

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, 2019**
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) 8631-1381**
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
<u>Common Shares</u>	<u>1,960,000,000</u>

11. Are any or all of these securities listed on a Stock Exchange.
Yes [] 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 [] No []
- (b) has been subject to such filing requirements for the past ninety (90) days.
- Yes [] No []
13. Aggregate market value of the voting stock held by non-affiliates: ₱2.59 billion based on closing price of ₱4.35 per share at the Philippine Stock Exchange on April 30, 2020.

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 (“PSE”).

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

The Company’s direct interest in Philippine petroleum SCs includes: (1) a 50% operating interest in SC 75 (NW Palawan); (2) a 70% operating interest in SC 74 (Linapacan); (3) a 5.56% interest in SC 6A (Octon); all located in the Northwest Palawan; and (4) a 40% non-operating interest in Philippine Conventional Energy Contracting Program (“PCECP”) Area 7 (Sulu Sea), which is currently under SC application.

The Company holds a 79.13% controlling interest in FEL, with 72.33% 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. FEL, 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 (“FGL”), (b) a 100% operating interest in SC 40 North Cebu held through Forum Exploration, Inc. (“FEI”), and (c) minority interests in the SC 6 and SC 14 sub-blocks in offshore Northwest Palawan, including a 2.28% interest in the producing Galoc field, held through Forum Energy Philippines Corporation (“FEPC”).

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

The Company owns 100% of Brixton Energy & Mining Corporation (“BEMC”).

As summary of the Company’s principal subsidiaries and their nature of business are as follows:

Subsidiary	Nature of Business
Forum Energy Limited	FEL was incorporated on April 1, 2005 in England and Wales primarily to engage in the business of oil and gas exploration and production, with focus on the Philippines.
Forum Energy Philippines Corporation	FEPC was incorporated in the Philippines on March 27, 1988 and is involved in oil and gas exploration in the Philippines, particularly a 2.28% interest in SC 14C-1 Galoc.
Forum Exploration, Inc.	FEI was incorporated in the Philippines on September 11, 1997 and is involved in oil and gas exploration in the Philippines.
Forum (GSEC 101) Limited	FGL was incorporated in Jersey on March 31, 2005 and is involved in oil and gas exploration in the Philippines.
Forum (GSEC 101) Limited - Philippine Branch (“FGLP”)	FGLP was established as a Philippine branch on October 17, 2005 and is involved in oil and gas exploration in the Philippines.
Pitkin Petroleum Limited	Pitkin was incorporated and registered in UK of Great Britain and Northern Ireland on April 6, 2005 and is engaged primarily in the acquisition, exploration, and development of oil and gas properties and the production of hydrocarbon products.

Subsidiary	Nature of Business
Pitkin Petroleum (Philippines) Plc ("PPP")	PPP was registered as the Philippine Branch of Pitkin Petroleum Limited on March 19, 2008.
Pitkin Petroleum Peru Z-38 S.R.L. ("Z-38")	Z38 was incorporated in Peru on October 5, 2006 and is presently engaged in exploration of oil and gas in Peru, specifically, Block Z-38.
FEC Resources, Inc.	FEC was incorporated on February 8, 1982 under the laws of Alberta, Canada. Primarily acts as an investment holding company.
Brixton Energy & Mining Corporation	BEMC was incorporated in the Philippines on July 19, 2005 to engage in exploration development and utilization of energy-related resources.

Also included as part of the 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 Parent Company or its subsidiaries does not have and has not have in the past, any bankruptcy, receivership or similar proceedings.

PRODUCT AND DISTRIBUTION

The Company's primary business is the exploration and production of crude oil and natural gas, through interests in petroleum SCs and holdings in resource development companies with interests in petroleum 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), based on 2018 data, 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 FEPC'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, appraisal, or development stages and are not yet generating any revenues for the Company. Ninety-five percent (95%) (2018: 82%; 2017: 79%) of FEL's share of revenues from crude oil production in SC 14 in 2019, 2018, and 2017 were from crude oil sales to Korea, 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 SC 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 (“RA”) No. 387, known as the “Petroleum Act of 1949” which ushered in the era of the concession system.

The Service Contract system was introduced in 1973 with the enactment of Presidential Decree (“PD”) No. 87, known as the “Oil Exploration and Development Act of 1972”. In accordance with PD 87, 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 2019, total production from the Camago-Malampaya gas field, which started in October 2001, is approximately 155.5 billion standard cubic feet (“BCF”) of natural gas, and 4.02 million barrels (“MMbbl”) of condensate. The gas produced from the Camago-Malampaya field is used to fuel five (5) natural gas-fired power stations with a total generating capacity of 3,200 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 2,050 barrels of oil per day (“BOPD”) in 2019.

As of December 2019, the Department of Energy (“DOE”)’s estimated remaining reserves from the sedimentary producing basins of the Philippines totaled to 18.78 MMbbl of oil initially in place, 43.86 MMbbl of condensate initially in place, and 1,278.65 BCF of gas initially in place.

These petroleum reserves calculations are only based on 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
- Filipino Participation Incentive Allowance (“FPIA”) of up to 7.5% of the gross proceeds for service contracts 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 SCs will now be awarded by the DOE through an improved petroleum licensing system known as the PCECP, wherein there will be two modes of awarding petroleum SCs: (1) by competitive selection process where the DOE may publish a set of pre-determined areas for bidding, and (2) by nomination, where applicants may nominate and publish their respective areas of interest. Proposals are evaluated based on Department Circular (“DC”) No. DC2017-12-0017. The indicative weighing factors published by the DOE for the PCECP launched in November 2018 are as follows:

Criteria	Key Elements	Weight in Percent
Work Program	Resource potential and exploration approach Work commitment Development concepts	40%

Criteria	Key Elements	Weight in Percent
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 SCs, 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.

Foreign and domestic petroleum exploration and production companies currently active in the Philippines include Shell Philippines Exploration B.V., Chevron Philippines LLC, Mitra Energy (Philippines SC-56) Ltd, Ratio Petroleum Limited, Polyard Petroleum International Group, Ltd., PNOG Exploration Corporation ("PNOG EC"), Monte Oro Resources and Energy Inc. ("MOREI"), Tamarind Galoc Pte Ltd, Nido Petroleum Philippines Pty. Ltd, The Philodrill Corporation ("Philodrill"), Oriental Petroleum & Minerals Corporation ("OPMC"), PetroEnergy Resources Corporation ("PERC"), and ACE Enexor Inc. ("ACEX").

The success of the Company's petroleum business is highly dependent on the Company, along with its consortium partners', 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, its subsidiaries, and the operators of assets in which the Company has direct or indirect interest, have contracts with third party service providers and suppliers. 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 Korea, Thailand, and Singapore markets, while the rest are sold locally. Note 23 of the Notes to the Consolidated Financial Statements as of December 31, 2019, 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 (amounts in thousands except share values):

- a. On November 24, 2010, Forum Philippine Holdings Limited ("FPHL") entered into a US\$10,000 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 ("SP") work program over SC 72. Obligations arising from funds drawn under this facility agreement are not convertible into FEL's or FPHL's common shares.

On May 25, 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 Company. On the same date, the loan facility was increased to US\$18,000 and has been extended for an additional three years. The loans receivable from FPHL and loan payable to PMC recorded in the Company amounted to ₱674,804 in 2013.

In 2015, a transfer agreement has been entered into by FPHL (“the Original Borrower”) and FGL (“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 FGL agreed to the conversion of US\$11,805 loan to equity, by subscribing to 39,350,920 new common shares of FEL. The loan payable consisted of total drawdowns from the loan facility of US\$15,500 and interest accrued of US\$2,828. Of the remaining balance, US\$1,000 was paid through cash received from subscription of Tidemark Holdings Limited (“Tidemark”) to 6,666,667 new common shares of FEL.

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

Interest expense incurred for the old loan facility amounted to ₱11,692 in 2017. During the same year, commitment fees incurred amounted to ₱281.

Total drawdown from the new loan facility amounted to US\$5,522 as at December 31, 2019 and 2018. Interest expense incurred for 2019, 2018, and 2017 amounted to ₱16,018, ₱18,213, and ₱11,102, respectively. The new loan facility does not include an agreement for commitment fee.

The interest expense and commitment fees were recorded under ‘Interest expense and other charges’ in the consolidated statements of income while these were eliminated upon consolidation for the year ended December 31, 2019, 2018, and 2017.

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

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

On August 11, 2015, the Board of Directors (“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 Company has pledged its shares in its subsidiaries, Pitkin and FEL to PMC. The contract was formally executed on August 17, 2015.

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

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

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

On August 5, 2019, a Deed of Assignment (“DOA”) was entered by BEMC and PXP transferring BEMC’s advances from PMC to PXP amounting to ₱737,815.

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

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

Note 18 of the Notes to the Consolidated Financial Statements as of December 31, 2019, 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 SCs is primarily monitored through the timely submission of the annual Work Program and Budget (“WP&B”), Annual Procurement Plans, Quarterly Accomplishment Reports, and Technical Reports/Data of completed Geological and Geophysical (“G&G”) activities to the DOE. The annual WP&B for a contract area must be submitted before the end of October of each year and must be approved by the DOE. The approved WP&B will then serve as the contractor’s guide in the conduct of 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.

Field operations 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 data, reports and other information relative to the petroleum operations, (b) maintain detailed technical records and accounts of the petroleum operations, (c) ensure that all meters and measuring equipment are in good order, (d) allow access to the exploration and/ or production sites to inspectors authorized by the DOE, (e) allow examiners of the Bureau of Internal Revenue (“BIR”) and other representatives authorized by the DOE to 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 the SC.

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 on the Company.

OIL AND GAS EXPLORATION

PD 87 (Amending PD 8 otherwise known as the 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 SCs 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). SCs are executed after public bidding or concluded through negotiations.

Under the law, the government will oversee the management of the operations contemplated in the SC. 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 FPIA 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. The FPIA and 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 (7) years, extendible for three (3) years and for another year if petroleum is discovered by the end of the 10th 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 exceeding 15 years.

It is mandated that the SC provide for the compulsory relinquishment of at least 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 at least 25% of the initial area after seven years. This requirement shall not include, however, the area dedicated to production. During production period, the Service Contractor may retain at least 12.5% of the initial SC for further exploration and development, in addition to the delineated production area.

MINING OPERATIONS

PXP does not have any other interest in any ongoing mining project.

RENEWABLE ENERGY

Renewable Energy Act of 2008

RA No. 9513 establishes the Philippine framework for the accelerated development and advancement of Renewable Energy (“RE”) resources, and the development of a strategic program to increase its utilization. It was enacted to, among others, increase the utilization of RE 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. “RE 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 RE 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 RE development projects equal to 1% of the gross income of renewable energy resource developers resulting from the sale of RE produced and such other income incidental to and arising from the RE generation, transmission, and sale of electric power. For indigenous geothermal energy, the government share is 1.5% of the gross income.

The DOE is the lead agency mandated to implement the provisions of the RE Act, which it does through the Renewable Energy Management Bureau. The RE 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 (“RETF”). The RETF was established to enhance the development and greater utilization of RE and will be exclusively used to: (i) finance the research, development, demonstration, and promotion of the widespread and productive use of RE systems for power and non-power applications; (ii) provide funding to qualified research and development institutions engaged in RE studies; (iii) support the development and operation of new RE resources to improve their competitiveness in the market; (iv) conduct nationwide resource and market assessment studies for the power and non-power applications of RE systems; (v) propagate RE knowledge by accrediting, tapping, training, and providing benefits to institutions, entities, and organizations which can extend the promotion and dissemination of RE benefits to the national and local levels; and (vi) fund such other activities necessary or incidental to the attainment of the objectives of the RE Act.

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 (“EIS”) 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 gases 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

The DENR issues a Certificate of Non-Coverage (“CNC”) if the proposed project is considered outside the purview of the EIS System. All pre-development activities such as exploration/appraisal well drillings and seismic surveys only require a CNC, which is issued by the Environmental Management Bureau (“EMB”) of the DENR.

A CNC was issued by the EMB to FGL on December 22, 2010 for the 2D and 3D seismic surveys conducted in the Recto Bank area from January to March 2011.

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.

In June 2018, a permit to transport rock samples acquired from the SC 74 fieldwork in the Calamian Islands was requested from the MGB-MIMAROPA, in accordance with the DENR Administrative Order 2010-21, the IRR of the RA 7942 known as the Philippine Mining Act of 1995.

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 PXP are handled by the employees of the Company, in accordance with established policies and agreed objectives. As of December 31, 2019, the Company has two management level regular employees and five supervisor level regular employees. For 2020, 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 risks and uncertainties inherent in the business of petroleum exploration and development. To mitigate these risks, the Group has its own Board Risk and Resource Oversight Committee ("BRROC") that conducts a review of the effectiveness of PXP Energy Group's (including its subsidiaries, major associated companies, and joint ventures) Enterprise Risk Management ("ERM") systems. The bi-annual review covers all material strategic, financial, operational, and compliance risks and the corresponding mitigation measures to address these risks.

The most recent evaluation of PXP's ERM process, review of the periodic ERM report, and the discussion with the Chief Risk Officer as well as the external auditor, have assured the BRROC that material risks have been identified, evaluated, managed, and reported appropriately.

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

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

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

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

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

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

On November 20, 2018, a Memorandum of Understanding ("MOU") on oil and gas development between the Philippines and China was signed by the Department of Foreign Affairs ("DFA") Secretary Teodoro Locsin, Jr. and Chinese Foreign Minister Wang Yi. This will pave the way for the creation of an inter-governmental Steering Committee that will work out a program of cooperation that could lead to joint exploration, and the creation of one or more Inter-Entrepreneurial Working Groups. The Steering Committee will be co-chaired by the DFA Secretary and the Chinese Foreign Minister, and co-vice chaired by the vice ministries with the participation of relevant agencies of the two governments (the DOE in the case of the Philippines). The Working Groups would consist of representatives authorized by China and Philippines for the inter-entrepreneurial, technical, and commercial aspects of cooperation on certain areas in the West Philippine Sea. China has appointed China National Offshore Oil Corporation ("CNOOC"), while the Philippines will authorize

other enterprises with service contracts or the Philippine National Oil Company (“PNOC”). The two governments will endeavor to agree on the cooperation arrangements endeavor within 12 months after signing of the MOU. All discussions, negotiations, and activities of the two governments, or the authorized enterprises under or pursuant to this MOU will be without prejudice to the respective legal positions of both governments. The MOU also does not create rights or obligations under international or domestic law.

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

In October 2019, the Steering Committee was established with the Philippine contingent to be comprised of officials from the DFA, DOE, Department of Justice (“DOJ”), and the National Mapping and Resource Information Authority (“NAMRIA”). The Chinese contingent will be comprised of officials of their Ministry of Foreign Affairs, the National Energy Administration, the Office of Foreign Affairs Commission and the Communist Party of China Central Committee. China has appointed CNOOC as representative to the Inter-Entrepreneurial Working Groups. FGL will be the representative to the SC 72 Working Group.

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

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

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

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

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

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

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

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

The petroleum industry is highly regulated. In addition to complying with the laws and regulations for doing business in the Philippines and in the other jurisdictions where the Group operates, the nature of the Group’s business also subjects the Group to laws and regulations regulating the industry, as well as those on environment, occupational health and safety standards. Despite efforts to comply with all such laws and regulations, the Group’s business may be exposed to significant liabilities and restrictions due to accidents and unforeseen circumstances. Furthermore, such laws and regulations are subject to changes which may result in delays or restrictions on exploration, development, or production activities as well as increased cost of compliance. There is no

assurance that these costs will not have a material adverse effect on the Company's business and results of operations.

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

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

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

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

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

Substantially all of the Company's revenues are or will be derived from SCs or Peruvian Block, which give the Group and their respective 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 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 conducting further exploration and development activity within the relevant consortium areas, which in turn could materially and adversely affect the Company's business, financial condition, results of operations, and prospects.

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

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

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

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

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

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

The Company mitigates the foregoing risks by partnering with experienced joint venture partners and hiring experienced consultants that will provide the best value proposition to the government in terms of technical, financial, and legal feasibility during the bidding/nomination process for new service contracts.

PETROLEUM SCs

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

An independent estimate of reserves and resources of the petroleum assets held by the Company and its subsidiaries are as follows¹:

Asset	Gross 100%	Net attributable to Company	Classification (Standard)	Independent Consultant/ Report Date
Oil Reserves – Galoc Oil Field	3.095 MMbbl Recoverable	0.08 MMbbl	Proved plus Probable Developed Reserves (PRMS) ²	Gaffney, Cline & Associates August 2019
Oil & Liquids Contingent Resources - SC 72	65 MMbbl OIIP ³	35 MMbbl OIIP	Best Estimate Contingent Resources (PRMS)	Weatherford Petroleum Consultants 2012
Gas Contingent Resources - SC 72	2603 BCF GIIP ⁴	1383 BCF GIIP	Best Estimate Contingent Resources (PRMS)	Weatherford Petroleum Consultants 2012
Oil & Liquids Prospective Resources – SC 72	220 MMbbl OIIP	117 MMbbl OIIP	Best Estimate Prospective Resources (PRMS)	Weatherford Petroleum Consultants 2012
Gas Prospective Resources – SC 72	8799 BCF GIIP	4676 BCF GIIP	Best Estimate Prospective Resources (PRMS)	Weatherford Petroleum Consultants 2012

¹ Independent resource estimates were submitted to the DOE

² Petroleum Resources Management System ("PRMS") 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

³ OIIP – Oil Initially In Place

⁴ GIIP – Gas Initially In Place

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 6B Bonita (including Cadlao)	Offshore Northwest Palawan	567	FEPC 2.4546%	Manta	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%	ACEX	Exploration	
- Block D		185	FEPC 8.168%	Philodrill	Exploration	
SC 40 North Cebu	Northern Cebu	3,400	FEI 100% ⁵	FEI	Production	February 9, 1995 November 24, 2030
SC 72 Recto Bank	Offshore West Palawan	8,880	FGL 70%	FGL	Exploration	February 15, 2010 February 14, 2017*
SC 74 Linapacan	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**
Peru Block Z-38	Offshore Peru	4,875	Pitkin 25%	Karoon Gas Australia Ltd	Exploration	June 8, 2007 – July 1, 2020***

* Original expiry date of Exploration Phase. Under FM since December 15, 2014. Currently under SP 2

** Original expiry date of Exploration Phase. Under FM since December 27, 2015, which was also the expiry date of SP 1.

*** Expiry date of current Third Exploration Period of Peru Block Z-38.

⁵ FEL holds a 66.67% interest in FEI

The following describes the Company's interest in various petroleum contracts. Additional information can also be obtained in Note 11: 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 two (2) contract areas, namely: Block A Octon, and Block B Bonita, all in offshore Northwest Palawan. The SC 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%
ACEX	7.78%
PXP	5.56%
FEPC	5.56%
Alcorn Petroleum & Minerals Corp. ("APMC")	1.67%

In 2018, Philodrill completed the seismic interpretation/mapping work on the northern sector of the block using the Pre-Stack Depth Migration ("PSDM") volume. The evaluation focused on the Malajon, Salvacion, and Saddle Rock prospects. Good oil shows were encountered in the Galoc Clastic Unit ("GCU") interval during the drilling of the Malajon and Saddle Rock wells. However, no drill stem tests were conducted in this interval due to operational constraints.

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

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

On November 18, 2019, the DOE approved the work program for 2020 submitted by Philodrill which consists of the following:

- G&G studies in support of establishing a final well location and well design to test the hydrocarbon potential of the Malajon-Salvacion-Saddle Rock anticlinorium.
- Continue to do G&G work to identify additional resources at the Octon South structure and other opportunities immediately around the Octon Field to support its development.

SC 6B Bonita

SC 6B Bonita covers an area of 567 square kilometers. The contract area contains the Cadlao Field which was appended to SC 6B by the DOE in June 2018. Cadlao produced around 11.24 MMbbl of oil from 1981-1991 and is currently being considered for redevelopment by the Joint Venture ("JV") together with a farminee. The block also contains the Bonita discovery by APPI in 1989 that yielded 765 to 2,107 barrels of per day during testing. The consortium members in SC 6B Bonita and their respective participating interests are as follows:

Manta Oil Company Ltd (Operator)	70.0000%
Philodrill	27.4546%
OPMC	4.9092%
Nido Petroleum	2.7270%
FEPC	2.4546%
APMC	2.4546%

An in-house evaluation completed by Operator Philodrill in early 2016 shows the East Cadlao Prospect, with an In-Place Prospective Resources of 3.59 MMbbl of oil (Best Case) cannot be developed on a “stand-alone” basis. However, it remains prospective being near the Cadlao Field, which at that time was located in another contract area. In view of this, the JV requested for the reconfiguration of SC 6B to append the Cadlao Field for possible joint development in the future. On March 14, 2018, the DOE approved the annexation of Cadlao to SC 6B.

On June 28, 2018, Philodrill received DOE’s approval for the assignment of ACEX’s relinquished participating interest in SC 6B to the remaining JV partners. As a result, FEPC’s interest in SC 6B increased from 7.031% to 8.182%.

On October 17, 2019, the Farm-In Agreement (“FIA”), DOA and the transfer of operatorship from Philodrill to Manta Oil Company Ltd. (“Manta”) were approved conditionally by the DOE, requiring Manta to submit additional financial documents. Under the FIA, Manta will carry the JV up to First Oil to earn 70% interest. FEPC’s interest will be reduced to 2.4546% upon completion of the farm-in.

A plan of development (“POD”) for the Cadlao Field will be submitted by Manta around June 2020. It will include the drilling of 1-2 deviated production wells. Cadlao has an estimated Recoverable Reserves (P50) of 6.32 MMbbl of oil.

SC 14 Northwest Palawan

SC 14 is located offshore Northwest Palawan covering an area of 720 square kilometers. The acreage 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 1988.

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%
FEPC	8.468%

Block B Matinloc

OPMC	17.703%
Philodrill(Operator)	41.608%
Nido Petroleum	28.283%
FEPC	12.406%

Block B-1 North Matinloc

OPMC	33.111%
Philodrill (Operator)	27.772%
FEPC	19.463%
APMC	13.551%
ACEX	6.103%

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

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

The permanent plug and abandonment (“P&A”) of the Libro-1 and Tara South-1 wells was completed in early June 2018. The two wells had been shut since 1989 and 1990, respectively. The P&A activity took 41.5 days to complete.

In May 2019, seven production wells in Nido (3 out of 5), Matinloc (3), and North Matinloc (1) fields were successfully plugged and abandoned. The two (2) remaining Nido wells were only partially abandoned due to difficulties encountered during operations. Following the suspension of field operations, Philodrill conducted the stripping and disposal of equipment and materials aboard the production platforms from June to October 2019.

The P&A of the two (2) remaining Nido wells, originally scheduled in 2Q in 2020, has been put on hold due to the Enhanced Community Quarantine (“ECQ”) imposed by the Philippine government in the entire Luzon area starting March 16, 2020.

• **Block C-1 Galoc**

Block C-1 Galoc has an area of 163 square kilometers and contains the producing Galoc Oil Field 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	7.21495%
FEPC	2.27575%

The Galoc field has already produced about 22.15 MMbbl of oil since start of production in October 2008.

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

Three liftings were made in January, June, and November 2019 with a total of 993,761 barrels sold to refineries in the region. GPC plans to have three (3) liftings in 2020 with up to 250,000 barrels per cargo.

- **Block C-2 West Linapacan**

West Linapacan is located in 300 to 350 meters of water, approximately 60 kilometers offshore from Palawan Island in SC 14 Block C-2 in the NW Palawan Basin, Philippines. It has an area of 176.5 square kilometers and comprises two main oil-bearing structures - West Linapacan A and B - and several seismic leads. The SC was entered into on December 17, 1975 between the Petroleum Board and the original second parties to the contract. The West Linapacan A field produced 8.5 MMbbl of oil 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 MMbbl of oil assuming a three-well development scenario.

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

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

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. FEPC’s interest in the block reverted to 9.103%.

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

In 2019, the SC 14C-2 and SC 74 Consortia have a joint Rock Physics Quantitative Interpretation (“QI”) studies over the West Linapacan and Linapacan areas using existing 3D seismic and well data. The initial phases of the study, which included the Well Feasibility Study, Rock Physics Analysis, and Test Inversion, were carried out and completed by Ikon Science in Kuala Lumpur, Malaysia. The SC 14C-2 Consortium decided not to proceed with Phase 2 of the QI Study.

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

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

There is currently no production or exploration activity in Block D. Instead, the Consortium will continue to pay the annual rental fees amounting to ₱432,520 (US\$7,864).

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

Philodrill (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%
ACEX (Operator)	22.5%
Phoenix Gas & Oil	22.5%
OPMC	10%
FEPC	10%
Seafront	5%
APHC	2.5%

There are no activities in the Tara Block which produced 221,000 barrels of oil through the Tara Field from 1987 to 1991.

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 Daanbantayan and Medellin from April 2 to 27, 2018. A total of 94 gravity stations were acquired at a spacing of 200 to 500 meters.

The first phase of gravity data processing and interpretation was completed in the third quarter of 2018 and comprised 3D inverse grid depth modeling. A copy of the report was submitted to the DOE in early 2019. The second stage, a detailed stratigraphic 3D multi-sectional modeling, is ongoing. This is being done in-house under the quality control supervision of Cosine Global Limited (“Cosine”). The results will be correlated later with existing well and seismic data in the area.

FEI has started planning for the drilling of an onshore well, Dalingding-2, in 2020-21. FEI has engaged the services of an operations geologist to prepare the geological program and prospect montage. The Dalingding Prospect is a reefal structure defined by seismic with Barili Limestone as the primary target. A well, Dalingding-1, was drilled by Cophil Exploration in 1996 and was plugged and abandoned as a dry hole with minor gas shows after reaching a total depth of 1,508 ft. Following FEI’s recent re-evaluation of the prospect, it was concluded that Dalingding-1 did not reach the Barili target, which is estimated at 1,740 ft, or 232 ft below the well’s total depth. The current plan is to drill a well down to at least 4,000 ft to penetrate the Barili and secondary targets underneath.

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

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

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

The radioactive waste materials were safely transported to the Philippine Nuclear Research Institute ("PNRI") for proper disposal. A radiation safety officer monitored the transit from Daanbantayan, Cebu to Diliman, Quezon City on February 19-24, 2020. The termination of radioactive material license is currently under process with the PNRI.

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 SC has a seven-year Exploration Period consisting of 4 SPs, 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 the 2nd Exploration SP.

Based on an independent assessment prepared by Weatherford Petroleum Consultants, the Sampaguita gas field is estimated to contain 2.6 trillion cubic feet ("TCF") of in-place Contingent Resources and 5.4 TCF of in-place Prospective Resources.

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

FGL (Operator)	70%
Monte Oro Resources and Energy, Inc.	30%

SC 72 has been under FM since December 15, 2014. FGL will have 20 months upon lifting of the FM to drill its two commitment wells, Sampaguita-4 and Sampaguita-5.

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 SC 72 lies, is within the Philippines' EEZ as defined under the UNCLOS.

The 2019 WP&B for SC 72 was submitted to the DOE on October 29, 2018. It includes a firm program comprising 3D seismic reprocessing to be followed by seismic interpretation. A contingent program was also submitted, the implementation of which will depend on the lifting of the FM. This includes the drilling of two (2) Sampaguita appraisal wells, the conduct of a geotechnical survey over the proposed Sampaguita well locations, and the acquisition of bathymetry data and 3D seismic data over the North Bank Prospect.

In October 2018, FGL started the Broadband and PSDM reprocessing of the Sampaguita 3D seismic data with DUG, a company based in Perth, Australia, as contractor. The Sampaguita 3D was acquired in 2011 and has an area of 565 square kilometers. The reprocessing work was completed in June 2019.

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

In October 2019, the Steering Committee was established with the Philippine contingent to be comprised of officials from the DFA, DOE, Department of Justice ("DOJ"), and the National Mapping and Resource Information Authority ("NAMRIA"). The Chinese contingent will be comprised of officials of their Ministry of Foreign Affairs, the National Energy Administration, the Office of Foreign Affairs Commission, and the Communist Party of China Central Committee.

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

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

Upon lifting of the FM, FGL will have 20 months (equivalent to the remaining SP 2 period) to complete the SP 2 work commitment comprising the drilling of two wells. The terms of the succeeding SP will remain the same but the inclusive dates will be adjusted accordingly.

As at February 28, 2020, FM is still enforced and FGL is awaiting DOE's response in order to commence the remaining SP 2 work commitment.

