAS 40	<i>Investment Property</i>			✓
PAS 41	<i>Agriculture</i>			✓

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

**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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<b>NOT APPLICABLE</b>
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**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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<b>NOT APPLICABLE</b>
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**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

<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	—