PXP Energy Corporation and Subsidiaries

Consolidated Financial Statements
December 31, 2022 and 2021
and Years Ended December 31, 2022, 2021, and 2020

and

Independent Auditor's Report

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SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 8891 0307
Fax: (632) 8819 0872
ey.com/ph

INDEPENDENT AUDITOR'S REPORT

The Stockholders and Board of Directors
PXP Energy Corporation

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, 2022 and 2021, 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, 2022, 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, 2022 and 2021, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2022 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, and Goodwill

As at December 31, 2022, the carrying value of the Group's deferred oil and gas exploration costs, and goodwill amounted to ₱2,783 million and ₱254 million, respectively. These deferred exploration costs pertain to the expenditures incurred in the exploration stage of the Group's oil and gas assets, while the Group's goodwill is attributable to the acquisition of Service Contract 72 Recto Bank.

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 (a) status of each oil and gas exploration project and plans on exploration and evaluation activities; (b) validity of the licenses, permits and correspondences related to each oil and gas exploration project; (c) plans to abandon existing oil and gas areas and plans to discontinue exploration activities; and (d) availability of information suggesting that the recovery of expenditure is unlikely. The Group is also required to annually test the amount of goodwill for impairment under *PAS 36, Impairment of Assets*.

The impairment test is significant to our audit because the balance of the deferred oil and gas exploration costs and goodwill is material to the consolidated financial statements. The determination of the recoverable amount of the cash generating unit (CGU) to which the deferred oil and exploration costs and goodwill is attributed involves significant judgement and assumptions about future results of business, specifically inflation rates, forecasted oil and gas prices, estimated volume of resources, capital expenditures, production and operating costs and discount rate.

The Group's disclosures about goodwill and deferred exploration cost are included in Notes 4 and 11 to the consolidated financial statements, respectively.

Audit response

We inspected the summary of the status of each exploration project as of December 31, 2022, as certified by the Group's President, the type of expenses incurred, and assessed whether ongoing exploration activities exist to support the continued capitalization of these assets under the Group's accounting policies, and compared it with the disclosures submitted to regulatory agencies. We obtained management's assessment on whether there is any indication that deferred oil and gas exploration costs may be impaired. We reviewed the summary of status of each of the exploration projects as at December 31, 2022. 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, will not expire in the near future, and will be renewed accordingly, and the Group has rights and obligations under the contracts through participating interests. We obtained and reviewed the work program and budget duly approved by the joint operation and the regulatory agency. We also obtained the latest management disclosures to the relevant regulatory agencies regarding the status of the Group's service contracts which support the assessment of management regarding their recoverability. We also inquired about any existing service contract areas that are expected to be abandoned or any exploration activities that are planned to be discontinued in those areas.

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

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2022, 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, 2022 are expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

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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.

AZ Zaragoza

Alexis Benjamin C. Zaragoza III
Partner
CPA Certificate No. 109217
Tax Identification No. 246-663-780
BOA/PRC Reg. No. 0001, August 25, 2021, valid until April 15, 2024
SEC Partner Accreditation No. 109217-SEC (Group A)
Valid to cover audit of 2019 to 2023 financial statements of SEC covered institutions
SEC Firm Accreditation No. 0001-SEC (Group A)
Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions
BIR Accreditation No. 08-001998-129-2023, January 25, 2023, valid until January 24, 2026
PTR No. 9566023, January 3, 2023, Makati City

February 22, 2023

PXP ENERGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

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

	December 31	
	2022	2021
ASSETS		
Current Assets		
Cash and cash equivalents (Note 5)	**₱106,701**	₱529,472
Trade and other receivables (Note 6)	**15,623**	28,952
Inventories (Note 7)	**8,241**	4,240
Other current assets (Note 8)	**8,567**	22,752
	139,132	585,416
Assets held-for-sale (Note 11)	**113,183**	–
Total Current Assets	**252,315**	585,416
Noncurrent Assets		
Deferred oil and gas exploration costs (Note 11)	**2,783,317**	2,243,914
Goodwill (Note 4)	**254,397**	254,397
Property and equipment (Note 9)	**1,480**	1,850
Right-of-use (ROU) asset (Note 10)	**3,746**	3,864
Other noncurrent assets (Note 12)	**5,986**	4,776
Total Noncurrent Assets	**3,048,926**	2,508,801
TOTAL ASSETS	**₱3,301,241**	₱3,094,217
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Note 13)	**₱79,033**	₱30,642
Notes payable (Note 17)	**66,906**	–
Lease liability (Note 10)	**670**	609
Income tax payable	**91**	8,730
Total Current Liabilities	**146,700**	39,981
Noncurrent Liabilities		
Lease liability - net of current portion (Note 10)	**4,169**	4,447
Deferred tax liabilities - net (Note 16)	**94,830**	94,080
Retirement benefits liability	**17,396**	15,148
Other noncurrent liabilities (Notes 9 and 23)	**338,381**	323,974
Total Noncurrent Liabilities	**454,776**	437,649
Total Liabilities	**601,476**	477,630
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	**1,960,000**	1,960,000
Additional paid-in capital	**2,816,545**	2,816,545
Equity reserves (Note 15)	**415,207**	139,319
Deficit	**(3,450,370)**	(3,414,263)
Cumulative translation adjustment on foreign subsidiaries	**516,892**	183,293
	2,258,274	1,684,894
Non-controlling Interests (Note 15)	**441,491**	931,693
Total Equity	**2,699,765**	2,616,587
TOTAL LIABILITIES AND EQUITY	**₱3,301,241**	₱3,094,217