SC 74 Linapacan

SC 74 is located offshore Northwest Palawan covering an area of 4,240 square kilometers. The SC has a seven-year Exploration Period consisting of four (4) SPs, 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%
Philodrill	25%
PNOC-EC	5%

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

In June 2015, Philodrill and PNOC EC entered into a DOA whereby Philodrill transferred a 5% participating interest to PNOC EC.

On April 25, 2016, the DOE approved the Purchase and Sale Agreement ("PSA") and DOA dated February 24, 2016 transferring the 70% interest and operatorship of Pitkin to PXP.

From May 30 to June 10, 2016, PXP acquired 1,614 km of multi-client 2D seismic data over SC 74 along with marine gravity and magnetic data using the seismic vessel Binh Minh 2 of CGG. In December 2016, processing of the seismic data was completed.

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

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

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

The geologic fieldwork in the Calamian Islands was conducted by PXP from June 17 to June 27, 2018 in collaboration with graduate students and professors from the University of the Philippines National Institute of Geological Sciences (“UP NIGS”). Rock samples collected from the field will be subjected to different analyses (paleodating, total organic content, vitrinite reflectance, pyrolysis, etc.). The stratigraphic and structural results were presented to the Consortium on August 16, 2019. Four formational units and folding events were established from the fieldwork data.

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

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

The joint QI study of SC 74 and SC 14C-2 commenced in May 2019. The Phase 1 which included the Well Feasibility Study and Rock Physics Analysis, was completed in June 2019. On the other hand, the results of the Phase 1A test inversion were presented to the Consortium in October 2019. This involved inversion studies over a 30 square kilometers 3D area that included Linapacan A-1A, Linapacan B-1, West Linapacan A-1, A-2, and A-3, and West Linapacan B-1X wells. From the test, it was concluded that lithology is easier to identify than fluid type due to the limestone reservoir’s overlapping elastic properties. In December 2019, the Consortium decided to proceed to Phase 2 of the project which is an inversion study over a wider, 400 square kilometers 3D data. Phase 2 commenced on February 10, 2020 and is expected to be completed in late May 2020.

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

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

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 SPs, 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 SP expired on December 27, 2015.

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

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

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 September 2015, the DOE advised the SC 75 Consortium of its decision to place the area under FM effective from the end of SP 1 on December 27, 2015 due to maritime disputes in the WPS. 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 Moratorium. All activities in SC 75, except for administration, remained suspended throughout 2019.

On October 30, 2019, PXP submitted to the DOE the proposed WP&B for 2020 consisting mainly of license administration costs and a contingent 3D seismic survey of at least 1,000 square kilometers that will be conducted once the FM is lifted. The survey will fulfill the Consortium's minimum work commitment under SP 2. The DOE approved the WP&B on November 6, 2019.

Peru Block Z-38

Peru Block Z-38 is located in the Tumbes Basin, offshore Northwest Peru in water depths ranging from less than 100 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 Exploration Periods; and a 30- and 40-year Exploitation Stage for oil and gas, respectively. Z-38 is presently in the Third Exploration 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)	40%
Tullow Peru Limited Sucursal del Peru ("Tullow")	35%
Pitkin Petroleum Peru Z-38 S.R.L. ("Pitkin Z38")	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.

In April 2007, Block Z-38 was awarded to Pitkin. A farm-out agreement with Karoon Gas Australia was made by Pitkin in 2008 and amended in 2009. This resulted to Karoon obtaining operating interest of 75%.

In 2014, the Peruvian oil and gas regulator, Perupetro S.A., approved the application to place Peru Block Z-38 into force majeure. The application for force majeure was requested on the basis of the Operator, Karoon, being unable to secure a suitable drilling unit within the required timeframe on the Pacific side of the Americas. The application of force majeure was granted effective September 1, 2013. As a result, the term of the current third exploration period will have approximately 22 months remaining once the force majeure is lifted.

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

Following the farm-in of Tullow, Karoon's interest decreased to 40% while Pitkin's interest remained at 25%.

On November 15, 2019, Karoon, Tullow, and Stena Drilling signed a Rig Assignment Agreement for the use of the drillship, Stena Forth. The agreement provides the Z-38 Consortium with a single well slot from the existing rig contract between Tullow and Stena. Soon after, the drillship started its mobilization to Peru. It left Ghana on November 21, 2019 and arrived at the Marina-1X drillsite in offshore Peru on January 24, 2020.

The Marina-1X well was spudded on January 26, 2020 in 362m water depth. It reached a total depth of 3,021m MD (2,889m TVD) on February 15, 2020. Mudlogging and Logging While Drilling ("LWD") results from the primary targets in the Tumbes Formation indicated that the well encountered thin water-bearing sands with no oil and only minor gas shows. In view of the results, the well was plugged and abandoned as a dry well on February 20, 2020.

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

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

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 ₱18.7 million as of December 31, 2019 compared to ₱230.8 million as of December 31, 2018.

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 2019 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 PSE 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, the Philippine Securities and Exchange Commission ("SEC") 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, 2019 is 30.41%.

The average stock prices for the Company's common shares within the last two years and for the first two months of 2020 were as follows:

	High	Low
1Q 2019	16.46	12.00
2Q 2019	10.50	6.54
3Q 2019	13.92	7.30
4Q 2019	13.72	8.13
Jan 2020	10.70	8.41
Feb 2020	9.10	6.35

The Company's stock was traded at ₱6.36 per share as of February 28, 2020.

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 38,705. The top 20 stockholders as of March 12, 2020 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)	457,397,819	23.34%
2)	PHILEX MINING CORPORATION (Direct and held through PCD Nominee)	595,864,728	30.40%
3)	ASIA LINK B.V.	284,470,725	14.51%
4)	SOCIAL SECURITY SYSTEM (Direct and through PCD Nominee)	146,955,638	7.50%
5)	TWO RIVERS PACIFIC HOLDINGS CORP.	125,608,156	6.41%
6)	KIRTMAN LIMITED	65,221,981	3.33%
7)	MAXELLA LIMITED	64,539,833	3.29%
8)	PCD NOMINEE CORPORATION (Non-Filipino)	57,507,755	2.93%
9)	ARTINO LIMITED	10,193,136	0.52%
10)	MAKATI SUPERMARKET CORP.	2,464,201	0.13%
11)	THE FIRST NATIONAL INVESTMENT COMPANY INC.	2,073,157	0.11%
12)	MANUEL V. PANGILINAN	1,603,466	0.08%
13)	THE FIRST NATIONAL INVESTMENT COMPANY	1,524,380	0.08%
14)	PHILIPPINE REMNANTS CO., INC.	1,438,125	0.07%
15)	FRANK PAO	1,011,714	0.05%
16)	PAULINO DE UGARTE &/OR ELENA E. DE UGARTE	852,943	0.04%
17)	CAROL JOAN REIF	826,795	0.04%
18)	RELIGIOUS OF THE VIRGIN MARY-B	789,846	0.04%
19)	ROBIN JOHN PETTYFER	735,239	0.04%
20)	SKYSIDE DEVELOPMENT CORP.	694,810	0.04%
	TOTAL	1,821,774,447	92.95%

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.

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

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 1,960,000,000 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, 2019, 2018, AND 2017

Information on the Group's results of operations and financial position presented in the 2019 Audited Consolidated Financial Statements and accompanying Notes to the Consolidated Financial Statements are incorporated hereto by reference.

Consolidated operating revenues amounted to ₱72.5 million in 2019 (2018: ₱107.9 million; 2017: ₱104.4 million) consisting solely of revenues from petroleum.

In 2019, the decline in revenues was due to (1) the 15% drop in average crude oil prices at \$63 per barrel (2018: \$74 per barrel; 2017: \$54 per barrel) and; (2) the decline in the oil production of SC 14 C-1 Galoc, which yielded a gross volume of 994 thousand barrels (2018: 1.1 MMbbl; 2017: 1.4 MMbbl) from three (3) offtakes (2018: 3 offtakes; 2017: 4 offtakes). In addition, the plug & abandonment of SC 14 Nido and Matinloc wells further contributed to the decline in output. For 2018 vs 2017, the rise in oil prices, offset by a continuous decline in oil production contributed to the higher revenue.

The revenues were contributed by FEL, a 79.04% direct and indirectly owned subsidiary, from its participating interests in the oil fields of Galoc, Nido, Matinloc, and North Matinloc.

Oil production during the year were as follows:

	2019	2018	2017
Oil Revenues (in millions ₱)	₱72.5	₱107.9	₱104.4
Barrels (net to FEL)	24,251	31,232	41,270

Costs and expenses totaled ₱190.6 million (2018: ₱221.4 million; 2017: ₱158.2 million). Petroleum production costs were lower at ₱85.5 million (2018: ₱131.0 million; 2017: ₱108.9 million), resulting from 27% decline in oil production cost and 43% lower depletion. In 2018, petroleum production costs were greater vs 2017 due to higher depletion.

General and administrative expenses stood at ₱105.1 million (2018: ₱90.4 million; 2017: ₱49.4 million), resulting from the additional decommissioning costs in SC 14 Nido and Matinloc wells at ₱38.4 million. Total recurring overhead, however, was flat owing to management's continuing cost control and sharing of costs between subsidiaries. In 2018, General and administrative expenses decreased vs. 2017 resulting from the consultancy expense incurred during the reorganization of Pitkin in previous years amounting to ₱11.9 million, and the decommissioning of SC 14 Tara and Libro wells at ₱29.8 million.

A net Other charge of ₱180.3 million was recorded in 2019 (2018: net other income of ₱21.4 million; 2017: net other charge of ₱1.1 million). Provision for impairment of assets amounted to ₱194.6 million due to the write-down of SC 14C-1 related primarily to the lower-than-expected future returns. In 2017, provision for impairment amounting to ₱4.6 million was a result of the rehabilitation and decommissioning of the Libertad Gas Field in SC 40 North Cebu, offset by the Reversal of impairment losses of ₱11.3 million representing reversal of accrued expenses from the previous year. Gain on termination of subscription agreement amounting to ₱40.3 million was recorded during the same period in review following the forfeiture of the down payment made for the subscription of PXP shares.

Foreign exchange loss stood at ₱12.4 million (2018: net forex gain of ₱18.7 million; 2017: net forex loss of ₱0.1 million) resulting from foreign currency exchange differences from the conversion of the Group's dollar denominated currency to peso and vice versa. Provision for plug and abandonment costs due to change in estimates amounted to ₱10.7 million, representing additional plug and abandonment costs in SC 14 Nido and Matinloc. Loss on write-off of goodwill and other noncurrent assets amounted to ₱4.5 million which relates to the impairment of goodwill in SC 14C-1. Interest income stood at ₱2.6 million (2018: ₱2.8 million; 2017: ₱3.7 million) while interest expense increased to ₱1.0 million from ₱76 thousand due to the effect of the adoption of PFRS 16 - Leases.

(in Millions)	Years Ended December 31		
	2019	2018	2017
Provision for impairment of assets - net	(₱194.6)	₱-	(₱4.6)
Gain on termination of subscription agreement	40.3	-	-
Foreign exchange gains - net	(12.4)	18.7	(0.1)
Provision for plug and abandonment costs due to change in estimates	(10.7)	-	-
Loss on write-off of goodwill and other noncurrent assets	(4.5)	-	-
Interest income	2.6	2.8	3.7
Interest expense and other charges	(1.0)	(0.1)	(0.1)
Total	(₱180.3)	₱21.4	(₱1.1)

Consolidated net loss stood at ₱297.2 million (2018: ₱96.4 million; 2017: ₱57.1 million) mainly from the Provision for impairment assets and plug and abandonment costs. As such, net loss attributable to equity holders of the Company amounted to ₱272.1 million (2018: ₱77.0 million; 2017: ₱39.1 million), and core net loss was ₱79.8 million (2018: ₱98.6 million; 2017: ₱34.2 million), with both basic and diluted loss per share amounting to ₱0.139 (2018: ₱0.045; 2017: ₱0.023).

As at December 31, 2019, the Company's total assets stood at ₱6.865 billion as against ₱7.247 billion as at December 31, 2018. Total current assets dropped to ₱302.6 million from ₱428.9 million as Cash and cash equivalents decreased from ₱342.4 million to ₱246.0 million. Trade and other receivables stood at ₱33.5 million from ₱40.7 million as there was no oil lifting during the last quarter of 2019. Meanwhile, inventories amounted to ₱7.3 million from ₱32.4 million as a result of reduced output from SC 14C-1. Total Noncurrent assets amounted to ₱6.563 billion vs ₱6.818 billion in the previous year. Deferred oil and gas exploration costs decreased to ₱5.301 billion from ₱5.310 billion primarily due to foreign currency exchange translation adjustments. Property and equipment declined to ₱18.7 million from ₱230.8 million mostly from the write-down of SC 14C-1 and depletion. Deferred tax assets amounted to nil from ₱35.0 million in 2018 after its reclassification to deferred tax liabilities.

As at December 31, 2018, the Company's total assets stood at ₱7.247 billion as against ₱7.229 billion as at December 31, 2017. Total current assets dropped to ₱428.9 million from ₱525.8 million as Cash and cash equivalents decreased from ₱450.0 to ₱342.4 million. Said decrease was attributable to cash disbursements incurred for the: (1) Plug and abandonment of SC 14 Tara and Libro wells amounting to ₱29.8 million; (2) Exploration activities in SC 74 Linapacan and SC 72 Recto Bank at ₱78.6 million; (3) Overhead expenses at ₱56.1 million; and (4) Net cash received from SC 14C-1 from oil sales during the year; (5) Cash received from PMC amounting to ₱770.3 million, representing the 25% downpayment for PMC's subscription to 260 million new PXP shares at ₱11.85 per share; offset by (6) Cash paid by PXP to PMC amounting to ₱781.3 million for the repayment of outstanding advances from the latter. In addition, Inventories-net increased from ₱21.8 million to ₱32.4 million as a result of unsold oil inventory as at year end. Noncurrent assets slightly rose to ₱6.818 billion from ₱6.703 billion, largely arising from the increase in deferred exploration costs to ₱5.310 billion from ₱5.168 billion. This was a result of the costs spent in the exploration activities in SC 74 and SC 72. This increase was offset by the decrease in property and equipment from ₱261.9 million to ₱230.8 million due to depletion.

Current liabilities as at December 31, 2019 declined to ₱74.6 million from ₱2.160 billion as at the end of the previous year. This was primarily due to the reduction in Advances from related parties from ₱2.125 billion to nil, following the Company's full payment of debt to PMC. This was partially offset by the growth in Trade and other payables from ₱34.0 million to ₱63.1 million arising from cash calls advanced by SC 74 consortium partners and; provision for plug and abandonment cost in SC 14 Nido and Matinloc amounting to ₱10.4 million. Noncurrent Liabilities stood at ₱1.274 billion from ₱1.305 billion. Deferred tax liabilities decreased to ₱1.077 billion from ₱1.113 billion resulting from the reclassification of deferred tax asset amounting to ₱35.0 million. Total liabilities were lower at ₱1.349 billion from ₱3.465 billion at the end of the prior year, following the reduction in current liabilities by ₱2.085 billion and non-current liabilities by ₱31.3 million.

Current liabilities as at December 31, 2018 were lower at ₱2.160 billion from ₱2.926 billion from the previous year. This was primarily due to the reduction in Advances from related parties from ₱2.906 billion to ₱2.125 billion, following the partial payment of debt to PMC. This was partially offset by the growth in Trade and other payables arising from PXP's consortium partners cash calls in SC 74 and accrual of payables to ₱34.0 million from ₱19.4 million. Noncurrent Liabilities stood at ₱1.305 billion from ₱1.301 billion resulting from the increase in deferred tax liabilities from ₱1.110 billion to ₱1.113 billion. Total liabilities were lower at ₱3.465 billion from ₱4.226 billion at the end of the prior year, following the reduction in current liabilities by ₱766.4 million and a rise in non-current liabilities by ₱4.8 million.

As of December 31, 2019, total equity reached ₱5.517 billion as against ₱3.782 billion at the end of 2018. Subscription Receivable decreased from ₱2.311 billion to ₱184.3 million following the partial payment of PMC. In addition, deficit increased to ₱1.644 billion from ₱1.372 billion subsequent to the net loss incurred during the year; while Cumulative translation adjustment on foreign subsidiaries decreased to ₱87.7 million from ₱153.9 million resulting from the higher dollar-to-peso exchange rate.

As of December 31, 2018, total equity reached ₱3.782 billion as against ₱3.002 billion at the end of 2017. This was a result of the increase in Capital stock to ₱1.960 billion from ₱1.700 billion and Additional Paid-in Capital to ₱2.821 billion from nil; offset by the increase in Subscription receivable at ₱2.311 billion following the subscription of PMC to 260 million new PXP shares at ₱11.85 per share. In addition, deficit increased to ₱1.372 billion from ₱1.295 billion subsequent to the net loss incurred during the year; while Cumulative translation adjustment and Non-controlling interests increased to ₱153.9 million from ₱76.3 million and to ₱2.408 billion from ₱2.398 billion, respectively.

Net Cash Used in Operating Activities during the year amounted to ₱2.4 million (2018: net outflow ₱21.5 million; 2017: net outflow ₱22.0 million) which primarily resulted from the (1) Cash received from SC 14C-1 from oil sales net of cash production expenses during the year amounting to ₱36.3 million; (2) Overhead expenses at ₱69.0 million; offset by (3) Cash received from the forfeited down payment made by a third party for the subscription of PXP shares amounting to ₱40.3 million.

In 2018, Net Cash Used in Operating Activities amounted to ₱21.5 million which resulted from the (1) Plug and abandonment of SC 14 Tara and Libro wells amounting to ₱29.8 million; (2) Overhead expenses at ₱56.1 million; and (3) Cash received from SC 14C-1 from oil sales net of production expenses during the year. In 2017, cash outflow from operating activities amounting to ₱22.0 million was mainly attributable from the operating loss of ₱23.6 million.

Net Cash from Investing Activities resulted in a net outflow of ₱84.1 million (2018: ₱87.7 million; 2017: ₱64.2 million) mainly due to additions in exploration activities in SC 74 and SC 72 amounting to ₱66.9 million. Additions pertaining to property and equipment amounting to ₱16.1 million relates to the cash spent for the partial installation of a condensate facility in SC 14C-1.

In 2018, Net Cash used in Investing Activities resulted in a net outflow of ₱87.7 million following cash spent in exploration activities in SC 74 and SC 72. In 2017, the net outflow came from exploration activities in SC 74 and the drilling of an appraisal well in SC 14 C-1.

Net Cash used in Financing Activities stood at ₱4.0 million (2018: ₱6.3 million; 2017: ₱36.9 million) coming from the cash received by PXP from PMC amounting to ₱2.126 billion, representing partial repayment of PMC's subscription to 260 million new PXP shares at ₱11.85 per share; offset by cash paid by PXP to PMC amounting to ₱2.125 billion representing full payment of outstanding advances from the latter.

In 2018, Net Cash used in Financing Activities stood at ₱6.3 million coming from the cash received by PXP from PMC amounting to ₱770.3 million, representing the 25% downpayment for PMC's subscription to 260 million new PXP shares at ₱11.85 per share; offset by cash paid by PXP to PMC amounting to ₱781.3 million for the repayment of outstanding advances from the latter. In 2017, the net cash outflow was a result of the following: (1) Proceeds from issuance of subsidiary's new shares at ₱100.7 million, representing the cash infused by a major shareholder of FEL 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 FEL; (3) Decrease in advances from related parties at ₱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.

Effect of exchange rate changes in cash and cash equivalents representing fluctuations in foreign currency exchange rates for the last three years amounted to an outflow of ₱6.0 million (2018: net inflow of ₱7.9 million; 2017: net outflow ₱150 thousand). At the end of the current year, Cash and cash equivalents amounted to ₱246.0 million (2018: ₱342.4 million; 2017: ₱450.0 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 for 2019, which were aimed at enhancing asset value, are indicated below.

In SC 72, the conduct of broadband PSDM reprocessing of 565 sq. km 3D seismic data with DUG as contractor was completed in June 2019. This was followed by an interpretation of the newly-reprocessed seismic data and the formulation of an appraisal program for the Sampaguita Field, the results of which are expected to be available in 2Q 2020.

In SC 74, the gravity modeling and seismic interpretation of the MC2D data has been completed. A gravity modeling report submitted by Cosine is now being reviewed by PXP prior to submission to the DOE. Paleodating and total organic carbon analysis of rock samples collected in the Calamian Islands are ongoing. Initial 12 samples were sent to Core Laboratories, Malaysia on October 31, 2019, and the results were submitted to PXP in December 2019. Additional samples will be sent to Malaysia in 2020 for further analysis.

The Phase 1 Well Feasibility with Rock Physics and Phase 1A Test Inversion under the joint QI study of SC 74 and SC 14C-2 were completed and presented to the consortium in October 2019. The said initial phase involved a pilot study covering 30 sq. km of PSDM 3D seismic and data from 6 vintage wells. From the test, it was concluded that lithology is easier to identify on seismic than fluid type due to the limestone reservoir's overlapping elastic properties. In December 2019, PXP decided to proceed to Phase 2 of the project which is an inversion study over a wider, 400 sq. km 3D data. Phase 2 commenced in 1Q 2020 and will be completed in May 2020.

In SC 40 (North Cebu), FEI conducted a land gravity survey in the municipalities of Daanbantayan and Medellin in April 2018. A total of 94 gravity stations were acquired at a spacing of 200m to 500m. The survey was designed to locate the apex of a high trend in the Dalingding area, define faults through forward modeling, and determine whether the mapped central depression is a graben or a trough. The first phase of gravity data processing and interpretation was completed in the third quarter of 2018 and comprised 3D inverse grid depth modeling. A copy of the report was submitted to the DOE in early 2019. The second stage is a detailed stratigraphic 3D multi-sectional model being done in-house under Cosine's quality control supervision. This is currently ongoing. The approved work program for 2020 includes the continuation of the Gravity Interpretation – Stage 2 and the conduct of another land gravity survey over the Libertad and Dalingding areas in Bogo City and Daanbantayan Municipality, respectively. The gravity survey aims to further delineate the carbonate bodies detected in the said areas by the initial 3D gravity modelling exercise. The survey began on February 18, 2020 and will be completed in mid-March 2020 with a total of 84 stations acquired at intervals of between 300m and 500m. The results of the gravity survey will be used to update the current depth models for northern Cebu.

In SC 6A (Octon), the approved work program for 2019 includes the conduct of seismic attribute analysis of the North Block to map the target reservoirs and determine their distribution in terms of porosity, thickness, and lithology. The work program for 2020 will focus on further G&G studies in the North Block in support of establishing a final well location over one of the identified prospects in the area. Other G&G works will continue to identify additional resources in the South Block and around the Octon Field.

In SC 6B (Bonita), the FIA, DOA, and transfer of operatorship from Philodrill to Manta were approved conditionally by the DOE on October 17, 2019, requiring Manta to submit additional financial documents. Under the FIA, Manta will carry the JV up to First Oil to earn 70% interest. FEPC's interest will be reduced to 2.4546% upon completion of the farm-in. A POD for Cadlao Field will be submitted to the DOE around June 2020. It will include the drilling of 1-2 deviated production wells. Cadlao has an estimated Recoverable Reserves (P50) of 6.32 MMbbl of oil.

In Peru Block Z-38, Karoon, Tullow, and Stena Drilling signed a Rig Assignment Agreement in November 2019 for the use of the drillship, Stena Forth. The agreement provided the Z-38 Consortium with a single well slot from the existing rig contract between Tullow and Stena. Soon after, the drillship started its mobilization to Peru. It left Ghana in mid-November 2019 and arrived in Lima, Peru in early January 2020.

The Marina-1X well was spudded on January 26, 2020 in 362m water depth. It reached a total depth of 3,021m MD (2,889m TVD) on February 15, 2020. Mudlogging and Logging While Drilling (“LWD”) results from the primary targets in the Tumbes Formation indicated that the well encountered thin water-bearing sands with no oil and only minor gas shows. In view of the results, the well was plugged and abandoned as a dry well, and the drillship was demobilized before the end of February 2020.

The Marina-1X well provided a large amount of valuable data on the geological setting for this region of the Tumbes Basin. Several potential reservoir sequences were encountered in the well, unfortunately these sections were water wet and provide no prospectivity at this location. The results will now be thoroughly analyzed to come up with the best way forward for the block.

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.

The Company had participated in the PCECP of the DOE, which was launched in November 2018 and ended in August 2019. The Company and its partner, Philodrill, submitted a joint bid for Area 7, a prospective block located in the Sulu Sea. The consortium’s bid remains under evaluation with the DOE. In addition, the Company nominated an area in offshore Palawan for a Petroleum SC. A Letter of Intent to formally nominate the block was submitted by the Company in April 2019 and approved by DOE in February 2020. In March 2020, the Company submitted all technical, legal, and financial documents in support of its application.

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 during the year include expenses paid for the decommissioning of SC 14 Nido and Matinloc wells amounting to ₱38.4 million (2018: ₱29.8 million). Overhead alone was consistently controlled which minimally increased to ₱66.7 million (2018: ₱60.6 million) attributed to management’s continued cost containment initiatives, resulting to minimization of recurring expenses. Management continuously monitors its general and administrative expenses and looks for 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.

In prior years, 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.

In 2019, PMC paid an additional ₱2.126 billion representing partial payment in connection to the signing and execution of a Definitive Subscription Agreement, in which PMC subscribed to 260,000,000 common shares of PXP at ₱11.85 per share for a total consideration of ₱3.081 billion. Following the payment, PMC’s total paid subscription increased from ₱770.25 million to ₱2.897 billion, representing 96% of its total subscription in PXP. Following this, total group debt to PXP was reduced from ₱2.125 billion to nil as at year end and as a result, the related pledge was extinguished.

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.

In compliance with the SEC's Notice dated March 12, 2020, below is the report on the risk and impact of the COVID-19 on business operations and the mitigation measures.

The Company is taking the necessary measures to mitigate potential impact on its business operations, in accordance with government guidelines.

Risk: Exposure to COVID-19

Mitigation: Communicate and enforce preventive measures within the work area against COVID-19 such as:

- Remote working or work from home scheme with departmental skeletal force, if needed.
- Teleconference or online messaging for internal communication and for communication with JV partners and third party contractors.
- Implement a No Visitors Policy (including relatives and friends).
- Maintain at least two (2) meters distance and no physical contact (e.g. no shaking of hands).
- Maintain sanitary essentials like alcohol / hand sanitizers at entry points (e.g. lobby, comfort rooms, etc.).
- Thermal scanning of all employees at the entrances of the office. Personnel with temperature above 37.8 degrees will not be allowed to enter the office and should seek medical attention, if possible.
- Self-quarantine of employees with travel history to identified places with confirmed/suspected COVID-19 cases.
- Encourage employees to do initial self-assessment on symptoms and advise management when symptoms are present.

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 April 16, 2020, PXP increased its direct shareholding in FEL from 72.24% to 72.33%. This increases PXP's total direct and indirect interest in FEL from 79.04% to 79.13%. The additional interest was acquired through a subscription to 6,099,626 new ordinary shares of FEL. The new shares were issued at approximately US\$0.30 per share for a total consideration of US\$1.83 million.

Further, major shareholders, Tidemark and FEC subscribed to 1,666,666 shares and 567,038 shares of FEL, amounting to US\$500,000 and US\$170,111, respectively, both paid for in cash. As a result of these transactions, Tidemark's and FEC's holdings in FEL remain at 20% and 6.8%, respectively.

There is no other known event aside from the above 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 July 15, 2020.

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. Zaragoza III.

The Company's Audited Financial Statements for 2018 was certified by Mr. Alexis Benjamin C. Zaragoza III of SGV & Co, the audit engagement partner for the 2018 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 2019, 2018, and 2017, independent auditors were engaged to express an opinion on the consolidated and stand-alone financial statements of the Company and its Subsidiaries ("the Group"), and to review of income tax calculation in the income tax returns of the Group. A regular audit was carried out based on Philippine Standards on Auditing. The audit fees for these services were for ₱4.5 million for 2019, ₱4.3 million for 2018, and ₱4.3 million for 2017.

There were no non-regular audit conducted during the years 2019, 2018, and 2017.

Tax Fees

There were no tax-related services rendered by the independent accountants other than the assistance provided 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 SEC.

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There has been no change in the Company's independent auditors since the Company's incorporation in 2007, except for a change in audit engagement partners: Mr. Aldrin M. Cerrado (2007 to 2011 audit), Mr. Jose Pepito E. Zabat III (2012 to 2016 audit), and Mr. Alexis Benjamin C. Zaragoza III (2017 to present audit). There have been no unresolved disagreements with the independent auditors.

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 21, 2019, 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** – 73, 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 21, 2019.

