



PXP ENERGY CORPORATION  
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December 21, 2018

**PHILIPPINE STOCK EXCHANGE, INC.**  
6/F Philippine Stock Exchange Tower  
5<sup>th</sup> Avenue corner 28<sup>th</sup> Street  
Bonifacio Global City, Taguig City

Attention: **MS. JANET A. ENCARNACION**  
Head, Disclosure Department

Gentlemen:

PXP Energy Corporation ("the Company" or "PXP") wishes to inform the Exchange that Forum (GSEC 101) Limited ("Forum GSEC"), has sent a letter of request today to the Department of Energy to lift the Force Majeure imposed on Service Contract 72 ("SC72") Recto Bank.

A copy of the letter is enclosed.

Forum Energy Limited ("Forum"), in which PXP holds a direct and indirect interest of 78.98%, has a 70% participating interest in SC 72 located in Northwest Palawan, through its wholly-owned subsidiary Forum GSEC. PXP has a total economic interest of 53.1% in SC 72.

Very truly yours,

(signed)  
Mark H. Rilles  
Finance Controller

About PXP Energy Corporation

PXP is an upstream oil and gas company incorporated in the Philippines whose shares are listed on the Philippine Stock Exchange. The Company directly and indirectly owns oil and gas exploration and production assets located in the Philippines, and indirectly owns an exploration asset located in offshore Peru.

**For further information, please contact:**

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21 December 2018

**HON. ALFONSO G. CUSI**  
*Secretary*  
DEPARTMENT OF ENERGY  
Energy Center, Rizal Drive  
Bonifacio Global City  
Taguig City



**Thru:** **Hon. Donato D. Marcos**  
*Undersecretary, Office of the Undersecretary*

**Subject:** **Request to Lift the Force Majeure over Service Contract 72 Recto Bank**

Dear Secretary Cusi:

We write to you with respect to the recently concluded signing of Memorandum of Understanding ("MOU"), between the governments of the Philippines and China on the Joint Exploration for Oil and Gas in the West Philippine Sea last 20 November 2018, and the directive from the Department of Energy ("DOE") to the Service Contract ("SC") 72 Consortium, comprising Forum (GSEC 101) Limited ("Forum") and Monte Oro Resources and Energy, Inc. ("Monte Oro"), to request the lifting of the Force Majeure ("FM") over SC 72 or Recto Bank that was imposed by the DOE on 15 December 2014.

We see the lifting of the FM as a positive development for our SC 72 block and for the country in general as it will enable Forum and Monte Oro to resume exploration and appraisal activities in SC 72 which include the drilling of two (2) appraisal wells on the Sampaguita gas discovery. We expect the drilling of the 2 wells to take 2-3 months to complete and based on our current studies, Sampaguita has a potential to contain approximately 2.5 trillion cubic feet ("TCF") of recoverable gas. This would be a new source of gas as replacement for Malampaya, which is expected to start a decline in production by 2022. To be an effective replacement for the Malampaya gas, the development of SC 72 must commence no later than 2027 as it will take at least 6 years from start of development of SC 72 to first gas. This urgency puts in sharp focus the need to lift the FM in the SC 72 area to allow Forum and Monte Oro to undertake exploration works in the area in accordance with the Work Program hereto attached as Annex A. You will note that the Work Program will not only focus on the drilling of two (2) **appraisal** wells for the Sampaguita discovery, but will also include 3D seismic surveys for the North Bank Prospect, which is located 60 km north of Sampaguita. Prior to drilling, Forum will also have to conduct geotechnical surveys over the proposed Sampaguita well locations to identify potential hazards and constraints on the seafloor where the offshore drilling rig will be located.

In total, the Work Program will cost Forum and Monte Oro at least US\$80 million. Details of our proposed work program, to be implemented once the FM is lifted, is attached with this letter.

In view of the above, we wish to raise to the DOE the following concerns which, if not adequately addressed, will affect the efficient and timely implementation of our work program:

1. Security of Petroleum Operations

Forum and its third party contractors would need assurances from the Philippine Government that any offshore exploration activity in the SC 72 area could be conducted without interference from domestic or foreign forces. It could be pointed out that during Forum's 3D seismic acquisition survey over Sampaguita in 2011, the said activity was temporarily suspended when two Chinese patrol vessels moved into the survey area and ordered Forum's contracted seismic vessel to leave.

In addition to the above, we also like to point out that during the second quarter of 2012, Forum had made preparations for the drilling of two Sampaguita wells, including the hiring of technical personnel and the purchase of long-lead items. However, in January 2013, the said activities were halted by the DOE. As a result, the Consortium incurred a loss of approximately US\$3 million it spent on personnel and drilling equipment costs.

Given that Forum and Monte Oro would spend approximately US\$80 million to US\$100 million in the next 2-3 years to fully appraise the Sampaguita Gas Field and other identified prospects within SC 72, they would need assurances from the Philippine Government that their exploration activities can be conducted and completed without interference from domestic or foreign forces, and any past and future costs incurred by Forum and Monte Oro resulting from such interference will form part of the development cost of SC 72 and will be cost recoverable after the first gas flows from SC 72.

2. Possible Re-imposition of the FM in the Future

Forum and Monte Oro request your confirmation that in the event that the FM is lifted following this request but re-imposed in the future for any reason whatsoever, the remaining term of Sub-Phase 2 to revert to the current 20 months.

We remain very supportive of the government's objective to develop our country's indigenous resources and look forward to fulfilling our commitments as soon as possible and we look forward to your favourable action on the foregoing requests.

Finally, we would like to thank you and your office, the Department of Foreign Affairs (through the efforts of Secretary Teodoro L. Locsin, Jr. and his office) and most especially to our President Rodrigo R. Duterte who made the historic signing of MOU possible.

Very truly yours,



**DANIEL STEPHEN P. CARLOS**  
*Country Representative*

cc: Ms. Melita V. Obillo, OIC-Director, Energy Resource Development Bureau  
Mr. Ismael U. Ocampo, Assistant Director, ERDB  
Mr. Guillermo H. Ansay, Chief, Petroleum Resources Development Division, ERDB