COVER SHEET

CS200719819

SEC Registration Number

PXP ENERGY CORPORATION (formerly Philex Petroleum Corporation)

(Company's Full Name)

2F LAUNCHPAD RELIANCE CORNER SHERIDAN STREETS MANDALUYONG CITY 1550

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

Mark H. Rilles

(Contact Person)

631-1381 to 88

(Company Telephone Number)

1	2		3	1

Month *Day*

(Calendar Year)

SEC 17-A

(Form Type)

3rd Tuesday of May

Month *Day*

(Annual Meeting)

Not Applicable

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Not Applicable

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

Remarks: Please use black ink for scanning purposes.

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, 2018**

2. SEC Identification Number **CS200719819** 3. BIR Tax Identification No. **006-940-588-000**

4. Exact name of issuer as specified in its charter **PXP ENERGY CORPORATION**

5. **Philippines**
   Province, Country or other jurisdiction of incorporation or organization

6. (SEC Use Only)
   Industry Classification Code:

7. **2/F LaunchPad, Reliance cor. Sheridan St., Mandaluyong City** **1550**
   Address of principal office Postal Code

8. **(632) 631-1381**
   Issuer's telephone number, including area code

9. **N/A**

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

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

Title of Each Class	Number of Shares of Common Stock Outstanding
Common Shares	**1,960,000,000**
Debt	**₱2,125,184,000**

11. Are any or all of these securities listed on a Stock Exchange.
    Yes [**X**] No [ ]

    If yes, state the name of such stock exchange and the classes of securities listed therein:
    Philippine Stock Exchange **Common Shares**

12. Check whether the issuer:

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

    Yes [**X**] No [ ]

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

    Yes [X] No [ ]

13. Aggregate market value of the voting stock held by non-affiliates: ₱12.05 billion based on closing price of ₱14.94 per share at the Philippine Stock Exchange on February 28, 2019.

PART I - BUSINESS AND GENERAL INFORMATION

Item 1. Business

CORPORATE PROFILE

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

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

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

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

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

The Company owns 100% of Brixton Energy & Mining Corporation.

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

Subsidiary	Nature of Business
FEL	Incorporated on April 1, 2005 in England and Wales primarily to engage in the business of oil and gas exploration and production, with focus on the Philippines, particularly, a 70% interest in SC 72 Recto Bank.
Forum Energy Philippines Corporation (FEPCO)	FEPCO was incorporated in the Philippines on March 27, 1988 and is involved in oil and gas exploration in the Philippines, particularly a 2.28% interest in SC 14 C-1 Galoc.
Forum Exploration, Inc. (FEI)	FEI was incorporated in the Philippines on September 11, 1997 and is involved in oil and gas exploration in the Philippines.
Forum (GSEC101) Ltd. (FGSECL)	FGSECL was incorporated in Jersey on March 31, 2005 and is involved in oil and gas exploration in the Philippines.
Forum (GSEC101) Ltd. - Philippine Branch (GSEC)	GSEC was established as a Philippine branch on October 17, 2005 and is involved in oil and gas exploration in the Philippines, specifically, SC 72 Recto Bank.
Pitkin	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 Parent Company: Pitkin Peru LLC (PPR) and Pitkin Vamex LLC (PVX).

PRODUCT AND DISTRIBUTION

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

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

The rest of the petroleum licenses are for projects still in the exploration or development stages and are not yet generating any revenues for the Company. Eighty-two percent (82%) (2017: 79%; 2016: 84%) of Forum's share of revenues from crude oil production in SC 14 in 2018, 2017, and 2016 were from crude oil sales to Korean, Thailand, Hongkong and Singapore markets, while the rest are sold locally.

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

COMPETITION

Petroleum Industry Overview

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

Petroleum Exploration and Production

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

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

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

Current petroleum production in the country is mainly from the Camago-Malampaya gas field and the Galoc oil field, which are both located offshore in the Northwest Palawan Basin. In 2018, total production from the Camago-Malampaya gas field, which started in October 2001, was approximately 150,804 million standard cubic feet of natural gas, and 4,075,893 barrels 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 3,200 barrels of oil per day in 2018.

As of December 2018, the DOE’s estimated remaining reserves from the sedimentary producing basins of the Philippines totaled to 18.78 million barrels of oil initially in place, 43.86 million barrels of condensate initially in place, and 1,278.65 billion cubic feet of gas initially in place.

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

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

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

<u>Industry Competition</u>

Petroleum service contracts are awarded by the DOE through a transparent and competitive bidding and nomination process under a petroleum licensing system known as the Philippine Conventional Energy Contracting Program (“PCECP”). Proposals are evaluated based on Department Circular (“DC”)

No.DC2017-12-0017. 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%
Financial qualifications	Evidence of available funds Finance track record	40%
Technical qualifications	Experience and track record	20%
Legal qualifications	Completeness and validity of required legal documents	Pass or Fail

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

Foreign and domestic petroleum exploration and production companies currently active in the Philippines include Shell Philippines Exploration B.V., Chevron Philippines, Inc., Total E&P Philippines B.V., Mitra Energy (Philippines SC 56) Ltd., Ratio Petroleum Ltd., Polyard Petroleum International Group, Ltd., PNOC Exploration Corporation, Tamarind Galoc Pte Ltd, Nido Petroleum Philippines Pty. Ltd., The Philodrill Corporation (“Philodrill”), Oriental Petroleum & Minerals Corporation (“OPMC”), and PetroEnergy Resources Corporation (“PERC”).

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

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

SOURCES AND AVAILABILITY OF SERVICES, RAW MATERIALS AND SUPPLIES

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

CUSTOMERS

Crude oil liftings from the Galoc field were sold to customers from South Korea, Hongkong, Thailand, and Singapore, while all crude oil liftings from the Nido, Matinloc, and North Matinloc were sold to customers in the Philippines. Note 22 of the Notes to the Consolidated Financial Statements as of December 31, 2018, attached hereto, on Segment Information, is incorporated by reference.

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

TRANSACTIONS AND DEPENDENCE ON RELATED PARTIES

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

a. On November 24, 2010, Forum Philippine Holdings Limited ("FPHL") entered into a US$10.0 million 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 Forum'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$15.0 million.

   On November 21, 2013, PMC assigned its rights and obligations under the facility agreement to the Parent Company. On the same date, the loan facility was increased to US$18.0 million and has been extended for an additional three (3) years. The loans receivable from FPHL and loan payable to PMC recorded in the Parent Company amounted to P674.8 million 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, Forum, and FGL agreed the conversion of US$11.8 million loan to equity, by subscribing to 39,350,920 new common shares of Forum. The loan payable consisted of total drawdowns from the loan facility of US$15.5 million and interest accrued of US$2.8 million. Of the remaining balance, US$1.0 million was paid through cash received from subscription of Tidemark to 6,666,667 new common shares of Forum.

   On the same date, PXP and FGL entered into a new loan facility amounting to US$6.0 million. Of which US$5.5 million was drawn out to fully settle the remaining portion of the long-term loan.

   Interest expense incurred for the old loan facility amounted to P11.7 million and P43.8 million in 2017 and 2016, respectively. During the same years, commitment fees incurred amounted to P281 thousand and P1.2 million, respectively.

   Total drawdown from the new loan facility amounted to US$5.5 million as at December 31, 2018. Interest expense incurred for 2018 and 2017 amounted to P18.2 million and P11.1 million, respectively. The new loan facility does not include an agreement for commitment fee.

   The interest expense and commitment fees were recorded under 'Interest expense and other charges' in the consolidated statements of income while these were eliminated upon consolidation for the year ended December 31, 2018, 2017, and 2016.

   Loans receivable of PXP as at December 31, 2018 and 2017 amounted to P290.4 million and P275.7 million, respectively.

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

   On August 11, 2015, the BOD has agreed that a pledge agreement with PMC (pledgee) be entered into by PXP (pledgor). In order to secure the balance of P2.2 billion as of pledge date, the Parent Company has pledged its shares in its subsidiaries, Pitkin and Forum to PMC. The contract was formally executed on August 17, 2015.

   During the year, the Group paid PMC amounting to P781.3 million. As at December 31, 2018 and 2017, advances from PMC amounted to P1.4 billion and P2.2 billion, respectively.

   On February 11, 2019, PXP paid PMC amounting to P1.4 billion. As a result, advances from PMC amounted to P1.7 million as of that date.

c. BEMC has significant transactions with related parties involving advances to provide funding on BEMC's exploration and development activities. As at December 31, 2018 and 2017, the non-interest bearing advances from PMC amounted to P737.8 million

d. The compensation of key management personnel pertaining to short-term employees and retirement benefits amounted to P8.4 million, P8.1 million, and P8.7 million in 2018, 2017, and 2016, respectively.

Note 17 of the Notes to the Consolidated Financial Statements as of December 31, 2018, attached hereto, on Related Party Transactions, is incorporated by reference. The Company or its related parties have no material transaction with parties falling outside the definition of "related parties" under the Philippine Accounting Standards No. 24 that are not available for other, more clearly independent parties on an arm's length basis.

PATENTS, TRADEMARKS AND LICENSES

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

GOVERNMENT APPROVALS

Compliance with petroleum service contracts is primarily monitored through the submission of the annual work program and budget ("WPB"), annual procurement plans, and quarterly accomplishment reports to the DOE. The annual WPB for a contract area must be submitted before the end of each contract year and would set forth the petroleum operations to be carried out during the ensuing contract year. The proposed annual WPB must be approved by the DOE. This will then serve as the contractor's guide in conducting the petroleum operations over the contract area.

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

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

EXISTING AND PROBABLE GOVERNMENTAL REGULATIONS

Existing Governmental Regulations

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

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

OIL AND GAS EXPLORATION

Oil Exploration and Development Act of 1972

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

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

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

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

The exploration period for each service contract is seven years, extendible for three years and for another year if petroleum is discovered by the end of the 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 service contract provide for the compulsory relinquishment of 25% of the initial area after five years from the effective date of the contract, but in the event that the contract is extended from 7 to 10 years, there must be an additional relinquishment of 25% of the initial area after seven years. This requirement shall not include, however, the area dedicated to production.

MINING OPERATIONS

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

RENEWABLE ENERGY

Renewable Energy Act of 2008

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

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

Moreover, government financial institutions have been tasked to provide preferential financial packages for the development, utilization and commercialization of renewable energy projects.

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

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

ENVIRONMENTAL LAWS

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

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

RESEARCH AND DEVELOPMENT

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

COMPLIANCE WITH ENVIRONMENTAL LAWS

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

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

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

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

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

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

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

EMPLOYEES

The Company is managed by its directors and executive officers with legal and technical support provided by specialist consultants. The day-to-day operations and administration of assets operated by the Company are handled by the employees of the Company, in accordance with established policies and agreed objectives. As of December 31, 2018, the Company has two management level regular employees and five supervisor level regular employees. For 2019, 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 Palawan, which is subject to international maritime issues pertaining to certain areas of the West Philippine Sea ("WPS"). Another block affected by the dispute is SC 75 in Northwest Palawan, which was placed under Force Majeure ("FM") in December 2015. The Permanent Court of Arbitration in The Hague released a ruling on July 12, 2016 on the maritime case filed by the Republic of the Philippines against the People's Republic of China. In particular, the Tribunal ruled that Reed Bank (Recto Bank), where Service Contract SC 72 lies, is within the Philippines' Exclusive Economic Zone ("EEZ") as defined under the 1982 United Nations Convention on the Law of the Sea ("UNCLOS").

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

PETROLEUM SERVICE CONTRACTS

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

An independent estimate of reserves and resources of the petroleum assets held by the Company and its subsidiaries are as follows[1]:

Asset	Gross 100%	Net attributable to Company	Classification (Standard)	Independent Consultant/ Report Date
Oil Reserves – Galoc Oil Field	5.06 mln bbls	0.11 mln bbls	Proved & Probable Developed Reserves (PRMS)[2]	Gaffney, Cline & Associates March 2017
Oil & Liquids Contingent Resources - SC 72	65 mln bbls OIIP	35 mln bbls OIIP	Best Estimate Contingent Resources (PRMS)	Weatherford Petroleum Consultants 2012
Gas Contingent Resources - SC 72	2603 bcf GIIP	1383 bcf GIIP	Best Estimate Contingent Resources (PRMS)	Weatherford Petroleum Consultants 2012
Oil & Liquids Prospective	220 mln bbls OIIP	117 mln bbls OIIP	Best Estimate Prospective Resources (PRMS)	Weatherford Petroleum Consultants 2012

[1] Independent resource estimates were submitted to the Department of Energy

[2] Petroleum Resources Management System approved in March 2007 by the Society of Petroleum Engineers, the World Petroleum Council, the American Association of Petroleum Geologists, and the Society of Petroleum Evaluation Engineers

Resources – SC 72				
Gas Prospective Resources – SC 72	8799 bcf GIIP	4676 bcf GIIP	Best Estimate Prospective Resources (PRMS)	Weatherford Petroleum Consultants 2012

Interests in Petroleum Service Contracts

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

Contract	Location	Area, square kms.	Interest Held	Operator	Status	Award & Expiry Dates
SC 6A Octon	Offshore Northwest Palawan	1,081	PXP 5.56% FEPC 5.56%	Philodrill	Production	September 1, 1973 February 28, 2024
SC 6 Cadlao	Offshore Northwest Palawan	34	PXP 1.65% ORRI[3]	Cadlao Development Company Limited ("Cadco")	Production Period*	September 1, 1973 February 28, 2024
SC 6B Bonita	Offshore Northwest Palawan	533	FEPC 8.182%	Philodrill	Production	September 1, 1973 February 28, 2024
SC 14 NW Palawan	Offshore Northwest Palawan					December 17, 1975 December 17, 2025
- Block A Nido		23.8	FEPC 8.468%	Philodrill	Production	
- Block B Matinloc		15	FEPC 12.406%	Philodrill	Production	
- Block B-1 North Matinloc		8.0	FEPC 19.463%	Philodrill	Production	
- Block C-1 Galoc		163	FEPC 2.27575%	Galoc Production Company W.L.L. ("GPC")	Production	
- Block C-2 West Linapacan		176.5	FEPC 9.103%	Philodrill	Exploration	
- Tara		10.28	FEPC 10.000%	Trans-Asia	Exploration	
- Block D		185	FEPC 8.168%	Philodrill	Exploration	

[3] Overriding royalty interest

Contract	Location	Area, square kms.	Interest Held	Operator	Status	Award & Expiry Dates
SC 40 North Cebu	Northern Cebu	3,400	FEI 100%[4]	FEI	Production	February 9, 1995 November 24, 2030
SC 72 Recto Bank	Offshore West Palawan	8,880	Forum (GSEC 101) 70%	Forum (GSEC 101)	Exploration	February 15, 2010 February 14, 2017*
SC 74 Northwest Palawan	Offshore Northwest Palawan Basin	4,268	PXP 70%	PXP	Exploration	August 13, 2013 August 12, 2020
SC 75 Northwest Palawan	Offshore Northwest Palawan	6,160	PXP 50%	PXP	Exploration	December 27, 2013 to December 26, 2020**
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 Force Majeure since December 15, 2014. Currently under Sub-Phase 2

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

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

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

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

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

SC 6A Octon

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

[4] Forum holds a 66.67% interest in FEI

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

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

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

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

SC 6B Bonita

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

Philodrill (Operator)	50.000%
OPMC	14.063%
Trans-Asia	14.063%
Nido Petroleum	7.812%
FEPC	**8.182%**
APMC	7.031%

An in-house evaluation completed by Operator Philodrill in early 2016 shows the East Cadlao Prospect has marginal resources which cannot be developed on a "stand-alone" basis. However, it remains prospective being near the Cadlao Field, which lies in another contract area. In view of this, the JV 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 Block to SC 6B. Subsequently, a seismic reprocessing program over East Cadlao and Cadlao Field will now be undertaken.

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

SC 14 Northwest Palawan

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

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

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

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

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

Block A Nido

OPMC	42.94%
Philodrill (Operator)	26.106%
Nido Petroleum	22.486%
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%
Trans-Asia	6.103%

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

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

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

The JV plans to P&A the remaining nine (9) wells at the Nido, Matinloc, and North Matinloc Fields within the second quarter of 2019. These fields have already reached their end of life, having been in production since the late 70’s-early 80’s. The P&A operation will start in April 2019 and is expected to last for 54 days.

- **Block C-1 Galoc**

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

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

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

The Galoc Field produced a total of 1,166,755 barrels of oil from January to December 2018 or an average of 3,198 bopd, as compared to 1,460,431 barrels or 4,003 bopd in 2017. This represents a year to year decline of 20%.

Cumulative production from start of production in October 2008 up to December 31, 2018 stood at 21.35 mmbo. Production forecast for 2019 is around 0.970 mmbo.

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.

Three (3) liftings, Cargoes 59, 60, and 61, were completed in January, May, and August 2018, with 1,066,075 bbls exported to refineries in South Korea and Singapore. The cargoes were sold at an average price of US$74.20 per barrel, which was 35% higher than the average price of US$54.97 per barrel realized in the four (4) liftings completed in 2017.

Three (3) liftings are scheduled for 2019 with the first one in early January 2019. The next two liftings will be in August and December 2019. GPC also plans to install a Condensate Recovery Unit onboard the FPSO that is capable of recovering 15-20 barrels of condensate for every 1 million cubic feet of gas produced.

- **Block C-2 West Linapacan**

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

West Linapacan is located in 300 to 350 meters of water, approximately 60 kilometers offshore from Palawan Island in SC 14 Block C2 in the NW Palawan Basin, Philippines. It comprises two (2) main oil bearing structures - West Linapacan A and B - and several seismic leads. The SC was entered into on December 17, 1975 between the Petroleum Board and the original second parties to the contract.

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%

The Consortium continues with its evaluation of the viability of redeveloping the West Linapacan "A" Field. An interpretation of the 3D seismic data was carried out in 2017 while for 2018, further assessment of viable options to redevelop the field were undertaken. The risks on the volume of remaining resources, and the complexity of the Linapacan Limestone reservoir will be among the factors to be considered during the evaluation.

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

For 2019, Philodrill will conduct a joint feasibility and Quantitative Interpretation ("QI") studies with the SC 74 JV, using the West Linapacan and Linapacan wells plus the reprocessed 3D seismic data.

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

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

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

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

No activity is planned for this block in 2019. Instead, the Consortium will continue to pay the annual rental fees amounting to P432,520 (US$7,864).

SC 40 North Cebu

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

The operator, FEI, is a 66.67% owned subsidiary of Forum and has a 100% participating interest in the block.

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

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

FEI will start planning for the drilling of an onshore well, Dalingding-2, in 1Q 2020. 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 2,000 ft to penetrate the Barili and secondary targets underneath.

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

SC 72 Recto Bank

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

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

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

Forum (GSEC 101) Limited (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 Service Contract SC 72 lies, is within the Philippines' EEZ as defined under the UNCLOS.

In October 2018, FGL started the Broadband and Pre-Stack Depth Migration (PSDM) reprocessing of the Sampaguita 3D seismic data with DownUnder GeoSolutions ("DUG"), a company based in Perth, Australia, as contractor. The Sampaguita 3D was acquired in 2011 and has an area of 565 sq km. The reprocessing work will be completed within the 2nd quarter of 2019.

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.

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

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

On the other hand, the Working Groups would consist of representatives authorized by China and Philippines for the inter-entrepreneurial, technical, and commercial aspects. China has appointed CNOOC, while the Philippines will authorize other enterprises with Service Contracts or the PNOC.

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

In early December 2018, the DOE directed Forum to request for the lifting of the FM over SC 72. Such a request was made through a letter sent by Forum to the DOE on December 21, 2018. As a service contractor in SC 72, FGL is bound by the DOE's directive over the lifting of the FM and the resumption of activities in SC 72 as well as in SC 75 which is similarly under FM at the moment.

SC 74 Northwest Palawan

SC 74 is located offshore Northwest Palawan covering an area of 4,240 square kilometers. The service contract has a seven-year Exploration Period consisting of four (4) Sub-Phases, extendible by three years, and a 25-year Production Period, extendible by 15 years. SC 74 was awarded on August 13, 2013.

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

PXP (Operator)	70%
Philodrill	25%
PNOC EC	5%

The geologic fieldwork in the Calamian Islands was conducted from June 17 to June 27, 2018 with 20 graduate students from the University of the Philippines National Institute of Geological Sciences (UP NIGS). Rock samples collected from the field will be subjected to different tests/analyses (dating, Total Organic Content, Vitrinite Reflectance, Pyrolysis, etc.).

The engineering and economic studies on Linapacan A and B Fields were completed with the PNOC EC as lead company. The report is being reviewed by the Operator prior to its submission to the DOE.

The first and second pass reprocessing of a test line from the multi-client 2D volume were completed by CGG in December 2017 and April 2018, respectively. The main objective of the test line reprocessing was to further resolve the deep prospective syn and pre rift structures below the Nido Limestone formation. Unfortunately, due to the complex geology within SC 74 Block, the reprocessing results were still unsatisfactory. The SC 74 JV is now evaluating the other options available or techniques to better image the pre-Nido section.

On March 27, 2018, the DOE approved the JV's entry to Sub Phase (SP) 3 starting December 13, 2017. The DOE also approved the submitted work program for 2019 which includes the completion of Phase 2 of the gravity and magnetic interpretation, the conduct of quantitative interpretation study of the Linapacan A and B fields using well and seismic data, and 2D and 3D seismic interpretation.

SC 75 Northwest Palawan

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

On April 15, 2014, the operator completed the acquisition of 2,237 line-kilometers of 2D seismic data in SC 75. Processing and interpretation of the 2D seismic data was completed in the second quarter of 2015.

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

On October 31, 2018, PXP submitted to the DOE the proposed WP&B for 2019 consisting mainly of license administration costs and a contingent 3D seismic survey of at least 1,000 sq km that will be conducted once the FM is lifted. The survey will fulfill the JV’s minimum work commitment under SP 2.

Peru Block Z-38

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

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

KEI (Peru Z-38) Pty Ltd Sucursal del Peru (Operator)	40%
Tullow Oil plc	35%
Pitkin Petroleum Peru Z-38 SRL (“Pitkin”)	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.

Peru Block Z-38 was previously under FM since September 1, 2013. Upon Karoon Energy’s request, Perupetro approved the lifting of FM effective September 12, 2018. In view of this, the Third Exploration Period, will now expire on July 1, 2020.

On January 10, 2018, Karoon announced that it has executed an FIA with Tullow Peru Limited, a wholly owned subsidiary of Tullow Oil plc (“Tullow”), wherein Tullow will acquire a 35% interest in the block on the following terms:

1. 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.
2. Pay US$2 million upon completion with a further US$7 million payable upon declaration of commercial discovery and submission of a development plan to Perupetro.

The Agreement remains subject to the satisfaction of certain licensing conditions and regulatory approvals. Following completion of the farm-out well, Tullow will have an option to assume operatorship of the block.