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 telecommunications 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. Roxas Holdings, Incorporated
6. Manila Electric Company

Hong Kong

7. First Pacific Co. Ltd.

- 2) **DANIEL STEPHEN P. CARLOS** – 56, Filipino citizen; first elected Director on August 16, 2015; last re-elected on May 21, 2019.

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 currently the Resident Agent in the Philippines of Forum (GSEC 101) Limited, which operates SC 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.** – 58, Filipino citizen; first elected May 18, 2010; last re-elected May 21, 2019.

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 (“PMC”) and Philex Gold Philippines, Inc. since June 29, 2011. He became President and Chief Operating Officer of PMC 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) **BENJAMIN S. AUSTRIA – Independent Director**; 74, Filipino citizen; first elected Independent Director on August 4, 2011; last re-elected on May 21, 2019.

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 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 has been a Member of the Board of Geology of the Professional Regulation Commission since 2016. He is a Director and Chairman of the Earth Sciences & Geography Division of the Philippine Association for the Advancement of Science & Technology, a non-stock, non-profit corporation.

Listed corporations of which Dr. Austria is currently a director

Philippines

1. PXP Energy Corporation (Independent Director)

- 5) **EMERLINDA R. ROMAN – Independent Director**; 70, Filipino citizen; first elected Independent Director August 4, 2011; last re-elected May 21, 2019.

Academic Background

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

Business and Professional Background/Experience

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

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

She sits on the boards of Smart Communications, Inc., Digital Telecommunications Philippines, Inc., Redondo Peninsula Energy, and One Meralco Foundation. She is also Chair of the Board of Advisers of Manila Tytana Colleges and a Member of the Board of Trustees of Akademya Filipino.

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

Philippines

1. PXP Energy Corporation (Independent Director)

- 6) **MARILYN A. VICTORIO-AQUINO** - 64, Filipino citizen; first elected April 18, 2013; last re-elected on May 21, 2019.

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, 2019. She is also a Director of PXP Energy Corporation. She is an Assistant Director of First Pacific Co. Ltd. since July 2012, following her 32-year law practice at SyCip Salazar Hernandez and Gatmaitan Law Offices, where she was Partner from 1989 to 2012. She is the President and Chief Executive Officer of MetroPac Movers Inc., the logistics company of Metro Pacific Investments Corporation. She is also the President of First Coconut Manufacturing Corporation. She has been a Director of PremierLogistics, Inc. since January 2017,

Silangan Mindanao Mining Company Inc. since January 2013, Silangan Mindanao Exploration Company, Inc. since January 2013, Lepanto Consolidated Mining Company since October 2012 and Maynilad Water Services, Inc. since December 2012.

Listed companies of which Ms. Aquino is currently a director

Philippines

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

- 7) **OSCAR S. REYES** – 73, Filipino citizen; first elected August 2, 2017; last re-elected on May 21, 2019.

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 Program at the Ateneo Graduate School of Business. He took the Business Management Consultancy and Trainers' Program at the Japan Productivity Center under the Asian Productivity Organization; the Program for Management Development at the Harvard Business School, and; the Commercial Management Program at the Lensbury Centre, Shell International Petroleum Corporation.

Business and Professional Background/Experience

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

Listed companies of which Mr. Reyes is currently a director

Philippines

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

- 8) **DIANA V. PARDO-AGUILAR** - 56, Filipino citizen; first elected on May 19, 2015; last re-elected on May 21, 2019.

Academic Background

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

Business and Professional Background/Experience

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

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

Philippines

1. PXP Energy Corporation
2. Security Bank Corporation
3. Philex Mining Corporation

- 9) **JOSEPH H.P. NG** – 57, British Citizen; first elected March 21, 2019 last re-elected on May 21, 2019.

Academic Background

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

Business and Professional Background/ Experience:

Mr. Ng joined First Pacific Company Limited in 1988 from Price Waterhouse's audit and business advisory department in Hong Kong. He was appointed as Associate Director in April 2019. Prior to that Mr. Ng was Executive Vice President of and acted as the Group Finance and served in several senior finance positions within the First Pacific Group, including as the Head of Finance of the Group's regional telecom division and a director of a number of the Group's telecom joint ventures in India, Indonesia, and China. Mr. Ng is also a Non-executive Director of Philex Mining Corporation and a Commissioner of PT Indofood Sukses Makmur Tbk.

Listed companies of which Mr. Ng is currently a director

Philippines

1. PXP Energy Corporation
2. Philex Mining Corporation

Indonesia

1. PT Indofood Sukses Makmur Tbk (Commissioner)

There is no director who has resigned or declined to stand for re-election to the board of directors since the May 21, 2019 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:

1. **MANUEL V. PANGILINAN** – 73, 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.

2. **DANIEL STEPHEN P. CARLOS** – 56, 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, PNOC Exploration Corporation, Forum Pacific, Inc., and CGG Multiwave. In February 2007, he joined Forum Energy Philippines Corporation as Vice President for Exploration and was appointed President in July 2013. He is also the Resident Agent in the Philippines of Forum (GSEC 101) Limited, which operates SC 72 or Recto Bank. He is also the President of Forum Exploration, Inc.

3. **PARALUMAN M. NAVARRO** – 51, Filipino citizen. Ms. Navarro is the Company's Treasurer. She is also Assistant Vice President for Corporate Finance of Philex Mining Corporation and Controller of Silangan Mindanao Mining Co., Inc. 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.

4. **BARBARA ANNE C. MIGALLOS** – 65, Filipino citizen. Atty. 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.

Atty. Migallos is the Company's Corporate Secretary. Atty. 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, Inc. 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., and Alliance Select Foods International, Inc. since 2015. She is a professorial lecturer in Corporations Law, Insurance, and Credit Transactions 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

Independent directors and the SSS representative receive per diems of ₱30,000 per board meeting and ₱20,000 per committee meeting attended. 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.

SUMMARY OF COMPENSATION TABLE (In Millions)		
DIRECTORS		
<u>Year</u>	<u>Directors' Fee</u>	
2020 (Estimated)	P1.12	
2019	1.12	
2018	1.42	
2017	0.94	
OFFICERS		
<u>NAME</u>	<u>POSITION</u>	
Manuel V. Pangilinan	<i>Chairman</i>	
Daniel Stephen P. Carlos	<i>President</i>	
Paraluman M. Navarro	<i>Treasurer</i>	
Barbara Anne C. Migallos	<i>Corporate Secretary</i>	
	<u>Total Officers'</u>	
<u>Year</u>	<u>Salary</u>	<u>Bonus</u>
2020 (Estimated)	P8.4	NIL
2019	8.4	NIL
2018	8.4	NIL
2017	8.1	NIL
ALL DIRECTORS & OFFICERS AS A GROUP		
<u>Year</u>	<u>Total Amount</u>	
2020 (Estimated)	P 9.5	
2019	9.5	
2018	9.9	
2017	9.4	

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 12, 2020:

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
Common	PCD Nominee Corporation ("PCD Nominee") (Stockholder) See Note 1.	See Note 1.	Filipino	390,476,107 (excludes shares of Philex Mining and SSS held through PCD Nominee)	19.92%
Common	Philex Mining Corporation ("Philex Mining") 2 nd Floor LaunchPad, Reliance Street corner Sheridan Street, Mandaluyong City, Metro Manila (Stockholder) See note 2.	Philex Mining (Direct and through PCD Nominee) See Note 1.	Filipino	595,864,728	30.4013%

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
Common	Asia Link B.V. PrinsBernhardplein 200, 1097 JB Amsterdam, The Netherlands (Stockholder) See Note 3.	First Pacific Company, Ltd. See Note 3.	Non-Filipino	284,470,725	14.5138%
Common	Social Security System c/o Loan and Investment Office, 7/F SSS Building, Diliman, Quezon City (Stockholder) See Note 4.	Social Security System (Direct and through PCD Nominee) See Note 4.	Filipino	210,559,105	10.74%
Common	Two Rivers Pacific Holdings Corp. 10/F MGO Building, Legaspi cor. Dela Rosa Sts., Legaspi Village, Makati City (Stockholder)	Two Rivers Pacific Holdings Corporation	Filipino	125,608,156	6.4086%

- (1) PCD Nominee Corporation ("PCD Nominee"), the nominee of the Philippine Depository & Trust Corp., is the registered owner of the shares in the books of the Company's transfer agent. The beneficial owners of such shares are PCD Nominee's participants who hold the shares on their own behalf or in behalf of their clients. PCD Nominee is a private company organized by the major institutions actively participating in the Philippine capital markets to implement an automated book-entry system of handling securities transactions in the Philippines. The 390,350,327 shares shown above are exclusive of the 335,864,728 shares owned by Philex Mining and the 63,603,467 shares owned by SSS, held through PCD Nominee.
- (2) Philex Mining is represented by Mr. Manuel V. Pangilinan, Mr. Eulalio B. Austin Jr., and Mr. Oscar S. Reyes in the Company's Board of Directors.
- (3) Asia Link B.V. is a wholly owned subsidiary of First Pacific Company, Ltd. ("First Pacific"). Kirtman Limited, part of the First Pacific Group, is the registered shareholder of 65,221,981 shares or 3.328% of the outstanding shares of the Company. Maxella Limited, also part of the First Pacific Group, is the registered shareholder of 64,539,833 shares or 3.293% of the outstanding shares of the Company. Artino Limited, also part of the First Pacific Group, is the registered owner of 10,193,136 shares or 0.520% of the outstanding shares of the Company. Asia Link B.V., as part of the First Pacific Group, is represented by Mr. Joseph H.P. Ng in the Company's Board of Directors.
- (4) Of the 210,559,105 shares of the Social Security System ("SSS"), 63,603,467 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 12, 2020, 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	0.0818%
Common	Daniel Stephen P. Carlos	Direct	766	Filipino	0.0000%
Common	Eulalio B. Austin, Jr.	Direct	208,224	Filipino	0.0106%
Common	Benjamin S. Austria	Direct	191	Filipino	0.0000%
Common	Emerlinda R. Roman	Direct	1	Filipino	0.0000%
Common	Marilyn A. Victorio-Aquino	Direct	76,529	Filipino	0.0039%
Common	Oscar S. Reyes	Direct	1	Filipino	0.0000%
Common	Diana V. Pardo Aguilar	Direct	1	Filipino	0.0000%
Common	Barbara Anne C. Migallos	Direct	71,677	Filipino	0.0037%
Common	Paraluman M. Navarro	Direct	2,431	Filipino	0.0000%
Common	Joseph H.P. Ng	Direct	1	Filipino	0.0000%
Directors and Executive Officers as a Group			1,963,288		0.1002%

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 SEC, and the PSE.

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 SEC. A copy of the ACGR from 2016 and earlier is available on the Company’s website at <http://www.pxpenenergy.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 31, 2017, the Company’s board of directors approved a Revised Corporate Governance Manual, Board and Committee Charters, and additional policies such as Board Diversity Policy, a revised Related Party Transaction Policy, among others. This can be found in the Company’s website at <http://www.pxpenenergy.com.ph/corporate-governance/company-policies>.

In 2019 and 2018, the Company was awarded by the Institute of Corporate Directors as one of the top-performing publicly-listed companies in the Philippines under the ASEAN Corporate Governance Scorecard (“ACGS”) in 2018 and 2017, respectively.

The Audit and the Board Risk and Resources Oversight Committees on a bi-annual basis, conduct a review on the effectiveness of the Group’s internal control systems. The review covers all material controls, including financial, operational and compliance controls and risk management functions. The confirmation statements pertain to the determination of major control issues, identification of risk and corresponding mitigation, and adequacy and effectiveness of internal controls. These can be found in the Company’s website at <http://www.pxpenenergy.com.ph/corporate-governance/enterprise-risk-management>.

The Company’s other Corporate Governance policies can be found at <http://www.pxpenenergy.com.ph/corporate-governance/corporate-governance>.

Lastly, 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>.

The Company’s other Corporate Governance policies can be found at <https://www.pxpenenergy.com.ph/corporate-governance/company-policies/>. The Company’s list of Corporate Governance Officers can be found at <https://www.pxpenenergy.com.ph/corporate-governance/board-committees/>.

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, 2019

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 PSE
- 3) Corporate Structure
- 4) Current Adoption of PFRS

(b) Reports on SEC Form 17-C

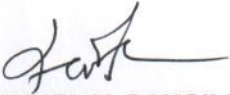
There were thirty-two (32) reports filed by the Company on SEC Form 17-C from April 1, 2019 to present covered by this report, part of which follows:

<u>Report Date</u>	<u>Item Reported</u>
March 21, 2019	Notice of Annual Stockholders' Meeting
March 21, 2019	Change in Directors and/or Officers
March 21, 2019	Press Release: Audited Financial and Operating Highlights for the Year Ended December 31, 2018
March 21, 2019	Notice of Annual Stockholders' Meeting (Amended to include the Agenda)
March 29, 2019	Mutual Cancellation Agreement
April 30, 2019	Joint Notice of Analysts' and Investors' Briefing
May 7, 2019	Unaudited Financial and Operating Highlights for the 3-Month Ended March 31, 2019
May 21, 2019	Results of Annual or Special Stockholders' Meeting
May 21, 2019	Organizational Meeting of the Board of Directors
May 28, 2019	Clarification and/or Confirmation of news report: "Dennis Uy still open to PXP Energy tie-up" posted at Business World online edition on May 26, 2019
July 25, 2019	Joint Notice of Analysts and Investors' Briefing
July 29, 2019	Clarification and/or Confirmation of news report: "PXP Energy firming up \$6-B investment for Recto Bank gas project" posted at the Manila Bulletin online edition on July 27, 2019
August 1, 2019	Press Release: Unaudited Financial and Operating Highlights for the 6-Month period ended June 30, 2019
August 14, 2019	Material Information/Transactions: Additional disclosure in relation to earlier disclosure report regarding DOA between BEMC and PXP Energy in conformity with PMC.
August 27, 2019	Clarification of News Report: "Initial exploration of Area 7 to need up to \$2M posted at Business World (Online Edition) on August 26, 2019
October 8, 2019	Change in Corporate Contact Details and/or Website: Change in Corporate Contact Details
November 11, 2019	Joint Notice of Analysts' and Investors' Briefing
November 12, 2019	Material Information/Transactions: Unsolicited proposal to the Philippine Department of Energy
November 14, 2019	Press Release – Unaudited Financial and Operating Highlights for the 9-Month period ended September 30, 2019
November 18, 2019	Material Information/Transactions: Pitkin Peru Z-38 Rig Assignment Agreement
December 3, 2019	Clarification of News Reports: "DOE says no to PXP's integrated gas proposal" posted at Inquirer.net on December 3, 2019
December 5, 2019	Material Information/Transactions: Submission of Letter of Reconsideration-Unsolicited Proposal with the DOE.
January 9, 2020	Material Information/Transactions: Pitkin Peru Z-38 Peru Drilling Update No 2: Stena Forth Drillship arrives in Port of Callo Lima Peru
January 14, 2020	Clarification of News Reports: "DOE again rejects PXP Energy's unsolicited bid to develop Malampaya" posted at Business Mirror (Online Edition) on January 13, 2020
January 28, 2020	Material Information/Transactions: Pitkin Peru Z-38 Peru Drilling Update No 3: Marina-1x drilling commenced
February 11, 2020	Material Information/Transactions: Pitkin Peru Z-38 Peru Drilling Update No 4: Marina-1x Exploration Well
February 17, 2020	Material Information/Transactions: Peru Drilling Update No 5: Marina-1 Exploration Well
February 27, 2020	Joint Notice of Analysts'/Investors' Briefing

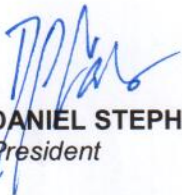
February 27, 2020	Press Release – Audited Financial and Operating Highlights for the year ended December 31, 2019
February 27, 2020	Notice of Annual or Special Stockholders' Meeting
February 28, 2020	Material Information/Transactions: Release of 2019 Audited Consolidated Financial Statements in Compliance with Best Corporate Governance Practices (60 days from year end date)
March 16, 2020	Material Information/Transactions: Risks and impact of the COVID-19 on business operations and the mitigation measures

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, Philippines on _____, 2020.


MANUEL V. PANGILINAN
Chairman


BARBARA ANNE C. MIGALLOS
Corporate Secretary


DANIEL STEPHEN P. CARLOS
President


PARALUMAN M. NAVARRO
Treasurer

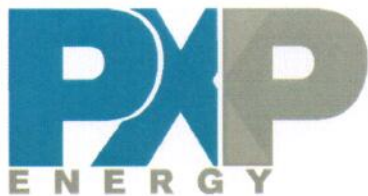

MARK RAYMOND H. RILLES
Finance Controller

SUBSCRIBED AND SWORN TO before me this _____ day of _____ 2020 at Mandaluyong City. Affiants exhibiting to me their respective Competent Evidence of Identity indicated opposite their names:

Name	Passport No. /Driver's License	Issued On	Issued At
Manuel V. Pangilinan	P9969361A	18 Dec 2018	DFA NCR East
Daniel Stephen P. Carlos	P5757485A	25 Jan 2018	DFA NCR South
Paraluman M. Navarro	P1430277B	11 Apr. 2019	DFA NCR East
Barbara Anne C. Migallos	P3148981A	11 May 2018	DFA NCR South
Mark Raymond H. Rilles	P0559840A	7 Oct 2016	DFA NCR Northeast

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SAMANTHA LOUISE B. BUGAY
 NOTARY PUBLIC FOR AND IN THE CITY OF MAKATI
 APPOINTMENT NO. M-561 (2019-2020)
 COMMISSION EXPIRES ON DECEMBER 31, 2020
 7th Floor, The PHINMA Plaza, 39 Plaza Drive
 Rockwell Center, Makati City 1210
 PTR No. 8117340; Makati City; 1/3/2020
 IBP O.R. No. 100827; Makati City; 1/3/2020
 TIN 355-207-180
 Attorney's Roll No. 73688
 Admitted to the Philippine Bar: 20 June 2019



PXP ENERGY CORPORATION
(formerly Philex Petroleum Corporation)
2/F LaunchPad, Reliance cor. Sheridan Streets,
Mandaluyong City, 1550, Philippines
Tel.: (632) 8631-1381 to 88
Fax: (632) 8570-0686

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, 2019 and 2018**, 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.

A handwritten signature in black ink, appearing to be 'MVP', written over a horizontal line.

Mr. Manuel V. Pangilinan
Chairman of the Board

A handwritten signature in blue ink, appearing to be 'DSC', written over a horizontal line.

Mr. Daniel Stephen P. Carlos
President

A handwritten signature in black ink, appearing to be 'MNV', written over a horizontal line.

Ms. Paraluman M. Navarro
Treasurer


Signed this 27th day of February 2020

SUBSCRIBED AND SWORN to before me this MAR 20 2020 day of _____ 2020,
affiants exhibiting to me the following:

Name	Government Issued ID Card No.	Date and Place Issued
Manuel V. Pangilinan	Philippine Passport No. P9969361A	Issued on 18 December 2018 at DFA NCR East, Phils.
Daniel Stephen P. Carlos	Philippine Passport No. P5757485A	Issued on 25 January 2018 at DFA NCR South, Phils.
Paraluman M. Navarro	PRC ID Card Registration No. 0084884	Issued on 27 February 2019 at PRC NCR East, Phils.

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.

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WILLIE ANN M. ANGSİY
NOTARY PUBLIC FOR AND IN THE CITY OF MAKATI
APPOINTMENT NO. M-560 (2019-2020)
COMMISSION EXPIRES ON DECEMBER 31, 2020
7th Floor, The PHINMA Plaza, 39 Plaza Drive
Rockwell Center, Makati City 1210
PTR No. 8117341; Makati City; 1/3/2020
IBP O.R. No. 100826; Makati City; 1/3/2020
TIN 421-635-039
Attorney's Roll No. 73856
Admitted to the Philippine Bar: 20 June 2019

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

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

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

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

Form Type
1 7 - A

Department requiring the report
N / A

Secondary License Type, If Applicable
N / A

COMPANY INFORMATION

Company's Email Address admin@pxpenergy.com.ph	Company's Telephone Number (632) 8631-1381	Mobile Number N/A
No. of Stockholders 38,712	Annual Meeting (Month / Day) 05/19	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@pxpenergy.com.ph	Telephone Number/s (632) 8631-1381	Mobile Number N/A
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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 Board of Directors and Stockholders
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, 2019 and 2018, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2019 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

Key Audit Matters

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

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



Recoverability of Deferred Oil and Gas Exploration Costs

As at December 31, 2019, the carrying value of the Group's deferred oil and gas exploration costs amounted to ₱5,301 million. These deferred exploration costs pertain to the expenditures incurred in the exploration stage of the Group's oil and gas assets. Under *PFRS 6, Exploration for and Evaluation of Mineral Resources*, these deferred exploration costs shall be assessed for impairment when facts and circumstances suggest that the carrying amounts exceeds the recoverable amounts. The ability of the Group to recover its deferred exploration costs would depend on the commercial viability of the reserves. We considered this as a key audit matter because of the materiality of the amount involved, and the significant management judgment required in assessing whether there is any indication of impairment.

The Group's disclosures about deferred exploration cost are included in Note 11 to the consolidated financial statements.

Audit response

We obtained management's assessment on whether there is any indication that deferred oil and gas exploration costs may be impaired. We reviewed the summary of status of each of the exploration projects as at December 31, 2019. We inspected the service contracts and relevant joint operations agreements of each exploration project to determine that the period for which the Group has the right to explore in the specific area has not expired and the Group has rights and obligations under the contracts through participating interests. We obtained and reviewed the work program and budget duly approved by the joint operation and the regulatory agency. We also obtained the latest management disclosures regarding the status of the Group's service contracts which supports the assessment of management regarding their recoverability. We also inquired about the existing concession areas that are expected to be abandoned or any exploration activities that are planned to be discontinued in those areas.

Impairment Testing of Goodwill

Under PFRS, the Group is required to annually test the amount of goodwill for impairment. As of December 31, 2019, the Group's goodwill is considered significant to the consolidated financial statements. In addition, management's assessment process requires significant judgment and is based on assumptions, specifically forecasted oil and gas prices, estimated volume of resources and reserves, capital expenditures, production and operating costs and discount rate.

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

Audit response

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



Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2019, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2019 are expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

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

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

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



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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

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



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

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

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. 08-001998-129-2019,

November 27, 2019, valid until November 26, 2022

PTR No. 8125326, January 7, 2020, Makati City

February 27, 2020



PXP ENERGY CORPORATION
(formerly Philex Petroleum Corporation)
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Amounts in Thousands, Except Par Value per Share and Number of Equity Holders)

	December 31	
	2019	2018
ASSETS		
Current Assets		
Cash and cash equivalents (Note 5)	₱245,954	₱342,374
Trade and other receivables - net (Note 6)	33,516	40,741
Inventories - net (Note 7)	7,300	32,398
Other current assets (Note 8)	15,801	13,351
Total Current Assets	302,571	428,864
Noncurrent Assets		
Deferred oil and gas exploration costs - net (Note 11)	5,300,659	5,310,477
Goodwill (Note 4)	1,234,387	1,238,583
Property and equipment - net (Note 9)	18,725	230,798
Right-of-use (ROU) asset (Note 10)	4,715	-
Deferred tax assets - net (Note 17)	-	35,003
Other noncurrent assets (Note 12)	4,222	3,629
Total Noncurrent Assets	6,562,708	6,818,490
TOTAL ASSETS	₱6,865,279	₱7,247,354
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Note 13)	₱63,053	₱33,957
Lease liability (Note 10)	503	-
Advances from related parties (Note 18)	-	2,125,184
Provision for plug and abandonment costs (Note 9)	10,444	-
Income tax payable	615	433
Total Current Liabilities	74,615	2,159,574
Noncurrent Liabilities		
Lease liability - net of current portion (Note 10)	4,791	-
Deferred tax liabilities - net (Note 17)	1,077,098	1,113,448
Other noncurrent liabilities (Notes 9 and 24)	192,214	191,914
Total Noncurrent Liabilities	1,274,103	1,305,362
Total Liabilities	1,348,718	3,464,936
Equity Attributable to Equity Holders of the Parent Company		
Capital stock - ₱1 par value (Note 16)		
Authorized - 6,800,000,000 common shares		
Issued and subscribed - 1,960,000,000 common shares	1,960,000	1,960,000
Additional paid-in capital (Note 16)	2,816,545	2,821,000
Subscription receivable	(184,300)	(2,310,750)
Equity reserves	122,250	122,062
Deficit	(1,643,864)	(1,371,720)
Cumulative translation adjustment on foreign subsidiaries	87,713	153,866
	3,158,344	1,374,458
Non-controlling interests (Note 16)	2,358,217	2,407,960
Total Equity	5,516,561	3,782,418
TOTAL LIABILITIES AND EQUITY	₱6,865,279	₱7,247,354

See accompanying Notes to Consolidated Financial Statements.



PXP ENERGY CORPORATION
(formerly Philex Petroleum Corporation)
AND SUBSIDIARIES

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

	Years Ended December 31		
	2019	2018	2017
PETROLEUM REVENUES (Note 23)	₱72,499	₱107,924	₱104,445
COSTS AND EXPENSES			
Petroleum production costs (Note 14)	85,517	130,973	108,851
General and administrative expenses (Note 14)	105,079	90,417	49,376
	190,596	221,390	158,227
OTHER INCOME (CHARGES)			
Provision for impairment of assets - net (Note 15)	(194,557)	–	(4,578)
Gain on termination of subscription agreement (Note 1)	40,290	–	–
Foreign exchange gains (losses) - net	(12,396)	18,685	(146)
Provision for plug and abandonment costs due to change in estimates (Note 9)	(10,659)	–	–
Loss on write-off of goodwill and other noncurrent assets (Notes 4 and 12)	(4,520)	–	–
Interest income (Note 5)	2,566	2,796	3,749
Interest expense (Notes 9 and 10)	(1,003)	(76)	(130)
	(180,279)	21,405	(1,105)
LOSS BEFORE INCOME TAX	(298,376)	(92,061)	(54,887)
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 17)			
Current	783	1,103	106
Deferred	(1,939)	3,267	2,150
	(1,156)	4,370	2,256
NET LOSS	(₱297,220)	(₱96,431)	(₱57,143)
NET LOSS ATTRIBUTABLE TO:			
Equity holders of the Parent Company	(₱272,144)	(₱77,028)	(₱39,125)
Non-controlling interests	(25,076)	(19,403)	(18,018)
	(₱297,220)	(₱96,431)	(₱57,143)
BASIC/DILUTED LOSS PER SHARE (Note 22)	(₱0.139)	(₱0.045)	(₱0.023)

See accompanying Notes to Consolidated Financial Statements.



PXP ENERGY CORPORATION
(formerly Philex Petroleum Corporation)
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in Thousands)

	Years Ended December 31		
	2019	2018	2017
NET LOSS	(P297,220)	(P96,431)	(P57,143)
OTHER COMPREHENSIVE INCOME			
<i>Items to be reclassified to profit or loss in subsequent periods:</i>			
Gain (loss) on translation of foreign subsidiaries	(89,846)	106,483	10,592
TOTAL COMPREHENSIVE INCOME (LOSS)	(P387,066)	P10,052	(P46,551)
TOTAL COMPREHENSIVE INCOME (LOSS)			
ATTRIBUTABLE TO			
Equity holders of the Parent Company	(P338,297)	P580	(P32,883)
Non-controlling interests	(48,769)	9,472	(13,668)
	(P387,066)	P10,052	(P46,551)

See accompanying Notes to Consolidated Financial Statements.