See accompanying Notes to Consolidated Financial Statements.

PXP ENERGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Amounts in Thousands, Except Loss per Share)

	Years Ended December 31		
	2022	2021	2020
PETROLEUM REVENUES (Note 22)	**₱74,100**	₱64,198	₱30,250
COSTS AND EXPENSES			
Petroleum production costs (Note 14)	**40,466**	40,586	34,134
General and administrative expenses (Note 14)	**59,106**	62,082	64,529
	99,572	102,668	98,663
OTHER INCOME (CHARGES)			
Provision for impairment of:			
Input VAT (Note 8)	**(13,882)**	–	–
Deferred oil and gas exploration costs (Note 11)	**–**	(3,421,436)	–
Property and equipment (Note 9)	**–**	–	(5,895)
Provision for (reversal of) plug and abandonment costs due to change in estimates (Note 9)	**6,186**	(122,863)	–
Foreign exchange gains (losses) - net	**(4,048)**	11,277	(9,979)
Interest expense (Notes 9, 10 and 17)	**(3,592)**	(504)	(1,135)
Interest income (Note 5)	**201**	113	695
Loss on write-off of:			
Other current assets	**–**	–	(335)
Goodwill (Note 4)	**–**	(979,990)	–
Gain on settlement of deed (Note 1)	**–**	442,188	–
Others	**9,192**	(58)	–
	(5,943)	(4,071,273)	(16,649)
LOSS BEFORE INCOME TAX	**(31,415)**	(4,109,743)	(85,062)
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 16)			
Current	**183**	8,590	582
Deferred	**750**	(975,058)	(9,374)
	933	(966,468)	(8,792)
NET LOSS	**(₱32,348)**	(₱3,143,275)	(₱76,270)
NET INCOME (LOSS) ATTRIBUTABLE TO:			
Equity holders of the Parent Company	**(₱36,107)**	(₱1,714,297)	(₱56,102)
Non-controlling interests	**3,759**	(1,428,978)	(20,168)
	(₱32,348)	(₱3,143,275)	(₱76,270)
BASIC/DILUTED LOSS PER SHARE (Note 21)	**(₱0.018)**	(₱0.875)	(₱0.029)

See accompanying Notes to Consolidated Financial Statements.

PXP ENERGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Thousands)

	Years Ended December 31		
	2022	2021	2020
NET LOSS	**(₱32,348)**	(₱3,143,275)	(₱76,270)
OTHER COMPREHENSIVE INCOME (LOSS)			
Items to be reclassified to profit or loss in subsequent periods:			
Gain (loss) on translation of foreign subsidiaries	**315,114**	169,797	(40,735)
TOTAL COMPREHENSIVE INCOME (LOSS)	**₱282,766**	(₱2,973,478)	(₱117,005)
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO			
Equity holders of the Parent Company	**₱202,657**	(₱1,588,958)	(₱85,861)
Non-controlling interests	**80,109**	(1,384,520)	(31,144)
	₱282,766	(₱2,973,478)	(₱117,005)

See accompanying Notes to Consolidated Financial Statements.