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

The Marina 1X well will be drilled to 2,450m total depth in Q1 2020. If there are oil and/or gas shows encountered at TD, there is an option to deepen the well to 2,900m to test the secondary targets below the main Upper Tumbes target. Pitkin is carried in the cost of Marina-1X and a second well under an FIA that was signed with Karoon in 2009.

The 2019 WP&B was presented at the TCM/OCM held in Melbourne on November 27, 2018. Most of the work programs planned for 2019 are related to preparations for the drilling of wells in 2020.

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 ₱230.8 million as of December 31, 2018 compared to ₱261.9 million as of December 31, 2017.

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 2018 to the security holders for a vote.

PART II - OPERATIONAL AND FINANCIAL INFORMATION

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

MARKET INFORMATION

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

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

The Company's public float as of December 31, 2018 is 29.28%.

The average stock prices for the Company's common shares within the last two years and for the first two months of 2019 were as follows:

Period	High	Low
1Q 2017	3.90	2.88
2Q 2017	3.85	2.84
3Q 2017	10.10	2.96
4Q 2017	12.34	6.35
1Q 2018	19.42	7.81
2Q 2018	17.02	10.4
3Q 2018	17.12	9.8
4Q 2018	19.7	13.68
Jan 2019	16.46	14.34
Feb 2019	15.5	13.86

The Company's stock was traded at P14.94 per share as of February 28, 2019.

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 38,796. The top 20 stockholders as of April 4, 2019 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)	390,350,327	19.916%
2) PHILEX MINING CORPORATION (Direct and held through PCD Nominee)	595,864,728	30.401%
3) ASIA LINK B.V.	284,470,725	14.514%
4) SOCIAL SECURITY SYSTEM (Direct and through PCD Nominee)	213,587,405	10.897%
5) TWO RIVERS PACIFIC HOLDINGS CORP.	125,608,156	6.409%
6) KIRTMAN LIMITED	65,221,981	3.328%
7) MAXELLA LIMITED	64,539,833	3.293%
8) PCD NOMINEE CORPORATION (NON-FILIPINO)	53,667,509	2.738%
9) ARTINO LIMITED	10,193,136	0.520%
10) MAKATI SUPERMARKET CORP.	2,464,201	.126%
11) THE FIRST NATIONAL INVESTMENT COMPANY INC.	2,073,157	.106%
12) MANUEL V. PANGILINAN	1,603,466	.082%
13) THE FIRST NATIONAL INVESTMENT COMPANY,	1,524,380	.078%
14) PHILIPPINE REMNANTS CO., INC.	1,438,125	.073%
15) FRANK PAO	1,011,714	.052%
16) PAULINO DE UGARTE &/OR ELENA E. DE UGARTE	852,943	.044%
17) CAROL JOAN REIF	826,795	.042%
18) RELIGIOUS OF THE VIRGIN MARY-B	789,846	.040%
19) ROBIN JOHN PETTYFER	735,239	.038%
20) SKYSIDE DEVELOPMENT CORP.	694,810	.035%
TOTAL	1,817,518,476	92.73%

DIVIDENDS

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

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

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

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

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

DESCRIPTION OF THE SECURITIES OF THE COMPANY

The Company's authorized capital consists of 6,800,000,000 common shares, of which 1,960,000,000 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, 2018, 2017 AND 2016

Information on the Group's results of operations and financial position presented in the 2018 Audited Consolidated Financial Statements and accompanying Notes to the Consolidated Financial Statements are incorporated hereto by reference.

Consolidated operating revenues amounted to ₱107.9 million in 2018 (2017: ₱104.4 million; 2016: ₱ 101.6 million) consisting solely of revenues from petroleum.

In 2018, the higher revenue was due to the (1) the 35% rise in average crude oil prices at $74 per barrel (2017: $54 per barrel; 2016: $43 per barrel) offset by; (2) the decline in the oil production of SC 14 C-1 Galoc, which yielded a gross volume of 1.1 million barrels (2017: 1.4 million barrels; 2016: 1.7 million barrels) from three (3) offtakes (2017: 4 offtakes; 2016: 5 offtakes). The steady rise in oil prices, offset by a continuous decline in oil production contributed for the higher revenue in 2017 vs 2016.

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

Oil production during the year were as follows:

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

Costs and expenses totaled ₱221.4 million (2017: ₱158.2 million; 2016: ₱170.8 million). Petroleum production costs were higher at ₱131.0 (2017: ₱108.9 million; 2016: ₱115.4 million), resulting from 4% lower oil production cost offset by higher depletion. In 2017, Petroleum production costs were lower vs 2016 due to lower depletion on lesser oil output.

General and administrative expenses stood at ₱90.4 million (2017: ₱49.4 million; 2016: ₱55.4 million), 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. Total recurring overhead, however, was flat owing to management's continuing cost control and sharing of costs between subsidiaries. In 2017, General and administrative expenses decreased vs 2016 resulting from the aforementioned cost-reduction initiatives of management.

A net other income of ₱21.4 million was recorded in 2018 (2017: net other charge of ₱1.1 million; 2016: net other income of ₱20.5 million) consisting of the following: (1) Interest income at ₱2.8 million (2017: ₱3.7 million; 2016: ₱3.3 million) and; (2) Foreign exchange gain of ₱18.7 million (2017: net forex loss of ₱0.1 million; 2016: net forex gain of ₱13.3 million) resulting from foreign currency exchange differences from the conversion of the Group's dollar denominated currency to peso and vice versa. In 2017, Provision of impairment and loss on write-off of assets stood at ₱4.6 million (2016: reversal of impairment ₱4.7 million). The provision for impairment during 2017 was a result of the rehabilitation and decommissioning of the Libertad Gas Field in SC 40, offset by the Reversal of impairment losses of ₱11.3 million representing accrued expenses reversal during the year. In 2016, a reversal of impairment amounting to 4.7 million arose coming from proceeds of the sale of SC 53 to a third-party which was impaired in previous years.

(in Millions)	Years Ended December 31 **2018**	2017	2016
Interest income	**₱2.8**	₱3.7	₱3.3
Foreign exchange gains - net	**18.7**	(0.1)	13.3
Interest expense and other charges	**(0.1)**	(0.1)	(0.1)
Provision and reversal of impairment and loss on write off of assets - net	**–**	(4.6)	4.7
Others - net	**–**	–	(0.7)
Total	**₱21.4**	(₱1.1)	₱20.5

Consolidated net loss stood at ₱96.4 million (2017: ₱57.1 million; 2016: ₱36.4 million) due to lower oil production, higher depletion cost and decommissioning cost and offset by a Forex gain of P18.7 million. As such, net loss attributable to equity holders of the Parent stood at ₱77.0 million (2017: ₱39.1 million; 2016: ₱22.4 million), and core net loss was ₱98.6 million (2017: ₱37.3 million; 2016: ₱50.0 million), with both basic and diluted loss per share amounting to ₱0.045 (2017: ₱0.023; 2016: ₱0.013).

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 and SC 72 at ₱78.6 million; (3) Overhead expenses at ₱56.1 million; and (4) net cash received from SC 14C-1 Galoc from oil sales during the year; (5) Cash received from Philex Mining Corporation ("PMC") amounting to ₱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.

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

Noncurrent assets slightly rose to ₱6.818 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.

During 2017, Noncurrent assets slightly rose to ₱6.702 billion from ₱6.663 billion, largely arising from the increase in deferred exploration costs to ₱5.168 billion from ₱5.081 billion, resulting from the costs spent in the Galoc appraisal well and exploration activities in SC 74, offset by the decrease in property and equipment from ₱307.8 milllion to ₱261.9 million due to depletion and the decommissioning of the Libertad Gas field in SC 40.

Current liabilities as at the December 31, 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.

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

Noncurrent Liabilities 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 at end of 2017, Noncurrent Liabilities was reduced to ₱4.226 billion from ₱4.273 billion following the reversal of provision for losses in other noncurrent liabilities, which resulted in the reduction of the balance from ₱203.7 million to ₱190.7 million. Total liabilities were lower at ₱4.226 billion from ₱ 4.273 billion at the end of the prior year, following the reduction in current liabilities by ₱33.7 million and a drop in non-current liabilities by ₱13.0 million.

As of December 31, 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.

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

Net Cash Used in Operating Activities during the year amounted to ₱21.5 million (2017: net outflow ₱ 22.0 million; 2016: net inflow ₱109.6 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 Galoc from oil sales net of cash production expenses during the year. In 2017, cash from operating activities was mainly attributable from the operating loss of ₱23.6 million while in 2016, the increased inflow came from collection of Trade and other receivables, due to cash collection for the sale of oil from Galoc in December 2015. In addition, Trade and other payables increased for the collection of cash calls by PXP from the SC 74 consortium members.

Net Cash from Investing Activities resulted in a net outflow of ₱87.7 million (2017: ₱64.2 million; 2016: ₱65.7 million) mainly due to additions in exploration activities in SC 74 and SC 72. In 2017, the net outflow came from the additions in exploration activities in SC74 and the drilling of the appraisal well in SC 14 C-1 Galoc. For 2016, the outflows resulted from exploration activities in SC75 and SC74, while for 2014, the net outflow was associated with the exploration activities related to Peru Block XXVIII, SC 53, SC 74, and SC 75.

Net Cash used in Financing Activities stood at ₱6.3 million (2017: ₱36.9 million; 2016: ₱243 thousand) 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 Forum for the subscription of additional shares; (2) Acquisition of non-controlling interest at ₱17.7 million accounting for the cash paid for the additional interests acquired by PXP in Forum; (3) Decrease in advances from related parties ₱25.2 million, representing partial payment of debt with PMC; and (4) Acquisition by subsidiary of own shares at ₱92.8 million which was the amount of the cash spent for Pitkin's share repurchase. In 2017, cash used in financing activities was incurred from the: (1) Proceeds from issuance of subsidiary's new shares at ₱100.7 million, representing the cash infused by a major shareholder of Forum for the subscription of additional shares; (2) Acquisition of non-controlling interest at ₱17.7 million accounting for the cash paid for the additional interests acquired by PXP in Forum; (3) Decrease in advances from related parties ₱25.2 million, representing partial payment of debt with PMC; and (4) Acquisition by subsidiary of own shares at ₱92.8 million which was the amount of the cash spent for Pitkin's share repurchase. In 2016, cash used was minimal.

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 ₱7.9 million (2016: net outflow ₱150 thousand; 2016: net inflow ₱3.3 million). At the end of the current year, Cash and cash equivalents amounted to ₱342.4 million (2017: ₱450.0 million; 2016: ₱573.3 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.

The Parent Company or its subsidiaries has not undergone any bankruptcy, receivership or similar proceedings

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 2018, which were aimed at enhancing asset value, include: (1) Broadband reprocessing of the Sampaguita 3D seismic data which started in October 2018 and expected to be completed in June 2019; (2) The conduct of several geological and geophysical activities in SC 74 based on a work program that was approved by the DOE last March 27, 2018. The marine gravity modeling exercise in SC 74 was completed in September 2018. This preliminary generated model was forwarded to contractor for technical review. In June 2018, fieldwork in the Calamian Islands was conducted in cooperation with graduate students from the UP NIGS. Rock samples acquired during fieldwork will be selected for biostratigraphy and age dating. Finally, engineering and economic studies were completed on Linapacan A & B Fields; (3) Completion of a detailed land gravity survey in SC 40 northern Cebu last April 25, 2018 with a total of 94 gravity stations acquired. Processing and interpretation of the acquired gravity data are ongoing; (4) Ongoing interpretation of Pre-Stack Depth Migrated 3D seismic data in SC 14C2 West Linapacan and; (5) Completion of the Pre-Stack Depth Migration ("PSDM") processing and quantitative interpretation ("QI") of the 2013 3D seismic data in SC 6A Octon. This was followed by an interpretation of the seismic data that was completed in September 1H 2018 as part of the work program for 2018. Currently, the Operator Philodrill is conducting a re-run of the resource analysis.

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.

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, net of a one-time consultancy charge from prior year's reorganization costs and decommissioning costs, was consistently controlled and remained flat year-on-year at ₱48.7 million (2017: ₱49.4 million; 2016: ₱55.4 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.

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.

On October 26, 2018, PXP and Dennison Holdings Corporation ("Dennison") signed a Subscription Agreement wherein the latter subscribed to 340,000,000 common shares of PXP at ₱11.85 per share or an aggregate amount of ₱4.03 billion (the "Subscription Price"). The Subscription Price shall be payable in two tranches. In addition, as a substantial consideration for the Company agreeing to the subscription by Dennison, Dennison shall cause its affiliate or related party, Phoenix Petroleum Philippines, Inc. ("Phoenix Petroleum"), subject to its board approval and consent of China National Offshore Oil Corporation ("CNOOC"), to grant certain preferential rights to the Company or to any of its affiliates to acquire up to 49% of the equity, interest or participation of Phoenix Petroleum and/or its affiliates in the contemplated joint venture or related agreement with CNOOC for the construction, development, and operation of a liquified natural gas terminal and gas fired power plant in the Philippines. Following the subscription to the shares, Dennison shall be entitled to at least one (1) seat in the Board who will then be nominated as Vice Chairman of the Board.

Furthermore, PMC signed a Subscription Agreement for 260,000,000 common shares of PXP at Php11.85 per share or an aggregate amount of ₱3.081 billion payable in two tranches.

The total subscription of 600,000,000 shares (the "Private Placement Shares") with Dennison and PMC will be issued out of its unissued capital stock of 5.1 billion. PXP intends to use the proceeds from the Private Placement Shares to fund its exploration activities and other oil assets within the Philippines and in Peru, and to repay advances from Philex.

On December 27, 2018, Philex paid its 25% downpayment or ₱770.25 million in connection to the Company's announcement last October 26, 2018, of the signing and execution of a Definitive Subscription Agreement.

In addition, PXP and Dennison have agreed to amend the terms of payment under said Subscription Agreement. On December 26, 2018, the parties agreed to reschedule and accelerate the full payment of the Subscription Price, net of Downpayment, to not later than March 31, 2019. Dennison shall also pay a Downpayment equivalent to one percent the total Subscription Price on or before January 7, 2019. In the event Dennison fails to pay the entire Subscription Price on or before March 31, 2019, the entire amount of the Downpayment shall be forfeited in favor of PXP and the Subscription Agreement shall be terminated at the option of PXP.

5) Health, Safety and Environment

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

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

KNOWN TRENDS, EVENTS OR UNCERTAINTIES

On January 7, 2019, Dennison paid its 1% down payment equivalent to ₱40.29 million (the "Down payment") pursuant to the amended Subscription Agreement between PXP and Dennison ("the parties") dated December 26, 2018, wherein the parties agreed to reschedule and accelerate the full payment of Dennison's subscription in 340,000,000 common shares of PXP, at an aggregate subscription price of ₱4.03 billion, to not later than March 31, 2019; and for Dennison to pay the Down payment on or before January 7, 2019.

On February 11, 2019, PMC paid an additional ₱1.386 billion in connection to the Company's announcement last October 26, 2018, of the signing and execution of a Definitive Subscription Agreement, following the share subscription of PMC of 260,000,000 common shares 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 ₱2.156 billion, representing 70% of its total subscription in PXP.

On 29 March 2019, PXP and Dennison mutually agreed to terminate the Subscription Agreement effective 29 March 2019 (the "Effective Date"). On Effective Date, all rights Dennison to subscribe to the aforesaid common shares of the Company, and any obligation of the Company to issue such shares to Dennison, are terminated without any residual rights of any kind remaining with Dennison. Accordingly, all other rights of the Company under the Agreement are terminated, including the right to receive payment of the remaining balance of the Subscription Price.

Finally, PXP relinquished any and all Preferential Rights granted under the Preferential Rights Agreement dated 26 October 2018 among Phoenix Petroleum Philippines, Inc., PXP, and the Strategic Investor following the termination of the Agreement.

The 1% down payment paid by Dennison equivalent to ₱40.29 million shall be forfeited in favor of the Company as part of its other Income in 2019.

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 cyclicality 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 May 21, 2019.

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 2018, 2017 and 2016, independent auditors were engaged to express an opinion on the consolidated and stand-alone financial statements of the Company and its Subsidiaries (the "Group"), and to assist in the preparation of the income tax returns of the Group. A regular audit was carried out based on Philippine Standards on Auditing. The audit fees for these services were for ₱4.3 million for 2018, ₱4.3 million for 2017, and ₱4.9 million for 2016.

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

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 Securities and Exchange Commission.

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There has been no change in the Company's independent 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 June 1, 2018, 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 –** 72, Filipino citizen; first elected Director of the Company on December 8, 2009; Chairman of the Board since December 8, 2009; last re-elected on June 1, 2018.

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

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

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

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

<u>Listed companies of which Mr. Pangilinan is presently a director</u>

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

<u>Academic Background</u>

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

Listed company of which Mr. Carlos is presently a director

Philippines

1. PXP Energy Corporation

3) EULALIO B. AUSTIN, JR. – 57, Filipino citizen; first elected May 18, 2010; last re-elected June 1, 2018.

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

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

Listed companies of which Mr. Austin is presently a director

Philippines

1. PXP Energy Corporation
2. Philex Mining Corporation

4) **BENJAMIN S. AUSTRIA** – **Independent Director**; 73, Filipino citizen; first elected Independent Director on August 4, 2011; last re-elected on June 1, 2018.

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

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

Listed corporations of which Dr. Austria is currently a director

Philippines
1. PXP Energy Corporation (Independent Director)

5) **EMERLINDA R. ROMAN** – **Independent Director;** 69, Filipino citizen; first elected Independent Director August 4, 2011; last re-elected June 1, 2018

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

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

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

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

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

Philippines

1. PXP Energy Corporation (Independent Director)

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

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

Business and Professional Background/Experience
Ms. Aquino's practice focused on banking, finance and securities, construction and infrastructure, investments, mergers and acquisitions, and mining and natural resources. Ms. Aquino was elected as Director of the Company on April 18, 2013. She has been a Director of Philex Mining Corporation and Philex Gold Philippines, Inc. since December 7, 2009 and was re-elected on June 26, 2013. She is also a Director of PXP Energy Corporation. She is an Assistant Director of First Pacific Co. Ltd. since July 2012, following her 32-year law practice at SyCip Salazar Hernandez and Gatmaitan Law Offices, where she was Partner from 1989 to 2012. She is the President and Chief Executive Officer of MetroPac Movers Inc., the logistics company of Metro Pacific Investments Corporation. She is also the President of First Coconut Manufacturing Corporation. She has been a Director of PremierLogistics, Inc. since January 2017, Silangan Mindanao Mining Company Inc. since January 2013, Silangan Mindanao Exploration Company, Inc. since January 2013, Lepanto Consolidated Mining Company since October 2012 and Maynilad Water Services, Inc. since December 2012.

Listed companies of which Ms. Aquino is currently a director

Philippines

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

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

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

Management Development at the Harvard Business School, and; Commercial Management Program at the Lensbury Centre, Shell International Petroleum Corporation.

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

Listed companies of which Mr. Reyes is currently a director

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

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

Business and Professional Background/Experience
Ms. Pardo-Aguilar was appointed as Commissioner of the state-run Social Security System in August 2010 and was reappointed by President Rodrigo Duterte in 2016. She is Chairperson of the Investment Oversight Committee and Vice Chairperson of the Information Technology Committee; and a Member of the Risk Management and Audit Committees. She was appointed as Director of Security Bank Corporation since April 2017 and Chairs the Trust Committee. She was also appointed as Chairperson of SB Capital Investment Corporation since August 2016. She was appointed as an Independent Director of Medical Doctor's Inc., of Makati Medical Center since July 2018 and also appointed as Chairperson of the Audit Committee since September 2018. She is a Member of the Investment Committee of De La Salle Philippines since

July 2018. She was re-elected as one of the members of the Board of Governors of the Employers Confederation of the Phils. in December 2018. She is a Member of the Board of Directors of Ionics Inc., since December 2016, a Consultant Advisor to the Board of Phil. Seven Corporation since January 2015, a Member of the Philippine Stock Exchange's Capital Markets Development Board since 2013, a Director of Electronic Commerce Payment Networks, Inc., since 2004 and a Director of Wenphil Corporation since 1998.

Listed companies of which Mr. Reyes is currently a director

Philippines

1. Security Bank Corporation
2. IONICS, Inc.

9) JOSEPH H.P. NG – 55, British Citizen; first elected March 21, 2019

Academic Background

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

Business and Professional Background/ Experience:

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

Listed companies of which Mr. Ng is currently a director

Philippines

1. Philex Mining Corporation Indonesia
2. 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 June 1, 2018 Annual General Stockholders' Meeting because of a disagreement with the Company on any matter relating to the Company's operations, policies or practices. No director has furnished the Company with a letter describing such disagreement and requesting that the matter be disclosed.

Executive Officers

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

MANUEL V. PANGILINAN – 72, 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 Pangilinan has been a Director of Philex Mining Corporation and Philex Gold Philippines, Inc. since November 2008. He also serves as Chairman of Manila Electric Company (MERALCO), Metro Pacific Investments Corporation, Metro Pacific Tollways Corporation, and of non- listed companies including Beacon Electric Asset Holdings Inc., PLDT Communications and Energy Ventures Inc. (formerly Piltel), Maynilad Water Services Corporation (Maynilad), Mediaquest Incorporated, Associated Broadcasting Corporation (TV5), Landco Pacific Corporation, Makati Medical Center, Cardinal Santos Medical Center, Our Lady of Lourdes Hospital, Asian Hospital Incorporated, Central Luzon Doctor's Hospital, De Los Santos Medical Center, Manila Doctors Hospital, Jesus Delgado Memorial Hospital, Marikina Valley Medical Center, Sacred Heart of Malolos (Bulacan), Davao Doctors Incorporated, Riverside Medical Center Incorporated (Bacolod), West Metro Medical Center Hospital (Zamboanga), and Megaclinic,. In 2012, he was appointed as Vice Chairman of Roxas Holdings, Incorporated which owns and operates the largest sugar milling operations in the Philippines.

DANIEL STEPHEN P. CARLOS – 55, 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) Ltd, which operates Service Contract 72 or Recto Bank. He is also the President of Forum Energy Philippines Corporation and Forum Exploration, Inc.

PARALUMAN M. NAVARRO – 50, 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.