PXP ENERGY CORPORATION
(formerly Philex Petroleum Corporation)
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 and 2017
(Amounts in Thousands)

	Attributable to Equity Holders of the Parent Company						Subtotal	Non-controlling Interests (Note 16)	Total
	Capital Stock (Note 16)	Additional paid-in capital	Subscription Receivable (Note 16)	Equity Reserves	Deficit	Cumulative Translation on Foreign Subsidiaries			
BALANCES AT JANUARY 1, 2017	₱1,700,000	₱-	₱-	₱128,842	(₱1,255,567)	₱70,016	₱643,291	₱2,415,219	₱3,058,510
Net loss for the year	-	-	-	-	(39,125)	-	(39,125)	(18,018)	(57,143)
Other comprehensive income:									
<i>Items to be reclassified to profit or loss in subsequent periods:</i>									
Gain on translation of foreign subsidiaries	-	-	-	-	-	6,242	6,242	4,350	10,592
Total comprehensive income (loss) for the year	-	-	-	-	(39,125)	6,242	(32,883)	(13,668)	(46,551)
Effects of transactions with owners	-	-	-	(6,780)	-	-	(6,780)	(3,063)	(9,843)
BALANCES AT DECEMBER 31, 2017	1,700,000	-	-	122,062	(1,294,692)	76,258	603,628	2,398,488	3,002,116
Net loss for the year	-	-	-	-	(77,028)	-	(77,028)	(19,403)	(96,431)
Other comprehensive income:									
<i>Items to be reclassified to profit or loss in subsequent periods:</i>									
Gain on translation of foreign subsidiaries	-	-	-	-	-	77,608	77,608	28,875	106,483
Total comprehensive income (loss) for the year	-	-	-	-	(77,028)	77,608	580	9,472	10,052
Effects of transactions with owners (Note 16)	260,000	2,821,000	(2,310,750)	-	-	-	770,250	-	770,250
BALANCES AT DECEMBER 31, 2018	1,960,000	2,821,000	(2,310,750)	122,062	(1,371,720)	153,866	1,374,458	2,407,960	3,782,418
Net income (loss) for the year	-	-	-	-	(272,144)	-	(272,144)	(25,076)	(297,220)
Other comprehensive income:									
<i>Items to be reclassified to profit or loss in subsequent periods:</i>									
Loss on translation of foreign subsidiaries	-	-	-	-	-	(66,153)	(66,153)	(23,693)	(89,846)
Total comprehensive income (loss) for the year	-	-	-	-	(272,144)	(66,153)	(338,297)	(48,769)	(387,066)
Payment of subscription, net of transaction costs (Notes 1 and 16)	-	(4,455)	2,126,450	-	-	-	2,121,995	-	2,121,995
Effect of transactions with owners (Note 16)	-	-	-	188	-	-	188	(974)	(786)
BALANCES AT DECEMBER 31, 2019	₱1,960,000	₱2,816,545	(₱184,300)	₱122,250	(₱1,643,864)	₱87,713	₱3,158,344	₱2,358,217	₱5,516,561

See accompanying Notes to Consolidated Financial Statements.



PXP ENERGY CORPORATION
(formerly Philex Petroleum Corporation)
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands)

	Years Ended December 31		
	2019	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before income tax	(P298,376)	(P92,061)	(P54,887)
Adjustments for:			
Provision and reversal of impairment and loss on write-off of assets - net (Notes 9 and 15)	194,557	–	4,578
Depletion and depreciation (Note 14)	35,340	61,339	30,151
Unrealized foreign exchange losses (gains) - net	12,396	(17,260)	146
Provision for plug and abandonment costs due to change in estimates (Note 9)	10,659	–	–
Loss on write-off of goodwill and other noncurrent assets (Notes 4 and 12)	4,520	–	–
Interest income (Note 5)	(2,566)	(2,796)	(3,749)
Interest expense and other charges (Note 9)	1,003	76	130
Operating loss before working capital changes	(42,467)	(50,702)	(23,631)
Decrease (increase) in:			
Trade and other receivables - net	6,954	15,609	3,205
Inventories - net	11,336	(7,090)	(2,245)
Other current assets	(2,467)	(392)	1,468
Increase (decrease) in trade and other payables	22,593	19,078	(4,465)
Net cash generated from (used in) operations	(4,051)	(23,497)	(25,668)
Interest received	2,689	2,673	3,749
Income taxes paid	(601)	(699)	(101)
Interest paid	(421)	–	–
Net cash flows provided by (used in) operating activities	(2,384)	(21,523)	(22,020)
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to:			
Deferred oil and gas exploration costs (Notes 11 and 23)	(66,930)	(80,550)	(62,099)
Property and equipment (Note 9)	(16,105)	(1,220)	(675)
Payments to decommissioning fund (Note 12)	(1,021)	(1,225)	(1,429)
Increase (decrease) in other noncurrent assets	–	(4,699)	–
Net cash flows used in investing activities	(84,056)	(87,694)	(64,203)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from subscription agreement (Notes 1 and 16)	2,126,450	–	–
Payment of advances from related parties (Note 18)	(2,125,184)	(781,306)	(25,211)
Payment for stock issuance costs	(4,455)	–	–
Acquisition of non-controlling interest (Note 16)	(786)	–	(17,705)
Payment for principal portion of lease liability	(36)	–	–
Proceeds from additional shares subscription (Note 16)	–	770,250	–
Proceeds from issuance of subsidiary's new shares (Note 16)	–	–	100,650
Acquisition by subsidiary of own shares (Note 16)	–	–	(92,788)
Increase (decrease) in other noncurrent liabilities	–	4,720	(1,875)
Net cash flows used in financing activities	(4,011)	(6,336)	(36,929)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(90,451)	(115,553)	(123,152)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(5,969)	7,888	(150)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	342,374	450,039	573,341
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	P245,954	P342,374	P450,039

See accompanying Notes to Consolidated Financial Statements.



PXP ENERGY CORPORATION
(formerly Philex Petroleum Corporation)
AND SUBSIDIARIES

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

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

Corporate Information

PXP Energy Corporation (formerly Philex Petroleum Corporation, the Ultimate Parent Company or PXP) was incorporated in the Philippines on December 27, 2007 to carry on businesses related to any and all kinds of petroleum and petroleum products, mineral oils, and other sources of energy. The Parent Company was subsequently listed on the Philippine Stock Exchange (PSE) on September 12, 2011.

On September 24, 2010, PXP acquired from Philex Mining Corporation (PMC) all of its investment in the shares of stock of FEC Resources, Inc. (FEC) consisting of 225,000,000 shares representing 51.24% ownership interest at a purchase price of ₱342,338. As a result of the acquisition of FEC, which at that time held 25.63% ownership interest in Forum Energy Limited (FEL), the number of shares owned and controlled by PXP in FEL thereafter totaled to 21,503,704 shares, which represented at that time 64.45% ownership interest in FEL. In 2012, certain directors and employees of FEL exercised their option over 2,185,000 common shares. As a result, the ownership interest of PXP and FEC in FEL was diluted to 36.44% and 24.05%, respectively.

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

On July 2, 2014, PXP surrendered 2,000,000 of its shares held in Pitkin following the latter's tender offer to buy back 11,972,500 shares, equivalent to 8.55% of all shares outstanding as of that date, for a consideration of US\$1.00 per share. Pitkin received a total of 11,099,000 shares surrendered from its existing shareholders. The share buyback transaction resulted to an increase in PXP's ownership in Pitkin from 50.28% to 53.07%.

In May 2015, Pitkin tendered an offer to buy back its outstanding shares for a consideration US\$0.75 per share. The Parent Company and the non-controlling interests (NCI) owners surrendered 21,373,000 shares and 19,499,500 shares, respectively. Following this transaction, PXP's interest in Pitkin has increased from 53.07% to 53.43%.

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

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



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

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

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

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

On October 26, 2018, PXP, PMC and Dennison Holdings Corp. (DHC), signed a subscription agreement wherein the PMC and DHC will subscribe to 260 million and 340 million common shares of PXP, for a total consideration of ₱3,081,000 and ₱4,029,000, respectively.

On December 27, 2018, PMC paid the 25% downpayment of ₱770,250. As a result of the transaction, PMC's total ownership interest in PXP increased from 19.76% to 30.40% as at December 31, 2018.

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

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

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

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

Business Operations

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



PXP Parent Company

The Parent Company's principal asset is a 50% operating interest in Service Contract (SC) 75. It covers an area of 6,160 square kilometers in the Northwest (NW) Palawan Basin. However, due to a *force majeure* issued by the Department of Energy (DOE) on December 27, 2015, exploration activities in the area are temporarily suspended as at December 31, 2019.

On October 30, 2019, PXP submitted to the DOE the proposed work program and budget for 2020 consisting mainly of license administration costs and a contingent 3D seismic survey of at least 1,000 square kilometers that will be conducted once the *force majeure* is lifted. The survey will fulfill the Consortium's minimum work commitment under sub phase (SP) 2.

FEL and its subsidiaries

FEL's principal asset is a 70% interest in SC 72 which covers an area of 8,800 square kilometers in the West Philippine Sea. FEL is scheduled to accomplish its SP 2 of exploration activities from August 2011 to August 2013. However, due to maritime disputes between the Philippine and Chinese governments, the SC is under *force majeure* and exploration activities in the area are temporarily suspended as at December 31, 2019.

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

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

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

Pitkin and its subsidiaries

Pitkin is an international upstream oil and gas group, engaged primarily in the acquisition, exploration and development of oil and gas properties and the production of hydrocarbon products with operations in Peru. Pitkin's principal asset is 25% interest in Peru Block Z-38. The Block's operator, Karoon Gas Australia Inc. (Karoon), holds 40% interest.

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

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

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



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

Recovery of Deferred Oil and Gas Exploration Costs

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

Authorization for Issuance of the Consolidated Financial Statements

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

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

Basis of Preparation

The consolidated financial statements of the Group have been prepared on a historical cost basis. The consolidated financial statements are presented in Philippine Peso (Peso), which is the Parent Company's functional and reporting currency, rounded to the nearest thousand (₱000) except when otherwise indicated.

Statement of Compliance

The consolidated financial statements of the Group have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs).

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except that the Group has adopted the following new accounting pronouncements starting January 1, 2019. Adoption of these pronouncements did not have any significant impact on the Group's financial position or performance, unless otherwise indicated.

- PFRS 16, *Leases*

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

Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases. Therefore, PFRS 16 did not have an impact for leases where the Group is the lessor.



The Group adopted PFRS 16 using the modified retrospective approach upon adoption of PFRS 16 in 2019 and elects to apply the standard to contracts that were previously identified as leases applying PAS 17 and Philippine Interpretation IFRIC 4. The Group will therefore not apply the standard to contracts that were not previously identified as containing a lease applying PAS 17 and Philippine Interpretation IFRIC 4.

The effect of adoption of PFRS 16 as at January 1, 2019 is, as follows:

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

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

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

Leases previously accounted for as operating leases

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

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

The Group also applied the available practical expedients wherein it:

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

Based on the above, as at January 1, 2019:

- ROU asset of ₱5,330 was recognized and presented separately in the consolidated statement of financial position.
- Lease liabilities of ₱5,330 were recognized.



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

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

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

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

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

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*
- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*
- Amendments to PAS 28, *Long-term Interests in Associates and Joint Venture*
- *Annual Improvements to PFRSs 2015-2017 Cycle*
 - Amendments to PFRS 3, *Business Combinations*, and PFRS 11, *Joint Arrangements, Previously Held Interest in a Joint Operation*
 - Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*
 - Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

Standards and Interpretations Issued but not yet Effective

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

Effective beginning on or after January 1, 2020

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



Effective beginning on or after January 1, 2021

- PFRS 17, *Insurance Contracts*

Deferred effectivity

- Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

Summary of Significant Accounting Policies and Financial Reporting Practices

Presentation of Consolidated Financial Statements

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

Current versus Noncurrent Classification

The Group presents assets and liabilities in the consolidated statement of financial position based on current or noncurrent classification. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realized within 12 months after the reporting period or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period

All other assets are classified as noncurrent.

A liability is current when:

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

The Group classifies all other liabilities as noncurrent.

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

Basis of Consolidation

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

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

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



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

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

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

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

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

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

Subsidiary	Nature of Business
FEL	Incorporated on April 1, 2005 in England and Wales primarily to engage in the business of oil and gas exploration and production, with focus on the Philippines.
Forum Energy Philippines Corporation (FEPCO)	FEPCO was incorporated in the Philippines on March 27, 1988 and is involved in oil and gas exploration in the Philippines, particularly a 2.28% interest in SC 14 C-1 Galoc.
Forum Exploration, Inc. (FEI)	FEI was incorporated in the Philippines on September 11, 1997 and is involved in oil and gas exploration in the Philippines.
FGSECL	FGSECL was incorporated in Jersey on March 31, 2005 and is involved in oil and gas exploration in the Philippines.
Forum (GSEC 101) Ltd. - Philippine Branch (GSEC)	GSEC was established as a Philippine branch on October 17, 2005 and is involved in oil and gas exploration in the Philippines.
Pitkin	Pitkin was incorporated and registered in UK of Great Britain and Northern Ireland on April 6, 2005 and is engaged primarily in the acquisition, exploration and development of oil and gas properties and the production of hydrocarbon products.



Subsidiary	Nature of Business
Pitkin Petroleum (Philippines) Plc (PPP)	PPP was registered as the Philippine Branch of Pitkin Petroleum Limited on March 19, 2008.
Pitkin Petroleum Peru Z-38 SRL (Z38)	Incorporated on October 5, 2006 and is presently engaged in exploration of oil and gas in Peru, specifically, Peru Block Z-38.
FEC	Incorporated on February 8, 1982 under the laws of Alberta, Canada. Primarily acts as an investment holding company.
Brixton Energy & Mining Corporation (BEMC)	Incorporated in the Philippines on July 19, 2005 to engage in exploration development and utilization of energy-related resources.

Also included as part of the Parent Company's subsidiaries are those intermediary entities which are basically holding companies established for the operating entities mentioned above. The following are the intermediary entities of the Group: Pitkin Peru LLC (PPR) and Pitkin Vamex LLC (PVX).

The ownership of the Parent Company over the foregoing companies as at December 31, 2019 and 2018 is summarized as follows:

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

Non-controlling interest (NCI)

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

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

Business Combination and Goodwill

Acquisition method

Business combinations, except for business combination between entities under common control, are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the



acquiree's identifiable net assets. Acquisition-related costs incurred are expensed and included in general and administrative expenses.

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

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

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of PFRS 9 is remeasured at fair value, with changes in fair value recognized either in OCI in accordance with PFRS 9. If the contingent consideration is not within the scope of PFRS 9, it is measured at fair value at each reporting date with changes in fair value recognized in the consolidated statements of income. Contingent consideration classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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

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

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

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

Interest in Joint Arrangements

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



Joint operations

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

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

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

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 by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

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

Differences arising on settlement or translation of monetary items are recognized in the consolidated statements of income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss on translation of non-monetary items measured at fair value of the item is treated in line with the recognition of the gain or loss arising on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognized in OCI or profit or loss are also recognized in OCI or profit or loss, respectively).

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

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

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

Financial Instruments

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



Initial Recognition and Subsequent Measurement of Financial Assets

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

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

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

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

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

Subsequent Measurement

Financial assets at amortized cost (debt instruments)

The Group measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

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

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

Impairment of Financial Assets

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

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



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

For trade receivables (not subject to provisional pricing) and other receivables due in less than 12 months, the Group applies the simplified approach in calculating ECLs, as permitted by PFRS 9. Therefore, the Group does not track changes in credit risk, but instead, recognizes a loss allowance based on the financial asset's lifetime ECL at each reporting date.

The Group considers a financial asset in default when contractual payments are 30 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Derecognition of Financial Assets

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

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

Where the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial Liabilities

Initial recognition and measurement

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

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables net of directly attributable transaction costs. This category includes the Group's trade and other payables (except government payables) and other noncurrent liabilities.



Subsequent measurement

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

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

Derecognition of Financial Liabilities

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

Offsetting of Financial Instruments

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

Determination of Fair Value

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

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

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

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



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

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

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

Cash and Cash Equivalents

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

Inventories

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

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

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

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

Other Current Assets

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

Value-added tax (VAT)

Revenues, expenses, and assets are recognized net of the amount of VAT, if applicable.

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



VAT from sales of goods and/or services (output VAT), the excess is recognized as an asset in the statement of financial position to the extent of the recoverable amount.

Prepaid expenses

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

Property and Equipment

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

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

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

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

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

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

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

<u>Asset Category</u>	<u>Number of Years</u>
Machinery and equipment	2 to 20
Surface structures	10

Depletion of oil and gas properties commences upon commercial production. Depreciation of an item of property and equipment begins when it becomes available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation ceases at the earlier of the date that the item is classified as held for sale (or included in a



disposal group that is classified as held for sale) in accordance with PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, and the date the asset is derecognized.

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

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

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

Deferred Oil and Gas Exploration Costs

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

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

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

At the completion of the exploration phase, if technical feasibility is demonstrated and commercial reserves are discovered, then, following the decision to continue into the development phase, the oil and gas exploration costs relating to the SC, where oil and gas in commercial quantities are discovered, is first assessed for impairment and (if required) any impairment loss is recognized, then the remaining balance is transferred to 'Oil and gas properties' account shown under the 'Property and equipment' account in the consolidated statements of financial position.

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



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

Impairment of Nonfinancial Assets

This accounting policy applies primarily to the Group's goodwill, property and equipment, ROU asset and deferred oil and gas exploration costs (see Notes 4, 9, 10 and 11).

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

Impairment losses are recognized in the consolidated statements of income.

Goodwill

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

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

Provisions

General

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognized a separate asset, but only when the reimbursement is virtually certain.

The expense relating to any provision is presented in the consolidated statement of income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.



Provision for Plug and Abandonment Costs

Plug and abandonment costs on oil and gas fields are based on estimates made by the SC operator. The timing and amount of future expenditures are reviewed annually. Liability and capitalized costs included in oil and gas properties is equal to the present value of the Group's proportionate share in the total plug and abandonment costs of the consortium on initial recognition.

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

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

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

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

The amount of asset retirement obligation in the consolidated statements of financial position is increased by the accretion expense charged to operations using the EIR over the estimated remaining term of the obligation. The periodic unwinding of the discount is recognized in the consolidated statements of income as 'interest expense'.

For closed sites or areas, changes to estimated costs are recognized immediately in the consolidated statements of income.

Capital Stock and Additional Paid-in Capital

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

Subscription Receivable

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

Equity Reserves

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



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

Deficit

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

Related Party Relationships and Transactions

Related party relationships exist when the party has the ability to control, directly or indirectly, through one or more intermediaries, or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting entity and its key management personnel, directors or stockholders.

Revenue Recognition

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

Under the terms of the relevant joint operating agreements, the Group is entitled to its participating share in the sale of petroleum products based on the Group's participative interest. The revenue recognized from the sale of petroleum products pertains to the Group's share in revenue from the joint operations. The revenue sharing is accounted for in accordance with PFRS 11, *Joint Arrangements*.

Costs and Expenses Recognition

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

Petroleum production costs

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

General and administrative expenses

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

Others

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

Leases (applicable prior to January 1, 2019)

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



Operating Leases - the Company as a Lessee

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

Leases (applicable starting January 1, 2019)

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

ROU assets

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

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

Lease liabilities

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

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

Short-term leases and leases of low-value assets

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



OCI

OCI comprises items of income and expense (including items previously presented under the consolidated statements of changes in equity) that are not recognized in the consolidated statements of income.

Foreign Currency-Denominated Transactions and Translations

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

Income Taxes

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from, or paid to, the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted, or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income.

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

Deferred tax

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

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

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

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

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



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

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

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

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

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

Earnings Per Share (EPS)

Basic EPS is computed by dividing the net income attributable to equity holders of the Parent Company by the weighted average number of common shares outstanding during the year after giving retroactive effect to stock dividends declared during the year, if any. Shares subscriptions that are entitled to dividends are part of the computation of the weighted average number of common shares outstanding for basic EPS computation.

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

Segment Reporting

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

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

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

Contingencies

Contingent liabilities are not recognized in financial statements. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.



Events After the Reporting Period

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

3. Summary of Significant Judgments, Estimates and Assumptions

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

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

Judgments

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

Determination of the functional currency

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

Determination and classification of a joint arrangement

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

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

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

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



As at December 31, 2019 and 2018, the Group's joint arrangements are in the form of a joint operation.

Assessment of production start date

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

Assessment of units-of-production depletion

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

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 provision for ECLs of trade and other receivables

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

The provision matrix is initially based on the Group's historical observed default rates. The Group calibrates the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., unemployment rate) are expected to deteriorate over the next year which can lead to an increased number of defaults in its members, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed. The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

No provision for ECLs on the Group's trade and other receivables was recognized in 2019 and 2018. Total carrying value of trade and other receivables amounted to ₱33,516 and ₱40,741 as at December 31, 2019 and 2018, respectively (see Note 6). Allowance for ECLs on other receivables amounted to ₱709 and ₱728 as at December 31, 2019 and 2018, respectively (see Note 6).

Estimation of the incremental borrowing rate (IBR)

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



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

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

Estimation of oil and gas reserves

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

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

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

Estimation of depletion based on UOP

Wells, platforms, and other facilities are depleted using the UOP method over the total proved and probable developed reserves. This results in amortization charge proportional to the depletion of the anticipated remaining production from the field.

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

As at December 31, 2019 and 2018, the carrying values of wells, platforms, and other facilities, shown as 'Oil and gas properties' under 'Property and equipment', amounted to ₱9,747 and ₱224,088, respectively. In 2019, 2018 and 2017, depletion expense incurred by the Group amounted to ₱34,535, ₱60,825 and ₱29,703 respectively (see Notes 9 and 14).



Assessment of impairment of property and equipment

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

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

Impairment testing of goodwill

The Group reviews the carrying values of goodwill for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs impairment test of goodwill annually every December 31. Impairment is determined for goodwill by assessing the recoverable amount of the CGU or group of CGUs to which the goodwill relates. Assessments require the use of estimates, judgements and assumptions such as forecasted oil and gas prices, estimated volume of reserves, capital expenditures, production and operating costs and discount rate. If the recoverable amount of the unit exceeds the carrying amount of the CGU, the CGU and the goodwill allocated to that CGU shall be regarded as not impaired. Where the recoverable amount of the CGU or group of CGUs is less than the carrying amount of the CGU or group of CGUs to which goodwill has been allocated, an impairment loss is recognized.

In 2019, the Group wrote off goodwill amounting to ₱4,196 while in 2018, the Group did not recognize any impairment loss. The carrying value of goodwill as at December 31, 2019 and 2018 amounted to ₱1,234,387 and ₱1,238,583, respectively (see Note 4).

Determination of the NRV of inventories

The NRV of coal and petroleum inventory is computed based on estimated selling price less estimated costs to sell. The NRV of materials and supplies is computed based on their estimated sales value at their current condition. Based on these estimates, an inventory write-down is recognized for any excess of carrying value over the NRV of the inventory. The carrying values of the inventories of the Group amounted to ₱7,300 and ₱32,398 as at December 31, 2019 and 2018, respectively (see Note 7). Allowance for probable inventory losses amounted to nil and ₱266,103 as at December 31, 2019 and 2018, respectively (see Note 7).

Estimation of provision for plug and abandonment costs

Significant estimates and assumptions are made in determining the provision for plug and abandonment costs. Factors affecting the ultimate amount of liability include estimates of the extent and costs of rehabilitation activities, technological changes, regulatory changes, cost increases, and changes in discount rates. Those uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision at each reporting period represents management's best estimate of the present value of the future rehabilitation costs required. Changes to estimated future costs are recognized in the consolidated statements of financial position by adjusting the rehabilitation asset and liability. Assumptions used to compute for the provision for plug and abandonment costs are reviewed and updated annually. Provision for plug and abandonment costs amounted to ₱19,241 and ₱8,453 as at December 31, 2019 and 2018, respectively (see Note 9). The Group recognized accretion of interest amounting to ₱582, ₱76 and ₱130 in 2019, 2018 and 2017, respectively. The discount rate used by the Group to value the provision as at December 31, 2019 and 2018 is 6.89% and 1.63%, respectively.



Recoverability of deferred oil and gas exploration costs

Deferred exploration costs pertain to expenditures incurred in the exploration stage of its oil and gas assets. Oil and gas assets relate to projects that are currently on-going. These deferred exploration cost shall be assessed for impairment when the facts and circumstances suggest that the carrying amounts exceeds the recoverable amounts. The ability of the Group to recover its deferred exploration costs would depend on the commercial viability of the reserves. In addition, the recovery of these costs also depends upon the success of exploration activities and future development or the discovery of oil and gas producible in commercial quantities. Allowances shall be provided for oil and gas assets that are specifically identified to be unrecoverable. There was no allowance for impairment loss recognized in 2019 and 2018.

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

Assessing realizability of deferred tax assets

The Group reviews the carrying amounts at each reporting period and adjusts the balance of deferred tax assets to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred tax assets to be utilized.

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

Provision for losses

The Group provides for present obligations (legal or constructive) where it is probable that there will be an outflow of resources embodying economic benefits that will be required to settle the said obligations. An estimate of the provision is based on known information at each reporting period, net of any estimated amount that may be reimbursed to the Group. The amount of provision is re-assessed at least on an annual basis to consider new relevant information. As at December 31, 2019 and 2018, provision for losses recorded under noncurrent liabilities amounted to ₱183,417 and ₱183,461, respectively (see Note 24).

4. Business Combination

The following table summarizes the Group's goodwill:

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

Acquisition of Pitkin

On April 5, 2013, PXP increased its stake in Pitkin from 18.46% to 50.28% through acquisition of additional 46,405,000 shares at US\$0.75 per share or a total of US\$34.8 million, which resulted to PXP obtaining control over Pitkin. As a result of the acquisition, PXP gained control of Pitkin's key assets including participating interests in Peru Block Z-38 and Vietnam Block 07/03.



The goodwill of ₱1,534,168 arising from the acquisition pertains to the revenue potential the Group expects from Pitkin's Peru Block Z-38 and Vietnam Block 07/03.

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

	Carrying Value in the Subsidiary	Fair Value Recognized on Acquisition
Assets		
Cash and cash equivalents	₱803,379	₱803,379
Receivables	40,916	40,916
Inventories	1,035	1,035
Deferred oil and gas exploration costs	407,219	5,521,113
Property and equipment	2,801	2,801
Other noncurrent assets	6,842	6,842
	<u>1,262,192</u>	<u>6,376,086</u>
Liabilities		
Accounts payable and accrued liabilities	48,391	48,391
Deferred tax liability	–	1,534,168
	<u>48,391</u>	<u>1,582,559</u>
Total identifiable net assets	<u><u>₱1,213,801</u></u>	<u><u>₱4,793,527</u></u>
Total identifiable net assets		<u>₱4,793,527</u>
Total consideration		<u>6,327,695</u>
Goodwill arising from acquisition		<u>₱1,534,168</u>

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

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

In 2014, results of studies from third party oil and gas consultants and competent persons were obtained by each of the respective operators of the projects which enabled the Group to perform and update the discounted cash flows. As a result of these assessment, an increase in carrying amount of Peru exploration assets by ₱393,399 occurred while assets in the Philippines decreased by the same amount. The 2013 comparative information was restated to reflect the adjustment to the provision amounts.

These adjustments, however, did not have any material effect on goodwill, deferred tax assets or liabilities, impairment losses and foreign currency exchange gains or losses.

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



The aggregate consideration follows:

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

The Group measured non-controlling interest using the fair value method.

	Amount
Consideration transferred for additional interest acquired	₱1,433,332
Less cash of acquired subsidiary	803,379
	₱629,953

Acquisition of BEMC and FEC

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

The business combinations under common control were accounted for using the pooling-of-interests method since PMC, controls the Parent Company, BEMC, FEC and FEL before and after the transactions. No restatement of financial information for periods prior to the transactions was made.

The share of the Parent Company in the carrying amounts of net identifiable assets and liabilities amounted to ₱1,056,752 while the costs of business combinations amounted to ₱1,016,164 which consist of cash purchase price for BEMC and FEC, and the carrying amount of equity interest in FEL held by the Parent Company before the date of acquisition. The acquisitions resulted to an increase in equity reserves and non-controlling interests amounting ₱40,588 and ₱303,525, respectively, as at the date of business combinations. Goodwill arising from the business combination amounted to ₱258,593.

Total cash and cash equivalents acquired from the business combinations under common control amounted to ₱252,861. As at December 31, 2019 and 2018, the goodwill resulting from business combinations amounting to ₱1,238,583 are allocated to the Group's CGUs namely: SC 14 C-1 Galoc Oil Field, SC 14 A & B Nido - Matinloc, SC 72 Recto Bank and Peru block Z-38. The Group performed its annual impairment test in 2019 and 2018.

The recoverable amount of the CGUs were determined based on a value in use calculation using cash flow projections from financial budgets covering the expected life of the oil and gas fields. Based on its analysis, management concluded that the remaining goodwill as at December 31, 2019 and 2018 is recoverable.

The calculation of the value in use for the CGUs incorporates the following key assumptions:

- a) *forecasted oil and gas prices* - which are estimated with reference to external market forecasts of Brent crude prices;
- b) *volume of resources and reserves* - which are based on resources and reserves report prepared by third parties;
- c) *capital expenditure, production and operating costs* - which are based on the Group's historical experience, approved work programs and budgets, and latest life of well models; and



d) *discount rate* - which were estimated based on the industry weighted average cost of capital (WACC), which includes the cost of equity and debt after considering the gearing ratio. The pre-tax discount rates applied to cash flow projections range from 12.40% to 13.50% and 11.87% to 13.44% as at December 31, 2019 and 2018, respectively.