PXP ENERGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2022, 2021 AND 2020

(Amounts in Thousands)

	Attributable to Equity Holders of the Parent Company								
	Capital Stock (Note 15)	Additional paid-in capital	Subscription Receivable (Note 15)	Equity Reserves	Deficit	Cumulative Translation on Foreign Subsidiaries	Subtotal	Non-controlling Interests (Note 15)	Total
BALANCES AT DECEMBER 31, 2019	**₱1,960,000**	**₱2,816,545**	**(₱184,300)**	**₱122,250**	**(₱1,643,864)**	**₱87,713**	**₱3,158,344**	**₱2,358,217**	**₱5,516,561**
Net loss for the year	–	–	–	–	(56,102)	–	(56,102)	(20,168)	(76,270)
Other comprehensive income:									
Items to be reclassified to profit or loss in subsequent periods:									
Loss on translation of foreign subsidiaries	–	–	–	–	–	(29,759)	(29,759)	(10,976)	(40,735)
Total comprehensive loss for the year	–	–	–	–	(56,102)	(29,759)	(85,861)	(31,144)	(117,005)
Payment of subscription, net of transaction costs (Notes 1 and 15)	–	–	63,186	–	–	–	63,186	–	63,186
Effects of transactions with owners	–	–	–	17,069	–	–	17,069	(10,860)	6,209
BALANCES AT DECEMBER 31, 2020	**1,960,000**	**2,816,545**	**(121,114)**	**139,319**	**(1,699,966)**	**57,954**	**3,152,738**	**2,316,213**	**5,468,951**
Net loss for the year	–	–	–	–	(1,714,297)	–	(1,714,297)	(1,428,978)	(3,143,275)
Other comprehensive income:									
Items to be reclassified to profit or loss in subsequent periods:									
Gain on translation of foreign subsidiaries	–	–	–	–	–	125,339	125,339	44,458	169,797
Total comprehensive income (loss) for the year	–	–	–	–	(1,714,297)	125,339	(1,588,958)	(1,384,520)	(2,973,478)
Payment of subscription, net of transaction costs (Notes 1 and 15)	–	–	121,114	–	–	–	121,114	–	121,114
BALANCES AT DECEMBER 31, 2021	**1,960,000**	**2,816,545**	**–**	**139,319**	**(3,414,263)**	**183,293**	**1,684,894**	**931,693**	**2,616,587**
Net income (loss) for the year	–	–	–	–	(36,107)	–	(36,107)	3,759	(32,348)
Other comprehensive income:									
Items to be reclassified to profit or loss in subsequent periods:									
Gain on translation of foreign subsidiaries	–	–	–	–	–	238,764	238,764	76,350	315,114
Total comprehensive income (loss) for the year	–	–	–	–	(36,107)	238,764	202,657	80,109	282,766
Effect of transactions with owners (Note 15)	–	–	–	275,888	–	94,835	370,723	(570,311)	(199,588)
BALANCES AT DECEMBER 31, 2022	**₱1,960,000**	**₱2,816,545**	**₱–**	**₱415,207**	**(₱3,450,370)**	**₱516,892**	**₱2,258,274**	**₱441,491**	**₱2,699,765**

See accompanying Notes to Consolidated Financial Statements.

PXP ENERGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

	Years Ended December 31		
	2022	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before income tax	**(₱31,415)**	(₱4,109,743)	(₱85,062)
Adjustments for:			
Provision for impairment of:			
Input VAT (Note 8)	**13,882**	–	–
Deferred exploration cost (Note 11)	–	3,421,436	–
Property and equipment (Note 9)	–	–	5,895
Provision for (reversal of) plug and abandonment costs due to change in estimates (Note 9)	**(6,186)**	122,863	–
Unrealized foreign exchange losses (gains) - net	**(5,905)**	(11,277)	9,979
Interest expense (Notes 9,10 and 17)	**3,592**	504	1,135
Depletion and depreciation (Note 14)	**944**	1,009	4,561
Interest income (Note 5)	**(201)**	(113)	(695)
Loss on write-off of:			
Goodwill (Note 4)	–	979,990	–
Other current assets	–	–	335
Provision for retirement benefits costs	**2,250**	5,166	4,441
Gain on settlement of deed (Note 1)	–	(442,188)	–
Operating loss before working capital changes	**(23,039)**	(32,353)	(59,411)
Decrease (increase) in:			
Trade and other receivables	**15,578**	13,669	690
Inventories	**(3,525)**	(1,096)	4,375
Other current assets	**1,182**	(5,759)	(720)
Increase (decrease) in:			
Trade and other payables	**51,238**	24,023	(38,720)
Provision for plug and abandonment costs	–	–	(11,354)
Net cash generated from (used in) operations	**41,434**	(1,516)	(105,140)
Income taxes paid	**(221)**	(164)	(1,183)
Interest received	**201**	113	695
Net cash flows from (used in) operating activities	**41,414**	(1,567)	(105,628)
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to:			
Deferred oil and gas exploration costs (Note 11)	**(350,152)**	(202,023)	(53,692)
Property and equipment (Note 9)	**(39)**	(268)	(2,036)
Proceeds from settlement of deed (Note 1)	–	442,188	–
Increase in other noncurrent assets	**(747)**	(889)	–
Net cash flows from (used in) investing activities	**(350,938)**	239,008	(55,728)