BARBARA ANNE C. MIGALLOS – 64, 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., Forum Energy Philippines Corporation since 2013, 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

Year	Directors' Fee
2019 (Estimated)	P1.42
2018	1.42
2017	0.94
2016	0.67

OFFICERS

NAME	POSITION
Manuel V. Pangilinan	*Chairman*
Daniel Stephen P. Carlos	*President*
Paraluman M. Navarro	*Treasurer*
Barbara Anne C. Migallos	*Corporate Secretary*

Year	Total Officers' Salary	Bonus
2019 (Estimated)	P8.4	NIL
2018	8.4	NIL
2017	8.1	NIL
2016	8.7	NIL

ALL DIRECTORS & OFFICERS AS A GROUP

Year	Total Amount
2019 (Estimated)	P 9.9
2018	9.9
2017	9.4
2016	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 31, 2019:

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")	See Note 1.	Filipino	388,662,481 (excludes shares of Philex Mining and SSS held through PCD Nominee)	19.8297%
Common	Philex Mining Corporation ("Philex Mining") 2nd Floor LaunchPad, Reliance Street corner Sheridan Street, Mandaluyong City, Metro Manila	Philex Mining (held through PCD Nominee) See Note 1.	Filipino	595,864,728	30.4013%
Common	Asia Link B.V. PrinsBernhardplein 200, 1097 JB Amsterdam, The Netherlands	First Pacific Company, Ltd. See Note 2.	Non-Filipino	284,470,725	14.5138%
Common	Social Security System c/o Loan and Investment Office, 7/F SSS Building, Diliman, Quezon City	Social Security System (Direct and through PCD Nominee) See Note 3.	Filipino	213,587,405	10.8973%
Common	Two Rivers Pacific Holdings Corp. 10/F MGO Building, Legaspi cor. Dela Rosa Sts., Legaspi Village, Makati City	Two Rivers Pacific Holdings Corporation See Note 4.	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 388,662,481 shares shown above are exclusive of the 335,864,728 shares owned by Philex Mining and the 66,631,767 shares owned by SSS, held through PCD Nominee.

(2) Asia Link B.V. is a wholly owned subsidiary of First Pacific Company, Ltd. ("First Pacific"). Kirtman Limited, part of the First Pacific Group, is the registered shareholder of 65,221,981, shares or 3.328% of the outstanding shares of the Company. Maxella Limited, also part of the First Pacific Group, is the registered shareholder of 64,539,833 shares or 3.293% of the outstanding shares of the Company. Artino Limited, also part of the First Pacific Group, is the registered owner of 10,193,136 shares or 0.520% of the outstanding shares of the Company.

(3) Of the 213,587,405 shares of the Social Security System ("SSS"), 66,631,797 shares are held through PCD Nominee. Ms. Diana V. Pardo-Aguilar has been nominated to the Board of Directors of the Company to represent the SSS.

(4) Two Rivers Pacific Holdings Corporation designated the Chairman of the Company, or in his absence Mr. Robert C. Nicholson, or in his absence, Atty. Marilyn V. Aquino, or in her absence, Mr. Danny Y. Yu as proxies to vote its shares at the annual shareholders' meeting in 2018. To date, the Company has not received information on who will vote the said shares in the 2019 Meeting.

Security Ownership of Management

The beneficial ownership of the Company's directors and executive officers as of April 4, 2018, is as follows:

Title of Class	Name of Beneficial Owner	Nature of Ownership	Amount Beneficial Ownership	Citizenship	% of Class
Common	Manuel V. Pangilinan	Direct	1,603,466	Filipino	0.094%
Common	Daniel Stephen P. Carlos	Direct	766	Filipino	0.000%
Common	Eulalio B. Austin, Jr.	Direct	208,224	Filipino	0.012%
Common	Benjamin S. Austria	Direct	191	Filipino	0.000%
Common	Emerlinda R. Roman	Direct	1	Filipino	0.000%
Common	Marilyn A. Victorio-Aquino	Direct	76,529	Filipino	0.005%
Common	Diana V. Pardo Aguilar	Direct	1	Filipino	0.000%
Common	Oscar S. Reyes	Direct	1	Filipino	0.000%
Common	Barbara Anne C. Migallos	Direct	71,677	Filipino	0.004%
Common	Paraluman M. Navarro	Direct	2,431	Filipino	0.000%
Directors and Executive Officers as a Group			1,963,287		0.115%

On 14 March 2019, Mr. Joseph H. P. Ng, a British Citizen, was issued one (1) Common share of the Company (Direct Ownership) comprising of 0.0000% of the said class of shares.

Voting Trust Holders/Changes in Control

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

Item 12. Certain Relationships and Related Transactions

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

PART IV – CORPORATE GOVERNANCE

Item 13. Corporate Governance

Conformance to Corporate Governance Standards & Best Practices

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

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

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

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

On May 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 and a revised Related Party Transaction Policy, among others. This can be found in the Company's website at http://www.pxpenergy.com.ph/corporate-governance/company-policies.

On July 31, 2018, the Company has been awarded by the Institute of Corporate Directors as one of the top-performing publicly-listed company in the Philippines under the ASEAN Corporate Governance Scorecard (ACGS) 2017.

The Audit and the Board Risk and Resources Oversight Committees on a bi-annual basis, conducts 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 pertains to the determination of major control issues, identification of risk and corresponding mitigation, and adequacy and effectiveness of internal controls. This can be found in the Company's website at http://www.pxpenergy.com.ph/corporate-governance/enterprise-risk-management.

The Company's other Corporate Governance policies can be found at http://www.pxpenergy.com.ph/corporate-governance/corporate-governance. The Company's list of Corporate Governance Officers can be found at http://www.pxpenergy.com.ph/corporate-governance/board-committee/board-of-directors-2017-updated.

PART V - EXHIBITS AND SCHEDULES

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

(a) Exhibits and Schedules

Statement of Management's Responsibility for Financial Statements
Report of Independent Auditors
Audited Consolidated Financial Statements and Notes for the year ended December 31, 2016
Schedule A - Financial Assets
Schedule B - Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Affiliates)
Schedule C - Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements
Schedule D - Deferred Oil and Gas Exploration Costs and Other Noncurrent Assets
Schedule E - Long-Term Debt
Schedule F - Indebtedness to Related Parties
Schedule G - Capital Stock
Other Schedules:

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

(b) Reports on SEC Form 17-C

There were twenty-eight (28) reports filed by the Company on SEC Form 17-C from March 2, 2018 to present covered by this report, part of which follows:

Report Date	Item Reported
May 2, 2018	Clarification and/or confirmation of news article: PXP Energy sends feelers to CNOOC for possible joint West Philippine Sea exploration" posted in philstar.com on April 26, 2018
May 3, 2018	Notice of Analysts' / Investors' Briefing
May 10, 2018	Press Release – Unaudited Financial and Operating Highlights for the 3-Month Period Ended March 31, 2018
May 10, 2018	Appointment of Director – Ms. Diana V. Pardo-Aguilar
June 1, 2018	Results of Annual Stockholders' Meeting
June 1, 2018	Results of Organizational Meeting
July 23, 2018	Notice of Analysts' / Investors' Briefing
July 25, 2018	Press Release – Unaudited Financial and Operating Highlights for the 6-Month Period Ended June 30, 2018
September 24, 2018	Removal of Force Majeure, Block Z-38, Peru
October 24, 2018	Press Release – Unaudited Financial and Operating Highlights for the 9-Month Period Ended September 30, 2018

October 25, 2018	Subscription by Dennison Holdings Corporation
October 26, 2018	Joint Analysts' and Investors' Briefing
October 26, 2018	Inquiry made by the Exchange to PXP's basis in determining the subscription price
October 26, 2018	Signing of Dennison Holdings Corporation and Philex Mining Corporation of the Definitive Subscription Agreement
November 6, 2018	Comprehensive Corporate Disclosure on Issuance of Shares – Subscription to PXP Shares of Stock by Philex Mining Corporation
November 9, 2018	Comprehensive Corporate Disclosure on Issuance of Shares – Subscription to PXP Shares of Stock by Dennison Holdings Corporation
December 5, 2018	Clarification and/or confirmation of the news article – "Firm to pursue lifting of oil exploration ban" posted in Inquirer.net on December 5, 2018
December 21, 2018	Letter of request from Forum (GSEC 101) Limited to the Department of Energy to lift the Force Majeure imposed in Service Contract 72 ("SC72") Recto Bank
December 27, 2018	Payment of Subscription by Philex Mining Corporation and Change in Terms of Subscription by Dennison Holdings Corporation in PXP Energy Corporation Shares
January 2, 2019	Change in the number of Issued Shares of PXP Energy Corporation
February 11, 2019	Payment of Philex Mining Corporation to PXP in relation to its subscription payable
February 13, 2019	Payment of Philex Mining Corporation to PXP in relation to its subscription payable (amended to reflect the details of the payment)
March 18, 2019	Joint Analysts' and Investors' Briefing
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

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Mandaluyong on APR 1 0 2019

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 1 0 day of APR 2019 at Mandaluyong City. Affiants exhibiting to me their respective Competent Evidence of Identity indicated opposite their names:

Name	Competent Evidence of Identity	Date of Issue	Place of Issue
Manuel V. Pangilinan	EC1452578	20 June 2014	Manila, Phils
Daniel Stephen P. Carlos	P5757485A	25-Jan-18	NCR South, Phils
Paraluman M. Navarro	PRC 84884	2/27/2019	NCR East, Phils
Barbara Anne C. Migallos	P7148981A	5/11/2018	Manila, Phils
Mark Raymond H. Rilles	P0559840A	7-Oct-16	NCR Northeast, Phils

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Page No. 79
Book No. I
Series of 2019

EMIL S. CUYUGAN
NOTARY PUBLIC FOR AND IN THE CITY OF MAKATI
APPOINTMENT NO. M-382 (2018-2019)
COMMISSION EXPIRES ON DECEMBER 31, 2019
7th Floor, The PHINMA Plaza, 39 Plaza Drive
Rockwell Center, Makati City 1210
PTR No. 7335803; Makati City; 01/04/19
IBP O.R. No. 038717; Makati City; 04/04/18 (Lifetime Member)
TIN 228-269-115
Attorney's Roll No. 67604, May 2017

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

STATEMENT OF MANAGEMENT'S RESPONSIBILTY 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, 2018 and 2017**, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

Mr. Manuel V. Pangilinan
Chairman of the Board

Mr. Daniel Stephen P. Carlos
President

Ms. Paraluman M. Navarro
Treasurer

Signed this 21th day of March 2019

SUBSCRIBED AND SWORN to before me this '21 day of MAR 2019, affiants exhibiting to me the following:

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

Doc No.: 185
Page No.: 38
Book No.: IV
Series of 2019:

MA. CONCEPCION Z. SANDOVAL
NOTARY PUBLIC FOR AND IN THE CITY OF MAKATI
APPOINTMENT NO. M-412 (2018-2019)
COMMISSION EXPIRES ON DECEMBER 31, 2019
7th Floor, The PHINMA Plaza, 39 Plaza Drive
Rockwell Center, Makati City 1210
PTR No. 7335802; Makati City; 1-4-2019
IBP O.R. No. 060585; Rizal; 1-4-2019
TIN 908-983-782
Attorney's Roll No. 54717, May 2007

C O V E R S H E E T
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

C	S	2	0	0	7	1	9	8	1	9

C O M P A N Y N A M E

PXP ENERGY CORPORATION (formerly Philex Petroleum Corporation) AND SUBSIDIARIES

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

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

Form Type	Department requiring the report	Secondary License Type, If Applicable
17-A	N/A	N/A

C O M P A N Y I N F O R M A T I O N

Company's Email Address	Company's Telephone Number	Mobile Number
admin@pxpenergy.com.ph	(632) 631-1381	N/A

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
38,816	5/21	12/31

CONTACT PERSON INFORMATION

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

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Daniel Stephen P. Carlos	admin@pxpenergy.com.ph	(632) 631-1381	N/A

CONTACT PERSON'S ADDRESS

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the consolidated financial statements of PXP Energy Corporation and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2018 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

Key Audit Matters

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

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

Recoverability of Deferred Oil and Gas Exploration Costs

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

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

Audit response

We obtained management's assessment on whether there is any indication that deferred exploration costs may be impaired. We reviewed the summary of status of each of the exploration projects as at December 31, 2018. We inspected the service contracts and relevant joint operations agreements of each exploration project to determine that the period for which the Group has the right to explore in the specific area has not expired and the Group has rights and obligations under the contracts through participating interests. We obtained and reviewed the work program and budget duly approved by the Consortium and the regulatory agency. We also obtained the latest management disclosures regarding the status of their service contracts which supports the assessment of management regarding its recoverability. We also inquired about the existing concession areas that are expected to be abandoned or any exploration activities that are planned to be discontinued in those areas.

Impairment Testing of Goodwill

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

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

Audit response

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

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2018, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2018 are expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

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

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

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

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

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

March 21, 2019

PXP ENERGY CORPORATION
(formerly Philex Petroleum Corporation)
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Amounts in Thousands, Except Par Value per Share and Number of Equity Holders)

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

See accompanying Notes to Consolidated Financial Statements.

PXP ENERGY CORPORATION
(formerly Philex Petroleum Corporation)
AND SUBSIDIARIES

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

	Years Ended December 31		
	2018	2017	2016
PETROLEUM REVENUES (Note 22)	**₱107,924**	₱104,445	₱101,579
COSTS AND EXPENSES			
Petroleum production costs (Note 13)	**130,973**	108,851	115,405
General and administrative expenses (Note 13)	**90,417**	49,376	55,415
	221,390	158,227	170,820
OTHER INCOME (CHARGES)			
Foreign exchange gains - net	**18,685**	(146)	13,341
Interest income (Note 5)	**2,796**	3,749	3,316
Interest expense (Note 9)	**(76)**	(130)	(120)
Reversal of (provision for) impairment and loss on write-off of assets - net (Note 14)	**–**	(4,578)	4,748
Others	**–**	–	(748)
	21,405	(1,105)	20,537
LOSS BEFORE INCOME TAX	**(92,061)**	(54,887)	(48,704)
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 16)			
Current	**1,103**	106	73
Deferred	**3,267**	2,150	(12,390)
	4,370	2,256	(12,317)
NET LOSS	**(₱96,431)**	(₱57,143)	(₱36,387)
NET LOSS ATTRIBUTABLE TO:			
Equity holders of the Parent Company	**(₱77,028)**	(₱39,125)	(₱22,362)
Non-controlling interests	**(19,403)**	(18,018)	(14,025)
	(₱96,431)	(₱57,143)	(₱36,387)
BASIC/ DILUTED LOSS PER SHARE (Note 21)	**(₱0.045)**	(₱0.023)	(₱0.013)

See accompanying Notes to Consolidated Financial Statements.

PXP ENERGY CORPORATION
(formerly Philex Petroleum Corporation)
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in Thousands)

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

See accompanying Notes to Consolidated Financial Statements.

PXP ENERGY CORPORATION
(formerly Philex Petroleum Corporation)
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 and 2016
(Amounts in Thousands)

	Attributable to Equity Holders of the Parent Company								
	Capital Stock (Note 15)	Additional paid in capital (Note 15)	Subscription Receivable (Note 15)	Equity Reserves (Note 15)	Deficit	Cumulative Translation on Foreign Subsidiaries	Subtotal	Non-controlling Interests (Note 15)	Total
BALANCES AT DECEMBER 31, 2015	**₱1,700,000**	**₱–**	**₱–**	**₱120,172**	**(₱1,233,205)**	**(₱3,958)**	**₱583,009**	**₱2,384,239**	**₱2,967,248**
Net loss for the year	–	–	–	–	(22,362)	–	(22,362)	(14,025)	(36,387)
Other comprehensive income:									
Items to be reclassified to profit or loss in subsequent periods:									
Gain on translation of foreign subsidiaries	–	–	–	–	–	73,974	73,974	55,369	129,343
Total comprehensive income (loss) for the year	–	–	–	–	(22,362)	73,974	51,612	41,344	92,956
Effects of transactions with owners (Note 15)	–	–	–	8,670	–	–	8,670	(10,364)	(1,694)
BALANCES AT DECEMBER 31, 2016	**1,700,000**	**–**	**–**	**128,842**	**(1,255,567)**	**70,016**	**643,291**	**2,415,219**	**3,058,510**
Net loss for the year	–	–	–	–	(39,125)	–	(39,125)	(18,018)	(57,143)
Other comprehensive income:									
Items to be reclassified to profit or loss in subsequent periods:									
Gain on translation of foreign subsidiaries	–	–	–	–	–	6,242	6,242	4,350	10,592
Total comprehensive income (loss) for the year	–	–	–	–	(39,125)	6,242	(32,883)	(13,668)	(46,551)
Effects of transactions with owners (Note 15)	–	–	–	(6,780)	–	–	(6,780)	(3,063)	(9,843)
BALANCES AT DECEMBER 31, 2017	**1,700,000**	**–**	**–**	**122,062**	**(1,294,692)**	**76,258**	**603,628**	**2,398,488**	**3,002,116**
Net loss for the year	–	–	–	–	(77,028)	–	(77,028)	(19,403)	(96,431)
Other comprehensive income:									
Items to be reclassified to profit or loss in subsequent periods:									
Gain on translation of foreign subsidiaries	–	–	–	–	–	77,608	77,608	28,875	106,483
Total comprehensive income (loss) for the year	–	–	–	–	(77,028)	77,608	580	9,472	10,052
Additional share subscription (Note 15)	260,000	2,821,000	(2,310,750)	–	–	–	770,250	–	770,250
BALANCES AT DECEMBER 31, 2018	**₱1,960,000**	**₱2,821,000**	**(₱2,310,750)**	**₱122,062**	**(₱1,371,720)**	**₱153,866**	**₱1,374,458**	**₱2,407,960**	**₱3,782,418**

See accompanying Notes to Consolidated Financial Statements.

PXP ENERGY CORPORATION
(formerly Philex Petroleum Corporation)
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

	Years Ended December 31		
	2018	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before income tax	**(₱92,061)**	(₱54,887)	(₱48,704)
Adjustments for:			
Depletion and depreciation (Note 13)	**61,339**	30,151	50,102
Unrealized foreign exchange losses (gains) - net	**(17,260)**	146	(13,341)
Interest income (Note 5)	**(2,796)**	(3,749)	(3,316)
Interest expense and other charges (Note 9)	**76**	130	(120)
Provision and reversal of impairment and loss on write-off of assets - net (Note 14)	**–**	4,578	(4,748)
Operating loss before working capital changes	**(50,702)**	(23,631)	(20,127)
Decrease (increase) in:			
Trade and other receivables - net	**15,609**	3,205	79,708
Inventories - net	**(7,090)**	(2,245)	(5,722)
Other current assets	**(392)**	1,468	18,975
Increase (decrease) in trade and other payables	**19,078**	(4,465)	33,550
Net cash generated from (used in) operations	**(23,497)**	(25,668)	106,384
Interest received	**2,673**	3,749	3,316
Income taxes paid	**(699)**	(101)	(81)
Net cash flows provided by (used in) operating activities	**(21,523)**	(22,020)	109,619
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to:			
Deferred oil and gas exploration costs - net (Notes 10 and 22)	**(80,550)**	(62,099)	(84,618)
Property and equipment - net (Note 9)	**(1,220)**	(675)	(5,251)
Increase (decrease) in other noncurrent assets (Note 11)	**(5,924)**	(1,429)	25,885
Payment for cancellation of shares (Note 15)	**–**	–	(1,694)
Net cash flows used in investing activities	**(87,694)**	(64,203)	(65,678)
CASH FLOWS FROM FINANCING ACTIVITIES			
Decrease in advances from related parties (Note 17)	**(781,306)**	(25,211)	(243)
Proceeds from additional shares subscription (Note 15)	**770,250**	–	–
Increase (decrease) in other noncurrent liabilities	**4,720**	(1,875)	–
Proceeds from issuance of subsidiary's new shares (Note 15)	**–**	100,650	–
Acquisition of non-controlling interest (Note 15)	**–**	(17,705)	–
Acquisition by subsidiary of own shares (Note 15)	**–**	(92,788)	–
Net cash flows used in financing activities	**(6,336)**	(36,929)	(243)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**7,888**	(150)	3,288
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(107,665)**	(123,302)	46,986
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**450,039**	573,341	526,355
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	**₱342,374**	₱450,039	₱573,341

See accompanying Notes to Consolidated Financial Statements.

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

Corporate Information

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

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

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

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

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

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

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

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

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

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

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

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

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

Business Operations

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

PXP Parent Company

The Parent Company's principal asset is a 50% operating interest in Service Contract (SC) 75. It covers an area of 6,160 square kilometers in the Northwest (NW) Palawan Basin. However, due to a *force majeure* issued by the Department of Energy (DOE) on December 27, 2015, exploration activities in the area are temporarily suspended as at December 31, 2018.

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

FEL and its subsidiaries
FEL's principal asset is a 70% interest in SC 72 which covers an area of 8,800 square kilometers in the West Philippine Sea. FEL is scheduled to accomplish its SP 2 of exploration activities from August 2011 to August 2013. However, due to maritime disputes between the Philippine and Chinese governments, the SC is under *force majeure* and exploration activities in the area are temporarily suspended as at December 31, 2018.

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

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

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

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

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

<u>Recovery of Deferred Oil and Gas Exploration Costs</u>
The Group's ability to realize its deferred oil and gas exploration costs amounting to ₱5,310,477 and ₱5,168,368 as at December 31, 2018 and 2017, respectively (see Note 10) depends on the success of its exploration and future development work in proving the viability of its oil and gas properties to produce oil and gas in commercial quantities, which cannot be determined yet at this time. The consolidated financial statements do not include any adjustment that might result from this uncertainty.

<u>Authorization for Issuance of the Consolidated Financial Statements</u>
The accompanying consolidated financial statements of the Group as at December 31, 2018 and 2017, and for each of the three years in the period ended December 31, 2018, were authorized for issuance by the BOD on March 21, 2019.

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

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

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

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year, except that the Group has adopted the following new accounting pronouncements starting January 1, 2018. Adoption of these pronouncements did not have any significant impact on the Group's financial position or performance unless otherwise indicated.

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

- PFRS 9, *Financial Instruments*

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

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

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

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

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

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

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

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

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

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

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

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

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

- PFRS 15, *Revenue from Contracts with Customers*

PFRS 15 supersedes PAS 18 Revenue and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. PFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

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

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

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

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

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

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

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

<u>Standards and Interpretations Issued but not yet Effective</u>
Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Group does not expect that the future adoption of the said pronouncements will have a significant impact on its financial statements. The Group intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2019

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

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

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

- PFRS 16, *Leases*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The interpretation specifically addresses the following:

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

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

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

- *Annual Improvements to PFRSs* 2015-2017 Cycle

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

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

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

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

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

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

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

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

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

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

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

Effective beginning on or after January 1, 2020

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

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

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

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

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

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

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

Effective beginning on or after January 1, 2021

- PFRS 17, *Insurance Contracts*

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

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

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

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

Deferred effectivity

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

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

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

Summary of Significant Accounting Policies and Financial Reporting Practices

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

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

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only, if the Group has:
- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

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

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

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

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

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

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

Subsidiary	Nature of Business
FEL	Incorporated on April 1, 2005 in England and Wales primarily to engage in the business of oil and gas exploration and production, with focus on the Philippines, particularly, a 70% interest in SC 72 Recto Bank.
FEPCO	FEPCO was incorporated in the Philippines on March 27, 1988 and is involved in oil and gas exploration in the Philippines, particularly a 2.28% interest in SC 14 C-1 Galoc.
Forum Exploration, Inc. (FEI)	FEI was incorporated in the Philippines on September 11, 1997 and is involved in oil and gas exploration in the Philippines.
FGSECL	FGSECL was incorporated in Jersey on March 31, 2005 and is involved in oil and gas exploration in the Philippines.
Forum (GSEC 101) Ltd. - Philippine Branch (GSEC)	GSEC was established as a Philippine branch on October 17, 2005 and is involved in oil and gas exploration in the Philippines, specifically, SC 72 Recto Bank.
Pitkin	Pitkin was incorporated and registered in UK of Great Britain and Northern Ireland on April 6, 2005 and is engaged primarily in the acquisition, exploration and development of oil and gas properties and the production of hydrocarbon products.