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

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

5. Cash and Cash Equivalents

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

Cash in banks earns interest at the respective bank deposit rates. Short-term investments are made for varying periods of up to three months depending on the cash requirements of the Group, and earn interest at the respective short-term investments rates. Interest income amounting to ₱2,566, ₱2,796, and ₱3,749 was recognized in 2019, 2018 and 2017, respectively. The Group has cash in bank denominated in US\$ amounting to US\$2,645 and US\$5,852 as at December 31, 2019 and 2018, respectively (see Note 20).

6. Trade and Other Receivables - net

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

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

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



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

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

7. **Inventories - net**

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

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

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

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

8. **Other Current Assets**

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

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



9. Property and Equipment - net

	2019				
	Oil and Gas Properties	Machinery and Equipment	Surface Structures	Construction in-progress	Total
Cost					
Balances at January 1	₱986,823	₱254,694	₱37,659	₱759	₱1,279,935
Additions	15,632	473	–	–	16,105
Change in estimate on provision for plug and abandonment costs	69	–	–	–	69
Effect of translation adjustment	(26,923)	(1,253)	–	–	(28,176)
Balances at December 31	975,601	253,914	37,659	759	1,267,933
Accumulated depletion and depreciation					
Balances at January 1	₱523,560	₱95,240	₱8,886	₱–	₱627,686
Depletion and depreciation (Notes 7 and 14)	20,685	561	–	–	21,246
Effect of translation adjustment	(10,973)	(2,248)	–	–	(13,221)
Balances at December 31	533,272	93,553	8,886	–	635,711
Accumulated impairment					
Balances at January 1	239,175	152,744	28,773	759	421,451
Impairment (Note 15)	194,557	–	–	–	194,557
Effect of translation adjustment	(1,150)	(1,361)	–	–	(2,511)
Balances at December 31	432,582	151,383	28,773	759	613,497
Net book values	₱9,747	₱8,978	₱–	₱–	₱18,725
2018					
	Oil and Gas Properties	Machinery and Equipment	Surface Structures	Construction in-progress	Total
Cost					
Balances at January 1	₱923,818	₱250,405	₱37,659	₱759	₱1,212,641
Additions	629	591	–	–	1,220
Reclassifications	24,798	–	–	–	24,798
Effect of translation adjustment	37,578	3,698	–	–	41,276
Balances at December 31	986,823	254,694	37,659	759	1,279,935
Accumulated depletion and depreciation					
Balances at January 1	430,699	91,480	8,886	–	531,065
Depletion and depreciation (Notes 7 and 14)	77,954	514	–	–	78,468
Effect of translation adjustment	14,907	3,246	–	–	18,153
Balances at December 31	523,560	95,240	8,886	–	627,686
Accumulated impairment					
Balances at January 1	237,515	152,646	28,773	759	419,693
Effect of translation adjustment	1,660	98	–	–	1,758
Balances at December 31	239,175	152,744	28,773	759	421,451
Net book values	₱224,088	₱6,710	₱–	₱–	₱230,798

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

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

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



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

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

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

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

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

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

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

The permanent plug and abandonment of the Libro-1 and Tara South-1 wells was completed in early June 2018. The two wells had been shut since 1989 and 1990, respectively. The plug and abandonment took 41.5 days to complete. In 2018, the Group incurred actual plug and abandonment costs amounting to ₱29,789 related to the abandonment of the Libro-1 and Tara South-1 wells (see Note 14).

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

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



SC 14 Block C-1 (Galoc)

The Galoc field has already produced about 22.15 million barrels of oil since start of production in October 2008.

On July 12, 2018, Tamarind Galoc Pte Ltd, a subsidiary of Singapore-based Tamarind Resources, acquired Nido Petroleum's subsidiaries Galoc Production Company WLL (GPC) and Nido Production (Galoc) Pte Ltd, giving Tamarind 55.88% equity and operatorship of the Galoc Field. The new management plans to install a Condensate Recovery Unit that is capable of recovering 15 to 20 barrels of oil condensate for every 1 million cubic feet of gas produced in the first half of 2020.

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

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

10. Leases

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

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

The rollforward analysis of this account follows:

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



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

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

The rollforward analysis of lease liabilities follows:

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

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

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

11. Deferred Oil and Gas Exploration Costs - net

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

As at December 31, 2019 and 2018, carrying value of Peru exploration assets amounted to ₱3,430,207 and ₱3,402,598, respectively, and the remaining balance pertain to Philippine exploration assets.



PXP, Pitkin and FEL, through their subsidiaries, have various participating interests in petroleum service contracts as follows as at December 31, 2019:

Service Contract	Participating Interest		
	PXP	Pitkin	FEL
SC 6 (Cadlao Block)	1.65%	–	–
SC 6A (Octon Block) ¹	5.56%	–	5.56%
SC 6B (Bonita Block) ²	–	–	2.46%
SC 14 (Tara PA)	–	–	10.00%
SC 14 Block A (Nido)	–	–	8.47%
SC 14 Block B (Matinloc)	–	–	12.41%
SC 14 Block B-1 (North Matinloc)	–	–	19.46%
SC 14 Block C-1 (Galoc)	–	–	2.28%
SC 14 Block C-2 (West Linapacan)	–	–	9.10%
SC 14 Block D (Retention Block)	–	–	8.17%
SC 40 (North Cebu Block)	–	–	100.00%
SC 72 (Recto Bank)	–	–	70.00%
SC 74 (Linapacan) ³	70.00%	–	–
SC 75 (Northwest Palawan)	50.00%	–	–
Peru Block Z-38	–	25.00%	–

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

²On June 28, 2018, DOE approved the assignment of Trans-Asia's relinquished participating interest in SC 6B to the remaining partners. As a result, FEL's interest in SC 6B has increased to 8.18%.

³On April 25, 2016, the DOE has approved the purchase and sale agreement (PSA) and deed of assignment (DOA) dated February 24, 2016 transferring the 70% interest and operatorship of PPP to PXP.

SC 6A (Octon Block)

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

In 2014, Pitkin elected not to enter Phase 2 of the Farm-in Agreement and returned its 70% participating interest to the farm-out partners. As a result of Pitkin's exit, Philodrill re-assumed the block's operatorship beginning January 1, 2015 while PXP and FEL's participating interests in the block returned to their pre-farm out interests of 5.56% each. The DOE approved the DOA on May 14, 2015.

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

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

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



On October 30, 2019, Philodrill submitted to the DOE the proposed work program for 2020 which consists of the following:

- Geological and geophysical (G&G) studies in support of establishing a final well location and well design to test the hydrocarbon potential of the Malajon-Salvacion-Saddle Rock anticlinorium.
- Continue to do G&G work to identify additional resources at the Octon South structure and other opportunities immediately around the Octon Field to support its development.

SC 6 and 6B (Cadlao and Bonita Block)

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

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

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

SC 14 Block C-2 (West Linapacan)

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

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

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

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

The SC 14C2 and SC 74 Consortia have a joint Rock Physics Quantitative Interpretation (QI) studies over the West Linapacan and Linapacan areas using existing 3D seismic and well data. The initial



phases of the study were carried out and completed by Ikon Science in Kuala Lumpur, Malaysia. The SC 14C2 Consortium decided not to proceed with Phase 2 QI Study.

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

SC 40 (North Cebu Block)

In 2015, the management has finalized its assets review of SC 40 based on a more detailed Resource Estimation Report prepared by Petroleum Geo-Services (PGS) in 2013. The updated report indicated a significant increase in resources which triggered the reassessment and reversal of the impairment recognized in 2012. The results of the assets review and the competent person report were presented to the Risk and Resource Committee of the Board in 2015. The Committee has approved and adopted the report. A reversal of impairment loss amounting to ₱388,630 was recognized by the Group in 2015.

A land gravity survey was conducted in the municipalities of Daanbantayan and Medellin from April 2 to 27, 2018. A total of 94 gravity stations were acquired at a spacing of 200 to 500 meters.

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

FEL has started planning for the drilling of an onshore well, Dalingding-2, in 2020-21. FEL has engaged the services of an operations geologist to prepare the geological program and prospect montage. The Dalingding Prospect is a reefal structure defined by seismic with Barili Limestone as the primary target. A well, Dalingding-1, was drilled by Cophil Exploration in 1996 and was plugged and abandoned as a dry hole with minor gas shows after reaching a total depth of 1,508 ft. Following Forum's recent re-evaluation of the prospect, it was concluded that Dalingding-1 did not reach the Barili target, which is estimated at 1,740 ft, or 232 ft below the well's total depth. The current plan is to drill a well down to at least 4,000 ft to penetrate the Barili and secondary targets underneath.

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

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

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

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



SC 72 (Recto Bank)

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

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

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

In 2015, the United Nations Arbitral Tribunal (UNAT) unanimously decided that it has jurisdiction over the maritime dispute between China and the Philippines over the West Philippine Sea, and it was the proper body to decide on the case filed by the Philippines in January 2013. It also ruled that China's decision not to participate in these proceedings does not deprive the Tribunal of jurisdiction and that the Philippines' decision to commence arbitration unilaterally was not an abuse of the United Nations Convention on the Law of the Sea (UNCLOS) dispute settlement procedures. On July 12, 2016, the UNAT ruled that Recto Bank (Reed Bank) where SC 72 lies, is within the Philippines' Exclusive Economic Zone (EEZ) as defined under the UNCLOS.

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

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

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

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

In early December 2018, the DOE directed FEL to request for the lifting of the *force majeure* over SC 72. Such request was made through a letter sent by FEL to DOE on December 21, 2018. As a service



contractor in SC 72, FEL is bound by DOE's directive over the lifting of the *force majeure* and the resumption of activities in SC 72.

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

As at December 31, 2019, *force majeure* is still enforced and FEL is awaiting DOE's response in order to commence the remaining SP 2 work commitment.

SC 74 (Linapacan)

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

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

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

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

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

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

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

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

Preliminary paleodating done by UP NIGS in 2018 was unsuccessful due to the absence of calcareous nannofossils in the collected samples. This led to the decision to engage the services of Core Laboratories (CoreLab) Malaysia to conduct biostratigraphic and geochemical analyses. An initial 12 samples were sent to Selangor, Malaysia on October 31, 2019, and the results were



submitted to PXP in December 2019. A palynological test on one sample registered a Mesozoic age. On the other hand, radiolarian samples were assigned a Late Permian age. Samples tested for Total Organic Content measured poor to good organic richness. Additional samples will be sent to CoreLab in the first quarter of 2020 for further testing.

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

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

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

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

SC 75 (Northwest Palawan)

On January 3, 2014, the duly executed copy of Petroleum SC 75 was granted to the bid group comprising PXP, PNOEC, and PetroEnergy Resources Corporation (PERC) with operating interest of 50%, participating interests of 35% and 15%, respectively. It covers an area of 6,160 square kilometers in the NW Palawan Basin.

The work commitment for SP 1 had been fulfilled in 2015 following the completion of the acquisition of 2,235 line-kilometers of 2D seismic data over SC 75 and simultaneous acquisition of marine magnetic and gravity data, broadband processing of the 2D seismic data, processing and interpretation of gravity and magnetic data, and G&G studies, including 2D seismic interpretation.

In 2015, the DOE advised the SC 75 Consortium of its decision to place the area under *force majeure* effective from the end of SP 1 on December 27, 2015. In view of this, all exploration activities in the block have been suspended until such time that the DOE informs the Consortium of the lifting of the *force majeure*. All activities in SC 75, except for administration, remained suspended throughout 2019.

On October 30, 2019, PXP submitted to the DOE the proposed WP&B for 2020 consisting mainly of license administration costs and a contingent 3D seismic survey of at least 1,000 square kilometers that will be conducted once the FM is lifted. The survey will fulfill the Consortium's minimum work commitment under SP 2. The DOE approved the WP&B on November 6, 2019.



Peru Block Z-38

In April 2007, Block Z-38 was awarded to Pitkin. Farm-out agreement has been made by Pitkin in which it resulted to Karoon obtaining operating interest of 75%. The block covers an area of 4,875 square kilometers and is located in the Tumbes Basin offshore NW Peru.

In 2014, the Peruvian oil and gas regulator, Perupetro S.A., approved the application to place Peru Block Z-38 into *force majeure*. The application for *force majeure* was requested on the basis of the Operator, Karoon, being unable to secure a suitable drilling unit within the required timeframe on the Pacific side of the Americas. The application of *force majeure* was granted effective September 1, 2013. As a result, the term of the current third exploration period will have approximately 22 months remaining once the *force majeure* is lifted.

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

Following the farm-in of Tullow, Karoon's interest decreased to 40% while Pitkin's interest remained at 25%.

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

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

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

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

12. Other Noncurrent Assets

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

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



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

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

13. Trade and Other Payables

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

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

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

Other nontrade liabilities include payroll-related liabilities such as payable to Social Security System, Philhealth and Home Development Mutual Fund.

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

14. Costs and Expenses

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



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

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

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

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

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



16. Equity

Capital Stock

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

Details of the Parent Company's capital stock follow:

	Number of Shares	
	2019	2018
Common stock - ₱1 par value		
Authorized	6,800,000,000	6,800,000,000
Issued, outstanding and fully paid at beginning of the year	1,700,000,000	1,700,000,000
Subscribed shares	260,000,000	260,000,000
Issued and subscribed shares at end of the year	1,960,000,000	1,960,000,000

Reconciliation of the capital stock follows:

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

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

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

On December 27, 2018, PMC paid the 25% downpayment of ₱770,250. As a result of the transaction, PMC's total ownership interest in PXP increased from 19.76% to 30.40% as at December 31, 2018.

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

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

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



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

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

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

Equity Reserves

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

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

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

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

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

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



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

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

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

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

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

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

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

Non-controlling Interest

Non-controlling interests consist of the following:

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

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

Loss allocated to material non-controlling interest:

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

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

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



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

Statements of comprehensive income as of December 31, 2019:

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

Statements of comprehensive income as of December 31, 2018:

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

Statements of comprehensive income as of December 31, 2017:

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



Statements of financial position as at December 31, 2019:

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

Statements of financial position as at December 31, 2018:

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

Statements of cash flows as at December 31, 2019:

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

Statements of cash flows as at December 31, 2018:

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



17. Income Taxes

- a. In 2019 and 2018, current provision for income tax pertains to PXP and FEL's MCIT.
- b. The components of the Group's deferred tax assets (liabilities) as at December 31, 2019 and 2018 are as follows:

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

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

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



- d. As at December 31, 2019, the Group's NOLCO that can be claimed as deduction from future taxable income and excess MCIT that can be deducted against income tax due are as follows:

Year Incurred	Year of Expiration	NOLCO	Excess MCIT
2017	2020	2,699	771
2018	2021	23,271	504
2019	2022	174,336	783
		₱200,306	₱2,058

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

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

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

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

18. Related Party Transactions

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

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

Intercompany transactions are eliminated in the consolidated financial statements.



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

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

- a. On November 24, 2010, Forum Philippine Holdings Limited (FPHL) entered into a US\$10,000 loan facility agreement with PMC. The facility agreement will be available for a three-year period and funds can be borrowed at an annual interest rate of US London Interbank Offered Rate (LIBOR) + 4.5% for the drawn portion and a commitment fee of 1% for the undrawn portion. The facility agreement will enable FPHL to fund its 70% share of a first SP work program over SC 72. Obligations arising from funds drawn under this facility agreement are not convertible into FEL's or FPHL's common shares.

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

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

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

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



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

Interest expense incurred for the old loan facility amounted to ₱11,692 in 2017. During the same year, commitment fees incurred amounted to ₱281.

Total drawdown from the new loan facility amounted to US\$5,522 as at December 31, 2019 and 2018. Interest expense incurred for 2019, 2018 and 2017 amounted to ₱16,018, ₱18,213 and ₱11,102, respectively. The new loan facility does not include an agreement for commitment fee.

The interest expense and commitment fees were recorded under 'Interest expense and other charges' in the consolidated statements of income while these were eliminated upon consolidation for the year ended December 31, 2019, 2018 and 2017.

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

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

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

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

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

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

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

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

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

19. Financial Instruments

PFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models, as appropriate.

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



Cash and cash equivalents, trade receivables, trade and other payables (except government payables), advances from related parties and other noncurrent liabilities

The carrying amounts of these financial instruments reasonably approximate their fair values because these are mostly short-term in nature.

Guarantee deposits and other noncurrent liabilities

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

There were no transfers between Level 1 and 2 fair value measurements and no transfers into and out of Level 3 fair value measurement as at December 31, 2019 and 2018.

20. Financial Risk Management Objectives and Policies

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

Risk Management Structure

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

Financial Risks

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

Credit risk

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

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

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

	2019
Cash in banks and short-term investments	P245,941
Trade receivables	27,945
Guaranteed deposits	299
	P274,185
	2018
Cash in banks and short-term investments	P342,363
Trade receivables	31,301
Guaranteed deposits	625
	P374,289



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

As at December 31, 2019:

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

As at December 31, 2018:

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

Credit quality of cash and cash equivalents is based on the nature of the counterparty and the Group's evaluation process. High-grade credit quality financial assets pertain to financial assets with insignificant risk of default based on historical experience. Standard-grade credit quality financial assets include quoted and unquoted equity investments that can be readily sold to a third party. There were no financial assets assessed as impaired as at December 31, 2019 and 2018.

Liquidity risk

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

The following tables summarize the maturity profile of the Group's financial assets that can be used by the Group to manage its liquidity risk and the maturity profile of the Group's financial liabilities, based on contractual undiscounted repayment obligations (including interest) as at December 31, 2019 and 2018, respectively:

As at December 31, 2019:

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



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

As at December 31, 2018:

	On Demand	Less than 3 Months	3 to 12 Months	Over 12 Months	Total
<i>Amortized cost:</i>					
Cash in banks	₱177,067	₱-	₱-	₱-	₱177,067
Short-term investments	-	165,296	-	-	165,296
Trade	-	30,594	-	707	31,301
Guaranteed deposits	-	625	-	-	625
Total undiscounted financial assets	₱177,067	₱196,515	₱-	₱707	₱374,289
	On Demand	Less than 3 Months	3 to 12 Months	Over 12 Months	Total
Trade and other payables:					
Trade	₱-	₱9,995	₱-	₱-	₱9,995
Accrued expenses	-	19,620	-	-	19,620
Other nontrade liabilities	-	4,478	-	-	4,478
Advances from related parties	2,125,184	-	-	-	2,125,184
Other noncurrent liabilities	-	-	-	183,461	183,461
Total undiscounted financial liabilities	₱2,125,184	₱34,093	₱-	₱183,461	₱2,342,738

Market Risk

Foreign currency risk

Foreign currency risk is the risk where the value of the Group's financial instruments diminishes due to unfavorable changes in foreign exchange rates. The Parent Company's transactional currency exposures arise from both cash in banks and advances from PMC. The corresponding net foreign exchange gains (losses) amounting to (₱18,415), ₱25,383 and ₱13,341 arising from the translation of these foreign currency-denominated financial instruments were recognized by the Parent Company in the years ended December 31, 2019, 2018 and 2017, respectively. The exchange rates of the Peso to US dollar were ₱50.74, ₱52.58, and ₱49.93 to US\$1 in the years ended December 31, 2019, 2018 and 2017, respectively.

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

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

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



US Dollar (Depreciates) Appreciates	Effect on Loss Before Income Tax
2019	
Appreciate by 4%	(P8,386)
Depreciate by (4%)	8,386
2018	
Appreciate by 5%	(P17,399)
Depreciate by (5%)	17,399

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

21. Capital Management

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

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

	2019	2018
Capital stock (Note 16)	P1,700,000	P1,700,000
Subscribed capital (Note 16)	260,000	260,000
Subscription receivable (Note 16)	(184,300)	(2,310,750)
Additional paid-in capital	2,816,545	2,821,000
Deficit	(1,643,864)	(1,371,720)
	P2,948,381	P1,098,530

22. Basic/Diluted Loss per Share

Basic loss per share is computed as follows:

	2019	2018	2017
Net loss attributable to equity holders of the Parent Company	(P272,144)	(P77,028)	(P39,125)
Divided by weighted average number of common shares issued during the year	1,960,000,000	1,700,000,000	1,700,000,000
Basic loss per share	(P0.139)	(P0.045)	(P0.023)



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

	2019	2018	2017
Weighted average number of common shares for basic loss per share	1,960,000,000	1,700,000,000	1,700,000,000
Effect of dilution from additional common shares subscribed by PMC (Note 15)	–	3,561,644	–
Weighted average number of common shares adjusted for the effect of dilution	1,960,000,000	1,703,561,644	1,700,000,000
	2019	2018	2017
Net loss attributable to equity holders of the Parent Company	(₱272,144)	(₱77,028)	(₱39,125)
Divided by weighted average number of common shares adjusted for the effect of dilution	1,960,000,000	1,703,561,644	1,700,000,000
Diluted loss per share	(₱0.139)	(₱0.045)	(₱0.023)

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

23. Segment Information

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

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

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

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

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



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

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

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

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

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

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

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

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

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



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

As at December 31, 2019:

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

As at December 31, 2018:

	Oil and Gas	Coal	Eliminations	Total
Consolidated revenue				
External customers	₱107,924	₱-	₱-	₱107,924
Results				
EBITDA	55,603	(186)	(88,859)	(33,442)
Depreciation and depletion	(61,339)	-	-	(61,339)
Interest income	21,056	-	(18,260)	2,796
Income tax expense	4,370	-	-	4,370
Interest expense and other charges - net	(18,237)	-	18,161	(76)
Consolidated net loss	(₱7,287)	(₱186)	(₱88,958)	(₱96,431)
Core net loss	(₱102,979)	(₱186)	(₱4,614)	(₱98,551)
Consolidated total assets	₱6,123,746	₱2,168	₱1,121,440	₱7,247,354
Consolidated total liabilities	₱2,076,621	₱737,835	₱650,480	₱3,464,936
Other segment information				
Capital expenditures	₱81,770	₱-	₱-	₱81,770
Non-cash expenses other than depletion and depreciation	-	-	-	-



As at December 31, 2017:

	Oil and Gas	Coal	Eliminations	Total
Consolidated revenue				
External customers	₱104,445	₱-	₱-	₱104,445
Results				
EBITDA	(118,291)	(35)	89,971	(28,355)
Depreciation and depletion	(30,151)	-	-	(30,151)
Interest income	(19,045)	-	22,794	3,749
Income tax expense	(2,256)	-	-	(2,256)
Interest expense and other charges - net	(23,675)	-	23,545	(130)
Consolidated net loss	(₱193,418)	(₱35)	₱136,310	(₱57,143)
Core net loss	(₱50,653)	(₱35)	₱16,501	(₱34,187)
Consolidated total assets	₱5,983,927	₱2,354	₱1,242,331	₱7,228,612
Consolidated total liabilities	₱2,805,893	₱737,835	₱682,768	₱4,226,496
Other segment information				
Capital expenditures	₱62,774	₱-	₱-	₱62,774
Non-cash expenses other than depletion and depreciation	4,578	-	-	4,578

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

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

24. Provisions and Contingencies

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

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

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



The disclosure of additional details beyond the present disclosures may seriously prejudice the Group's position and negotiation strategies with respect to these matters. Thus, as allowed by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, only a general description is provided. The provision for losses for the above-mentioned transactions amounting to ₱183,417 and ₱183,461 as at December 31, 2019 and 2018, respectively, are recorded under 'Other noncurrent liabilities' in the consolidated statements of financial position.

25. Changes in Liabilities Arising from Financing Activities

	January 1, 2019	Cash flows	December 31, 2019
Advances to related parties (Note 16)	₱2,125,184	(₱2,125,184)	₱-
	January 1, 2018	Cash flows	December 31, 2018
Advances to related parties (Note 16)	₱2,906,490	(₱781,306)	₱2,125,184

26. Events after the Reporting Period

SPA in respect of SC 14 Block C-2 West Linapacan

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

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



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, 2019 and 2018, and for each of the three years in the period ended December 31, 2019, included in this Form 17-A and have issued our report thereon dated February 27, 2020. 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 the Revised Securities Regulation Code Rule 68, 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 financial information required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Alexis Benjamin C. Zaragoza III
Partner
CPA Certificate No. 109217
SEC Accreditation No. 1627-A (Group A),
April 4, 2017, valid until April 3, 2020
Tax Identification No. 246-663-780
BIR Accreditation No. 08-001998-129-2019,
November 27, 2019, valid until November 26, 2022
PTR No. 8125326, January 7, 2020, Makati City

February 27, 2020



INDEPENDENT AUDITOR'S REPORT ON COMPONENTS OF FINANCIAL SOUNDNESS INDICATORS

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, 2019 and 2018 and for each of the three years in the period ended December 31, 2019, and have issued our report thereon dated February 27, 2020. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The Supplementary Schedule on Financial Soundness Indicators, including their definitions, formulas, calculation, and their appropriateness or usefulness to the intended users, are the responsibility of the Company's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRS) and may not be comparable to similarly titled measures presented by other companies. This schedule is presented for the purpose of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission, and is not a required part of the basic consolidated financial statements prepared in accordance with PFRSs. The components of these financial soundness indicators have been traced to the Company's financial statements as at December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019 and no material exceptions were noted.

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. 08-001998-129-2019,
November 27, 2019, valid until November 26, 2022
PTR No. 8125326, January 7, 2020, Makati City

February 27, 2020



PXP ENERGY CORPORATION AND SUBSIDIARIES
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTARY SCHEDULES
FOR THE YEAR ENDED DECEMBER 31, 2019

Consolidated Financial Statements:

Statement of Management's Responsibility for Consolidated Financial Statements
Independent Auditors' Report
Consolidated Statements of Financial Position
Consolidated Statements of Income
Consolidated Statements of Comprehensive Income
Consolidated Statements of Changes in Equity
Consolidated Statements of Cash Flows
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 - Supplementary Schedules Required under Annex 68-J
 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: Long-term debt*
 Schedule E: Indebtedness to Related Parties (Long-Term Loans from Related Companies)*
 Schedule F: Guarantees of Securities of Other Issuers*
 Schedule G: Capital Stock

*These schedules, which are required by Revised 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, 2019

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, 2018

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, 2018, 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

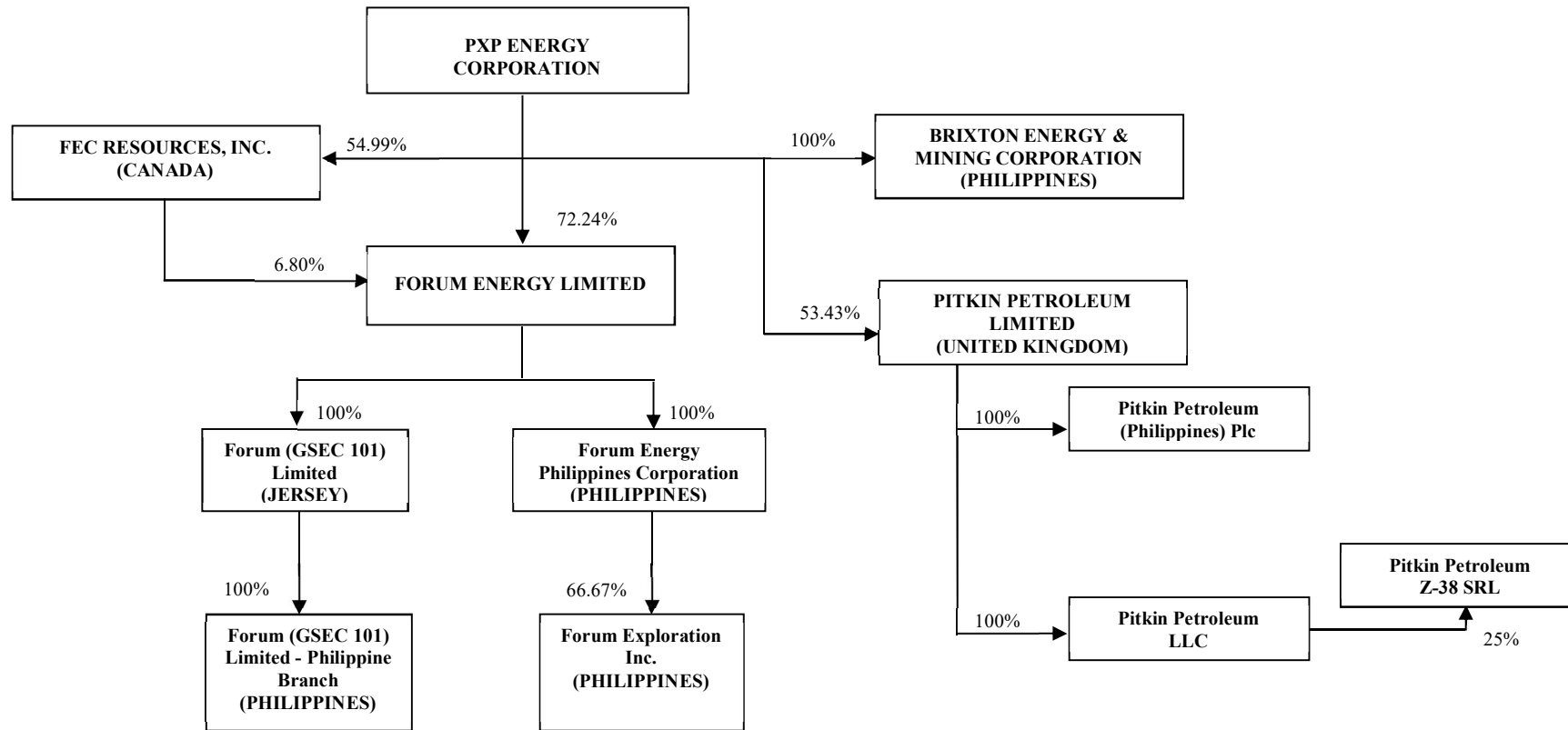
Subtotal

Unappropriated retained earnings as at December 31, 2019, as adjusted

SCHEDULE II
PXP ENERGY CORPORATION AND SUBSIDIARIES
SCHEDULE SHOWING FINANCIAL SOUNDNESS
PURSUANT TO SRC RULE 68, AS AMENDED
DECEMBER 31, 2019

	2019	2018	2017
Current ratio	4.06	0.20	0.18
Acid test ratio	3.75	0.18	0.17
Solvency ratio	(0.19)	(0.01)	(0.01)
Debt-to-equity ratio	0.24	0.92	1.41
Asset-to-equity ratio	1.24	1.92	2.41
Interest rate coverage ratio	—	—	—
Return on equity	(0.05)	(0.03)	(0.02)
Return on assets	(0.04)	(0.01)	(0.01)
Net profit margin	(4.10)	(0.89)	(0.55)

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, 2019



SCHEDULE IV
PXP ENERGY CORPORATION AND SUBSIDIARIES
SCHEDULE A
FINANCIAL ASSETS
December 31, 2019
(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	Valued based on market quotation at end of reporting period	Income received and accrued
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NOT APPLICABLE

PXP ENERGY CORPORATION AND SUBSIDIARIES
SCHEDULE B
AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES AND PRINCIPAL
STOCKHOLDERS (OTHER THAN RELATED PARTIES)
December 31, 2019

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

PXP ENERGY CORPORATION AND SUBSIDIARIES
SCHEDULE C
AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED
DURING CONSOLIDATION
December 31, 2019
(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
Subsidiary							
<i>Receivables:</i>							
Forum (GSEC 101) Limited (<i>Jersey</i>)	P290,361	P3,258	P13,999	P-	P279,621	P-	P279,621
Forum Energy Philippines Corporation	470	69,273	9	-	60,552	-	60,552
Forum Exploration, Inc.	114	797	158	-	753	-	753
Forum (GSEC 101) Limited - Philippine Branch	170	3,141	3,311	-	-	-	-
Pitkin Petroleum (Philippines) Plc	38	2,161	184	-	2,015	-	2,015
	P291,153	P78,630	P17,661	P-	P342,941	P	P342,941

PXP ENERGY CORPORATION AND SUBSIDIARIES
SCHEDULE D
LONG TERM DEBT
December 31, 2019
(Amounts in Thousands)

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

PXP ENERGY CORPORATION AND SUBSIDIARIES
SCHEDULE E
INDEBTEDNESS TO RELATED PARTIES (LONG - TERM LOANS FROM RELATED COMPANIES)
December 31, 2019

Name of the Related Party

Balance at beginning of period

Balance at end of period

NOT APPLICABLE

PXP ENERGY CORPORATION AND SUBSIDIARIES
SCHEDULE F
GUARANTEES OF SECURITIES OF OTHER ISSUERS
December 31, 2019

Name of 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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NOT APPLICABLE

PXP ENERGY CORPORATION AND SUBSIDIARIES
SCHEDULE G
CAPITAL STOCK
December 31, 2019

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	–	595,864,728	1,889,176	–

Annex A: Reporting Template

Contextual Information

Company Details	
Name of Organization	PXP Energy Corporation
Location of Headquarters	2F Launchpad, Reliance corner Sheridan Streets, Mandaluyong City, Philippines 1550
Location of Operations	Headquarters in the Philippines with Exploration Service Contracts in Northwest Palawan and Cebu Philippines and Peru.
Report Boundary: Legal entities (e.g. subsidiaries) included in this report*	PXP Energy Corporation and its subsidiaries, Forum Energy Limited and Pitkin Petroleum Limited.
Business Model, including Primary Activities, Brands, Products, and Services	PXP is an upstream oil and gas company incorporated in the Philippines to carry on businesses related to any and all kinds of petroleum and petroleum products, mineral oils, and other sources of energy.
Reporting Period	December 31, 2019
Highest Ranking Person responsible for this report	President

Materiality Process

Explain how you applied the materiality principle (or the materiality process) in identifying your material topics. ¹
<p>PXP Energy Corporation (PXP or the Company) acknowledges that, with a growing interest from shareholders and other stakeholders in corporate sustainability, it is increasingly important to formally disclose how PXP has integrated sustainability into its business practices, decision-making strategy, and culture over time. This reporting can assist with both informing and reassuring shareholders, employees, investors, regulators, and other stakeholders.</p> <p>Over the financial year, PXP has engaged with both internal and external stakeholders to gain a better understanding of the information that is most relevant and meaningful to report. This section of the Annual Report now provides greater insight into PXP’s risk management and governance practices and the work it does to manage social, environmental, and economic sustainability.</p> <p>Philosophy and Management</p> <p>As part of the oil and gas industry, PXP recognizes the challenges and opportunities facing its business and the importance of operating responsibly. The Company is committed to the health and safety of its employees, contractors, and the local community, as well as the preservation of the environment where it has petroleum operations.</p> <p>Social, environmental, and economic sustainability are core principles of PXP’s business culture and growth strategy. To ensure these principles are embedded in the business, PXP developed a</p>

¹ See [GRI 102-46](#) (2016) for more guidance.

management framework and governance system that both promotes sustainability and provides clear guidelines for decision-making throughout the Company.

The Company's key priorities for corporate sustainability have been identified through the risk management process overseen by the Risk and Governance Committee. Risks are assessed in four (4) core business categories:

1. Operations;
2. Finance;
3. Legal and Compliance; and
4. People and Culture.

The highest priority sustainability risks identified in each category are described below, along with how they have been managed and will continue to be managed in the future.

▪ **OPERATIONS**

The Company and its subsidiaries adhere to international health and safety standards, promote loss prevention, and uphold preservation of the environment as its core value.

Safety

PXP's approach to health, safety, and environment is proactive, with workforce training at all levels within the organization. While role and activity specific training is provided, a variety of broader programs, such as first aid and CPR training by Philippine Red Cross, was undertaken by PXP's selected personnel last year.

Respect for Communities

PXP recognizes the importance of working with people in communities where it operates to facilitate close working relationships and achieve the best possible outcomes for those communities and local economies.

PXP, together with its subsidiary, Forum Energy Philippines Corporation (Forum) and Joint Venture (JV) Partners, have undertaken community assistance programs in Palawan and Cebu, its host provinces.

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

Healthcare

Healthcare initiatives has been expanded in recent years from the provision of much needed basic equipment and supplies to a more sustainable focus on training and education of local health workers.

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.

▪ **FINANCE**

Oil and gas exploration is a high cost/reward industry requiring significant liquidity to establish and implement drilling programs and potentially move assets from development to production. Many external factors may influence this, such as volatility in global commercial markets and the price of

crude oil. PXP understands that such volatility requires careful planning to anticipate changes in the commercial environment and flexibility to manage commitments to protect the financial interests of the Company.

The Board of Directors and higher management officials are responsible for establishing and maintaining a business strategy, including risk identification and assessment, which facilitates responsible decision-making. Since incorporation, PXP has adopted a business plan to ensure it operates ethically and responsibly.

Although PXP has no financial lenders at the moment, it has noted that in recent times, financial lenders have become more focused on sustainable best practices as part of their corporate lending criteria. While the Company takes great pride in its commitment to corporate sustainable practices, it acknowledges that this has not been a part of its formal reporting until this financial year. The Company will continue to report more fully on corporate sustainability to assist financial lenders in their assessments in the future.

▪ **LEGAL AND COMPLIANCE**

Key legal and compliance sustainability risks are bribery, corruption, and the potential impacts on PXP's business and the communities and economies in areas where it operates.

The Company has always conducted its business ethically, with zero tolerance for bribery or corruption. PXP recognizes the impacts poor business practices can have, not just on the Company and its shareholders, but also on the local communities and economies where it has petroleum operations.

PXP has always demonstrated its opposition to both bribery and corruption through its conduct and operations, and publicly via its Code of Conduct. To further emphasize its commitment to ethical business operations, Anti-Corruption Programs and Procedures have been established and implemented throughout the Company, as can be found in its website at <https://www.pxpenergy.com.ph/corporate-governance/company-policy/code-of-business-conduct-and-ethics/>.

▪ **PEOPLE AND CULTURE**

The key sustainability risk relating to people and culture within the organization is having appropriate governance systems in place to facilitate the embedding of policies and procedures in its business practices.

The success of the Company business relies on it having talented and dedicated employees and contractors by providing them with the environment they need to produce their best work. It recognizes not just the importance of having policies and procedures in place to govern its operations and provide clear direction for employees and contractors, but also the importance of ensuring it develops and nurtures a culture within the Company that embraces those policies and their implementation.

All of the Company's publicly available written policies are updated to ensure they are in accordance with the latest regulations and guidelines, including the PSE Corporate Governance guidelines, appropriately reflecting the business practices and culture of the Company. These policies include the following:

- Code of Business Conduct and Ethics;
- Supplier Contractor Relations;

- Whistle Blowing;
- Diversity;
- Dealings in Company Shares;
- Gifts, Entertainment, and Sponsored Travels;
- Conflict of Interest; and
- Related Party Transactions.

The above policies will be regularly reviewed by the Company to ensure that these represent best industry practice, are compliant with local regulations and guidelines, and demonstrate the Company's commitment to its employees, contractors, local community and environment in which it operates. The Company will also monitor any updates and/or new laws to ensure these are reflected in its business policies. The policies are publicly available and accessible under the Corporate Governance tab on the Company's website at <https://www.pxpenenergy.com.ph/corporate-governance/company-policies/>.

ECONOMIC

Economic Performance

Direct Economic Value Generated and Distributed

Disclosure	Amount in thousand	Units
Direct economic value generated (revenue)		
a. Petroleum revenue	72,499	Php
b. Other income	(180,279)	Php
Direct economic value distributed:		
a. Operating costs	85,517	Php
b. Employee wages and benefits	14,111	Php
c. Payments to suppliers, other operating costs	84,593	Php
d. Dividends given to stockholders and interest payments to loan providers	-	Php
e. Taxes given to government	2,959	Php
f. Investments to community (e.g. donations, CSR)	2,260	Php
Economic value retained	(297,220)	Php

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
The Company derives revenue indirectly through its subsidiary Forum Energy Philippines Corporation through SC 14A (Nido), SC 14B (Matinloc), SC 14B-1 (North Matinloc), and SC 14C-1 (Galoc). Crude oil from the Galoc field liftings were sold to customers from nearby Asian countries while	All Stakeholders	The Company ensures that the operations and financial affairs are managed in a sound and prudent manner. In addition, financial and internal controls are in place to ensure reliability and integrity of financial and operational information.

<p>all crude oil liftings from the Nido, Matinloc, and North Matinloc oil fields were sold to a customer in the Philippines, until 1Q 2020.</p> <p>The Company contributes to economic growth by paying taxes to local governments and supports community projects that are based on the needs of local communities.</p>		
What are the Risk/s Identified?	Which stakeholders are affected?	Management Approach
<p>Financial lenders have been more focused on company's implemented sustainability programs as part of their corporate lending requirements.</p>	<p>All Stakeholders</p>	<p>While the Company takes great pride in its commitment to corporate sustainable practices, it acknowledges that this has not been a part of its previous formal reporting until this financial year. The Company will continue to report more fully on corporate sustainability to assist financial lenders, if any, in their assessments in the future.</p>
What are the Opportunity/ies Identified?	Which stakeholders are affected?	Management Approach
<p>Oil & Gas revenue contribution to the Philippine Gross Development Product (GDP).</p> <p>Encourage foreign investment that could result to increased revenue and local employment.</p> <p>Survey for new venture projects within the Philippines to be explored and developed.</p>	<p>All Stakeholders</p>	<p>Farm out of participating interests in select service contracts to allow qualified foreign companies to invest.</p> <p>Review and evaluation of petroleum blocks for possible participation either through farm-in or application for a new contract. The Company recently participated in the Philippine Conventional Energy Contracting Program (PCECP) of the Department of Energy (DOE) for new exploration areas.</p>

Climate-related risks and opportunities²

Governance	Strategy	Risk Management	Metrics and Targets
<p>Disclose the organization’s governance around climate-related risks and opportunities</p> <p>The highest level of responsibility for climate change within PXP is delegated by the Board of Directors to the Board Risk and Resource Oversight Committee (BRROC). The BRROC is responsible for a range of risk and governance matters, including identifying material exposures to economic, environmental, and social sustainability risks. This Committee is supported by the Risk Management Team, which involves senior management of the organization.</p>	<p>Disclose the actual and potential impacts³ of climate-related risks and opportunities on the organization’s businesses, strategy, and financial planning where such information is material</p> <p>PXP views energy as of vital importance for economic and social development but also acknowledges that an energy transition to low carbon fuels and renewable energy sources is underway to reduce the impacts of climate change. As part of the oil and gas industry, successfully identifying and managing these challenges are necessary for the long-term success and sustainability of the Company’s business.</p> <p>The Company looks to identify opportunities to expand existing programs and develop new activities that aim to increase operational efficiency and/or reduce carbon emissions during the transition planning process when the</p>	<p>Disclose how the organization identifies, assesses, and manages climate-related risks</p> <p>Climate-related risks identified will include several measures of consequences relating to environmental, safety, financial, and reputational impact.</p> <p>The Company aims to minimize and mitigate risks through education, motivation, and involvement of all employees, consultants, and contractors.</p>	<p>Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material</p> <p>The Company has not set targets for emissions reductions in recent years as most of its major assets are still in the exploration stage while Greenhouse Gas (GHG) emissions at the office has minimal impact to the environment.</p> <p>However, for the Galoc Operations, wherein Forum has a participating interest, GHG emission and gas flaring are being monitored and measured.</p> <p>The Company, once producing will actively engage in direct and indirect monitoring of GHG emissions.</p>

² Adopted from the Recommendations of the Task Force on Climate-Related Financial Disclosures. The TCFD Recommendations apply to non-financial companies and financial-sector organizations, including banks, insurance companies, asset managers, and asset owners.

³ For this disclosure, impact refers to the impact of climate-related issues on the company.

	company will be on the development stage.		
Recommended Disclosures			
<p>a) Describe the board's oversight of climate-related risks and opportunities</p> <p>PXP stays true to its Vision and Values through the aligned objectives of its board members in becoming a world-class Philippine energy resource company while showing genuine concern to its communities and environment.</p> <p>BRROC meetings are conducted at least twice a year to discuss updates of company assets which includes climate-related concerns.</p> <p>During these meetings, the committee is informed of certain decision-making issues that require approval. The management assures that the impacts on the environment (i.e., climate change) are carefully considered in the choices presented to the board. Updates on policies implemented, actions undertaken, and effects of these</p>	<p>a) Describe the climate-related risks and opportunities the organization has identified over the short, medium and long term</p> <p>Due to the fact that most of PXP assets are still in the exploration stage, the bulk of the workload is tied in office works.</p> <p>Production of paper wastes is the most common short-term environmental risk the Company is facing. By going electronic, not only is the Company reducing paper wastes but also operational expenses.</p> <p>PXP has identified natural disasters to be affecting its employees in a short-term period based on the calamities experienced by the country in the past years.</p> <p>The flaring of natural gases in the Galoc asset emits tonnes of GHG into the atmosphere thus causing medium-term health hazards to the employees onboard the platform and long-</p>	<p>a) Describe the organization's processes for identifying and assessing climate-related risks</p> <p>Every last quarter of the year, PXP holds management meetings to discuss the work program and budget (WP&B) plans for the succeeding year. The Exploration program such as Geological and Geophysical (G&G) activities are strategically scheduled all throughout the coming year. Alongside this, PXP identifies possible environmental (including climate-related) risks that may impede the accomplishment of the said activities. Usage of previously collected data such as rainfall quantity, ocean current pattern, and gas emissions helps in forecasting risks that may arise during the implementation of G&G activities. PXP also studies the occurrence probability of these risks and the object which it will directly and indirectly affect. Forward</p>	<p>a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process</p> <p>The Galoc JV had used the Dubai Fateh, recognized worldwide as the benchmark for quality and pricing of the extracted crude oil. This also sets the trend for commercial viability of processing the Galoc crude oil. For the past 3 liftings, however, the produced crude were sold using the arithmetic average of Arab Extra Light official selling price and Upper Zakum official selling price.</p> <p>The operating blocks are strict in complying with RA 8749 or the Philippine Clean Air Act of 1999 which has the Department of Environment and Natural Resources (DENR) as the lead agency. The quality and quantity of gas emissions during operations are compared to the standard limits set by the DENR.</p> <p>PXP adheres to the DOE standards concerning regulations in the energy industry. The Company regularly submits quarterly and annual operations reports and results of exploration</p>

<p>decisions are discussed with the board in the succeeding BRROC meeting.</p>	<p>term effect on global warming.</p>	<p>planning and assessment of each stages of the proposed projects are conducted.</p>	<p>activities of the Company's operated service contracts. Any plans of the Company are also aligned with the department's mission to be globally-competitive while improving the quality of life of Filipino communities.</p>
<p>b) Describe management's role in assessing and managing climate-related risks and opportunities</p> <p>PXP management bridges its employees and the host communities that are directly exposed to climate-related risks to the board which is the decision-making body of the Company. In more pressing instances, the management is responsible in providing sound decisions and actions toward these risks. Moreover, PXP management oversees all operations and assesses possible environmental impacts of the Company's activities.</p> <p>In the case of non-operated blocks, the management acquaints PXP board and employees to the activities undertaken by the JV Partners in</p>	<p>b) Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy and financial planning.</p> <p>The Company's approach in mitigating climate-related risks initially results to higher capital expenditures because of the acquisition of equipment and appropriate training of employees. On the other hand, a decrease in operational expenditures is expected with the efficient performance of the equipment.</p> <p>The conduct of company activities is also planned accordingly to lessen climate-related risks (e.g., weather pattern) that will incur additional expenses. An example of which is the temporary postponement of plug and abandonment activities in SC 14 during the typhoon</p>	<p>b) Describe the organization's processes for managing climate-related risks</p> <p>The Company is proactive in ensuring the safety and well-being of the employees, stakeholders and community affiliated with its projects. Part of the strategic planning is the provision for accidental expenses associated with climate-related risks such as typhoon, flood, and drought.</p> <p>PXP has implemented regular office emergency drills, provided personal protective equipment (PPE) and medical insurance to its employees.</p> <p>Furthermore, additional insurances for the employee, contractor, and equipment are provided by the</p>	<p>b) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets</p> <p>The primary target of the Company is to lessen carbon footprint and the negative environmental impact of its exploration activities without compromising the attainment of its objectives.</p> <p>Recycling has been a regular practice in the office premises. Reusable items such as papers, newspapers, carton boxes, plastic bags, and plastic/glass bottles are either given new functions or sold that not only aids employees in work but also benefits the Company by lessening operational expenses and providing additional income, respectively.</p> <p>Conservation of electricity and water is also a constant practice. The Company is contributing less air pollutants with the</p>

<p>assessing climate-related risks, if any.</p>	<p>season to minimize risks during operations and downtime due to inclement weather. The Land Gravity Survey in SC 40 and geologic fieldwork in SC 74 were also scheduled during the dry season to avoid weather downtime.</p>	<p>Company prior to the execution of exploration activities. In this way, both the Company and end-users are protected.</p> <p>The Company and its JV Partners are updated with environmental laws governing water, air, and land pollution. Regular quality monitoring of these environmental aspects is implemented in the operational blocks.</p>	<p>efficient use of GHG-emitting equipment.</p> <p>The operators of producing oil fields ensure that its facilities are in best condition so that emissions of hazardous matters are at the minimum or within acceptable limits.</p> <p>One progress indicator is the performance comparison of the current year with the previous years. Examples of these indicators are measurements of hazardous emissions (kg or tonnes), effluents (m³), solid wastes (kg or m³), electricity (kWh), and water consumption (m³).</p>
	<p>c) Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios including a 2°C or lower scenario</p> <p>Although the Company establishes plans prior to the conduct of different activities, unexpected issues may still arise that will impede the regular flow of work. The employees are well-trained to adapt to these situations and will continue to deliver the output needed by the Company.</p>	<p>c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management</p> <p>PXP management practices a holistic approach in doing the Company's overall risk management. After identification, assessment, and action preparation for the climate-related risks, integration with the other risks are done. A cause-and-effect relationship is established on the</p>	

	<p>The Company's management and staff plan and create scenario analysis prior to implementation of projects. A contingency plan is always included in the programs presented to the board. Usually, an additional 10-15% of the total project budget and total number of working days is allocated as contingent measures.</p> <p>Acquisition of additional service contracts is also a resilient move of the company to sustain its operation. With two of its major assets under Force Majeure, PXP joined the DOE's Philippine Conventional Energy Contracting Program (PCECP) aimed at diversifying its portfolio through the acquisition of new prospective areas for exploration and development.</p> <p>The Company, being a player in the Energy Sector, is mindful of the increasing global awareness about climate change. Though still far from the Company's immediate plans, a transition to a lower-carbon economy compliant with the 2°C or lower scenario may be considered in the</p>	<p>risks associated with each other.</p> <p>Most of the G&G activities undertaken since 2015 (such as geologic fieldworks, seismic surveys, and drilling) are scheduled during the dry season.</p> <p>An example of which is the risk assessment for the SC 40 Land Gravity Survey for CY 2020. The climate-related risk involved in this activity is the possibility of frequent and heavy rains during the survey. To manage this risk, PXP decided to schedule the survey within the First Quarter of 2020 to somehow mitigate the risk. The chances of suspending the survey activity due to inclement weather is accounted in the assessment of financial and operational risks. Additional budget was allocated to cover for the extension of field days in response to the non-working days. Moreover, schedule and scope of work of employees left in the office were adjusted to accommodate the length of time the deployed employee was unavailable to perform her usual tasks.</p>	
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	future if a potential opportunity emerges.		
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Procurement Practices

Proportion of spending on local suppliers

Disclosure	Quantity	Units
Percentage of procurement budget used for significant locations of operations that is spent on local suppliers	Php21,629,620	61%

In 2019, PXP office had 40 suppliers, of which 38 were local (accounting for 95% of the total suppliers).

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
Localizing supply chain represents an opportunity to help reduce emissions and energy usage. Local supplies do not create large carbon footprints through overseas plane travel or long truck trips. This cuts down on fuel consumption and air pollution.	Suppliers	Foreign contractors are only engaged if there are no qualified or capable local suppliers available.
What are the Risk/s Identified?	Which stakeholders are affected?	Management Approach
Inability of local suppliers to meet the demand.	Suppliers	Management assesses the availability and competency of local suppliers. Foreign contractors are only engaged if there are no qualified or capable local suppliers available.
What are the Opportunity/ies Identified?	Which stakeholders are affected?	Management Approach
The Company reduces shipping and storage cost while increasing revenue of the local economy by involving local suppliers. This presents opportunity to the Company to be more competitive in terms of providing services to other local oil and gas companies.	Suppliers and other oil and gas companies	The Company's policy on supplier contractor relation is available at the Company's website: https://www.pxpenergy.com.ph/corporate-governance/company-policy/supplier-contractor-relation/ . The Company also seeks and maintains mutually beneficial relationships with Suppliers that uphold the Company's principles and core values.

Anti-corruption

Training on Anti-corruption Policies and Procedures

Disclosure	Quantity	Units
Percentage of employees to whom the organization's anti-corruption policies and procedures have been communicated to	100	%
Percentage of business partners to whom the organization's anti-corruption policies and procedures have been communicated to	100	%
Percentage of directors and management that have received anti-corruption training	100	%
Percentage of employees that have received anti-corruption training	100	%

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
The Supply Chain Department of the Company's affiliate provides support by maintaining guidelines and by issuing necessary notices to Suppliers, including requiring Suppliers to declare their personal relationships (i.e. relatives, former classmates or coworkers, etc.) and/or previous business and official dealings (i.e. former business partner, broker, superior or subordinate) and relationships with any of the Company's Directors, Employees, or Consultants prior to the Supplier's participation in any bid or consideration for any transaction by the Company.	Suppliers, Board of Directors, Employees, and Consultants of PXP	<p>The Company formulated a Code of Business Conduct and Ethics, which upholds professionalism, and ethics in business dealings and transactions.</p> <p>Moreover, the Company has a Vendor Relations Policy and Policy on Gifts, Entertainment, and Sponsored Travel and is available on the Company's website through the following links:</p> <p>https://www.pxpenery.com.ph/corporate-governance/company-policy/policy-on-gifts/ and</p> <p>https://www.pxpenery.com.ph/corporate-governance/company-policy/supplier-contractor-relation/.</p>
What are the Risk/s Identified?	Which stakeholders are affected?	Management Approach
The following are examples of procurement situations that reveal unethical conduct by an Employee and/or Supplier. The areas and situations enumerated are illustrative only and not exhaustive.	Suppliers, and Board of Directors, Employees, and Consultants of PXP	Proper investigation and resolution of each reported event are made by the appropriate business units and the results are forwarded to the Chairman of the Board, the President, or respective executive-level superior, and other relevant groups or bodies, in accordance

<p>An Employee manipulating his evaluation of the contract proposals in exchange for bribes.</p> <p>A Supplier seeking internal (within the Company) and/or external (i.e. political/government) connections to increase chances of contract award.</p> <p>Suppliers submitting false documents for accreditation and other procurement-related transactions or processes.</p> <p>Employees developing unreasonable or over specific technical requirements such that award of contract intentionally goes to a particular or preferred Supplier.</p> <p>Employees giving priority or informing preferred Suppliers in advance before actual request such that other Suppliers are caught unprepared or with too little time to plan.</p> <p>Products and/or services that have not undergone official procurement procedure since these were tested or evaluated beforehand through product demonstrations with particular Suppliers thus limiting chances for other Suppliers to compete.</p> <p>Undisclosed conflict of interest situations on business dealings resulting to giving undue advantage to another party.</p> <p>Disclosure of confidential and proprietary information by Employees to Suppliers.</p> <p>Incorrect payment of government taxes due to manipulation of documents by Suppliers.</p>		<p>with the procedure stated in the Whistleblowing Policy.</p> <p>The Board of Directors, Officers, and Executives ensure that any Director, Employee, or Consultant who reports a suspected violation of this policy by fellow Director, Employee, or Consultant is protected from any form of retaliation.</p>
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Suppliers not remitting the correct SSS, PhilHealth, Pag-Ibig, and other employee contributions to their employees.		
What are the Opportunity/ies Identified?	Which stakeholders are affected?	Management Approach
A sound Supply Chain management provides opportunities for vendor interaction to further improve products and services and negotiates for more competitive prices through open bidding.	Employees, Consultants and vendors of PXP	PXP upholds the highest professional standards of business practices, core values, and ethics as enshrined in its Code of Business Conduct and Ethics in its business dealings with its Suppliers in the procurement of products and services.