(Forward)

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

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

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

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

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

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

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

measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs incurred are expensed and included in general and administrative expenses.

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

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

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of PAS 39, *Financial Instruments: Recognition and Measurement*, is remeasured at fair value with changes in fair value recognized either in profit or loss or as a change to OCI. If the contingent consideration is not within the scope of PAS 39, it is measured in accordance with the appropriate PFRS. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

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

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

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

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

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

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

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

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

For purposes of consolidation, the financial statements of FEL and Pitkin, which are expressed in United States dollar (US$) amounts, and the financial statements of FEC, which are expressed in Canadian (Cdn) dollar amounts, have been translated to Peso amounts as follows:
- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of the consolidated statements of financial position
- income and expenses in the statements of income are translated at exchange rates at the average monthly prevailing rates for the year
- all resulting exchange differences in other comprehensive income

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

All other assets are classified as noncurrent.

A liability is current when:

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

The Group classifies all other liabilities as noncurrent.

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

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

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

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

Initial recognition and classification of financial instruments
Financial instruments are recognized initially at fair value. The initial measurement of financial instruments, except for those designated at FVTPL, includes transaction cost.

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

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

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

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest rate (EIR) method, less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition

and includes transaction costs and fees that are an integral part of the EIR. Gains and losses are recognized in the consolidated statements of income when the loans and receivables are derecognized or impaired, as well as through the amortization process. These financial assets are included in current assets if maturity is within 12 months from the end of the reporting period. Otherwise, these are classified as noncurrent assets.

As at December 31, 2017, included under loans and receivables are the Group's cash and cash equivalents, and trade and other receivables (see Note 19).

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

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

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

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

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

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

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

Initial Recognition and Subsequent Measurement of Financial Assets

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

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

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

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

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

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

Subsequent Measurement of Financial Assets

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortized cost (debt instruments)
- Financial assets at FVOCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at FVOCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at FVTPL

Financial assets at amortized cost (debt instruments)

This category is the most relevant to the Group. The Group measures financial assets at amortized cost if both of the following conditions are met:

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

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

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

Impairment of Financial Assets

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

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

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

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

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

Provisions for expected credit losses

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

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

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

Definition of default
The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable.

- when there is a breach of financial covenants by the counterparty; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

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

Credit-impaired financial assets
A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

a) significant financial difficulty of the issuer or the borrower;
b) a breach of contract, such as a default or past due event;
c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having
d) granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
e) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
f) the disappearance of an active market for that financial asset because of financial difficulties.

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

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

Where the Group has transferred its rights to receive cash flows from an asset or has entered into a 'pass-through' arrangement and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

Initial recognition and measurement

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

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

Subsequent measurement

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

Derecognition of Financial Liabilities

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

Offsetting Financial Instruments

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

Determination of Fair Value

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Impairment of Nonfinancial Assets
This accounting policy applies primarily to the Group's property and equipment (see Note 9), deferred oil and gas exploration costs (see Note 10) and goodwill (see Note 4).

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

Impairment losses are recognized in the consolidated statements of income.

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

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

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

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

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

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

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

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

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

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

Revenue Recognition

Accounting policies applied before January 1, 2018

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

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

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

Accounting policies applied after January 1, 2018

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Provisions and Contingencies

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

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

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

Earnings (Loss) per Share

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

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

Segment Reporting

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

Events After the Reporting Period

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

3. Summary of Significant Judgments, Estimates and Assumptions

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

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

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

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

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

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

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

As at December 31, 2018 and 2017, the Group's joint arrangements are in the form of a joint operation.

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

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

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

Significant accounting estimates applied before January 1, 2018

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

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

Significant accounting estimates applied on or after January 1, 2018

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

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

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

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

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

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

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

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

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

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

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

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

Impairment testing of goodwill
The Group reviews the carrying values of goodwill for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs impairment test of goodwill annually every December 31. Impairment is determined for goodwill by assessing the recoverable amount of the CGU or group of CGUs to which the goodwill relates. Assessments require the use of estimates, judgements and assumptions such as forecasted oil and gas prices, estimated volume of resources and reserves, capital expenditures, production and operating costs and discount rate. If the recoverable amount of the unit exceeds the carrying amount of the CGU, the CGU and the goodwill allocated to that CGU shall be regarded as not impaired. Where the recoverable amount of the CGU or group of CGUs is less than the carrying amount of the CGU or group of CGUs to which goodwill has been allocated, an impairment loss is recognized. No impairment losses were recognized for the years ended December 31, 2018 and 2017. The carrying value of goodwill as at December 31, 2018 and 2017 amounted to ₱1,238,583 (see Note 4).

Determination of the NRV of inventories
The NRV of coal and petroleum inventory is computed based on estimated selling price less estimated costs to sell. The NRV of materials and supplies is computed based on their estimated sales value at their current condition. Based on these estimates, an inventory write-down is recognized for any excess of carrying value over the NRV of the inventory. The carrying values of the inventories of the Group amounted to ₱32,398 and ₱21,727 as at December 31, 2018 and 2017, respectively (see Note 7). Allowance for probable inventory losses amounted to ₱266,103 as at December 31, 2018 and 2017 (see Note 7).

Estimation of provision for rehabilitation and decommissioning costs
Significant estimates and assumptions are made in determining the provision for rehabilitation and decommissioning costs. Factors affecting the ultimate amount of liability include estimates of the extent and costs of rehabilitation activities, technological changes, regulatory changes, cost increases, and changes in discount rates. Those uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision at each reporting period represents management's best estimate of the present value of the future rehabilitation costs required. Changes to estimated future costs are recognized in the consolidated statements of financial position by adjusting the rehabilitation asset and liability. Assumptions used to compute for the provision for rehabilitation and decommissioning costs are reviewed and updated annually. Provision for rehabilitation and

decommissioning costs amounted to ₱8,453 and ₱7,955 as at December 31, 2018 and 2017, respectively (see Note 9). The Group recognized accretion of interest amounting to ₱76 and ₱130 for 2018 and 2017, respectively. The discount rate used by the Group to value the provision as at December 31, 2018 and 2017 is 1.63%.

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

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

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

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

Provision for losses
The Group provides for present obligations (legal or constructive) where it is probable that there will be an outflow of resources embodying economic benefits that will be required to settle the said obligations. An estimate of the provision is based on known information at each reporting period, net of any estimated amount that may be reimbursed to the Group. The amount of provision is re-assessed at least on an annual basis to consider new relevant information. As at December 31, 2018 and 2017, provision for losses recorded under noncurrent liabilities amounted to ₱183,461 and ₱182,758, respectively (see Note 23).

4. **Business Combination**

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

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

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

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

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

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

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

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

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

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

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

The aggregate consideration follows:

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

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

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

Revenues and net income of the acquiree since the acquisition date amounted to ₱3,465 and ₱1,980,796, respectively.

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

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

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

Total cash and cash equivalents acquired from the business combinations under common control amounted to ₱252,861. As at December 31, 2018 and 2017, the goodwill resulting from business combinations amounting to ₱1,238,583 are allocated to the Group's cash-generating units namely: SC 14 C-1 Galoc Oil Field, SC 14 A & B Nido - Matinloc, SC 72 Recto Bank and Peru Block Z38. The Group performed its annual impairment test in 2018 and 2017.

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

The calculation of the value in use for the CGUs incorporates the following key assumptions:
a) *forecasted oil and gas price* - which are estimated with reference to external market forecasts;
b) *volume of resources and reserves* - which are based on resources and reserves report prepared by third party;
c) *capital expenditure, production and operating costs* - which are based on the Group's historical experience and latest life of well models; and
d) *discount rate* - which were estimated based on the industry weighted average cost of capital (WACC), which includes the cost of equity and debt after considering the gearing ratio. The post-tax discount rates applied to cash flow projections range from 11.87% to 13.44% and 10.96% to 12.51% as at December 31, 2018 and 2017, respectively.

Value in use is most sensitive to changes in discount rate. Management believes that the key assumptions used in determining the recoverable amount at reasonable possible changes would not cause the CGUs carrying amount to exceed its recoverable amount.

5. Cash and Cash Equivalents

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

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

6. Trade and Other Receivables - net

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

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

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

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

7. **Inventories** - net

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

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

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

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

8. **Other Current Assets**

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

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

9. **Property and Equipment -** net

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

(Forward)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

	Participating Interest		
Service Contract	PXP	Pitkin	FEL
SC 6 (Cadlao Block)	1.65%	–	–
SC 6A (Octon Block)	5.56%	–	5.56%
SC 6B (Bonita Block) [1]	–	–	8.18%
SC 14 (Tara PA)	–	–	10.00%
SC 14 Block A (Nido)	–	–	8.47%
SC 14 Block B (Matinloc)	–	–	12.41%
SC 14 Block B-1 (North Matinloc)	–	–	19.46%
SC 14 Block C-1 (Galoc)	–	–	2.28%
SC 14 Block C-2 (West Linapacan)	–	–	9.10%
SC 14 Block D (Retention Block)	–	–	8.17%
SC 40 (North Cebu Block)	–	–	100.00%
SC 72 (Recto Bank)	–	–	70.00%
SC 74 (Linapacan)[2]	70.00%	–	–
SC 75 (Northwest Palawan)	50.00%	–	–
Peru Block Z-38	–	25.00%	–

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

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 (GCU) interval. However, no tests were conducted in this interval due to operational constraints.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

SC 40 (North Cebu Block)
In 2015, the management has finalized its assets review of SC 40 based on a more detailed Resource Estimation Report prepared by Petroleum Geo-Services (PGS) in 2013. The updated report indicated a significant increase in resources which triggered the reassessment and reversal of the impairment recognized in 2012. The results of the assets review and the competent person report were presented to

the Risk and Resource Committee of the Board in 2015. The Committee has approved and adopted the report. A reversal of impairment loss amounting to ₱388,630 was recognized by the Group in 2015.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

As at December 31, 2018, *force majeure* is still enforced and FEL is awaiting DOE's response in order to commence the remaining SP 2 work commitment.

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

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

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

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

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

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

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

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

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

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

In 2015, the DOE advised the SC 75 Consortium of its decision to place the area under *force majeure* effective from the end of SP 1 on December 27, 2015. In view of this, all exploration activities in the block have been suspended until such time that the DOE informs the Consortium of the lifting of the *force majeure*. All activities in SC 75, except for administration, remained suspended throughout 2018.

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

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

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

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

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

11. **Other Noncurrent Assets**

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

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

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

12. **Trade and Other Payables**

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

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

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

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

13. Costs and Expenses

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

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

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

14. Other Income (Charges)

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

15. **Equity**

Capital Stock

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

Details of the Parent Company's capital stock follow:

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

Reconciliation of the capital stock at follows:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Non-controlling Interest

Non-controlling interests consist of the following:

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

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

Loss allocated to material non-controlling interest:

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

Other comprehensive income allocated to material non-controlling interest:

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

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

Statements of comprehensive income as of December 31, 2018:

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

Statements of comprehensive income as of December 31, 2017:

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

Statements of comprehensive income as of December 31, 2016:

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

Statements of financial position as at December 31, 2018:

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

Statements of financial position as at December 31, 2017:

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

Statements of cash flows as at December 31, 2018:

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

Statements of cash flows as at December 31, 2017:

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

16. **Income Taxes**

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

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

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

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

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

d. As at December 31, 2018, the Group's NOLCO that can be claimed as deduction from future taxable income and excess MCIT that can be deducted against income tax due are as follows:

Year Incurred	Year of Expiration	NOLCO	Excess MCIT
2016	2019	₱47,789	₱74
2017	2020	2,699	771
2018	2021	23,271	504
		₱73,759	₱1,349

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

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

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

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

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

17. Related Party Transactions

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

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

Intercompany transactions are eliminated in the consolidated financial statements.

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

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

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

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

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

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

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

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

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

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

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

The interest expense and commitment fees were recorded under 'Interest expense and other charges' in the consolidated statements of income while these were eliminated upon consolidation for the year ended December 31, 2018, 2017 and 2016.

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

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

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

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

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

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

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

18. Financial Instruments

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

There were no transfers between Level 1 and 2 fair value measurements and no transfers into and out of Level 3 fair value measurement as at December 31, 2018 and 2017.

19. **Financial Risk Management Objectives and Policies**

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

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

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

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

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

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

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

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

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

As at December 31, 2018:

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

As at December 31, 2017:

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

Credit quality of cash and cash equivalents is based on the nature of the counterparty and the Group's evaluation process. High-grade credit quality financial assets pertain to financial assets with insignificant risk of default based on historical experience. Standard-grade credit quality financial assets include quoted and unquoted equity investments that can be readily sold to a third party. There were no financial assets assessed as impaired as at December 31, 2018 and 2017.

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

The following tables summarize the maturity profile of the Group's financial assets that can be used by the Group to manage its liquidity risk and the maturity profile of the Group's financial liabilities, based on contractual undiscounted repayment obligations (including interest) as at December 31, 2018 and 2017, respectively:

As at December 31, 2018:

	On Demand	**Less than 3 Months**	**3 to 12 Months**	**Over 12 Months**	**Total**
Amortized cost:					
Cash on hand	**₱12**	**₱–**	**₱–**	**₱–**	**₱12**
Cash in banks	**177,067**	**–**	**–**	**–**	**177,067**
Short-term investments	**–**	**165,296**	**–**	**–**	**165,296**
Trade	**–**	**30,594**	**–**	**707**	**31,301**
Others	**–**	**10,147**	**–**	**–**	**10,147**
Total undiscounted financial assets	**₱177,079**	**₱206,037**	**₱–**	**₱707**	**₱383,823**

	On Demand	**Less than 3 Months**	**3 to 12 Months**	**Over 12 Months**	**Total**
Trade and other payables:					
Trade	**₱–**	**₱9,995**	**₱–**	**₱–**	**₱9,995**
Accrued expenses	**–**	**19,620**	**–**	**–**	**19,620**
Other nontrade liabilities	**–**	**4,478**	**–**	**–**	**4,478**
Advances from related parties	**2,125,184**	**–**	**–**	**–**	**2,125,184**
Other noncurrent liabilities	**–**	**–**	**–**	**183,461**	**183,461**
Total undiscounted financial liabilities	**₱2,125,184**	**₱34,093**	**₱–**	**₱183,461**	**₱2,342,738**

As at December 31, 2017:

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

<u>Market Risk</u>

Foreign currency risk

Foreign currency risk is the risk where the value of the Group's financial instruments diminishes due to unfavorable changes in foreign exchange rates. The Parent Company's transactional currency exposures arise from both cash in banks and advances from PMC. The corresponding net foreign exchange gains (losses) amounting to (₱146), ₱13,341 and ₱24,675 arising from the translation of these foreign currency-denominated financial instruments were recognized by the Parent Company in the years ended December 31, 2018, 2017 and 2016, respectively. The exchange rates of the Peso to US dollar were ₱52.58, ₱49.93, and ₱49.72 to US$1 in the years ended December 31, 2018, 2017 and 2016, respectively.

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

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

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

US Dollar (Depreciates) Appreciates	Effect on Income (Loss) Before Income Tax
2018	
Appreciate by 5%	**(₱17,399)**
Depreciate by (5%)	**17,399**
2017	
Appreciate by 9%	(₱40,958)
Depreciate by (9%)	40,958

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

20. Capital Management

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

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

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

21. Basic/Diluted Loss per Share

Basic loss per share is computed as follows:

	2018	2017	2016
Net loss attributable to equity holders of the Parent Company	**(₱77,028)**	(₱39,125)	(₱22,362)
Divided by weighted average number of common shares issued during the year	**1,700,000,000**	1,700,000,000	1,700,000,000
Basic loss per share	**(₱0.045)**	(₱0.023)	(₱0.013)

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

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

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

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

22. **Segment Information**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

As at December 31, 2018:

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

As at December 31, 2017:

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

As at December 31, 2016:

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

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

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

23. Provisions and Contingencies

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

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

The disclosure of additional details beyond the present disclosures may seriously prejudice the Group's position and negotiation strategies with respect to these matters. Thus, as allowed by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, only a general description is provided. The provision for losses for the above-mentioned transactions amounting to ₱183,461 and ₱182,758 as at December 31, 2018 and 2017, respectively, are recorded under 'Other noncurrent liabilities' in the consolidated statements of financial position.

24. Changes in Liabilities Arising from Financing Activities

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

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

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

25. Events After the Reporting Period

Operating lease commitment between PXP and SMMC

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

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BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT

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

We have examined the accompanying consolidated financial statements of PXP Energy Corporation and its subsidiaries as at and for the year ended December 31, 2018, on which we have rendered the attached report dated March 21, 2019.

In compliance with Securities Regulation Code Rule 68, As Amended (2011), we are stating that the said Company has a total number of thirty thousand, eight hundred seventy-five (30,875) stockholders owning one hundred (100) or more shares each.

SYCIP GORRES VELAYO & CO.

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

March 21, 2019

SGV
Building a better working world

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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, 2018 and 2017, and each of the three years in the period ended December 31, 2018 included in this Form 17-A and have issued our report thereon dated March 21, 2019. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011), and are not part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Alexis Benjamin C. Zaragoza III

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

March 21, 2019

PXP ENERGY CORPORATION AND SUBSIDIARIES
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES
FOR THE YEAR ENDED DECEMBER 31, 2018

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

SCHEDULE I
RECONCILIATION OF RETAINED EARNINGS
AVAILABLE FOR DIVIDEND DECLARATION
As of December 31, 2018

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, 2016
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 adj
of certain transactions acc

NOT APPLICABLE

Net income actually earned during the year
Add (less):
Dividend declarations during the year
Unappropriated retained earnings as at December 31, 2017, 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

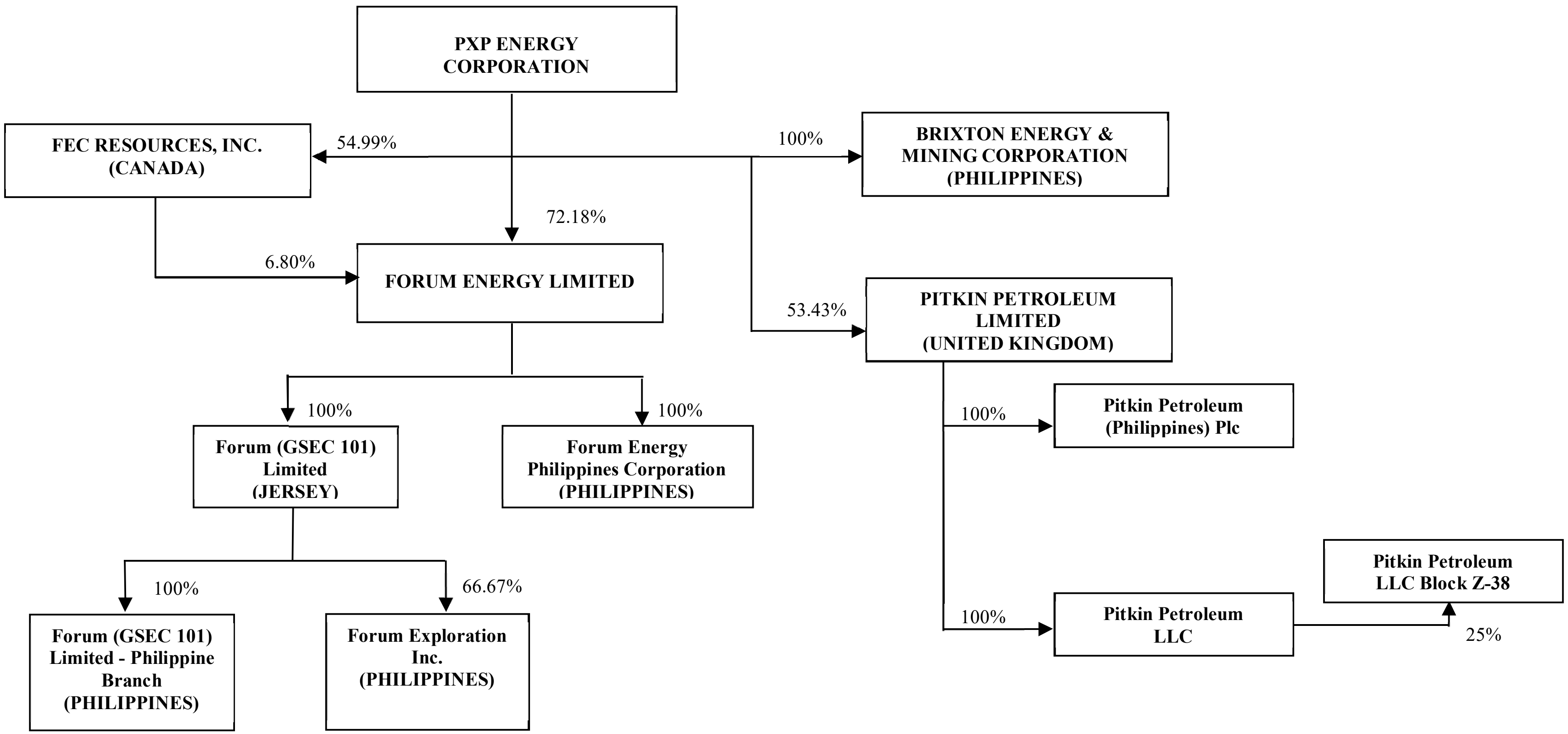
Net income actually earned during the year
Add (less):
Dividend declarations during the year
Appropriations of retained earnings during the year
Reversals of appropriations
Effects of prior period adjustments
Treasury shares
Subtotal
Unappropriated retained earnings as at December 31, 2018, as adjusted

SCHEDULE II
PXP ENERGY CORPORATION AND SUBSIDIARIES
SCHEDULE SHOWING FINANCIAL SOUNDNESS
PURSUANT TO SRC RULE 68, AS AMENDED
DECEMBER 31, 2018