Incidents of Corruption

Disclosure	Quantity	Units
Number of incidents in which directors were removed or disciplined for corruption	None	#
Number of incidents in which employees were dismissed or disciplined for corruption	None	#
Number of incidents when contracts with business partners were terminated due to incidents of corruption	None	#

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
Avoid activities and interests that could significantly affect the objective or effective performance of duties and responsibilities in the Company, including business interests or unauthorized employment outside the Company, receiving and/or giving of gifts to persons or entities with whom the Company relates, as well as insider dealing.	Board of Directors, Officers, Employees, and Vendors	The Company has clear rules on anti-bribery and corruption and these are included in the Code of Conduct for all employees. There is no place for bribery or corruption at PXP. Read more about the Company's values at https://www.pxpenery.com.ph/corporate-governance/company-policy/code-of-business-conduct-and-ethics/ .
What are the Risk/s Identified?	Which stakeholders are affected?	Management Approach

<p>Though the Company has no recorded incidents, risks of corruption are always present within the business environment.</p>	<p>Board of Directors, Officers, Employees, Suppliers, and Vendors</p>	<p>To mitigate this risk, the Company has clear rules on anti-bribery and corruption and these are included in the Code of Conduct for all employees. There is no place for bribery or corruption at PXP. Read more about the Company's values at https://www.pxpenenergy.com.ph/corporate-governance/company-policy/code-of-business-conduct-and-ethics/.</p> <p>After conducting proper investigation of an incident, PXP shall enforce disciplinary actions against violators, which may include measures such as suspension, dismissal, and/or filing of appropriate civil and/or criminal actions.</p>
<p>What are the Opportunity/ies Identified?</p>	<p>Which stakeholders are affected?</p>	<p>Management Approach</p>
<p>Procurement should be done through open competitive bidding, except on unavoidable circumstances.</p> <p>Seek ways for further employee development such as seminars against corruption.</p>	<p>Board of Directors, Officers, Employees, Suppliers, and Vendors</p>	<p>Communicate the PXP business policies regularly to stakeholders.</p>

ENVIRONMENT

Resource Management

Energy consumption within the organization:

Disclosure	Quantity	Units
Energy consumption (renewable sources)	None	GJ
Energy consumption (gasoline)	None	GJ
Energy consumption (LPG)	None	GJ
Energy consumption (diesel)	0.02*	GJ
Energy consumption (electricity)	1814**	kWh/yr
Energy consumption (Natural gas)	53.3821*	mmscf

*Data are from SC 14C-1 (Galoc) Floating Production Storage (FPSO) Vessel for the year 2019 as provided by the Operator, Galoc Production Company. PXP Energy produces oil through its subsidiary, Forum Energy Philippines Corporation which has a 2.27% stake in SC 14C-1.

**Electricity consumption at PXP headquarters.

Reduction of energy consumption

Disclosure	Quantity	Units
Energy reduction (gasoline)	Minimal	GJ
Energy reduction (LPG)	Not applicable	GJ
Energy reduction (diesel)	Minimal	GJ
Energy reduction (electricity)	Minimal	kWh

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
In the office, continuous reduction of energy consumption is being done through implementation of energy conservation measures.	Employees	The Company has been implementing cost-cutting measures since 2015 resulting to the proper monitoring of and reduction in general & administrative expenses.
What are the Risk/s Identified?	Which stakeholders are affected?	Management Approach
Inefficient use of office equipment resulting to higher energy consumption.	Employees	<p>Continuous monitoring and constant reminder to company employees of efficient use of office equipment.</p> <p>Orient maintenance staff on the schedule of switching on and off of lights, aircon, workstations, and other electrical equipment.</p> <p>Encourage employees to car pool, if possible, to save on gasoline/diesel,</p>

		especially during meetings held outside the office.
What are the Opportunity/ies Identified?	Which stakeholders are affected?	Management Approach
The Company to assess the impact of implementing an option to work from home to decrease operational costs and increase employees' productivity by minimizing travel time.	Employees	Continuous assessment of practicality and viability of implementing a work from home policy.

Water consumption within the organization

Disclosure	Quantity	Units/Year
Water withdrawal	None	Cubic meters
Water consumption	108*	Cubic meters
Water recycled and reused	None	Cubic meters

*Water consumption at PXP headquarters. Water use pertains only to pantry and toilets.

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
At the office, PXP prioritizes water management, in response to the national water scarcity experienced in year 2019. At the FPSO, continuous application of reverse osmosis in seawater desalination is being done to produce clean water that can be used for drinking, bathing, food preparation, and other general purposes.	Community, Employees, and Marine Crew at the FPSO	The Company educates its employees on the efficient use of water. Since 2012, the FPSO has been reprocessing seawater to produce clean, safe, and fresh water to be self-sufficient, instead of relying on water tank refilling by supply vessels, which will entail additional logistical processes.
What are the Risk/s Identified?	Which stakeholders are affected?	Management Approach
Within the office premises, some personnel are unaware that they irresponsibly use water facilities resulting to higher consumption.	Employees	The Company instills water conservation practices to employees.

		<p>Management lowered the water pressure in the comfort rooms, to control water flow and avoid spillage.</p> <p>Also, management ensures that there are no faucet and toilet leaks to avoid water wastage by conducting regular inspection every month.</p>
What are the Opportunity/ies Identified?	Which stakeholders are affected?	Management Approach
Efficient water consumption leads to financial savings, which can be appropriated by the Company for other purposes. Additionally, water conservation helps the community as a whole in prolonging the water supply especially during dry seasons from March to May wherein the water in reservoirs falls below normal level.	Employees and Building Management	The Company emphasizes to employees to use water responsibly.

Materials used by the organization

Disclosure	Quantity	Units/Year
Materials used by weight or volume		
<ul style="list-style-type: none"> • Renewable • Newspaper • Water • Wood/Paper 	<ul style="list-style-type: none"> ▪ 150* ▪ 5,048,915.34** ▪ 48.5** 	<ul style="list-style-type: none"> kilogram cubic meter cubic meter
<ul style="list-style-type: none"> • Non-Renewable • Metals • Plastics • Diesel • Natural Gas 	<ul style="list-style-type: none"> ▪ 28.5** ▪ 141** ▪ 227,000** ▪ 53.3821** 	<ul style="list-style-type: none"> cubic meter cubic meter liter million standard cubic feet
Percentage of recycled input materials used to manufacture the organization's primary products and services	None	%

*PXP Office data.

**Data from SC 14C-1 Galoc for the year 2019. The volume of water only includes produced formation water, wash water, cooling water for the engine room, and cooling water for the process area. This does not include the potable water produced during osmosis.

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
<p>Platforms built on top of the seabed are made up of non-renewable metals such as steel alloyed with other elements like nickel, iron, chromium, carbon, and molybdenum which are also non-renewable.</p> <p>In offshore operations, water produced from the target formation during production is either recycled for platform/vessel/engine use, stored in stock tanks or discharged back to the sea.</p> <p>Plastics are non-renewable materials that use oil/fossil fuel as raw materials.</p> <p>The Company and the Galoc operation produce tonnes of plastic, wood, and paper wastes annually.</p>	<p>Employees onboard the platform/FPSO, Nearby Community, and Environment</p>	<p>Although platforms are built far from the community, a portion or all of these structures are permanently left offshore. The DOE fully takes over these structures after cessation of all petroleum-related activities of the Company. As for SC 14, the Nido and Matinloc platforms are being used for national defense, which in turn safeguard the nearby communities. The decommissioned platforms were stripped of equipment and materials which were sold to third party contractors through bidding.</p> <p>Platforms are furnished with equipment that can process formational water from the subsurface.</p> <p>Recycling and waste segregation are implemented in the Company premises and Galoc platform and FPSO.</p> <p>Papers, newspapers, carton boxes, plastic bags, and plastic bottles in the office are given new functions or sold, while in offshore operations, these are properly collected and disposed on the shore as per MARPOL guidelines.</p>
What are the Risk/s Identified?	Which stakeholders are affected?	Management Approach
<p>Possible improper maintenance of the platform may lead to fast deterioration of metals that may result to injuries or accidents. Deteriorated metals may also pose health and environmental risks to the marine flora and fauna where the platform was constructed.</p> <p>Accidental discharge of oil/diesel-contaminated water into the sea may cause life and health hazards</p>	<p>Employees onboard the platform/FPSO, Nearby Community, and Environment</p>	<p>PXP, through its JV partners, assisted the DND-AFP by providing training on proper care and maintenance procedures. The platforms were also refurbished prior to the turnover.</p> <p>Inspection, care, and maintenance of water-processing equipment are regularly implemented to ensure their efficiency and to avoid untoward accidents. Oil content of overboard and</p>

<p>to the marine ecosystem and nearby community that depends their livelihood in fishing.</p> <p>Improper waste disposal of used plastic and paper materials may result to pollution of the sea.</p>		<p>subsea water discharges are strictly monitored per MARPOL guidelines.</p> <p>The management encourage employees to practice recycling and proper waste management. Tree planting activities were also conducted in lieu of the wood-based materials exhausted by the Company and as part of its obligation (ECC) to the government.</p>
What are the Opportunity/ies Identified?	Which stakeholders are affected?	Management Approach
<p>The platforms act as artificial reefs for the aquatic organisms that had attached to the steels in the subsurface. The abundant marine resources can be of use to the community and current owners of the platforms.</p> <p>With the full support provided to DND-AFP, PXP and its JV partners may still request to use the platforms in case a need arises. The Company is also being freed of the financial and administrative responsibilities on these platforms while developing good ties with the government</p> <p>Clean water discharge will not harm the marine ecosystem that had thrived in the subsea structures. Penalties and fines will be avoided if water discharge is not contaminated with oil/diesel.</p> <p>Recycling benefits the Company by lessening operational expenses and providing additional income.</p>	<p>Employees onboard the platform/FPSO, Nearby Community, Environment, and Management</p>	<p>Technical support from the company and JV partners was provided during the platform turnover.</p> <p>The Galoc consortium guarantees that it complies with the environmental laws governing water/sea.</p> <p>Used plastic and paper wastes are sold by the Company. Some were repurposed to a new item and were used by employees.</p>

Ecosystems and biodiversity (whether in upland/watershed or coastal/marine)

Disclosure	Quantity	Units
Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	None*	ha
Habitats protected or restored	None	ha
IUCN ⁴ Red List species and national conservation list species with habitats in areas affected by operations	None	ha

*Prior to the awarding of SCs, the DOE carves out protected areas as per the National Integrated Protected Areas System of the DENR.

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
The Company faithfully ensures strict compliance with environmental laws and policies by securing required permits from the DOE, DENR, and Mines and Geosciences Bureau (MGB). Further, PXP promotes environmental awareness to the community prior to and after G&G activities.	Employees and Communities adjacent or within the SCs	<p>PXP and its subsidiary Forum have acquired Certificate of Non Coverage (CNC) and Environmental Compliance Certificate (ECC) from the Environmental Management Bureau (EMB) of the DENR to cover all its exploration activities, as summarized below.</p> <ol style="list-style-type: none"> 1. SC 72 – A CNC was issued on December 22, 2010 for the 2D and 3D seismic surveys conducted in the Recto Bank. Another CNC was issued on May 23, 2012 to cover all exploration and appraisal activities, which includes the drilling of exploration wells. 2. SC 40 – An ECC was issued on February 19, 2010 for the extraction of natural gas in Barangay Libertad, Bogo City, Cebu. CNCs were issued in 2009 and 2012 for the land gravity surveys. 3. SC 75 – On February 28, 2014, a CNC was issued to PXP to cover all exploration activities. 4. SC 74 - On March 22, 2016, a CNC was issued to cover all exploration

⁴ International Union for Conservation of Nature

		<p>activities.</p> <p>5. SC 74 – In June 2018, a permit to transport rock samples from the fieldwork in the Calamian Islands to Manila was requested from the MGB-MIMAROPA, in accordance with the DENR Administrative Order 2010-21, the IRR of RA 7942 otherwise known as the Philippine Mining Act of 1995.</p> <p>Conducted Information, Education, and Communication (IEC) campaign in the communities prior to the exploration activities.</p>
What are the Risk/s Identified?	Which stakeholders are affected?	Management Approach
<p>For the fieldworks, marine and land seismic and gravity surveys, drilling and production activities, the risk include the disturbance of local ecosystem in the area (i.e. cutting of trees, oil spill, improper disposal of large volumes of saline water, and gas flaring).</p>	<p>Employees, Marine Crew onboard the Seismic Vessel or FPSO, and Local Communities adjacent or within the SCs</p>	<p>The Company, its Subsidiaries, and JV partners continue to strictly abide with Environmental laws and policies. The exploration, production and development activities are being accomplished with minimum or no detrimental impacts to flora and fauna, marine and onshore environment, soils, surface, ground, and marine waters. Daily Health, Safety, Security and Environment (HSSE) meetings are being conducted during onshore and offshore operations.</p> <p>The Company conducts Bathymetric Survey to determine the shallow water areas or pinnacles to be avoided during seismic surveys.</p> <p>During the seismic surveys in SC 75 and SC 74 in 2014 and 2016, respectively, Marine Mammal Observers (MMOs) were assigned onboard the seismic ships to monitor the surveys' effect on sensitive wildlife species such as dolphins, turtles, and whales; and to ensure that the Company adheres to the environmental guidelines set by the Philippine government.</p>

		<p>In 2017, the SC 40 Libertad Field L95-1 well was safely and properly plugged and abandoned. The installed production and office facilities were removed and the project site was restored to its original state.</p> <p>The P&A of production wells in SC 14A and SC 14B in 2018 and 2019 were accomplished with no significant impact to the environment and offshore waters. Some of the platforms were stripped of equipment and materials that were transported onshore for later disposal.</p> <p>With regard to the SC 14C-1 Galoc field operations, Oil Spill Contingency Plans are in place in case of any untoward incidents.</p> <p>Produced water and petroleum wastes are being monitored in compliance with the standard acceptable amount defined by the DENR.</p> <p>Used diesel is being monitored to ensure that there is no spillage.</p>
What are the Opportunity/ies Identified?	Which stakeholders are affected?	Management Approach
<p>Decrease of negative environmental impact while minimizing incurred operational cost by partnering with other companies that provide exploration services within adjacent areas.</p> <p>In the office, decrease environment impact and CO₂ imprint by going paperless/electronic.</p> <p>In offshore operations, JV partners devise ways to repurpose old platforms (i.e. defense outpost of the government) instead of building or manufacturing a new one.</p>	<p>Local communities adjacent or within the SCs, Employees, and Third Party Contractors</p>	<p>In 2016, the Company participated in the Multi-Client Seismic Survey of CGG, which acquired seismic data over the SC 74 in coordination with other Service Contractors. This eliminated the need to conduct a separate survey for the Company, thus saving on operational expenses and disturbance to the environment.</p> <p>During the recently concluded gravity survey in SC 40, Forum made the most of the scheduled activity by doing a side trip inspection at the Maya storage site, which is still within the exploration block but outside the gravity survey area. This was where Radioactive Materials were stored before transport to the Philippine Nuclear Research Institute (PNRI), for</p>

		<p>proper disposal. The Maya area will be restored to its original state by disposing the old pipes and other equipment used from previous drilling operations.</p> <p>As much as possible, PXP is implementing paperless transactions.</p> <p>The SC 14 JV turned over the Nido and Matinloc platforms to the DOE last December 2019 so that they can be used by the DND-AFP for national defense, instead of creating a new outpost.</p>
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Environmental impact management

Air Emissions

GHG

Disclosure	Quantity	Units/Year
Direct (Scope 1) GHG Emissions (CO ₂ , CH ₄ , N ₂ O, and Fluorinated Gases)	386,911.377*	Tonnes CO ₂ e
Energy indirect (Scope 2) GHG Emissions	None*	Tonnes CO ₂ e
Emissions of ozone-depleting substances (ODS) [CO, NO _x , and non-methane VOCs (i.e. ethane, propane, butane)]	1,374.305*	Tonnes

* The Company produces oil through its subsidiary Forum through its 2.27% stake in SC 14C-1 Galoc. Data is from the Floating Production Storage and Offloading (FPSO) Vessel gas flaring and fuel combustion for the year 2019.

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
<p>At the office, usage of air conditioning (AC) systems that release chlorofluorocarbons (CFCs) and hydrochlorofluorocarbons (HFCs) which are GHGs that trap heat and cause depletion of the ozone layer.</p> <p>Natural gases (i.e. methane (CH₄), ethane, propane, butane, and other heavier components), which</p>	<p>Employees of PXP and onboard the platform, FPSO, and nearby communities</p>	<p>The Company regulates its AC systems to lessen its power consumption. Out of sixteen (16) AC systems pre-installed in the office, only seven (7) are regularly in operation during work hours (8:00-17:00). These units are those near work desks occupied by the Company's employees and consultants. As an alternative, Management opts to utilize or purchase AC systems with HFCs refrigerants instead of CFCs, since the</p>

<p>are GHG and VOCs, produced in the Galoc field are flared out as these are not economical to be developed and also pose safety and health hazards (i.e. major blowout accident leading to destruction and fatality) if not attended properly.</p> <p>Flaring natural gases results to by-products or GHGs such as CO, CO₂, VOCs, NO_x, SO_x, and other air pollutants.</p>		<p>former have lesser detrimental effects to the environment.</p>
What are the Risk/s Identified?	Which stakeholders are affected?	Management Approach
<p>Emission of GHG into the environment.</p> <p>HFCs represent only a small portion of the total GHG emissions. However, they trap heat in the atmosphere as much as CO₂.</p> <p>Although flaring/burning of natural gases emits a number of pollutants in the environment, it is less hazardous as compared to venting which is directly releasing natural gases into the atmosphere. Large amounts of released natural gases/GHG may cause health hazards to the platform's crew and contribute to ozone destruction and global warming.</p>	<p>Employees of PXP and onboard the platform, FPSO, and nearby communities</p>	<p>Together with the reduced usage of AC units in the office, routine check and maintenance are also being implemented to ensure efficiency of the AC systems.</p> <p>To prevent major blowout accidents, flaring is favored by the management than venting off natural gases.</p>
What are the Opportunity/ies Identified?	Which stakeholders are affected?	Management Approach
<p>In the office, decrease environment impact and CO₂ footprint by going electronic. Less electricity consumption brought about by the minimal use of AC units and the cost-effective performance resulting from the regular maintenance will lead to</p>	<p>Employees</p>	<p>The Company is practicing energy conservation measures. PXP is implementing paperless approach to certain transactions to minimize paper consumption and CO₂ emission during printing and photocopying. Although the abovementioned energy conservation measures can be considered basic with</p>

<p>savings that can be allocated to other company expenses.</p> <p>At the FPSO, Tamarind/Galoc is proposing a device which could reduce the gas flaring.</p>		<p>minimal effect to the environment, PXP believes that this effort will still be beneficial to the community and environment in the long run.</p>
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Air pollutants

Disclosure	Quantity	Units
NO _x	172,418*	kg
SO _x	11*	kg
Persistent organic pollutants (POPs)	None*	kg
Volatile organic compounds (VOCs)	275,560*	kg
Hazardous air pollutants (HAPs)	None*	kg
Particulate matter (PM)	3,730*	kg

*Data is from SC 14C-1 FPSO gas flaring and fuel combustion for the year 2019. No measured/reported POPs and HAPs in SC 14C-1.

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
<p>NO_x, SO_x, VOCs, and PMs are products of fuel combustion and ship emissions. These are released into the atmosphere and affect the ozone layer and contribute to global warming.</p> <p>In SC 14C-1, flaring of natural gases (i.e. methane (CH₄), ethane, propane, butane and other heavier petroleum components) results to by-products or air pollutants such NO_x, SO_x, VOCs, and PM. Ethane and propane are the most abundant non-methane hydrocarbon compounds found in natural gas.</p>	<p>Employees onboard the platform, FPSO, and nearby communities</p>	<p>In SC 14C-1 operations offshore, International Convention for the Prevention of Pollution from Ships (MARPOL) guidelines are strictly enforced.</p>
What are the Risk/s Identified?	Which stakeholders are affected?	Management Approach

<p>Abundant NO_x and SO_x released into the environment from ship emission/fossil fuel combustion causes acid deposition. These gaseous pollutants are the major components of acid rain and smog apart from its contribution to greenhouse effect and global warming.</p> <p>Although flaring/burning of gases emits certain pollutants in the environment, it is less hazardous as compared to venting which is directly releasing natural gases into the atmosphere. Large amounts of released natural gases may cause health hazards to the platform crew.</p>	<p>Employees onboard the platform, FPSO, and nearby communities</p>	<p>Strict implementation of the MARPOL guidelines to decrease ship emissions. FPSO/Ship engines are also properly maintained to avoid machine failures that could increase the ship's intake of fossil fuel which in turn leads to an increase in combusted fuel.</p> <p>The management opted to do gas flaring rather than venting to minimize health hazards and accidents.</p>
<p>What are the Opportunity/ies Identified?</p>	<p>Which stakeholders are affected?</p>	<p>Management Approach</p>
<p>Strict compliance with the laws governing air and seas/water will enable the Company and Galoc JV to operate without interruption. Fines and penalties will also be avoided.</p> <p>A healthier and more conducive environment for the employees onboard the platform and FPSO.</p>	<p>Employees onboard the platform/FPSO and nearby communities</p>	<p>Strict compliance with the International Convention for the Prevention of Pollution from Ships (MARPOL) guidelines.</p>

Solid and Hazardous Wastes

Solid Waste

Disclosure	Quantity	Units
Total solid waste generated		kg
Reusable	None	kg
Recyclable Total for CY 2019	338,650	kg
1. PXP Office	150	kg
2. SC 14C-1 Operations (MARPOL Guidelines)	338,500	kg
Composted	None	kg
Incinerated	None	kg
Residuals/Landfilled	None	kg

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
<p>Proper solid waste disposal regulations prevent contamination to the environment (i.e. air, soil, and water) that could pose health risks to the community, and cause harmful effects to the ecosystem such as mutation and extinction.</p>	<p>Employees and adjacent Community</p>	<p>The Company, together with its subsidiaries and JV Partners, are in strict compliance with the proper solid waste disposal regulations.</p> <p>In addition, proper waste management is implemented in the head office. Biodegradable food wastes are being segregated from non-biodegradables and recyclables. The backs of collected scratch papers are being re-used. Recyclable materials such as newspapers, cartons, and bottles are collected then sold as scrap materials. Although the abovementioned waste management can be considered basic with minimal effect to the environment, PXP believes that this effort will still be beneficial to the community and environment in the long run.</p> <p>In SC 14C-1 operations offshore, International Convention for the Prevention of Pollution from Ships (MARPOL) guidelines are strictly enforced.</p>

What are the Risk/s Identified?	Which stakeholders are affected?	Management Approach
Improper waste management poses adverse effects in the environment with health implications to the community.	Employees and adjacent Community	The Company maintains and improves solid waste management policies of its subsidiaries and JV Partners, which are adherent to international health, safety, and environment standards.
What are the Opportunity/ies Identified?	Which stakeholders are affected?	Management Approach
In the office, decrease environment impact and CO ₂ imprint by minimizing paper printouts and going electronic. Also, decrease the usage of one-time use plastics.	Employees and adjacent Community	As much as possible, PXP is implementing paperless transactions to minimize CO ₂ emission during printing and photocopying. PXP employees are encouraged to bring their own reusable containers for food to minimize paper and plastic wastes.

Hazardous Waste

Disclosure	Quantity	Units
Total weight of hazardous waste generated of Year 2019	4,531.31	kg
1. SC 14C-1	4,531.31	kg
Total weight of hazardous waste transported	48,593.64	kg
1. SC 40 (1Q 2020)	130	kg
2. SC 14C-1 (CY 2019)	48,462.10	kg

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
The Company, together with its subsidiaries and JV Partners, is in strict compliance with the proper hazardous waste disposal regulations to prevent contamination of the environment (i.e. air, soil, and water), that could pose health risks to the community, and cause harmful effects to the ecosystem (i.e. mutation and extinction).	Employees and adjacent Community	In SC 14C-1 and other operations offshore, International Convention for the Prevention of Pollution from Ships (MARPOL) guidelines are strictly enforced. In SC 40, the Company hired a Radiation Safety Officer (RSO) in charge of renewing the Company's Radioactive Materials License as well as monitoring radioactivity.

For the SC 40, ensure and maintain proper storage of Radioactive Materials (RAM).		
What are the Risk/s Identified?	Which stakeholders are affected?	Management Approach
<p>Improper storage, handling, and disposal of hazardous wastes have adverse effects to the public health, safety, and environment.</p> <p>Leakage from the stored radioactive materials in SC 40 can affect people living nearest the area. Radioactive leaks, by nature, are not simple to clean up and contain.</p>	Personnel in charge of security and maintenance at the storage site and Adjacent Community	<p>Maintain and improve hazardous waste management policies of the Company, subsidiaries and JV Partners, in concurrence with international health, safety and environment standards.</p> <p>The radioactive materials are sealed within their original container and placed inside a wooden crate. The crate is stored inside a padlocked container van. The company hired a RSO to regularly conduct swipe tests and ensure that radioactivity is within safe limits. There is also a security guard assigned to prevent trespassing and theft of any of the equipment in the SC 40 Maya storage site.</p>
What are the Opportunity/ies Identified?	Which stakeholders are affected?	Management Approach
<p>At the office, policies on the disposal of hazardous wastes like batteries, which contain lead, used containers with toxic substances, and expired medicines are prepared and implemented.</p> <p>In SC 40, it was deemed necessary to dispose of the RAM because indefinite storage is not advisable. Accidental leakage of the RAM is being prevented to ensure safety of people living within the areas nearest the storage site.</p>	Employees and Community nearest the Maya storage site, where the RAM are located.	<p>At the office, additional guidelines on proper hazardous waste disposal should be formulated and applied.</p> <p>The PNRI was contacted by the RSO for advice on proper disposal of the RAM. PNRI has the facilities for radioactive waste management, thus, it was decided to transport the RAM from the SC 40 Maya site in Cebu City to PNRI's facility in Quezon City.</p> <p>The transport of RAM was done in early 2020 using a third party contractor and following PNRI's guidelines. No untoward incidents occurred during this activity and the RAM was turned over to the PNRI for proper waste management. Following the disposal of the RAM, Forum has requested for the termination of its license to possess such radioactive materials.</p>

Effluents

Disclosure	Quantity	Units/Year
Total volume of water discharges	5,048,053.86*	Cubic meters
Percent of wastewater recycled	None	%

*Data is from the SC 14 C-1 Galoc FPSO for the year 2019.

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
Offshore International and National Guidelines for Wastewater Discharges to the surface and bottom of the sea should be followed, as to control pollution and to have minimal impact to the marine environment and ecosystem. Maximum defined contamination levels should be followed.	Marine crew at the FPSO, Fishermen, and Community	In offshore petroleum operations of the Company, subsidiaries, and JV partners, the International Convention for the Prevention of Pollution from Ships (MARPOL) guidelines are strictly enforced.
What are the Risk/s Identified?	Which stakeholders are affected?	Management Approach
The effluents with oil and other toxic waste contents exceeding the acceptable amount set by the MARPOL guidelines will contaminate the sea and sea bottom. This will cause damage to marine flora and fauna and can possibly cause related health implications to the community.	Marine crew at the FPSO, Fishermen, and Community	Strict implementation of safety and environmental standards of the JV consortium. In case of untoward incidents, mitigation procedures are in place. At the FPSO vessel and platforms, produced water is analyzed and discharged overboard if it has less than 15 ppm of oil content. If the produced water exceeds the 15 ppm allowable limit, procedures under the Oil Spill Contingency Plan are carried out to treat the water before disposal.
What are the Opportunity/ies Identified?	Which stakeholders are affected?	Management Approach
Some produced formation water or effluent is being reprocessed and used onboard.	Marine crew at the FPSO, Fishermen, and Community	Reprocessed or treated water discharges onboard by Galoc consortium can be utilized for other general purposes in the vessel or platform.

Environmental compliance

Non-compliance with Environmental Laws and Regulations

Disclosure	Quantity	Units
Total amount of monetary fines for non-compliance with environmental laws and/or regulations	None	Php
No. of non-monetary sanctions for non-compliance with environmental laws and/or regulations	None	#
No. of cases resolved through dispute resolution mechanism	None	#

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
As mentioned in the Ecosystems Section, PXP is actively complying with Environmental Laws and Policies.	Employees and Community adjacent or within the SCs	<p>PXP and its subsidiary Forum have acquired CNC and ECC from EMB-DENR to cover all its exploration activities, as summarized below.</p> <ol style="list-style-type: none"> 1. SC 72 – A CNC was issued on December 22, 2010 for the 2D and 3D seismic surveys conducted in the Recto Bank. Another one was issued on May 23, 2012 to cover all exploration activities, which includes the drilling of exploration wells. 2. SC 40 – An ECC was issued on February 19, 2010 for the extraction of natural gas in Barangay Libertad, Bogo City, Cebu. For the land gravity surveys, CNCs were issued in 2009 and 2012. 3. SC 75 – On February 28, 2014, a CNC was issued to PXP to cover all exploration activities. 4. SC 74 - On March 22, 2016, a CNC was issued to cover all exploration activities. 5. SC 74 – In June 2018, a permit to transport rock samples from the fieldwork in the Calamian Islands to Manila was requested from the MGB-MIMAROPA, in accordance with the

		<p>DENR Administrative Order 2010-21, the IRR of RA 7942 known as the Philippine Mining Act of 1995.</p> <p>Conducted IEC campaigns to the communities prior to the exploration activities.</p>
What are the Risk/s Identified?	Which stakeholders are affected?	Management Approach
Non-compliance with environmental laws and regulations might lead to imposition of penalties and fines, or to the cancellation of the SC.	Employees and Company	PXP and subsidiaries strictly adhere to environmental laws and regulations.
What are the Opportunity/ies Identified?	Which stakeholders are affected?	Management Approach
PXP consistently maintains an environmentally, ergonomically, and legally compliant operations	Employees and Community	The Company continues adherence to environmental laws and regulations.