	2018	**2017**	2016
Current ratio	**0.20**	**0.18**	0.23
Debt-to-equity ratio	**0.92**	**1.41**	1.40
Asset-to-equity ratio	**1.92**	**2.41**	2.40
Interest rate coverage ratio	**–**	**–**	–
Net income ratio	**(0.89)**	**(0.55)**	(0.36)

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, 2018



SCHEDULE IV
PXP ENERGY CORPORATION AND SUBSIDIARIES
TABULAR SCHEDULE OF ALL EFFECTIVE STANDARDS AND INTERPRETATIONS PURSUANT TO SRC RULE 68, AS AMENDED
DECEMBER 31, 2018

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
PFRSs Practice Statement Management Commentary		✓		
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards			✓
	Amendments to PFRS 1 and PAS 27: *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*	✓		
	Amendments to PFRS 1: *Additional Exemptions for First-time Adopters*			✓
	Amendment to PFRS 1: *Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters*			✓
	Amendments to PFRS 1: *Severe Hyperinflation and Removal of Fixed Date for First-time Adopters*			✓
	Amendments to PFRS 1: *Government Loans*			✓
	Amendments to PFRS 1: *Borrowing Costs*			✓
	Amendment to PFRS 1: *Meaning of Effective PFRSs*	✓		
PFRS 2	*Share-based Payment*			✓
	Amendments to PFRS 2: *Vesting Conditions and Cancellations*			✓
	Amendments to PFRS 2: *Group Cash-settled Share-based Payment Transactions*			✓
	Amendments to PFRS 2: *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*			✓
PFRS 3 (Revised)	*Business Combinations*	✓		
PFRS 4	*Insurance Contracts*			✓
	Amendments to PAS 39 and PFRS 4: *Financial Guarantee Contracts*			✓
PFRS 5	*Non-current Assets Held for Sale and Discontinued Operations*			✓
	Amendment to PFRS 5*: Changes in Methods of Disposal*			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
PFRS 6	*Exploration for and Evaluation of Mineral Resources*	✓		
PFRS 7	*Financial Instruments: Disclosures*	✓		
	Amendments to PFRS 7: *Transition*			✓
	Amendments to PAS 39 and PFRS 7: *Reclassification of Financial Assets*			✓
	Amendments to PAS 39 and PFRS 7: *Reclassification of Financial Assets - Effective Date and Transition*			✓
	Amendments to PFRS 7: *Improving Disclosures about Financial Instruments*	✓		
	Amendments to PFRS 7: *Disclosures - Transfers of Financial Assets*			✓
	Amendments to PFRS 7: *Disclosures - Offsetting Financial Assets and Financial Liabilities*			✓
	Amendments to PFRS 7: *Mandatory Effective Date of PFRS 9 and Transition Disclosures*			✓
	Amendment to PFRS 7: *Servicing Contracts*			✓
	Amendment to PFRS 7: *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*			✓
PFRS 8	*Operating Segments*	✓		
PFRS 9 (Revised)	*Financial Instruments*	✓		
PFRS 10	*Consolidated Financial Statements*	✓		
	Amendments to PFRS 10: *Investment Entities*			✓
	Amendments to PFRS 10, PFRS 12 and PAS 28: *Investment Entities: Applying the Consolidation Exception*			✓
PFRS 11	*Joint Arrangements*	✓		
	Amendments to PFRS 11: *Accounting for Acquisitions of Interests in Joint Operations*	✓		
PFRS 12	*Disclosure of Interests in Other Entities*			✓
	Amendments to PFRS 12: *Investment Entities*			✓
	Amendment to PFRS 12, *Clarification of the Scope of the Standard*			✓
PFRS 13	*Fair Value Measurement*	✓		
	Amendment to PFRS 13*: Short-term Receivables and Payables*	✓		
PFRS 14	*Regulatory Deferral Accounts*			✓
PFRS 15	*Revenue from Contracts with Customers*	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
Philippine Accounting Standards				
PAS 1 (Revised)	*Presentation of Financial Statements*	✓		
	Amendment to PAS 1: *Capital Disclosures*			✓
	Amendments to PAS 32 and PAS 1: *Puttable Financial Instruments and Obligations Arising on Liquidation*			✓
	Amendments to PAS 1: *Presentation of Items of Other Comprehensive Income*	✓		
	Amendments to PAS 1: *Clarification of the requirements for comparative information*	✓		
	Amendments to PAS 1: *Disclosure Initiative*			✓
PAS 2	*Inventories*	✓		
PAS 7	*Statement of Cash Flows*	✓		
	Amendments to PAS 7, *Statement of Cash Flows*, *Disclosure Initiative*	✓		
PAS 8	*Accounting Policies, Changes in Accounting Estimates and Errors*	✓		
PAS 10	*Events after the Balance Sheet Date*	✓		
PAS 11	*Construction Contracts*			✓
PAS 12	*Income Taxes*	✓		
	Amendment to PAS 12 - *Deferred Tax: Recovery of Underlying Assets*	✓		
	Amendments to PAS 12, *Income Taxes*, *Recognition of Deferred Tax Assets for Unrealized Losses*	✓		
PAS 16	*Property, Plant and Equipment*	✓		
	Amendments to PAS 16: *Classification of servicing equipment*			✓
	Amendments to PAS 16 and PAS 38: *Clarification of Acceptable Methods of Depreciation and Amortization*			✓
	Amendments to PAS 16 and PAS 41: *Agriculture: Bearer Plants*			✓
PAS 17	*Leases*	✓		
PAS 19	*Employee Benefits*	✓		
	Amendments to PAS 19: *Actuarial Gains and Losses, Group Plans and Disclosures*			✓
	Amendment to PAS 19: *Discount Rate: Regional Market Issue*			✓
PAS 19 (Amended)	*Employee Benefits*	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
PAS 20	*Accounting for Government Grants and Disclosure of Government Assistance*			✓
PAS 21	*The Effects of Changes in Foreign Exchange Rates*	✓		
	Amendment: *Net Investment in a Foreign Operation*			✓
PAS 23 (Revised)	*Borrowing Costs*			✓
PAS 24 (Revised)	*Related Party Disclosures*	✓		
PAS 26	*Accounting and Reporting by Retirement Benefit Plans*			✓
PAS 27 (Amended)	*Separate Financial Statements*	✓		
	Amendments to PAS 27: *Equity Method in Separate Financial Statements*			✓
PAS 28	*Investments in Associates*			✓
PAS 28 (Amended)	*Investments in Associates and Joint Ventures*			✓
PAS 29	*Financial Reporting in Hyperinflationary Economies*			✓
PAS 31	*Interests in Joint Ventures*			✓
PAS 32	*Financial Instruments: Disclosure and Presentation*	✓		
	Amendments to PAS 32 and PAS 1: *Puttable Financial Instruments and Obligations Arising on Liquidation*			✓
	Amendment to PAS 32: *Classification of Rights Issues*			✓
	Amendments to PAS 32: *Offsetting Financial Assets and Financial Liabilities*	✓		
PAS 33	*Earnings per Share*	✓		
PAS 34	*Interim Financial Reporting*			✓
	Amendment to PAS 34: *Disclosure of Information 'Elsewhere in the Interim Financial Report'*			✓
PAS 36	*Impairment of Assets*	✓		
PAS 37	*Provisions, Contingent Liabilities and Contingent Assets*	✓		
PAS 38	*Intangible Assets*	✓		
PAS 39	*Financial Instruments: Recognition and Measurement*	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities			✓
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
PAS 39	*Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets*			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition			✓
	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives			✓
	Amendment to PAS 39: Eligible Hedged Items			✓
PAS 40	*Investment Property*			✓
	Amendments to PAS 40, Investment Property, Transfers of Investment Property			✓
PAS 41	*Agriculture*			✓
Philippine Interpretations				
IFRIC 1	*Changes in Existing Decommissioning, Restoration and Similar Liabilities*	✓		
IFRIC 2	*Members' Share in Co-operative Entities and Similar Instruments*			✓
IFRIC 4	*Determining Whether an Arrangement Contains a Lease*			✓
IFRIC 5	*Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*	✓		
IFRIC 6	*Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment*			✓
IFRIC 7	*Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies*			✓
IFRIC 8	*Scope of PFRS 2*			✓
IFRIC 9	*Reassessment of Embedded Derivatives*			✓
	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives			✓
IFRIC 10	*Interim Financial Reporting and Impairment*			✓
IFRIC 11	*PFRS 2 - Group and Treasury Share Transactions*			✓
IFRIC 12	*Service Concession Arrangements*			✓
IFRIC 13	*Customer Loyalty Programmes*			✓
IFRIC 14	*The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*			✓
	Amendments to Philippine Interpretations IFRIC - 14, Prepayments of a Minimum Funding Requirement			✓
IFRIC 16	*Hedges of a Net Investment in a Foreign Operation*			✓
IFRIC 17	*Distributions of Non-cash Assets to Owners*			✓
IFRIC 18	*Transfers of Assets from Customers*			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
IFRIC 19	*Extinguishing Financial Liabilities with Equity Instruments*			✓
IFRIC 20	*Stripping Costs in the Production Phase of a Surface Mine*			✓
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*			✓
SIC-7	*Introduction of the Euro*			✓
SIC-10	*Government Assistance - No Specific Relation to Operating Activities*			✓
SIC-12	*Consolidation - Special Purpose Entities*			✓
	Amendment to SIC - 12: Scope of SIC 12			✓
SIC-13	*Jointly Controlled Entities - Non-Monetary Contributions by Venturers*			✓
SIC-15	*Operating Leases - Incentives*			✓
SIC-25	*Income Taxes - Changes in the Tax Status of an Entity or its Shareholders*			✓
SIC-27	*Evaluating the Substance of Transactions Involving the Legal Form of a Lease*			✓
SIC-29	*Service Concession Arrangements: Disclosures.*			✓
SIC-31	*Revenue - Barter Transactions Involving Advertising Services*			✓
SIC-32	*Intangible Assets - Web Site Costs*			✓

SCHEDULE V
PXP ENERGY CORPORATION AND SUBSIDIARIES
SCHEDULE A
FINANCIAL ASSETS
December 31, 2018
(Amounts in Thousands, Except Number of Shares)

Name of issuing entity and association of each issue	Number of shares or principal amount of bonds and notes	Amount shown in the balance sheet	Income received and accrued

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, 2018

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

NOT APPLICABLE

PXP ENERGY CORPORATION AND SUBSIDIARIES
SCHEDULE C
AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING CONSOLIDATION
December 31, 2018
(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							
Receivables:							
Forum (GSEC 101) Limited *(Jersey)*	₱275,727	₱14,634	₱–	₱–	₱–	₱290,361	₱290,361
Forum Energy Philippines Corporation	1,385	–	915	–	470	–	470
Forum Exploration, Inc.	748	–	634	–	114	–	114
Forum (GSEC 101) Limited - Philippine Branch	541	–	371	–	170	–	170
Pitkin Petroleum (Philippines) Plc	308	–	270	–	38	–	38
	₱278,709	₱14,634	₱2,190	₱–	₱792	₱290,361	₱291,153

PXP ENERGY CORPORATION AND SUBSIDIARIES
SCHEDULE D
INTANGIBLE ASSETS - OTHER ASSETS
December 31, 2018
(Amounts in Thousands)

Description	Beginning balance	Additions at Cost	Charged to cost and expenses	Charged to other accounts	Other changes additions (deductions)	Ending balance
(i) Intangible Assets						
Goodwill	₱1,238,583	₱–	₱–	₱–	₱–	₱1,238,583
(ii) Other Assets						
Deferred oil and gas exploration costs	5,836,878	80,550	–	–	150,124	6,067,552
Allowance for unrecoverable portion	(668,510)	–	–	–	(88,565)	(757,075)
	5,168,368	80,550	–	–	61,559	5,310,477
	₱6,406,951	₱80,550	₱–	₱–	₱61,559	₱6,549,060

PXP ENERGY CORPORATION AND SUBSIDIARIES
SCHEDULE E
LONG TERM DEBT
December 31, 2018
(Amounts in Thousands)

Title of Issue and type of obligation	Amount authorized by indenture	Amount shown under caption "Current portion of long-term debt"	Amount shown caption "Long-term Debt"

NOT APPLICABLE

PXP ENERGY CORPORATION AND SUBSIDIARIES
SCHEDULE F
INDEBTEDNESS TO RELATED PARTIES (LONG - TERM LOANS FROM RELATED COMPANIES)
December 31, 2018

Name of the Related Party	Balance at beginning of period	Balance at end of period

NOT APPLICABLE

PXP ENERGY CORPORATION AND SUBSIDIARIES
SCHEDULE G
GUARANTEES OF SECURITIES OF OTHER ISSUERS
December 31, 2018

Name of the issuing entity of securities guaranteed by the company for which the statement is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding	Amount owned by person for which statement is lifted	Nature of guarantee

NOT APPLICABLE

PXP ENERGY CORPORATION AND SUBSIDIARIES
SCHEDULE H
CAPITAL STOCK
December 31, 2018

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	1,963,635	–

COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

C S 2 0 0 7 1 9 8 1 9

COMPANY NAME

PXP ENERGY CORPORATION (formerly Philex Petroleum Corporation)

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

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

Form Type	Department requiring the report	Secondary License Type, If Applicable
AAFS	CRMD	N/A

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number	Mobile Number
admin@pxpenergy.com.ph	(632) 631-1381	N/A

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
38,816	6/1	12/31

CONTACT PERSON INFORMATION

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

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Daniel Stephen P. Carlos	admin@pxpenergy.com.ph	(632) 631-1381	N/A

CONTACT PERSON's ADDRESS

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

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.*

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

STATEMENT OF MANAGEMENT'S RESPONSIBILTY 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, 2018 and 2017**, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

Mr. Manuel V. Pangilinan
Chairman of the Board

Mr. Daniel Stephen P. Carlos
President

Ms. Paraluman M. Navarro
Treasurer

BUREAU OF INTERNAL REVENUE
RR 7 QUEZON CITY RDO 41 - MANDALUYONG
RECEIVED
APR 12 2019
ANGAT PA PINAS!

Signed this 21th day of March 2019

SUBSCRIBED AND SWORN to before me this ____21____ day of ____MAR____ 2019, affiants exhibiting to me the following:

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

Doc No.: 185
Page No.: 38
Book No.: IV
Series of 2019:

MA. CONCEPCION Z. SANDOVAL
NOTARY PUBLIC FOR AND IN THE CITY OF MAKATI
APPOINTMENT NO. M-412 (2018-2019)
COMMISSION EXPIRES ON DECEMBER 31, 2019
7th Floor, The PHINMA Plaza, 39 Plaza Drive
Rockwell Center, Makati City 1210
PTR No. 7335802; Makati City; 1-4-2019
IBP O.R. No. 060585; Rizal; 1-4-2019
TIN 908-983-782
Attorney's Roll No. 54717, May 2007

BUREAU OF INTERNAL REVENUE
RR 7 QUEZON CITY RDO 41 - MANDALUYONG
RECEIVED
RFP APR 12 2019 ANGAT PA PINAS!

SGV
Building a better working world

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Parent Company Financial Statements

Opinion

We have audited the parent company financial statements of PXP Energy Corporation (the Company), which comprise the parent company statements of financial position as at December 31, 2018 and 2017, and the parent company statements of comprehensive income, parent company statements of changes in equity and parent company statements of cash flows for the years then ended, and notes to the parent company financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying parent company financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended 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 Parent Company Financial Statements* section of our report. We are independent of the Company 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 parent company 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.

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

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

In preparing the parent company 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.

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

Auditor's Responsibilities for the Audit of the Parent Company Financial Statements

Our objectives are to obtain reasonable assurance about whether the parent company 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 parent company 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 parent company 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 Company'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 Company'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 parent company 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 Company to cease to continue as a going concern.

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

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.

Report on the Supplementary Information Required Under Revenue Regulations 15-2010

Our audits were conducted for the purpose of forming an opinion on the parent company financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 20 to the parent company financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of PXP Energy Corporation. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

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

March 21, 2019

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PXP ENERGY CORPORATION
(formerly Philex Petroleum Corporation)
PARENT COMPANY STATEMENTS OF FINANCIAL POSITION

	December 31	
	2018	2017
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	**₱190,623,179**	₱207,631,615
Receivables - net (Notes 5 and 14)	**31,081,194**	14,456,567
Other current assets (Note 6)	**8,026,046**	7,274,709
Total Current Assets	**229,730,419**	229,362,891
Noncurrent Assets		
Investments in subsidiaries (Note 7)	**3,191,583,630**	3,191,583,630
Property and equipment - net (Note 8)	**1,365,048**	1,695,664
Loan receivable (Note 14)	**290,361,329**	275,727,295
Deferred oil and gas exploration costs - net (Note 9)	**179,544,871**	175,482,596
Total Noncurrent Assets	**3,662,854,878**	3,644,489,185
TOTAL ASSETS	**₱3,892,585,297**	₱3,873,852,076
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Note 10)	**₱20,569,032**	₱18,428,737
Advances from related parties (Note 14)	**1,387,369,803**	2,168,676,105
Income tax payable (Note 13)	**393,754**	600,157
Total Current Liabilities	**1,408,332,589**	2,187,704,999
Noncurrent Liability		
Deferred income tax liabilities - net (Note 13)	**137,154,163**	134,934,029
Total Liabilities	**1,545,486,752**	2,322,639,028
Equity		
Capital stock (Issued and subscribed) (Notes 12 and 16)		
Authorized - 6,800,000,000 common shares		
Issued and subscribed - 1,960,000,000 common shares in 2018;		
1,700,000,000 common shares in 2017	**1,960,000,000**	1,700,000,000
Additional paid-in capital (Note 16)	**2,821,000,000**	–
Subscription receivable (Note 16)	**(2,310,750,000)**	–
Deficit	**(123,151,455)**	(148,786,952)
Total Equity	**2,347,098,545**	1,551,213,048
TOTAL LIABILITIES AND EQUITY	**₱3,892,585,297**	₱3,873,852,076

See accompanying Notes to Parent Company Financial Statements.

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PXP ENERGY CORPORATION
(formerly Philex Petroleum Corporation)
PARENT COMPANY STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2018	2017
GENERAL AND ADMINISTRATIVE EXPENSES		
Professional fees	**₱10,181,032**	₱20,706,560
Stockholders' meeting expenses	**2,878,781**	2,698,508
Taxes and licenses	**1,368,262**	1,488,491
Depreciation (Note 8)	**506,982**	441,373
Insurance	**501,055**	479,928
Repairs and maintenance	**437,253**	655,813
Fuel, oil and lubricants	**427,831**	354,489
Travel and transportation	**205,872**	354,099
Communications	**56,141**	95,996
Supplies	**53,455**	63,527
Seminar and trainings	**31,333**	11,840
Others	**1,022,365**	2,142,655
	17,670,362	29,493,279
OTHER INCOME - net (Note 11)	**45,919,747**	33,449,162
INCOME BEFORE INCOME TAX	**28,249,385**	3,955,883
PROVISION FOR INCOME TAX (Note 13)		
Current	**393,754**	600,157
Deferred	**2,220,134**	1,042,169
	2,613,888	1,642,326
NET INCOME	**25,635,497**	2,313,557
OTHER COMPREHENSIVE INCOME	**–**	–
TOTAL COMPREHENSIVE INCOME	**₱25,635,497**	₱2,313,557

See accompanying Notes to Parent Company Financial Statements.

PXP ENERGY CORPORATION
(formerly Philex Petroleum Corporation)

PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	Capital Stock (Note 12)	Additional Paid-In Capital (Note 12)	Subscription Receivable (Note 12)	Deficit (Note 12)	Total
BALANCES AT DECEMBER 31, 2016	**₱1,700,000,000**	**₱–**	**₱–**	**(₱151,100,509)**	**₱1,548,899,491**
Net income for the period	–	–	–	2,313,557	2,313,557
Other comprehensive income	–	–	–	–	–
Total comprehensive income	–	–	–	2,313,557	2,313,557
BALANCES AT DECEMBER 31, 2017	**1,700,000,000**	**–**	**–**	**(148,786,952)**	**1,551,213,048**
Net income for the period	–	–	–	25,635,497	25,635,497
Other comprehensive income	–	–	–	–	–
Total comprehensive income	–	–	–	25,635,497	25,635,497
Additional share subscription (Note 12)	260,000,000	2,821,000,000	(2,310,750,000)	–	770,250,000
BALANCES AT DECEMBER 31, 2018	**₱1,960,000,000**	**₱2,821,000,000**	**(₱2,310,750,000)**	**(₱123,151,455)**	**₱2,347,098,545**

See accompanying Notes to Parent Company Financial Statements.

PXP ENERGY CORPORATION
(formerly Philex Petroleum Corporation)

PARENT COMPANY STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱28,249,385**	₱3,955,883
Adjustments for:		
Unrealized foreign exchange gains - net	**(23,920,804)**	(3,252,713)
Interest income (Notes 4, 11 and 14)	**(20,477,101)**	(25,304,478)
Depreciation (Note 8)	**506,982**	441,373
Loss on sale of investment in shares of stock (Notes 7 and 11)	**–**	130,415,144
Reversal of impairment loss on receivables (Notes 5 and 11)	**–**	(128,957,974)
Operating loss before working capital changes	**(15,641,538)**	(22,702,765)
Increase in trade and other payables	**2,140,295**	3,549,392
Decrease (increase) in:		
Other current assets	**(751,337)**	(773,350)
Receivables - net	**94,513**	(20,681,138)
Net cash used in operations	**(14,158,067)**	(40,607,861)
Interest received	**2,140,859**	14,201,672
Income taxes paid	**(600,157)**	(5,047)
Net cash flows used in operating activities	**(12,617,365)**	(26,411,236)
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to:		
Deferred oil and gas exploration costs - net (Note 9)	**(4,062,275)**	(21,697,035)
Property and equipment - net (Note 8)	**(176,366)**	(674,911)
Investments in subsidiaries (Note 7)	**–**	(32,923,530)
Decrease in advances to related parties (Note 14)	**2,190,912**	2,853,882
Proceeds from:		
Sale of investment in shares of stock (Note 7)	**–**	107,716,541
Payment of loan receivable (Note 14)	**–**	50,180,000
Net cash flows provided by (used in) investing activities	**(2,047,729)**	105,454,947
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in advances from related parties (Note 14)	**(781,306,302)**	(25,359,060)
Proceeds from additional share subscription (Note 12)	**770,250,000**	–
Net cash flows used in financing activities	**(11,056,302)**	(25,359,060)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**8,712,960**	1,621,992
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(17,008,436)**	55,306,643
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**207,631,615**	152,324,972
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱190,623,179**	₱207,631,615

See accompanying Notes to Parent Company Financial Statements.

1. Corporate Information, Status of Operations, and Authorization for Issuance of the Parent Company Financial Statements

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

Forum Energy Limited (FEL) and FEC Resources, Inc. (FEC)
On September 24, 2010, PXP acquired from Philex Mining Corporation (PMC) all of its investment in the shares of stock of FEC consisting of 225,000,000 shares representing 51.24% ownership interest at a purchase price of ₱342,337,698 (see Note 7). As a result of the acquisition of FEC, which at that time held 25.63% ownership interest in 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.

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 ₱33,889,615. 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 ₱29,816,472. Following these transactions, PXP’s interest in FEL increased from 36.44% to 48.77%.

In January 2016, FEC cancelled its 30,000,000 shares previously held under escrow. As a result, PXP’s ownership interest increased from 51.24% to 54.99% (see Note 7).

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$11,805,276 into 39,350,920 new common shares of FEL at US$0.30 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 ₱17,704,658. On November 23, 2017, PXP entered into an agreement to buy 1,000,000 FEL shares held by FEC for a total consideration of ₱15,218,872. As a result of these transactions, PXP’s economic interest in FEL increased from 58.90% to 75.92% (see Note 7).

Pitkin Petroleum Limited (Pitkin)
On April 5, 2013, PXP increased its shareholding in 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 in 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 in 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%.

On February 17, 2017, Pitkin tendered its offer to buyback 11,430,500 outstanding shares for a consideration of US$0.35 per share. The Parent Company surrendered 6,107,000 shares for a consideration of ₱107,716,541, while the NCI owners surrendered its proportionate stake of 5,323,500 shares for a total payment of ₱92,788,519. The transaction did not change the ownership percentages for both PXP and NCI owners.

PMC's property dividends
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.

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

Status of Operations
The Parent Company's principal asset is a 50% operating interest in Service Contract (SC) 75. It covers an area of 6,160 square kilometers in the Northwest (NW) Palawan Basin. However, due to a *force majeure* issued by the Department of Energy (DOE) on December 27, 2015, exploration activities in the area are temporarily suspended as at December 31, 2018.

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

Recovery of Deferred Oil and Gas Exploration Costs
The Parent Company's ability to realize its deferred oil and gas exploration costs with carrying value amounting to ₱179,544,871 and ₱175,482,596 as at December 31, 2018 and 2017, respectively (see Note 9), 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 parent company financial statements do not include any adjustment that might result from this uncertainty.

Authorization for Issuance of the Parent Company Financial Statements
The accompanying financial statements of the Parent Company as at December 31, 2018 and 2017, and for the years then ended, were authorized for issuance by the BOD on March 21, 2019.

2. **Basis of Preparation, Summary of Significant Accounting Policies and Financial Reporting Practices**

Basis of Preparation
The Parent Company's financial statements have been prepared on a historical cost basis. The Parent Company's financial statements are presented in Philippine Peso (Peso), which is the Parent Company's functional currency, and all amounts are rounded to the nearest Peso except when otherwise indicated.

Statement of Compliance
The separate or Parent Company's financial statements 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 Parent Company has adopted the following new accounting pronouncements starting January 1, 2018. Adoption of these pronouncements did not have any significant impact on the Parent Company's financial position or performance unless otherwise indicated.

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

- PFRS 9, *Financial Instruments*

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

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

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

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

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

- Cash and cash equivalents, except cash on hand, receivables and loan receivable previously classified as loans and receivables as at December 31, 2017 are held to collect contractual cash flows and give rise to cash flows representing SPPI. These are classified and measured as debt instruments at amortized cost beginning January 1, 2018.

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

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

		PFRS 9 measurement category
	Amount	**Amortized cost**
PAS 39 measurement category		
Loans and receivables		
Cash and cash equivalents:		
Cash in banks	₱35,296,345	₱35,296,345
Short-term investments	172,328,270	172,328,270
Receivables:		
Accrued finance income	11,099,912	11,099,912
Advances to related parties	2,982,676	2,982,676
Others	373,979	373,979
Loan receivable	275,727,295	275,727,295
	₱497,808,477	**₱497,808,477**

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

Upon adoption of PFRS 9, impairment losses did not reduce the carrying amount of the Parent Company's cash and cash equivalents, receivables, and loan receivable as at January 1, 2018.

c. *Hedge accounting*
The Parent Company has no existing hedge relationships as at December 31, 2017, thus will not have an impact on the financial statements of the Parent Company.

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

- PFRS 15, *Revenue from Contracts with Customers*

  PFRS 15 supersedes PAS 18, *Revenue* and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. PFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

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

  The Parent Company assessed that the adoption of PFRS 15 has no material impact since the Parent Company is currently not operating and does not have revenue generating activities. The Parent Company's only source of income are the interest from loan and cash in banks, and foreign exchange gains and losses.

  The adoption of PFRS 15 has no have material impact on the Parent Company's financial position, statements of comprehensive income or operating, investing, and financing cash flows.

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

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

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

<u>Standards and Interpretations Issued but not yet Effective</u>
Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Parent Company does not expect that the future adoption of the said pronouncements will have a significant impact on its financial statements. The Parent Company intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2019

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

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

  These amendments have no impact on the financial statements of the Parent Company.

- PFRS 16, *Leases*

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

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

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

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

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

  The Parent Company plans to apply the modified retrospective approach upon adoption of PFRS 16 in 2019 and elects to apply the standard to contracts that were previously identified as leases applying PAS 17 and Philippine Interpretation IFRIC-4, *Determining whether an Arrangement contains a Lease*. The Parent Company 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 Parent Company also elects to use the exemptions provided by the standard on lease contracts for which the lease terms end within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value.

  The accounting for operating leases where the Parent Company acts as the lessee will significantly change due to the adoption of PFRS 16. As at December 31, 2018, the Parent Company has no non-cancellable operating lease commitments. On February 1, 2019, PXP entered into a non-cancellable operating lease contract with Silangan Mindanao Mining Corporation, Inc. (SMMC), for a period of one (1) year commencing on February 1, 2019 up to January 31, 2020. The lease agreement has a total annual payment of ₱4,281,702 and is renewable at the option of either party, subject to mutually agreed upon terms and conditions. The contract requires PXP to pay security deposit amounting to ₱637,158, which is refundable within 60 days from the termination of the contract (see Note 17).

  For this lease commitment, the Parent Company expects to recognize right-of-use assets of ₱10,209,060 and lease liabilities of ₱10,290,060 as at February 1, 2019. Overall, the initial adoption of the new leases standard will not result to changes in the Parent Company's equity.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- *Annual Improvements to PFRSs* 2015-2017 Cycle

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

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

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

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

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

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

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

- Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*
  The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

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

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

Effective beginning on or after January 1, 2020

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

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

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

  These amendments will apply on future business combinations of the Parent Company.

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

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

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

Effective beginning on or after January 1, 2021

- PFRS 17, *Insurance Contracts*

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

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

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

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

Deferred effectivity

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

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

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

Summary of Significant Accounting Policies and Financial Reporting Practices

Presentation of Financial Statements
The Parent Company has elected to present all items of recognized income and expenses in one single statement of comprehensive income.

Interests 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 Parent Company 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

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

All other assets are classified as noncurrent.

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

The Parent Company classifies all other liabilities as noncurrent.

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

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

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

Initial Recognition and Subsequent Measurement of Financial Instruments
Date of recognition
The Parent Company recognizes a financial asset or a financial liability in the statements of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the trade date.

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

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

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

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

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

As at December 31, 2017, included under loans and receivables are the Parent Company's cash and cash equivalents, receivables and loan receivable (see Note 15).

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

As at December 31, 2017, included in other financial liabilities are the Parent Company's trade and other payables and advances from related parties (see Note 15).

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

in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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

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

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

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

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

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

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

The Parent Company'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 Parent Company commits to purchase or sell the asset.

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

Subsequent Measurement of Financial Assets
For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortized cost (debt instruments)
- Financial assets at FVOCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at FVOCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at FVTPL

Financial assets at amortized cost (debt instruments)
This category is the most relevant to the Parent Company. The Parent Company measures financial assets at amortized cost if both of the following conditions are met:

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

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

As at December 31, 2018, the Parent Company's financial assets at amortized cost include cash and cash equivalents, receivables and loan receivable (see Note 15).

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

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

For receivables (not subject to provisional pricing) due in less than 12 months, the Parent Company applies the simplified approach in calculating ECLs, as permitted by PFRS 9. Therefore, the Parent Company 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 Parent Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

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

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

At each reporting date, the Parent Company assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Provisions for expected credit losses
The Parent Company uses a provision matrix to calculate ECLs for receivables. The provision rates are based on days past due for groupings of various customer or counterparty segments that have similar loss patterns (e.g., by geography, product type, customer or counterparty type and/or rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Parent Company's historical observed default rates. The Parent Company will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions are expected to deteriorate over the next year, which can lead to an increased number of defaults, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Parent Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer or counterparty's actual default in the future.

Definition of default
The Parent Company considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable.

- when there is a breach of financial covenants by the counterparty; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Parent Company, in full (without taking into account any collaterals held by the Parent Company).

Irrespective of the above analysis, the Parent Company considers that default has occurred when a financial asset is more than 30 days past due unless the Parent Company has reasonable and supportable information to demonstrate that a more conservative default criterion is more appropriate.

Credit-impaired financial assets
A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

a) significant financial difficulty of the issuer or the borrower;
b) a breach of contract, such as a default or past due event;
c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having

d) granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
e) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
f) the disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy
The Parent Company writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Parent Company's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognized in profit or loss.

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 Parent Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement.
- the Parent Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all risks and rewards of the asset, but has transferred control of the asset.

Where the Parent Company has transferred its rights to receive cash flows from an asset or has entered into a 'pass-through' arrangement and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Parent Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Parent Company could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Parent Company's continuing involvement is the amount of the transferred asset that the Parent Company may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on asset measured at fair value, the extent of the Parent Company's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial Liabilities
Initial recognition and measurement
Financial liabilities are classified, at initial recognition, as financial liabilities at FVTPL, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables net of directly attributable transaction costs. This category includes the Parent Company's trade payables and accrued expenses.

Subsequent measurement
After initial recognition, payables are subsequently measured at amortized cost using the EIR method.

As at December 31, 2018 and 2017, the Parent Company's financial liabilities are in the nature of financial liabilities at amortized costs. The Parent Company has no financial liabilities classified as FVTPL and FVOCI.

Derecognition of Financial Liabilities
A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statements of comprehensive income.

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount is reported in the statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Determination of Fair Value
The Parent Company measures financial instruments at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:
- In the principal market for the asset or liability
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to the Parent Company.

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 Parent Company 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 financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:
- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Parent Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of the reporting date.

Cash and Cash Equivalents
Cash consists of cash on hand and in banks. Cash in banks earns interest at the respective bank deposit rates. Short-term investments are made of varying periods of up to three (3) months depending on the cash requirements of the Parent Company, and earn interest at the respective short-term investments rates.

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 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 statements of financial position to the extent of the recoverable amount.

Prepaid tax
Prepaid tax will be offset against any future income tax due.

Property and Equipment
Property and equipment are stated at cost less accumulated depreciation and accumulated impairment in value.

The initial cost of property and equipment consists of its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. 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 Parent Company 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 statements of income when incurred.

Depreciation of items of property and equipment is computed using the straight-line method over their estimated useful lives of the assets, as follows:

Asset Category	Number of Years
Transportation equipment	5
Office equipment	3 to 5

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 Discounted Operations*, and the date the asset is derecognized.

Depreciation is recognized in the parent company statements of comprehensive income or capitalized as part of cost another asset, as applicable.

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 statements of comprehensive income.

The estimated useful lives and depreciation methods are reviewed periodically to ensure that residual values, periods and methods of 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 Parent Company'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 parent company statements of comprehensive income when incurred.

If no potentially commercial hydrocarbons are discovered, the deferred oil and gas exploration asset is written off through the parent company statements of comprehensive income. If extractable hydrocarbons are found and, subject to further appraisal activity (e.g., the drilling of additional wells), it is probable that they can be commercially developed, the costs continue to be carried under deferred oil and gas exploration costs account while sufficient/continued progress is made in assessing the commerciality of the hydrocarbons. Costs directly associated with appraisal activity undertaken to determine the size, characteristics and commercial potential of a reservoir following the initial discovery of hydrocarbons, including the costs of appraisal wells where hydrocarbons were not found, are initially capitalized as deferred oil and gas exploration costs.

At the completion of the exploration phase, if technical feasibility is demonstrated and commercial reserves are discovered, then, following the decision to continue into the development phase, the oil and gas exploration costs relating to the SC, where oil and gas in commercial quantities are discovered, is first assessed for impairment and (if required) any impairment loss is recognized, then the remaining balance is transferred to 'Oil and gas' account which will be shown under the 'Property and equipment' account in the parent company 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 parent company statements of comprehensive 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 Parent Company 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 Parent Company's assessment of the future prospects of the exploration project.

Investments in Subsidiaries
Subsidiaries are entities over which the Parent Company has the power to govern the financial and operating policies of the entities.

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 Parent Company controls an investee if, and only, if the Parent Company 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 Parent Company's voting rights and potential voting rights

The Parent Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the 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 parent company statements of comprehensive income from the date the Parent Company gains control until the date the it 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 financial statements of subsidiaries to bring their accounting policies into line with the Parent Company's accounting policies.

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 the parent company statements of comprehensive income. Any investment retained is recognized at fair value.

The Parent Company's principal subsidiaries and their nature of business are as follows:

Subsidiary	Nature of Business
FEL	Incorporated on April 1, 2005 in England and Wales primarily to engage in the business of oil and gas exploration and production, with focus on the Philippines, particularly, a 70% interest in SC 72 Recto Bank.
Forum Energy Philippines Corporation (FEPCO)	FEPCO was incorporated in the Philippines on March 27, 1988 and is involved in oil and gas exploration in the Philippines, particularly a 2.28% interest in SC 14 C-1 Galoc.
Forum Exploration, Inc. (FEI)	FEI was incorporated in the Philippines on September 11, 1997 and is involved in oil and gas exploration in the Philippines.
FGSECL	FGSECL was incorporated in Jersey on March 31, 2005 and is involved in oil and gas exploration in the Philippines.
Forum (GSEC101) Ltd. - Philippine Branch (GSEC)	GSEC was established as a Philippine branch on October 17, 2005 and is involved in oil and gas exploration in the Philippines, specifically, SC 72 Recto Bank.
Pitkin	Pitkin was incorporated and registered in UK of Great Britain and Northern Ireland on April 6, 2005 and is engaged primarily in the acquisition, exploration and development of oil and gas properties and the production of hydrocarbon products.
Pitkin Petroleum (Philippines) Plc (PPP)	PPP was registered as the Philippine Branch of Pitkin Petroleum 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 Parent Company: Pitkin Peru LLC (PPR) and Pitkin Vamex LLC (PVX).

Impairment of Nonfinancial Assets

The Parent Company assesses at each financial reporting date whether there is indication that its property and equipment, deferred oil and gas explorations costs, investment in subsidiaries, or other cash-generating unit (CGU) may be impaired. If any such indication exists, or when an annual impairment testing for such items is required, the Parent Company 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 Parent Company 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 of continuing operations are recognized in profit or loss in the expense categories consistent with the function of the impaired asset.

An assessment is made at least on each financial reporting date as to whether there is indication that previously recognized impairment losses may no longer exist or may have decreased. If any indication exists, the recoverable amount is estimated and a previously recognized impairment loss is reversed only if there has been a change in the estimate in the asset or CGU's recoverable amount since the last impairment loss was recognized. If so, the carrying amount of the item is increased to its new recoverable amount which cannot exceed the impairment loss recognized in prior years. Such reversal is recognized in profit or loss unless the asset or CGU is carried at its revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount on a systematic order over its remaining estimated useful life.

Capital Stock and Additional Paid-in Capital

Ordinary or common shares are classified as equity. The proceeds from the issuance of ordinary or common shares are presented in equity as capital stock to the extent of the par value issued shares and any excess of the proceeds over the par value or shares issued less any incremental costs directly attributable to the issuance, net of tax, is presented in equity as additional paid-in capital.

Subscription Receivable

Subscription receivable pertains to the uncollected portion of the subscribed capital stock which reduces the outstanding balance of capital stock.

Deficit

Deficit represents accumulated losses of the Parent Company, 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 is recognized to the extent that it is probable that the economic benefits will flow to the Parent Company and the amount of revenue can be measured reliably. The Parent Company has concluded that it is acting as principal in all of its revenue arrangements.

Interest income

Interest income is recognized as the interest accrues using the EIR method.

Expenses

Expenses are decreases in economic benefits during the reporting period in the form of outflows or decreases of assets or incurrence of that result in decreases in equity, other than those relating to distribution to equity participants. Expenses are recognized in the parent company statements of comprehensive income in the year they are incurred.

Foreign Currency-Denominated Transactions

Transactions denominated in foreign currencies are recorded using the exchange rate at the date of the transaction. Outstanding monetary assets and monetary liabilities denominated in foreign currencies are restated using the rate of exchange at the end of reporting period. Non-monetary items that are measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was determined. When a gain or loss on a non-monetary item is recognized in OCI, any foreign exchange component of that gain or loss shall be recognized in statements of comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognized in the parent company statements of comprehensive income, any exchange component of that gain or loss shall be recognized in the parent company statements of comprehensive income.

Income Taxes

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the end of reporting date.

Deferred income tax

Deferred income tax is provided, using the balance sheet liability method, on all temporary differences at the end of reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences, carryforward benefits of the excess of minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT), and net operating loss carryover (NOLCO), to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences, excess MCIT and NOLCO can be utilized.

Deferred income tax liabilities are not provided on non-taxable temporary differences associated with investments in domestic subsidiaries, associates and interest in joint ventures. With respect to investments in other subsidiaries, associates and interests in joint ventures, deferred income tax liabilities are recognized except when the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future. In business combinations, the identifiable assets acquired and liabilities assumed are recognized at their fair values at the acquisition date. Deferred income tax liabilities are provided on temporary differences that arise when the tax bases of the identifiable assets acquired and liabilities assumed are not affected by the business combination or are affected differently.

The carrying amount of deferred income tax assets is reviewed at the end of reporting period and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred income tax assets are reassessed at end of the reporting period and are recognized to the extent that it has become probable that sufficient future taxable profits will allow the deferred income tax assets to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the end of reporting period.

Deferred income tax assets and deferred income tax liabilities are offset if a legally enforceable right exists to set off the current income tax assets against the current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Provisions and Contingencies

Provisions are recognized when the Parent Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. When the Parent Company expects a provision or loss to be reimbursed, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain and its amount is estimable. The expense relating to any provision is presented in the parent company statements of income, net of any reimbursement.

Contingent liabilities are not recognized in the parent company financial statements but are disclosed in the notes to the parent company financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the parent company financial statements but disclosed in the notes to the parent company financial statements when an inflow of economic benefits is probable. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the parent company financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the parent company financial statements.

Events After the Reporting Period
Events after the reporting period that provide additional information about the Parent Company's financial position at the end of reporting period (adjusting events) are reflected in the financial statements. Events after the end of reporting period that are not adjusting events, if any, are disclosed when material to the parent company financial statements.

3. Summary of Significant Judgments, Estimates and Assumptions

The preparation of the Parent Company's financial statements in accordance with PFRS requires the management to exercise judgments, make accounting estimates and use assumptions that affect the reported amounts of assets, liabilities, income and expenses, and related disclosures. Future events may occur which will cause the assumptions used in arriving at the accounting estimate to change. The effects of any change in accounting estimates are reflected in the parent company 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 Parent Company'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 Parent Company's financial statements.

Determining and classifying a joint arrangement
The Parent Company participates in joint arrangements to explore, develop and operate SC areas (see Note 9). Judgment is required to determine when the Parent Company 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 Parent Company 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 Parent Company to assess their rights and obligations arising from the arrangement. Specifically, the Parent Company 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 Parent Company 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.

Based on the Parent Company's evaluation, all of joint arrangements it entered do not have separate vehicle. Thus, as at December 31, 2018 and 2017, the Parent Company's joint arrangements are in the form of joint operations.

Existing joint arrangements entered by the Parent Company are discussed in Note 9.

Assessment of control over an investee company
Management concluded that the Parent Company controls its subsidiaries as the Parent Company has:

- power over an investee (i.e. existing rights that gives it the current ability to direct the relevant activities of the investee),
- exposure, or rights to variable return from its involvement with the investees, and
- the ability to use its power over the investees to affect its returns.

Assessment of production start date
The Parent Company 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.

<u>Accounting Estimates and Assumptions</u>
The key estimates and assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Significant accounting estimates applied before January 1, 2018

Estimation of allowance for impairment on loans and receivables
The Parent Company maintains an allowance for impairment loss at a level that management considers adequate to provide for potential uncollectibility of its loans and receivables. The Parent Company evaluates specific balances where management has information that certain amounts may not be collectible. In these cases, the Parent Company uses judgment, based on available facts and circumstances, and based on a review of the factors that affect the collectability of the accounts. The review is made by management on a continuing basis to identify accounts to be provided with allowance.

The Parent Company did not assess its trade and other receivables for collective impairment due to the few counterparties that can be specifically identified. Any impairment loss is recognized in the parent company statements of comprehensive income with a corresponding reduction in the carrying value of the loans and receivables through an allowance account.

There was no provision for impairment losses on receivable in 2017. The carrying value of receivables amounted to ₱14,456,567 as at December 31, 2017 (see Note 5).

There was no provision for impairment losses on loan receivable in 2017. The carrying amount of loan receivable amounted to ₱275,727,295 as at December 31, 2017 (see Note 14).

Significant accounting estimates applied on or after January 1, 2018

Estimation of provision for ECLs of financial assets at amortized cost
The Parent Company uses a provision matrix to calculate ECLs for financial assets at amortized cost. 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 Parent Company's historical observed default rates. The Parent Company 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 counterparties, 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 Parent Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer or counterparty's actual default in the future.

No provision for ECL on the Parent Company's receivables were recognized in 2018. Total carrying value of receivables amounted to ₱31,081,194 as at December 31, 2018 (see Note 5).

No provision for ECL on the Parent Company's loan receivable was recognized in 2018. Carrying value of loan receivable amounted to ₱290,361,329 as at December 31, 2018 (see Note 14).

Estimation of oil and gas reserves
Hydrocarbon reserves are estimates of the amount of hydrocarbons that can be economically and legally extracted from the Parent Company's oil and gas properties. The Parent Company estimates its commercial reserves and resources based on information compiled by appropriately qualified persons relating to the geological and technical data on the size, depth, shape and grade of the hydrocarbon body and suitable production techniques and recovery rates. Commercial reserves are determined using estimates of oil and gas in place, recovery factors and future commodity prices, the latter having an impact on the total amount of recoverable reserves and the proportion of the gross reserves which are attributable to the host government under the terms of the Production-Sharing Agreements (PSA). Future development costs are estimated using assumptions as to the number of wells required to produce the commercial reserves, the cost of such wells and associated production facilities, and other capital costs.