SOCIAL

Employee Management

Employee Hiring and Benefits

Employee data

Disclosure	Quantity	Units
Total number of employees ⁵		
a. Number of female employees	4	#
b. Number of male employees	3	#
Attrition rate ⁶	-%	rate
Ratio of lowest paid employee against minimum wage ⁷	-	ratio

Employee benefits

List of Benefits	Y/N	% of female employees who availed for the year	% of male employees who availed for the year
SSS	Y	14%	-
PhilHealth	Y	-	-
Pag-Ibig	Y	29%	-
Parental leaves	Y	14%	-
Vacation leaves	Y	100%	100%
Sick leaves	Y	100%	100%
Medical benefits (aside from PhilHealth)	Y	100%	100%
Housing assistance (aside from Pag-Ibig)	N	-	-
Retirement fund (aside from SSS)	N	-	-
Further education support	N	-	-
Company stock options	N	-	-
Telecommuting	N	-	-
Flexible-working Hours	N	-	-
(Others)		-	-

What is the impact and where does it occur? What is the organization's involvement in the impact?	Management Approach
Provides assistance in facilitating and processing of the applications. The Company ensures regular and timely remittance of the employee's monthly premiums. PXP provides assistance to employees in	The Company considers its people its greatest asset. Employees are provided with benefits packages (i.e. Maternity Benefit, Sickness Benefit, Salary Loans, and Calamity Fund) along with a wide range of learning and professional

⁵ Employees are individuals who are in an employment relationship with the organization, according to national law or its application ([GRI Standards 2016 Glossary](#)). Figures do not include the employees of SC operators in which PXP and Forum are members.

⁶ Attrition are = (no. of new hires – no. of turnover)/(average of total no. of employees of previous year and total no. of employees of current year).

⁷ All employees of PXP are paid above the minimum wage rates.

<p>facilitating and processing of the applications when availing other SSS and Pag-Ibig benefits.</p>	<p>development opportunities to help them achieve their full potential.</p> <p>Benefits provided for the employees are as follows:</p> <p>Base Salary; Medical Coverage for Employees and their spouses/children; Employees' Annual Medical Check-Ups; Life and Accident Insurance; Continuing Education; Annual Vacation Leave – 15 days; and Annual Sick Leave – 15 days.</p> <p>PXP follows the standard “five-days-work and two-days-off pattern” and eight-hour working day.</p> <p>The Company also promotes work-life balance and the welfare of the employees.</p> <p>PXP advocates the rights of female workers in the office without bias and discrimination. In years 2016 and 2019, SSS Maternity Leave benefit was availed by a female employee in accordance with RA 11210. In 2017, another female employee availed special leave with full pay after undergoing gynecological surgery, which is in compliance with the Magna Carta of Women (RA 9710).</p> <p>Additionally, the Company adheres to the Solo-Parent Welfare Act of 2000 (RA 8972) and the Magna Carta for Disabled Persons (RA 7277).</p>
<p>What are the Risk/s Identified?</p>	<p>Management Approach</p>
<p>Non-adherence to providing benefits mandated by the government is a violation of the law and will subject the Company to civil and criminal liabilities in addition to revocation of license to operate.</p>	<p>All employees enter into labor contracts for legal employment with the Company. The Company exercises check-and-balance practices to ensure that various policies are properly implemented.</p>
<p>What are the Opportunity/ies Identified?</p>	<p>Management Approach</p>
<p>The Company is considering telecommuting or work from home arrangements.</p>	<p>The Company prioritizes management of its employees to ensure that it maintains a high-performing workforce that is at par with the best in the industry.</p>

Work from home arrangement decreases operational expenses of the Company and increases employees' work efficiency.	
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Employee Training and Development

Disclosure	Quantity	Hours/Year
Total training hours provided to employees		
a. Female employees	48	hours
b. Male employees	48	hours
Average training hours provided to employees		
a. Female employees	16	hours/employee
b. Male employees	16	hours/employee

What is the impact and where does it occur? What is the organization's involvement in the impact?	Management Approach
The onshore and offshore petroleum competency requirement is quite complex as it requires high standard of safety and proficiency. PXP greatly believes that employees are the main asset of the Company and continuous training and development should be implemented.	<p>Technical personnel are attending SEAPEX meetings/seminars here and abroad, as well as annual Philippine Geological Conferences since 2015. In 2016, a Basin Analysis training course was attended by a PXP geologist, together with other geoscientists from local petroleum operators.</p> <p>HSSE trainings such as First Aid and Basic Life Saving Trainings are attended by assigned PXP personnel every two years.</p> <p>Earthquake and fire drills are implemented by the Company.</p>
What are the Risk/s Identified?	Management Approach
Globally, the petroleum industry is experiencing a downturn, which caused a slowdown in overall operations and sustenance of personnel training and development.	The training and development budget will be re-aligned in response to the oil price crash. Encourage personnel to take advantage of free webinar courses provided by technical experts.
What are the Opportunity/ies Identified?	Management Approach
<p>While petroleum operations are slowing down, the Company should take this opportunity to avail training which is much cheaper if done locally with other petroleum operators. Also, online trainings are cheaper as they will not require travel and accommodation costs.</p> <p>HSSE trainings should be attended by all personnel with different definitions of safety standards.</p>	<p>In 2016, PXP together with other petroleum operators availed an international training course and conducted it locally.</p> <p>First aid training by the Red Cross should be attended by all PXP employees.</p> <p>The Company looks for opportunities for inexpensive local or online training if available.</p>

	Additionally, technical personnel are participating on free online courses offered by petroleum experts.
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Labor-Management Relations

Disclosure	Quantity	Units
% of employees covered with Collective Bargaining Agreements	Not Applicable	%
Number of consultations conducted with employees concerning employee-related policies	Not Applicable	#

What is the impact and where does it occur? What is the organization's involvement in the impact?	Management Approach
The Company has no collective bargaining agreements with any of its employees.	The Company creates a working environment that is conducive to open discussion and collaboration, with the goal of enabling everyone to work together towards improving its working conditions and enhancing the overall productivity
What are the Risk/s Identified?	Management Approach
The Company has no reported issues on labor-management relations during the year.	The Company upholds the values of integrity and accountability. Therefore, it expects the members of its workforce to comply with pertinent rules and regulations and hold them accountable for any violations that may occur in the conduct of their duties.
What are the Opportunity/ies Identified?	Management Approach
Maintaining a harmonious professional relationship between the management and staff as it helps ensure employee engagement and business continuity.	The Company encourages open communications between management and staff through various formal and informal channels. Continue to engage the employees in a non-business-relaxing environment to foster team spirit and bonding.

Diversity and Equal Opportunity

Disclosure	Quantity	Units
% of female workers in the workforce	57%	%
% of male workers in the workforce	43%	%
Number of employees from indigenous communities and/or vulnerable sector*	2	#

*Vulnerable sector includes, elderly, persons with disabilities, vulnerable women, refugees, migrants, internally displaced persons, people living with HIV and other diseases, solo parents, and the poor or the base of the pyramid (BOP; Class D and E).

What is the impact and where does it occur? What is the organization's involvement in the impact?	Management Approach
<p>Company activities such as hiring, promotion, and compensation are conducted without regard to race, color, ethnicity, religion, national origin, gender, gender identity or expression, sexual orientation, marital status, dependents, genetics, disability, age, social class, or political views.</p>	<p>The management is committed to respecting people's differences and creating an inclusive workplace culture. It does not tolerate any kind of harassment or prejudice.</p> <p>In order to respect and value the diversity of the employees and all with whom the Company do business, managers are required to ensure that the working environment is free from any form of harassment and discrimination.</p> <p>PXP advocates the rights of female workers in the office without bias and discrimination.</p> <p>Additionally, the Company adheres to the Solo-Parent Welfare Act of 2000 (RA 8972) and the Magna Carta for Disabled Persons (RA 7277).</p> <p>The company's board diversity policy can be found in the Company's website through this link: https://www.pxpenery.com.ph/corporate-governance/company-policy/board-diversity-policy/.</p>
What are the Risk/s Identified?	Management Approach
<p>The Company has not identified any violation relating to diversity and equal opportunity.</p>	<p>All employees are provided with equal career opportunities and recognize that people bring different skill qualities to the work place.</p>

What are the Opportunity/ies Identified?	Management Approach
<p>As at March 31 2020, the Company has 8 employees comprising 5 females and 3 males. The Company will continue to encourage:</p> <ul style="list-style-type: none"> - greater female participation; and - executive senior professional employees to look for mentoring opportunities for more junior employees to gain valuable insights into PXP and the oil & gas industry, generally. <p>Diversity creates goodwill within the community and within the industry.</p>	<p>The Company will continue to promote inclusiveness to help break down barriers and reduce the fear of being rejected, not only for who the employees are, but also for the ideas they voice.</p> <p>Continuous hiring of both local and foreign consultants for the company's exploration projects.</p>

Workplace Conditions, Labor Standards, and Human Rights

Occupational Health and Safety

Disclosure	Quantity	Units
Safe Man-Hours	207,543*	Man-hours
No. of work-related injuries	None	#
No. of work-related fatalities	None	#
No. of work related ill-health	None	#
No. of safety drills	1	#

*Data is from the SC 14 C-1 Galoc FPSO for the year 2019.

What is the impact and where does it occur? What is the organization's involvement in the impact?	Management Approach
<p>The Company and its Subsidiaries consistently foster a safe working environment. PXP implements employee health and safety measures and training programs that protect people from occupational hazards by preventing injury, illness, and fatality.</p>	<p>The Company strictly complies with all relevant occupational health and safety laws and regulations. PXP aims to achieve a zero injury and fatality rate for its entire staff.</p> <p>Same is true with offshore operations of subsidiaries, which adhere to international HSSE policies.</p> <p>At the work site, first aid kits and fire extinguishing equipment are conspicuously located and properly maintained. To ensure emergency preparedness, staff participates in regular fire and earthquake evacuation drills. Regular first aid and lifesaving trainings are being attended by assigned safety officer at the office.</p>

What are the Risk/s Identified?	Management Approach
<p>No fatal cases, occupational injuries or incidents were recorded during the year at the office as well as in the field.</p> <p>Failure to manage workplace safety would negatively impact employee health and productivity.</p>	<p>The Company enforces occupational health and safety protocols for the benefit of the employees, contractors, and host communities.</p>
What are the Opportunity/ies Identified?	Management Approach
<p>By properly managing and implementing health and safety trainings, employees and contractors can handle their jobs safely for the benefit of the organization and all stakeholders.</p> <p>The Company aims to be up-to-date with current best practices in HSSE.</p>	<p>The Company will continue to provide the necessary equipment, training, and resources to enable employees and contractors to work safely.</p> <p>PXP will consistently encourage and empower employees by letting them attend safety trainings and retake training sessions, if necessary, to refresh their memory.</p>

Labor Laws and Human Rights

Disclosure	Quantity	Units
No. of legal actions or employee grievances involving forced or child labor	None	# of cases

Do you have policies that explicitly disallow violations of labor laws and human rights (e.g. harassment, bullying) in the workplace? **Yes, the Company has.**

Topic	Y/N	If Yes, cite reference in the company policy
Forced labor	Y	<p>As provided by the Philippine labor law and regulations.</p> <p>The Company also has a policy for Code of business conduct and ethics and that of whistleblowers under https://www.pxpenery.com.ph/corporate-governance/company-policy/code-of-business-conduct-and-ethics/ and https://www.pxpenery.com.ph/corporate-governance/company-policy/whistle-blowing/.</p>
Child labor	Y	<p>As provided by the Philippine labor law and regulations.</p> <p>The Company also has a policy for Code of business conduct and ethics and that of whistleblowers under https://www.pxpenery.com.ph/corporate-governance/company-policy/code-of-business-conduct-and-ethics/.</p>

		and https://www.pxpenenergy.com.ph/corporate-governance/company-policy/whistle-blowing/ .
Human Rights	Y	As provided under the Philippine Constitution and the Universal Declaration of Human Rights. The Company also has a policy for Code of business conduct and ethics and that of whistleblowers under https://www.pxpenenergy.com.ph/corporate-governance/company-policy/code-of-business-conduct-and-ethics/ and https://www.pxpenenergy.com.ph/corporate-governance/company-policy/whistle-blowing/ .

What is the impact and where does it occur? What is the organization's involvement in the impact?	Management Approach
The Company follows the principle of fairness and openness in its recruitment process. The Company employs people who choose to work and the Company does not use forced or compulsory labor. Also, PXP does not use child labor or employ people under minimum employment age limit.	The Company values the dignity of every individual and have strict compliance to the basic human rights as provided under the Philippine Constitution and the Universal Declaration of Human Rights. In case of violations, the Company has a policy for whistleblowers.
What are the Risk/s Identified?	Management Approach
Risk that subcontractors have violations of labor laws and human rights.	The Company values the dignity of every individual and have strict compliance to the basic human rights as provided under the Philippine Constitution and the Universal Declaration of Human Rights. Any violation of laws is encouraged to be reported as indicated in the whistleblower policy of the Company.
What are the Opportunity/ies Identified?	Management Approach
The Company aims to be up-to-date with current Labor Laws and Human Rights policies which protect both the stakeholders and the Company.	The Company values the dignity of every individual and have strict compliance to the basic human rights as provided under the Philippine Constitution and the Universal Declaration of Human Rights. Any violation of laws is encouraged to be reported as indicated in the whistleblower policy of the Company.

Supply Chain Management

Do you have a supplier accreditation policy? If yes, please attach the policy or link to the policy:

Do you consider the following sustainability topics when accrediting suppliers? Yes

Topic	Y/N	If Yes, cite reference in the supplier policy
Environmental performance	Y	https://www.pxpenenergy.com.ph/corporate-governance/company-policy/supplier-contractor-relation/
Forced labor	Y	https://www.pxpenenergy.com.ph/corporate-governance/company-policy/supplier-contractor-relation/
Child labor	Y	https://www.pxpenenergy.com.ph/corporate-governance/company-policy/supplier-contractor-relation/
Human rights	Y	https://www.pxpenenergy.com.ph/corporate-governance/company-policy/supplier-contractor-relation/
Bribery and corruption	Y	https://www.pxpenenergy.com.ph/corporate-governance/company-policy/supplier-contractor-relation/

What is the impact and where does it occur? What is the organization's involvement in the impact?	Management Approach
<p>The Company's relationships with suppliers, contractors, consultants, and advisers (collectively, "Suppliers") are based on lawful, efficient, and fair practices. All bidders are given equal opportunity to compete and their bids are evaluated fairly and in a transparent manner.</p>	<p>All Directors, Employees, and Consultants are encouraged to be vigilant against any irregular, illegal, or unethical conduct of Suppliers and/or fellow Directors, Employees, and Consultants (see Annex "A" for examples of Supplier/Contractor Relations Policy Violations). The Company encourages everyone to report any such violations based on the existing Whistleblowing Policy or equivalent policy.</p> <p>Directors, Employees, and Consultants may also report in writing their knowledge about any irregular, illegal, or unethical conduct of Suppliers and/or fellow Directors, Employees, and Consultants as follows: (a) Directors shall notify the Board of Directors through its Chairman of such conduct; (b) Officers shall report to the Company President [copy furnished the Corporate Governance Office (CGO)]; and (c) Employees and Consultants shall inform their respective Group Heads, copy furnished to the CGO.</p>

	<p>A proper investigation and resolution of each reported event shall be made by the appropriate business units and the results shall be forwarded to the Chairman of the Board, the President or respective executive-level superior, and the CGO and other relevant groups or bodies, in accordance with the procedure stated in the Whistleblowing Policy.</p> <p>The Board of Directors, Officers, and Executives must ensure that any Director, Employee, or Consultant who reports a suspected violation of this policy by fellow Director, Employee, or Consultant is protected from any form of retaliation.</p> <p>The Company's Policy on Vendor Relations is available for more details at the Company's website through this link: https://www.pxpenenergy.com.ph/corporate-governance/company-policy/supplier-contractor-relation/.</p>
<p>What are the Risk/s Identified?</p>	<p>Management Approach</p>
<p>The Company has no reported violations on supply management during the year.</p> <p>The following are examples of procurement situations that reveal unethical conduct by an Employee and/or Supplier. The areas and situations enumerated are illustrative only and not exhaustive.</p> <ol style="list-style-type: none"> 1. An Employee manipulating his evaluation of the contract proposals in exchange for Bribes. 2. A Supplier seeking internal (within the Company) and/or external (i.e. political/government) connections to increase chances of contract award. 3. Suppliers submitting false documents for accreditation and other procurement-related transactions or processes. 4. Employees developing unreasonable or over specific technical requirements such that award of contract intentionally goes to a particular or preferred Supplier. 	<p>The Company includes in the Supplier Contractor Relations policy the consequences for any violations:</p> <ol style="list-style-type: none"> 1. Any Director, Employee, and Consultant found to have violated this Policy shall be liable to the extent of the damage/loss suffered by PXP, and/or may be subject to penalties and sanctions as may be determined by the appropriate authorities, whether or not damage is actually suffered by PXP, in accordance with the law and existing company policies. 2. Suppliers who violate the Company are also penalized. Sanctions include but are not limited to termination of business relationship with the Company and blacklisting.

<p>5. Employees giving priority or informing preferred Suppliers in advance before actual request such that other Suppliers are caught unprepared or with too little time to plan.</p> <p>6. Products and/or services that have not undergone official procurement procedure since these were tested or evaluated beforehand through product demos with particular Suppliers thus limiting chances for other Suppliers to compete.</p> <p>7. Undisclosed conflict of interest situations on business dealings resulting to giving undue advantage to another party.</p> <p>8. Disclosure of confidential and proprietary information by Employees to Suppliers.</p> <p>9. Incorrect payment of government taxes due to manipulation of documents by Suppliers.</p> <p>10. Suppliers not remitting the correct SSS, PhilHealth, Pag-Ibig, and other employee contributions to their employees.</p>	
What are the Opportunity/ies Identified?	Management Approach
<p>Responsible supply chain management can generate value to the Company. It improves collaboration with suppliers, attracts and retains employees, provide security for investors and creditors and can create new market opportunities.</p>	<p>PXP shall continuously uphold the highest professional standards of business practices, core values and ethics as enshrined in its Code of Business Conduct and Ethics (the "Code") in its business dealings with its Suppliers in the procurement of products and services.</p>

Relationship with Community

Significant Impacts on Local Communities

Operations with significant (positive or negative) impacts on local communities (exclude CSR projects; this has to be business operations)	Location	Vulnerable groups (if applicable)*	Does the particular operation have impacts on indigenous people (Y/N)?	Collective or individual rights that have been identified that or particular concern for the community	Mitigating measures (if negative) or enhancement measures (if positive)
Job opportunities	Cebu	Not Applicable	N	Land jurisdictions	Conducted IEC campaign prior to the gravity survey.
Job opportunities	Calamian Islands	Not Applicable	Y	Religious and cultural beliefs	Conducted IEC campaign prior to the field work.
Rental of land (Brgy. Maya)	Cebu	Not Applicable	N	Land jurisdictions	Timely and full payment of rental fee. Secure property. Proper land use according to agreement with the landowner.

*Vulnerable sector includes children and youth, elderly, persons with disabilities, vulnerable women, refugees, migrants, internally displaced persons, people living with HIV and other diseases, solo parents, and the poor or the base of the pyramid (BOP; Class D and E)

For operations that are affecting IPs, indicate the total number of Free and Prior Informed Consent (FPIC) undergoing consultations and Certification Preconditions (CPs) secured and still operational and provide a copy or link to the certificates if available: **None**

Certificates	Quantity	Units
FPIC process is still undergoing	Not Applicable*	#
CP secured	Not Applicable*	#

*The FPIC and CP are not applicable to PXP and Forum since there are no IPs residing within their operated SCs. During the SC 74 Fieldwork in 2018, the team requested for permission from the Tagbanua Tribe to study rocks in Coron Island. Please take note that Coron Island is not inside SC 74. The objective of the fieldwork is to correlate the geology of the offshore SC 74 with the onshore Calamian Island.

What are the Risk/s Identified?	Management Approach
<p>Misunderstanding between PXP and the local community might lead to issues which could affect the operations, as well as the health and safety of deployed personnel in the field.</p>	<p>PXP implements careful planning and consultation with the local communities.</p> <p>In June 2018, during a fieldwork in Coron Island, PXP properly coordinated with the Indigenous Peoples (IPs) Tagbanua Tribe prior, during, and after the fieldwork. The field team composed of PXP personnel and graduate students from the University of the Philippines complied with the tribe's directive to ask for permission before acquiring rock samples in the island, which the locals consider as a sacred place.</p> <p>Management of community tensions, grievances, and concerns through transparent formal grievance mechanism.</p> <p>Supporting and collaborating with host local governments to encourage revenue good governance.</p>
What are the Opportunity/ies Identified?	Management Approach
<p>Involvement of the local community in the Company's project by hiring local residents.</p>	<p>The Service Contract states that the Company is committed to provide scholarship for deserving students residing within the area where the company operates and institutional assistance to state universities/colleges in the amount of five thousand United States dollars (\$5,000) per year cumulative during the exploration/development phase, and a minimum amount of ten thousand United States dollars (\$10,000) per year cumulative during the production phase.</p> <p>Management's strict adherence to the service contract ensures that the indigenous communities are protected.</p>

Customer Management

Customer Satisfaction

Disclosure	Score	Did a third party conduct the customer satisfaction study (Y/N)?
Customer satisfaction	N/A*	N

*PXP does not have customers except for being a member of the Galoc consortium which produces and sells crude oil to refining companies. The consortium adheres to the required quantity/quality required by the customers of these fields. There were no recorded complaints/disputes.

What is the impact and where does it occur? What is the organization's involvement in the impact?	Management Approach
In line with PXP's Code of Business Conduct and Ethics, the Company upholds fair and transparent dealings with its customers. All the transactions and business relationships with customers are covered by contracts and comply with existing laws and regulations in the country.	As part of the Company's commitment to the welfare of its customers, Company representatives and its customers meet annually to review and discuss the terms of the new or existing contract as well as identify areas for improvement in operations and other related aspects. The Company's policy is available at the Company's website: https://www.pxpenery.com.ph/corporate-governance/company-policies/ .
What are the Risk/s Identified?	Management Approach
There were no identified customer satisfaction risk during the year.	PXP will continuously review, update, and improve Company's policy with customers.
What are the Opportunity/ies Identified?	Management Approach
PXP shall determine the level of satisfaction of the Company's stakeholders and customers once its exploration fields are converted to production stage.	The Company shall regularly conduct Stakeholder's/Customer's Satisfaction Survey by third-party contractors to determine and improve actual performance/service rendered and quality of its operations once its exploration fields are converted to production stage.

Health and Safety

Disclosure	Quantity	Units
No. of substantiated complaints on product or service health and safety*	None	#
No. of complaints addressed	None	#

*Substantiated complaints include complaints from customers that went through the organization's formal communication channels and grievance mechanisms as well as complaints that were lodged to and acted upon by government agencies.

What is the impact and where does it occur? What is the organization's involvement in the impact?	Management Approach
Customer health and safety is important for all businesses and remains an utmost priority for PXP.	PXP will continuously review, update, and improve Company's policy with customers.
What are the Risk/s Identified?	Management Approach
There were no identified risks on health and safety to customers as PXP does not yet have customers. Risks	PXP does not yet have customers. Risks shall be identified once its exploration fields are converted to production. PXP shall consistently

shall be identified once its exploration fields are converted to production	promote safe and healthy working environment, not only to employees but also to customers.
What are the Opportunity/ies Identified?	Management Approach
PXP does not yet have customers. Opportunities shall be identified once its exploration fields are converted to production	The Company should regularly conduct Stakeholder's/Customer's Satisfaction Survey by third-party contractors to determine and improve health and safety working environment of PXP once its exploration fields are converted to production.

Marketing and labelling

Disclosure	Quantity	Units
No. of substantiated complaints on marketing and labelling*	None	#
No. of complaints addressed	None	#

**Substantiated complaints include complaints from customers that went through the organization's formal communication channels and grievance mechanisms as well as complaints that were lodged to and acted upon by government agencies.*

What is the impact and where does it occur? What is the organization's involvement in the impact?	Management Approach
Although the Company has mainly exploration assets at this time, marketing and labelling efforts are evident through maintenance of its website at www.pxpenergy.com.ph , which caters to its stakeholders, clients, and future investors.	The Company consistently updates and improves its website.
What are the Risk/s Identified?	Management Approach
Security and falsification of posted information on website	PXP ensures that all data uploaded on the website are secured, accurate, and up to date.
What are the Opportunity/ies Identified?	Management Approach
Study digital marketing.	The market is evolving, thus, the Company should improve its marketing and labelling strategies by being involved with digital marketing.

Customer Privacy

Disclosure	Quantity	Units
No. of substantiated complaints on customer privacy*	None	#
No. of complaints addressed	None	#
No. of customers, users and account holders whose information is used for secondary purposes	None	#

*Substantiated complaints include complaints from customers that went through the organization's formal communication channels and grievance mechanisms as well as complaints that were lodged to and acted upon by government agencies.

What is the impact and where does it occur? What is the organization's involvement in the impact?	Management Approach
For customer privacy, PXP respects every stakeholder's right to privacy and commits to protect all personal data. Collection, retention and use of sensitive information are utilized only for its intended use.	The Company strictly complies with Republic Act No. 10173 otherwise known as the Data Privacy Act of 2012 and implements its own internal control on data security. As a personal information controller/processor, the Company has put protocols to protect the personal information of the data subject.
What are the Risk/s Identified?	Management Approach
Disclosures of stakeholders personal data are limited only to what is required by law or to comply with legal or regulatory requirements, the Company has no control as soon as the information is shared externally (i.e. PSE/SEC)	The Company adheres with RA 10173 otherwise known as the Data Privacy Act of 2012 and implements its own internal control on data security. PXP adopts risk management and control measures to deter any breach of data security. Certain levels of data security are in place.
What are the Opportunity/ies Identified?	Management Approach
Compliance to customer privacy can build customer trust and loyalty.	In this digital age, compliance with the Data Privacy Act strengthens the integrity and security of the Company in relation to its electronic database and records.

Data Security

Disclosure	Quantity	Units
No. of data breaches, including leaks, thefts and losses of data	None	#

What is the impact and where does it occur? What is the organization's involvement in the impact?	Management Approach
<p>The Company has an updated and effective security software to protect the Company data and can provide real time visibility of any threat activities to stop a breach before it happens. Daily data backup is also in place.</p> <p>The Company consistently ensures security of technical classified G&G data of its operated and non-operated SCs.</p>	<p>The Company takes precautions and educate the employees not to share any sensitive and confidential information. Preventive security measures like data backup, recovery, and firewall are in place.</p> <p>To ensure security of data, a File Transfer Protocol (FTP) server is being utilized by the Technical Team.</p>
What are the Risk/s Identified?	Management Approach
<p>Out of date cyber security software will make the server vulnerable to third-party access, data loss, and additional operational expenses to the Company.</p> <p>Information breach will lead to loss of confidential data.</p>	<p>Anti-virus and cyber security software are continuously upgraded for data security.</p> <p>Immediately notify the person/company involve in the event of any breach or use of any sensitive data.</p>
What are the Opportunity/ies Identified?	Management Approach
<p>Strong data security will result to financial savings and avoidance of any reputational damage.</p>	<p>The Company ensures continuous update of its data security programs.</p>

UN SUSTAINABLE DEVELOPMENT GOALS

Product or Service Contribution to UN SDGs

Key products and services and its contribution to sustainable development.

Key Products and Services	Societal Value / Contribution to UN SDGs	Potential Negative Impact of Contribution	Management Approach to Negative Impact
Oil & Gas Exploration & Production	Economic growth	Environmental damage associated with field operations.	Strict compliance to government laws and regulations on health and environmental safety.
Oil & Gas Exploration & Production	Decent work	Health & Safety	Conduct IEC campaign prior to the fieldwork.

Oil & Gas Exploration & Production	Welfare of vulnerable groups	Traditional lifestyle of indigenous people are affected	Careful planning, consultation management, accommodation and negotiation with the local community and indigenous groups.
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** None/Not Applicable is not an acceptable answer. For holding companies, the services and products of its subsidiaries may be disclosed.*