The Parent Company estimates and reports hydrocarbon reserves in line with the principles contained in the Society of Petroleum Engineers' Petroleum Resources Management Reporting System Framework. As the economic assumptions used may change and as additional geological information is obtained during the operation of a field, estimates of recoverable reserves may change. Such changes may impact the Parent Company's reported financial position and results, which include:

- The carrying value of deferred oil and gas exploration costs and property and equipment, may be affected due to changes in estimated future cash flows.
- Depletion cost charged in the parent company statements of comprehensive income and capitalized as part of the cost of crude oil inventory in the parent company statements of financial position may change where such charges are determined using the unit of production (UOP) method, or where the useful life of the related assets change.
- Provisions for decommissioning may change - where changes to the reserve estimates affect expectations about when such activities will occur and the associated cost of these activities.
- The recognition and carrying value of deferred tax assets may change due to changes in the judgments regarding the existence of such assets and in estimates of the likely recovery of such assets.

Assessment of impairment of investments in subsidiaries and property and equipment
The Parent Company assesses whether there are indications of impairment on its investments in subsidiaries and 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 Parent Company to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

As at December 31, 2018 and 2017, the carrying value of investments in subsidiaries amounted to ₱3,191,583,630 (see Note 7). As at December 31, 2018 and 2017, allowance for impairment loss on investment in subsidiaries amounted to ₱45,000,000 (see Note 7).

As at December 31, 2018 and 2017, the carrying value of property and equipment amounted to ₱1,365,048 and ₱1,695,664, respectively (see Note 8). No impairment loss was recognized in 2018 and 2017.

Recoverability of deferred oil and gas exploration costs
Deferred exploration costs pertains 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 Parent Company to recover its deferred exploration costs would depend on the commercial viability of the reserves. In addition, the recovery of these costs also depends upon the success of exploration activities and future development or the discovery of oil and gas producible in commercial quantities. Allowances have been provided for these oil and gas assets that are specifically identified to be unrecoverable. There was no allowance for impairment loss recognized in 2018 and 2017.

The carrying value of deferred oil and gas exploration costs amounted to ₱179,544,871 and ₱175,482,596 as at December 31, 2018 and 2017, respectively, net of allowance for unrecoverable portion amounting to ₱54,343,257 as at December 31, 2018 and 2017 (see Note 9).

Assessing realizability of deferred income tax assets
The Parent Company reviews the carrying amounts at the end of the reporting period and adjusts the balance of deferred income tax assets to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. However, there is no assurance that the Parent Company will utilize all or part of the deferred income tax assets.

The Parent Company has temporary differences amounting to ₱59,640,757 and ₱95,772,395 as at December 31, 2018 and 2017, respectively, for which deferred income tax was not recognized since the management believes that it is not probable that sufficient future taxable profits will be available to allow all or part such deferred income tax asset to be utilized. The Parent Company's deferred income tax assets amounted to ₱17,301,934 and ₱16,908,180 as at December 31, 2018 and 2017, respectively (see Note 13).

4. **Cash and Cash Equivalents**

	2018	2017
Cash on hand	**₱2,000**	₱7,000
Cash in banks	**35,318,122**	35,296,345
Short-term investments	**155,303,057**	172,328,270
	₱190,623,179	₱207,631,615

Cash in banks earns interest at the respective bank deposit rates. Short-term investments are made for varying periods of up to three (3) months depending on the cash requirements of the Parent Company, and earn interest at the respective short-term investments rates. Interest income amounting to ₱2,264,139 and ₱2,509,421 were recognized in 2018 and 2017, respectively. The Parent Company has cash in bank denominated in United States (US$) Dollar amounting to US$319,500 and US$549,770 as at December 31, 2018 and 2017, respectively (see Note 15).

5. **Receivables** - net

	2018	2017
Accrued finance income	**₱29,949,928**	₱11,099,912
Advances to related parties (Note 14)	**791,764**	2,982,676
Others	**339,502**	373,979
	₱31,081,194	₱14,456,567

Accrued finance income pertains to the interest due from FGSECL under a loan facility agreement and portion of interest due from maturing short-term investments. Interest from the loan facility agreement is payable at the end of each agreed interest period. In case of default interest (if unpaid) arising on an overdue amount of the related loan, it will immediately become due and demandable (see Note 14). Interest from short-term investments is received at the end of investment period or at maturity date.

Allowance for impairment losses on receivables pertaining to the uncollected accrued finance income from a loan to a subsidiary amounting to ₱128,957,974 was reversed upon its settlement in 2017 (see Note 14).

Advances to related parties are non-interest bearing and are generally liquidated within 15 days upon receipt. Other receivables are also non-interest bearing and are commonly collected within one (1) year from business transaction date.

6. Other Current Assets

	2018	2017
Input VAT	**₱7,904,332**	₱7,214,219
Prepaid tax	**121,714**	60,490
	₱8,026,046	₱7,274,709

7. Investments in Subsidiaries

The table below shows the details of investments in shares of stock of subsidiaries, which are accounted for under cost method:

	2018	2017
Pitkin	**₱1,595,798,135**	₱1,595,798,135
FEL	**1,253,447,797**	1,253,447,797
FEC	**342,337,698**	342,337,698
BEMC	**45,000,000**	45,000,000
	3,236,583,630	3,236,583,630
Less allowance for impairment losses	**45,000,000**	45,000,000
	₱3,191,583,630	₱3,191,583,630

The ownership of the Parent Company over the foregoing companies as at December 31, 2018 and 2017 are summarized as follows:

	Percentages of Ownership	
	Direct	Indirect
FEL	–	75.92
FEPCO	–	75.92
FGSECL	–	75.92
FEI	–	50.62
GSEC	–	75.92
Pitkin	53.43	–
PPP	53.43	–
PVX	–	53.43
Z38	–	40.07
PPR	–	53.43
Z38	–	13.36
FEC	54.99	–
FEL	72.18	3.74
BEMC	100.00	–

The details of the movement in investments in subsidiaries are as follows:

	2018	2017
Beginning balance	**₱3,191,583,630**	₱2,800,580,222
Additional investment in FEL	–	629,135,093
Disposal of investment in Pitkin	–	(238,131,685)
Ending balance	**₱3,191,583,630**	₱3,191,583,630

Investment in Pitkin
On September 24, 2010, the Parent Company purchased from PMC all of the latter's 18,000,000 shares of stock of Pitkin at a purchase price of ₱766,346,067 increasing the total holdings of the Parent Company to 24,000,000 shares, or 21.00% ownership interest. The investment in Pitkin amounting to ₱125,304,497 was classified as an investment in associate.

On February 24, 2011, Pitkin increased its capitalization from 114,300,000 shares to 130,000,000 shares by issuing 15,700,000 new ordinary shares which the Parent Company opted not to avail, thus reducing its ownership interest from 21.00% to 18.46%.

The difference between the fair value of the investment in shares of stock of Pitkin and its carrying value of ₱891,650,564 as at date of loss of significant influence was recognized in the parent company statements of comprehensive income as 'Gain on dilution of interest in an associate' amounting to ₱422,049,436 in 2011.

On April 5, 2013, the Parent Company subscribed 10,000,000 new ordinary shares of Pitkin and purchased 36,405,000 shares from existing shareholders at US$0.75 per share. As a result, the Parent Company's shareholding increased from 18.46% to 50.28%, obtaining control over Pitkin.

On July 2, 2014, the Parent Company surrendered 2,000,000 of its shares held in Pitkin for a total consideration of US$2,000,000 (or ₱86,630,000) following the latter's US$1.00 per share tender offer to buy back 11,972,500 shares equivalent to 8.55% of all shares outstanding as at that date. The transaction caused an increase in PXP's ownership in Pitkin from 50.28% to 53.07% as at transaction date, a decrease in total investment of ₱79,699,600.

In May 2015, the Parent Company surrendered 21,373,000 shares held in Pitkin for a total consideration of US$16,029,750 (or ₱713,965,065) following the latter's US$0.75 per share tender offer to buy back 40,872,500 shares equivalent to 31.71% of all shares outstanding as at that date. The transaction caused an increase in PXP's ownership in Pitkin from 53.07% to 53.43% as at transaction date, a decrease in total investment of ₱833,402,408 and a loss on disposal of shares amounting to ₱119,437,343.

On February 17, 2017, Pitkin tendered its offer to buyback 11,430,500 outstanding shares for a consideration of US$0.35 per share. The Parent Company surrendered 6,107,000 shares for a consideration of ₱107,716,541, while the NCI owners surrendered its proportionate stake of 5,323,500 shares for a total payment of ₱92,788,519. The transaction did not change the ownership percentages for both PXP and NCI owners. The transaction caused a loss on sale of investment in shares of stock amounting to ₱130,415,144.

The table below shows Pitkin's summarized financial information as at and for the years ended December 31, 2018 and 2017 whose financial statements are stated in US Dollar and translated to Peso at the closing exchange rates of US$1 to ₱52.58 and ₱49.93 respectively, for balance sheet accounts and at the average exchange rates of US$1 to ₱52.78 and ₱50.40, respectively, for income statement accounts; amounts in thousands:

	2018	2017
Total assets	**₱283,568**	₱279,248
Total liabilities	**3,417**	5,354
Equity	**280,151**	273,894
Net income (loss)	**6,258**	(9,986)

Investment in FEC
On September 24, 2010, the Parent Company acquired from PMC all of its investment in shares of stock of FEC consisting of 225,000,000 shares, which represents 51.24% ownership interest in FEC at a purchase price of ₱342,337,698. As a result of the acquisition of FEC, which at that time held 25.63% ownership interest in FEL, the number of shares owned and controlled by PXP in FEL thereafter totaled to 21,503,704 shares representing 64.45% ownership interest in FEL then.

In January 2016, FEC cancelled its 30,000,000 shares previously held under escrow. As a result, PXP's ownership interest increased from 51.24% to 54.99%.

The following is FEC's summarized financial information as at and for the years ended December 31, 2018 and 2017 whose financial statements are stated in US Dollar and translated to Peso at the closing exchange rates of US$1 to ₱52.58 and ₱49.93 respectively, for balance sheet accounts and at the average exchange rates of US$1 to ₱52.78 and ₱50.40, respectively, for income statement accounts; amounts in thousands:

	2018	2017
Total assets	**₱100,054**	₱21,653
Total liabilities	**21,145**	18,486
Equity	**78,909**	3,167
Net income (loss)	**75,741**	(8,182)

Investment in FEL
In 2008, the Parent Company acquired a total of 9,939,311 shares of stock of FEL representing 33.04% of the outstanding shares for ₱436,638,513. On November 27, 2009, the Parent Company acquired additional 2,227,934 shares of stock of FEL for £1,113,967 (or ₱87,057,943), increasing the share of the Parent Company to 36.77%.

On February 24, 2010, the Parent Company acquired additional 786,259 shares at a purchase price of United Kingdom Pounds (£) £511,068 (or ₱36,910,163) representing 2.37% equity interest in FEL increasing the Parent Company's share to 39.14%. On May 26, 2010, the interest of the Parent Company over FEL was reduced to 38.82% due to the effect of dilution from exercise of options by FEL's former employees.

As a result of the Parent Company's acquisition of FEC in 2010, which holds 25.63% ownership interest in FEL, the number of shares owned and controlled by the Parent Company, thereafter, totaled to 21,503,704 shares, which represents 64.45%. As a result, FEL became a subsidiary of the Parent Company.

In May 2012, certain directors and employees of FEL exercised their option over 2,185,000 ordinary shares. As a result, the ownership interest of PXP and FEC in FEL was diluted to 36.44% and 24.05%, respectively.

In June 2015, the Parent Company bought additional investment from the NCI owners of FEL for 20 British Pence per share. The NCI owners sold 2,383,777 shares for a total consideration of ₱33,889,613, increasing the Parent Company's interest in FEL from 36.44% to 43.14%.

In November 2015, the Parent Company further purchased additional shares of FEL from FEC for 21 British Pence per share. FEC sold 2,000,000 shares for a total consideration of ₱29,816,472. Following this transaction, PXP's interest in FEL increased from 43.14% to 48.77%.

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$11,805,276 (or about ₱596 million) into 39,350,920 new ordinary shares of FEL.

On May 17, 2017, PXP bought an additional investment of 1,185,000 shares from Asia Link B.V. at US$0.30 per share, for a total consideration of US$355,500 (or about ₱18 million).

On November 23, 2017, PXP entered into an agreement to buy 1,000,000 FEL shares held by FEC for a total consideration of US$300,000 (or about ₱15 million).

As a result of these transactions, PXP's economic interest in FEL increased from 58.90% to 75.92%.

The following are FEL's summarized financial information as at and for the years ended December 31, 2018 and 2017 whose financial statements are stated in US Dollar and translated to Peso at the closing exchange rates of US$1 to ₱52.58 and ₱49.93, respectively, for balance sheet accounts and at the average exchange rates of US$1 to ₱52.78 and ₱50.40, respectively, for income statement accounts; amounts in thousands:

	2018	2017
Total assets	**₱1,837,697**	₱1,801,772
Total liabilities	**518,940**	484,467
Equity	**1,318,757**	1,317,305
Revenue	**107,924**	104,445
Net income (loss)	**1,451**	(46,654)

Investment in BEMC

On September 24, 2010, the Parent Company purchased from PMC all of its investment in shares of stock of BEMC, which consists of 3,000,000 shares at a purchase price of ₱45,000,000. As a result of the acquisition, the Parent Company holds 100% ownership interest in BEMC.

In January 2013, the Parent Company recognized provision for impairment loss on its investment in BEMC amounting to ₱45,000,000.

The following are the summarized financial information as at and for the years ended December 31, 2018 and 2017, of BEMC; amounts in thousands:

	2018	2017
Total assets	**₱2,168**	₱2,354
Total liabilities	**737,834**	737,834
Capital deficiency	**(735,666)**	(735,480)
Net loss	**(186)**	(35)

8. **Property and Equipment -** net

	2018		
	Transportation Equipment	**Office Equipment**	**Total**
Cost			
Balances at beginning of year	**₱1,879,464**	**₱968,595**	**₱2,848,059**
Additions	**–**	**176,366**	**176,366**
Balances at end of year	**1,879,464**	**1,144,961**	**3,024,425**
Accumulated depreciation			
Balances at beginning of year	**582,644**	**569,751**	**1,152,395**
Depreciation	**64,169**	**442,813**	**506,982**
Balances at end of year	**646,813**	**1,012,564**	**1,659,377**
Net book values	**₱1,232,651**	**₱132,397**	**₱1,365,048**

	2017		
	Transportation Equipment	Office Equipment	Total
Cost			
Balances at beginning of year	₱1,209,821	₱963,327	₱2,173,148
Additions	669,643	5,268	674,911
Balances at end of year	1,879,464	968,595	2,848,059
Accumulated depreciation			
Balances at beginning of year	322,619	388,403	711,022
Depreciation	260,025	181,348	441,373
Balances at end of year	582,644	569,751	1,152,395
Net book values	₱1,296,820	₱398,844	₱1,695,664

The cost of fully depreciated machinery and equipment still being used in the Parent Company's operation amounted to ₱349,415 as at December 31, 2018 and 2017.

9. **Deferred Oil and Gas Exploration Costs -** net

Movement in deferred oil and gas exploration costs is as follows:

	2018	2017
Balance at beginning of year	**₱229,825,853**	₱208,128,818
Cost incurred during the year	**4,062,275**	21,697,035
	233,888,128	229,825,853
Less allowance for unrecoverable portion	**54,343,257**	54,343,257
Balance at end of year	**₱179,544,871**	₱175,482,596

As at December 31, 2018 and 2017, deferred oil and gas exploration costs relate to the Parent Company's participating interests in the following SCs:

Service Contract	Participating Interest
SC 6 (Cadlao Block)	1.65%
SC 6A (Octon Block)	5.56%
SC 74 (Linapacan)	70.00%
SC 75 (NW Palawan)	50.00%

SC 6 Cadlao and 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 (FIA) and returned its 70% participating interest to the farm-out partners. As a result of Pitkin's exit, Philodrill re-assumed the block's operatorship beginning January 1, 2015 while PXP and FEL's participating interests in the block returned to their pre-farm out interests of 5.56% each. The DOE approved the Deed of Assignment (DOA) on May 14, 2015.

In 2017, the SC 6A Consortium carried out a reprocessing of some 508 square kilometers of 3D seismic data using Pre-Stack Depth Migration (PSDM), which was then followed by a re-run of the quantitative interpretation (QI) study that was earlier undertaken on the 3D dataset using Pre-Stack Time Migration (PSTM) processing.

In 2018, Philodrill completed the seismic interpretation/mapping work on the northern sector of the block using the PSDM volume. The evaluation focused on the Malajon, Salvacion, and Saddle Rock prospects. The Malajon and Saddle Rock closures were previously tested by wells which encountered good oil shows in the Galoc Clastic Unit (GCU) interval. However, no tests were conducted in this interval due to operational constraints.

The forward program for the northern block will progress the mapping and understanding of the channel system in the area by doing additional attribute studies to identify and mature a drilling location in the area.

An in-house evaluation completed by Philodrill in early 2016 shows the East Cadlao Prospect has marginal resources which cannot be developed on a "stand-alone" basis. However, it remains prospective being near the Cadlao Field, which lies in another contract area. In view of this, the JV has requested for the reconfiguration of SC 6B (Bonita Block) 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.

SC 74 (Linapacan)
In September 2013, Pitkin, with its Consortium partner, Philodrill, acquired acreage on SC 74 in a competitive bid under the PECR4, with operating interest of 70% and participating interest of 30%, respectively. It covers an area of 4,240 square kilometers and is located in shallow waters of the NW Palawan area.

In June 2015, Philodrill and Philippine National Oil Company Exploration Corporation (PNOC EC) entered into a DOA whereby Philodrill transferred a 5% participating interest to PNOC EC.

On April 25, 2016, the DOE has approved the PSA and DOA dated February 24, 2016 transferring the 70% interest and operatorship of Pitkin to PXP. In December 2016, processing of seismic data was completed.

On June 14, 2017, PXP requested a four-month extension of SP 2, or until December 13, 2017, to allow the completion of ongoing Geological and Geophysical (G&G) studies in SC 74. These include the interpretation of 2D seismic data that were acquired from May to June 2016, and the completion of Phase 2 of gravity and magnetic data processing and interpretation. The extension was granted on June 23, 2017.

In December 2017, PXP informed the DOE of the SC 74 Consortium's intention to enter SP 3. On March 27, 2018, the DOE approved the Consortium's entry to SP 3.

The first and second pass reprocessing of a test line from the multi-client 2D volume were completed by CGG in December 2017 and April 2018, respectively. The main objective of the test line reprocessing was to further resolve the deep prospective syn and pre rift structures below the Nido Limestone formation. Unfortunately, due to the complex geology within SC 74 Block, the reprocessing results were still not satisfactory. The SC 74 Joint Venture is now evaluating the other options available or techniques to better image the pre-Nido section.

The geologic fieldwork in the Calamian Islands was conducted from June 17 to June 27, 2018. Rock samples collected from the field will be subjected to different analyses (dating, total organic content, vitrinite reflectance, pyrolysis, etc.).

The engineering and economic studies on Linapacan A and B Fields were completed with the PNOC EC as lead company. Report writing is currently on-going.

SC 75 (NW Palawan)
On January 3, 2014, the duly executed copy of Petroleum SC 75 was granted to the bid group comprising PXP, PNOC EC, and PetroEnergy Resources Corporation (PERC) with operating interest of 50%, participating interests of 35% and 15%, respectively. It covers an area of 6,160 square kilometers in the NW Palawan Basin.

The work commitment for SP 1 had been fulfilled in 2015 following the completion of the acquisition of 2,235 line-kilometers of 2D seismic data over SC 75 and simultaneous acquisition of marine magnetic and gravity data, broadband processing of the 2D seismic data, processing and interpretation of gravity and magnetic data, and G&G studies, including 2D seismic interpretation.

In 2015, the DOE advised the SC 75 Consortium of its decision to place the area under *force majeure* effective from the end of SP 1 on December 27, 2015. In view of this, all exploration activities in the block have been suspended until such time that the DOE informs the Consortium of the lifting of the *force majeure*. All activities in SC 75, except for administration, remained suspended throughout 2018.

10. Trade and Other Payables

	2018	2017
Trade payables	**₱6,399,724**	₱5,025,340
Accrued expenses	**13,874,405**	13,042,912
Other payables	**294,903**	360,485
	₱20,569,032	₱18,428,737

Trade payables pertain to accountability of the Parent Company to its consortium partners for the advances made by the latter which shall be disbursed to settle the consortium's exploration expenditures subsequently. These are normally settled in 30 to 90-day term.

Accrued expenses pertain to accrual of utilities, professional and consultancy fees and are normally payable within 30 days.

Other payables pertain to withholding taxes of professional fees and compensation expenses.

11. **Other Income** - net

	2018	2017
Foreign exchange gains - net	**₱25,382,544**	₱9,601,854
Interest income (Notes 4 and 14)	**20,477,101**	25,304,478
Reversal for impairment loss on receivables (Note 5)	–	128,957,974
Loss on sale of investment in shares of stock (Note 7)	–	(130,415,144)
Miscellaneous income	**60,102**	–
	₱45,919,747	₱33,449,162

12. **Capital Stock**

On September 12, 2011, the 1,700,000,000 common shares of the Parent Company were listed and traded on the PSE at an initial offer price of ₱1.20 per share. After the said initial listing, there were no subsequent listings of shares made by the Parent Company.

Details of the Parent Company's capital stock follow:

	Number of Shares	
	2018	2017
Common stock - ₱1 par value		
Authorized	**6,800,000,000**	6,800,000,000
Issued, outstanding and fully paid at beginning of the year	**1,700,000,000**	1,700,000,000
Subscribed during the year	**260,000,000**	–
Issued and subscribed shares at end of the year	**1,960,000,000**	1,700,000,000

Reconciliation of the capital stock at follows:

	2018	2017
Beginning at January 1	**1,700,000,000**	1,700,000,000
Issuance during the year	**–**	–
Subscribed during the year	**260,000,000**	–
Issued and subscribed shares at December 31	**1,960,000,000**	1,700,000,000

On October 26, 2018, PXP, Philex Mining Corporation (PMC), and Dennison Holdings Corporation (DHC) signed a subscription agreement wherein PMC and DHC subscribed to 260,000,000 and 340,000,000 common shares of PXP, respectively, for a total consideration of ₱3,081,000,000 and ₱4,029,000,000, 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 BOD on October 25, 2018. The subscription is payable in two (2) tranches.

Proceeds from the subscription agreement will be utilized by the Parent Company for the repayment of its advances from to PMC.

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 January 7, 2019, DHC paid an initial downpayment of ₱40,290,000, with the remaining balance due by March 31, 2019. In the event DHC fails to pay the entire subscription price on or before March 31, 2019, the entire amount of the downpayment shall be forfeited in favor of PXP and the subscription agreement shall be terminated at the option of PXP.

On December 27, 2018, PMC paid the 25% downpayment of ₱770,250,000. The transaction resulted in increase in PXP equity balance of the same amount and increase of PMC's total ownership interest in PXP from 19.76% to 30.40% as at December 31, 2018.

On February 11, 2019, PMC paid PXP an additional ₱1,385,700,000, which represents the 45% of the total consideration of the shares subscription agreement.

Upon full payment of both PMC and DHC, total estimated ownership interest in PXP will be 25.91% and 14.78%, respectively.

The related subscription receivable arising from the equity transactions and its related movements in 2018 and 2017 are as follows:

	2018	2017
Subscription during the year	**₱3,081,000,000**	₱–
Less collection of subscription receivable	**770,250,000**	–
	₱2,310,750,000	₱–

As at December 31, 2018 and 2017, the Parent Company's total stockholders totaled to 38,816 and 38,926, respectively.

13. **Income Taxes**

a. The provision for current income tax represents the Parent Company's MCIT in 2018 and 2017 amounting to ₱393,754 and ₱600,157, respectively.

b. The components of the Parent Company's net deferred income tax liabilities as at December 31, 2018 and 2017 are as follows:

	2018	2017
Deferred income tax assets:		
Impairment loss on deferred oil and gas exploration costs	**₱16,302,976**	₱16,302,976
MCIT	**998,958**	605,204
	17,301,934	16,908,180
Deferred income tax liabilities:		
Unrealized foreign exchange gain	**(27,841,266)**	(25,227,378)
Unrealized gain on dilution of interest	**(126,614,831)**	(126,614,831)
	(154,456,097)	(151,842,209)
Net deferred income tax liabilities	**(₱137,154,163)**	(₱134,934,029)

c. reconciliation of the Parent Company provision for income tax computed at the statutory income tax rate of 30% based on loss before income tax to the provision for income tax as presented in the parent company statements of comprehensive income in 2018 and 2017 follows:

	2018	2017
Income at statutory rate	**₱8,474,816**	₱1,186,765
Add (deduct) tax effect of:		
Movement in unrecognized deferred income tax assets	**(10,839,492)**	(38,853,224)
Expiration of NOLCO	**10,199,807**	–
Interest income subjected to final tax	**(679,242)**	(734,816)
Nondeductible expense	**20,352**	252,546
Loss on sale of investment in shares of stock	–	39,124,543
Expiration of excess MCIT	–	666,512
Others	**(4,562,353)**	–
	₱2,613,888	₱1,642,326

d. The Parent Company did not recognize deferred income tax asset on the following temporary differences since management believes that it is not probable that sufficient taxable profit will be available against which the benefits of the deferred income tax assets can be utilized in the future:

	2018	2017
NOLCO	**₱14,640,757**	₱50,772,395
Allowance for impairment losses on investments in a subsidiary	**45,000,000**	45,000,000
	₱59,640,757	₱95,772,395

e. As at December 31, 2018, the NOLCO that can be claimed as deduction from future taxable income and excess MCIT excess MCIT that can be deducted against income tax due are as follows:

Year incurred	Available until	NOLCO	Excess MCIT
2016	2019	₱14,640,757	₱5,047
2017	2020	–	600,157
2018	2021	–	393,754
		₱14,640,757	₱998,958

The following are the movements of the Parent Company's NOLCO and excess MCIT for the years ended December 31, 2018 and 2017:

	NOLCO		Excess MCIT	
	2018	2017	**2018**	2017
Beginning balance	**₱50,772,395**	₱51,325,170	**₱605,204**	₱671,559
Additions	**–**	–	**393,754**	600,157
Applications	**(2,132,282)**	(552,775)	**–**	–
Expirations	**(33,999,356)**	–	**–**	(666,512)
Ending balance	**₱14,640,757**	₱50,772,395	**₱998,958**	₱605,204

f. Tax Reform for Acceleration and Inclusion Act (TRAIN)
Republic Act No. 10963 or the TRAIN was signed into law on December 19, 2017 and took effect January 1, 2018, making the new tax law enacted as of the reporting date. Although the TRAIN changes existing tax law and includes several provisions that will generally affect businesses on a prospective basis, the management assessed that the same will not have any significant impact on the financial statement balances as of the reporting date.

14. 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.

The Parent Company's significant related party transactions, which are under terms that are no less favorable than those arranged with third parties, are as follows:

	2018			
	Amount/ Volume	**Outstanding balance**	**Terms**	**Conditions**
Affiliates				
Advances from related parties				
PMC	**₱28,200**	**₱1,387,369,803**	On demand; noninterest-bearing; payable in cash	Secured
Affiliates				
Advances to related parties				
PITKIN	**₱–**	**₱37,575**	On-demand; noninterest-bearing; payable in cash	Unsecured; no guarantee
FEPCO	**–**	**469,783**	On-demand; noninterest-bearing; payable in cash	Unsecured; no guarantee
FEI	**–**	**114,227**	On-demand; noninterest-bearing; payable in cash	Unsecured; no guarantee
GSEC	**–**	**170,179**	On-demand; noninterest-bearing; payable in cash	Unsecured; no guarantee
Total	**₱–**	**₱791,764**		
Affiliate				
Loan to a subsidiary				
FGSECL	**₱14,634,034**	**₱290,361,329**	Payable in 3 years at interest rate of prevailing US LIBOR on the interest date plus 3.5% margin	Unsecured, guaranteed; no impairment

	2017			
	Amount/ Volume	Outstanding balance	Terms	Conditions
Affiliates				
Advances from related parties				
PMC	₱25,210,068	₱2,168,676,105	On demand; noninterest-bearing; payable in cash	Secured
Affiliates				
Advances to related parties				
PITKIN	₱8,306	₱308,306	On-demand; noninterest-bearing; payable in cash	Unsecured; no guarantee
FEPCO	–	1,384,900	On-demand; noninterest-bearing; payable in cash	Unsecured; no guarantee
FEI	–	748,199	On-demand; noninterest-bearing; payable in cash	Unsecured; no guarantee
GSEC	–	541,271	On-demand; noninterest-bearing; payable in cash	Unsecured; no guarantee
Total	₱8,306	₱2,982,676		
Affiliate				
Loan to a subsidiary				
FGSECL	₱–	₱275,727,295	Payable in 3 years at interest rate of prevailing US LIBOR on the interest date plus 3.5% margin	Unsecured; guaranteed; no impairment

a. *Advances from PMC*
PMC made cash advances to be used as additional working capital of the Parent Company and for the acquisition of the investments. These advances are noninterest-bearing, guaranteed and payable on demand.

On August 11, 2015, the BOD has agreed that the pledge agreement with PMC (pledgee) be entered into by the Parent Company (pledgor). In order to secure the balance of ₱2,200,000,000 as of pledge date, the Parent Company has pledged its shares in its subsidiaries, Pitkin and Forum to PMC. The contract was formally executed on August 17, 2015.

During the year, the Parent Company paid PMC amounting to ₱781,306,302. As at December 31, 2018 and 2017, advances from PMC amounted to ₱1,387,369,803 and ₱2,168,676,105, respectively.

On February 11, 2019, PXP paid PMC amounting to ₱1,385,700,000. As a result, advances from PMC amounted to ₱1,669,000 as of that date.

b. *Loan receivable from a subsidiary*
On November 24, 2010, PMC, as lender, entered into a US$10,000,000 facility agreement with FPHL, a wholly-owned subsidiary of FEL and ultimately a 48.76% subsidiary of PXP. The facility agreement will be available for a three-year period and funds can be borrowed at an interest rate of US London Interbank Offered Rate (LIBOR) + 4.5% margin. All loans made are to be paid lump sum at repayment date; and accrued interest on the loans shall be paid on the last day of each interest period. The facility agreement will enable FPHL to fund its 70% share of a first SP work program over SC 72. Obligations arising from funds drawn under this facility agreement are not convertible into FEL's or FPHL's ordinary shares but are guaranteed by FEL for repayment to PMC.

On May 28, 2012, the facility agreement was amended to increase the maximum facility to US$15,000,000.

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$18,000,000 and has been extended for an additional three (3) years. The loan receivable from FPHL and loan payable to PMC recorded in the Parent Company amounted to ₱674,804 in 2013.

In 2015, a transfer agreement has been entered into by FPHL (the "Original Borrower") and FGSECL (the "New Borrower"). This states that all the rights and obligations under the Finance Documents of the Original Borrower will be transferred by way of novation to the New Borrower and the Original Borrower will be released from its obligations and will cease to own any rights under the Facility Agreement.

On March 23, 2017, PXP, FEL and FGSECL agreed the partial conversion of US$11,805,276 of its overdue 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$15,500,000 and interest accrued of US$2,827,553. Of the remaining balance, US$1,000,000 (or ₱50,180,000) was paid through cash.

On the same date, PXP and FGSECL entered into a new loan facility amounting to US$6,000,000. Of which US$5,522,277 was drawn out to fully settle the remaining portion of the maturing long term loan. The new loan facility agreement will be available for a three-year period, ending on March 16, 2020, the repayment date. Funds can be borrowed at an interest rate of US LIBOR + 3.5% margin. All loans made are to be paid lump sum at repayment date; and accrued interest on the loans shall be paid on the last day of each interest period. The new loan facility does not include an agreement for commitment fee. Obligations arising from funds drawn under this facility agreement are guaranteed by FEL for repayment to PXP.

Total interest and commitment fees earned for the old loan facility amounted to ₱11,692,251 in 2017.

Total drawdown from the new loan facility amounted to US$5,522,277 as at December 31, 2018 and 2017. Interest income earned for 2018 and 2017 amounted to ₱18,212,962 and ₱11,102,806, respectively.

Loan receivable of PXP as at December 31, 2018 and 2017 amounted to ₱290,361,329 and ₱275,727,295 respectively.

c. *Compensation of key management personnel.*
The compensation of key management personnel pertaining to short-term employees and retirement benefits amounted to ₱8,436,000 and ₱8,700,000 for the years ended December 31, 2018 and 2017, respectively.

15. Financial Instruments, Financial Risk Management Objectives and Policies

The Parent Company has determined that the carrying amounts of cash and cash equivalents, receivables, loan receivable, trade and other payables and advances from related parties, reasonably approximate their fair values.

There were no transfers between Level 1 and 2 fair value measurements and no transfers into and out of Level 3 fair value measurement as at December 31, 2018 and 2017.

The Parent Company's financial instruments consist of cash and cash equivalents, receivables, loan receivable, trade and other payables and advances from related parties, which arise directly from its operations. The main purpose of these financial instruments is to maintain and generate funds for the Parent Company's operations.

Risk Management Structure
The BOD is mainly responsible for the overall risk management approach and for the approval of risk strategies and principles of the Parent Company.

Financial Risks
The main risks arising from the Parent Company's financial instruments are credit risk, liquidity risk and market risk. The market risk exposure of the Parent Company can be further classified to foreign currency risk and interest rate risk. The BOD reviews and approves on policies for managing these risks.

Credit risk
Credit risk is such risk where the Parent Company could incur a loss if its counterparties fail to discharge their contractual obligations. The Parent Company 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 Parent Company, which comprise of cash in banks, receivables and loan receivables, the Parent Company's exposure to credit risk could arise from the default of the counterparty, having a maximum exposure equal to the carrying amount of this instrument.

The table below summarizes the Parent Company's maximum exposure to credit risk for its financial assets:

	2018
Amortized cost:	
Cash in banks and short-term investments	**₱190,621,179**
Receivables	**31,081,194**
Loan receivable	**290,361,329**
	₱512,063,702

	2017
Loans and receivables:	
Cash in banks and short-term investments	₱207,624,615
Receivables	14,456,567
Loan receivable	275,727,295
	₱497,808,477

The following tables show the credit quality of the Parent Company's financial assets by class as at based on the Parent Company's credit evaluation process:

As at December 31, 2018:

	Neither Past Due nor Impaired		**Past Due but not Impaired**	**Past Due and Individually Impaired**	
	High-Grade	**Standard**			**Total**
Amortized cost:					
Cash in banks	**₱35,318,122**	**₱–**	**₱–**	**₱–**	**₱35,318,122**
Short-term investments	**155,303,057**	**–**	**–**	**–**	**155,303,057**
Receivables:					
Accrued finance income	**123,280**	**–**	**29,826,648**	**–**	**29,949,928**
Advances to related parties	**–**	**791,764**	**–**	**–**	**791,764**
Others	**–**	**339,502**	**–**	**–**	**339,502**
Loan receivable	**–**	**290,361,329**	**–**	**–**	**290,361,329**
Total	**₱190,744,459**	**₱291,492,595**	**₱29,826,648**	**₱–**	**₱512,063,702**

As at December 31, 2017:

	Neither Past Due nor Impaired		Past Due but not Impaired	Past Due and Individually Impaired	
	High-Grade	Standard			Total
Amortized cost:					
Cash in banks	₱35,296,345	₱–	₱–	₱–	₱35,296,345
Short-term investments	172,328,270	–	–	–	172,328,270
Receivables:					
Accrued finance income	60,036	–	11,039,876	–	11,099,912
Advances to related parties	–	2,982,676	–	–	2,982,676
Others	–	373,979	–	–	373,979
Loan receivable	–	275,727,295	–	–	275,727,295
Total	₱207,684,651	₱279,083,950	₱11,039,876	₱–	₱497,808,477

Credit quality of cash and cash equivalents is based on the nature of the counterparty and the Parent Company'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.

Impairment of financial assets
The Parent Company's following financial assets are subject to ECL model:
- Cash in banks
- Receivables
- Loan receivable

While these financial assets are subject to impairment requirement of PFRS 9, the identified impairment losses were immaterial.

Liquidity risk
Liquidity risk is the risk where the Parent Company is unable to meet its payment obligations when they fall due under normal and stress circumstances. The Parent Company'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 Parent Company's financial assets that can be used by the Parent Company to manage its liquidity risk and the maturity profile of the Parent Company's financial liabilities, based on contractual undiscounted repayment obligations:

	2018			
	On Demand	**Within 1 Year**	**More than 1 Year**	**Total**
Amortized cost:				
Cash and cash equivalents:				
Cash on hand	**₱2,000**	**₱–**	**₱–**	**₱2,000**
Cash in banks	**35,318,122**	**–**	**–**	**35,318,122**
Short-term investments	**155,303,057**	**–**	**–**	**155,303,057**
Receivables:				
Accrued finance income	**29,826,648**	**123,280**	**–**	**29,949,928**
Advances to related parties	**791,764**	**–**	**–**	**791,764**
Others	**–**	**339,502**	**–**	**339,502**
Loan receivable	**–**	**–**	**290,361,329**	**290,361,329**
Total undiscounted financial assets	**₱221,241,591**	**₱462,782**	**₱290,361,329**	**₱512,065,702**
Other financial liabilities:				
Trade and other payables	**₱–**	**₱20,274,129**	**₱–**	**₱20,274,129**
Advances from related parties	**–**	**1,387,369,803**	**–**	**1,387,369,803**
Total undiscounted financial liabilities	**₱–**	**₱1,407,643,932**	**₱–**	**₱1,407,643,932**

	2017			
	On Demand	Within 1 Year	More than 1 Year	Total
Loans and receivables:				
Cash and cash equivalents:				
Cash on hand	₱7,000	₱–	₱–	₱7,000
Cash in banks	35,296,345	–	–	35,296,345
Short-term investments	172,328,270	–	–	172,328,270
Receivables:				
Accrued finance income	11,039,876	60,036	–	11,099,912
Advances to related parties	2,982,676	–	–	2,982,676
Others	–	373,979	–	373,979
Loan receivable	–	–	275,727,295	275,727,295
Total undiscounted financial assets	₱221,654,167	₱434,015	₱275,727,295	₱497,815,477
Other financial liabilities:				
Trade and other payables	₱–	₱18,068,252	₱–	₱18,068,252
Advances from related parties	–	2,168,676,105	–	2,168,676,105
Total undiscounted financial liabilities	₱–	₱2,186,744,357	₱–	₱2,186,744,357

Market Risk

Foreign currency risk

Foreign currency risk is the risk where the value of the Parent Company's financial instruments diminishes due to unfavorable changes in foreign exchange rates. The Parent Company's transactional currency exposures arise from cash and cash equivalents and loan receivable. The corresponding foreign exchange gains amounting to ₱25,382,544 and ₱9,601,854 arising from the translation of these foreign currency-denominated financial instruments was recognized by the Parent Company in 2018 and 2017, respectively. As at December 31, 2018 and 2017, the exchange rates of the Peso to US Dollar were ₱52.58 and ₱49.93 to US$1, respectively.

The Parent Company's foreign currency-denominated monetary assets as at December 31 follow:

	2018		2017	
	US$	**Peso Equivalent**	US$	Peso Equivalent
Cash and cash equivalents:				
Cash in banks	**US$319,500**	**₱16,799,310**	US$549,770	₱27,450,017
Short-term investments	**2,953,653**	**155,303,057**	3,451,397	172,328,270
Accrued finance income	**569,607**	**29,949,928**	222,309	11,099,912
Loan receivable	**5,522,277**	**290,361,329**	5,522,277	275,727,295
Net monetary assets	**US$9,365,037**	**₱492,413,624**	US$9,745,753	₱486,605,494

The tables below summarize the impact on income (loss) before income tax of reasonably possible changes in the exchange rates of US Dollar against the Peso:

US Dollar Appreciates (Depreciates)	Effect on Income (Loss) Before Income Tax
2018	
Appreciate by 5%	**(₱24,620,681)**
Depreciate by (5%)	**24,620,681**
2017	
Appreciate by 9%	(₱43,794,494)
Depreciate by (9%)	43,794,494

There is no other impact on the Parent Company's equity other than those already affecting the Parent Company's statements of comprehensive income.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates would unfavorably affect future cash flows from financial instruments. The Parent Company's exposure to the risk in changes in the market interest rates relates primarily to loan receivable as at December 31, 2018 and 2017.

The Parent Company relies on budgeting and forecasting techniques to address cash flows concerns. The Parent Company also keeps its interest rate risk at a minimum by not borrowing when cash is available or by prepaying, to the extent possible, interest-bearing debt using operating cash flows.

The sensitivity to a reasonably possible change in the interest rate (in basis points), with all other variables held constant, of the Parent Company's income (loss) before income tax in 2018 and 2017 are as follows:

	Change in Interest Rate (in Basis Points)	Effect on Income (Loss) Before Income Tax
December 31, 2018	**+100**	**₱2,903,613**
	-100	**(2,903,613)**
December 31, 2017	+100	₱2,757,273
	-100	(2,757,273)

16. Capital Management

The Parent Company maintains a capital base to cover risks inherent in the business. The primary objective of the Parent Company's capital management is to optimize the use and earnings potential of the Parent Company's resources, ensuring that the Parent Company complies with externally imposed capital requirements, if any, and considering changes in economic conditions and the risk characteristics of the Parent Company's activities. No significant changes have been made in the objectives, policies and processes of the Parent Company from the previous year.

The table below summarizes the total capital considered by the Parent Company:

	2018	2017
Capital stock (Note 12)	**₱1,700,000,000**	₱1,700,000,000
Subscribed capital (Note 12)	**260,000,000**	–
Additional paid-in capital (Note 12)	**2,821,000,000**	–
Subscription receivable (Note 12)	**(2,310,750,000)**	–
Deficit	**(123,151,455)**	(148,786,952)
	₱2,347,098,545	₱1,551,213,048

17. Events After the Reporting Period

Operating lease commitment between PXP and SMMC

On February 1, 2019, the Parent Company entered into a contract of lease with SMMC, for a period of one (1) year commencing on February 1, 2019 up to January 31, 2020. The lease agreement has a total annual payment of ₱4,281,702 and is renewable at the option of either party subject to mutually agreed upon terms and conditions. The lease agreement covers the: a.) 2nd floor of the LaunchPad Building with a total area of 359.97 square meters, which the Parent Company leases as office space; b.) 117.2 square meters of common area; and c.) two (2) parking slots. The contract requires PXP to pay security deposit amounting to ₱637,158, which is refundable within 60 days from the termination of the contract.

18. Notes to Statements of Cashflows

Non-cash Investing Activities

In 2018, total unrealized foreign exchange gain included in the carrying amounts of loan receivable and related accrued finance income amounted to ₱14,634,034 and ₱573,810, respectively.

19. Changes in Liabilities Arising from Financing Activities

	January 1, 2018	**Cash flows**	**December 31, 2018**
Current non-interest bearing loans and borrowings (Note 14)	**₱2,168,676,105**	**(₱781,306,302)**	**₱1,387,369,803**

	January 1, 2017	Cash flows	December 31, 2017
Current non-interest bearing loans and borrowings (Note 14)	₱2,194,035,165	(₱25,359,060)	₱2,168,676,105

20. Supplementary Information Required Under Revenue Regulation (RR) No. 15-2010

On November 25, 2010, the Bureau of Internal Revenue issued RR No. 15-2010, amending certain provisions of RR No. 21-2002, implementing Section 6 (H) of the Tax Code of 1997, prescribing the manner of compliance with the preparation and submission of the Parent Company's financial statements accompanying the tax returns. It includes provisions for additional disclosure requirements in the notes to the parent company financial statements, particularly on taxes, duties and licenses paid or accrued during the year. The Parent Company reported and/or paid the following types of taxes for the year ended December 31, 2018:

a. Net Sales/Receipts and Output VAT declared in the Parent Company's VAT returns filed for the year
The Parent Company does not have reportable sales/revenues for year 2018.

b. Input VAT declared in the Parent Company's VAT returns filed for the year
The amount of Input VAT claimed is broken down as follows:

January 1	₱7,214,219
Current year's domestic purchases/payments or importations for goods other than for resale or manufacture	690,113
December 31	₱7,904,332

c. Information on the Parent Company's Importations
The Parent Company does not have importations and/or purchases from which input taxes may be derived.

d. Documentary Stamp Tax (DST)
The Parent Company has no DST payment for the year 2018.

e. Other Taxes and Licenses
Taxes and licenses, local and national, include licenses and permit fees. The taxes and licenses that are included as part of general and administrative expenses in 2018 are as follows:

License and permit fees	₱14,562
Others:	
PSE	1,353,200
BIR	500
	₱1,368,262

f. Withholding Taxes

Taxes withheld during the year are as follows:

Withholding taxes on compensation and benefits	₱3,512,750
Expanded withholding taxes	225,988
Final withholding taxes	85,521
	₱3,824,259

g. Tax Assessments and Cases

The Parent Company did not receive any final tax assessments in 2018, nor did it have tax cases under preliminary investigation, litigation and/or prosecution in courts or bodies outside the administration of BIR. In addition, the Parent Company does not have any ongoing tax examinations.