(Forward)

	Years Ended December 31		
	2022	2021	2020
CASH FLOWS FROM FINANCING ACTIVITIES			
Acquisition of non-controlling interest (Note 15)	**(₱199,588)**	₱–	₱–
Proceeds from:			
Notes payable (Note 17)	**62,040**	–	–
Subscription agreement (Notes 1 and 15)	**–**	121,114	63,186
Issuance of subsidiary's new shares (Note 15)	**–**	–	25,400
Payments for:			
Interest expense on notes payable	**(2,833)**	–	–
Interest on lease liability	**(392)**	(405)	(416)
Principal portion of lease liability	**(217)**	(151)	(87)
Acquisition by subsidiary of own shares (Note 15)	**–**	–	(19,191)
Decrease in other non-current liabilities	**–**	(700)	–
Net cash flows from (used in) financing activities	**(140,990)**	119,858	68,892
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(450,514)**	357,299	(92,464)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**27,743**	29,165	(10,482)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**529,472**	143,008	245,954
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	**₱106,701**	₱529,472	₱143,008

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

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 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 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 of 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 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 PXP 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 February 17, 2017, Pitkin tendered its offer to buy back 11,430,500 of its own shares for a consideration of US$0.35 per share. The Parent Company surrendered 6,107,000 shares for a consideration of ₱107,717, while the NCI owners surrendered their 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 (FGL) to capitalize a part of the maturing long-term loan of FGL 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 in FEL 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 15).

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

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

PMC paid subscription payable to PXP amounting to ₱121,114, ₱63,186 and ₱2,126,450 in 2021, 2020 and 2019, respectively (see Note 15).

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

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

On April 16, 2020, PXP increased its direct shareholding in FEL from 72.24% to 72.33%. The additional interest was acquired through subscription to 6,099,629 new ordinary shares of FEL. The new shares were issued at approximately US$0.30 per share for a total consideration of US$1,830 (see Note 15).

On August 5, 2020, PXP increased its direct shareholding in FEC from 54.99% to 78.39%. This increased PXP's total economic interest in FEL from 76.07% to 77.66%. The additional interest was acquired through a subscription to 449,999,986 new ordinary shares of FEC through a stock rights offering. The new shares were issued at approximately US$0.00225 per share for a total consideration of US$1,012.

On October 2, 2020, Pitkin bought back 8.5 million of its total issued shares at a price of US$0.10 per share for a total consideration of US$850. PXP sold 4,541,464 of Pitkin shares for a total consideration of US$454 while the minority shareholders sold their pro-rata share of 3,958,536 shares for a total consideration of US$396. The transaction did not affect PXP's 53.43% stake in Pitkin.

On December 2, 2022, Pitkin bought back from minority shareholders its 31,713,464 issued shares at a price of £0.01 per share for a total consideration of US$3,500 or ₱199,588. The transaction resulted in increase in PXP's stake in Pitkin from 53.43% to 100%.

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

Business Operations

The Ultimate Parent Company (PXP), FEL and its subsidiaries, and Pitkin and its subsidiaries 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.

On April 6, 2022, PXP received a directive from the DOE to put on hold all exploration activities for SC 75 until such time that the Security, Justice, and Peace Coordinating Cluster (SJPCC) has issued the necessary clearance to proceed. PXP immediately complied with the directive by suspending its activities in SC 75.

On October 11, 2022, DOE though a letter granted the following:

i. Declaration of *force majeure* for SC 75 from April 6, 2022 until such time as the same shall be lifted by the DOE;
ii. The total expenses that were incurred as a result of the DOE directive to suspend SC 75 activities will be part of the approved recoverable costs, subject to DOE audit, and
iii. The suspension has nullified all the work done since the lifting of *force majeure* on October 14, 2020. Hence, SC 75 shall, in addition to the period in item 1 above, be entitled to an extension of the exploration period corresponding to the number of days that the contractors actually spent in preparation for the activities that were suspended by the suspension order issued by the DOE on April 6, 2022.

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 sub-phase (SP) 2 of exploration activities from August 2011 to August 2013. However, due to maritime disputes between the Philippine and Chinese governments, the SC was placed under *force majeure* and exploration activities in the area were temporarily suspended as at December 31, 2014.

On October 16, 2020, FEL received a letter from the DOE dated October 14, 2020 lifting the *force majeure* over SC 72 effective immediately allowing exploration activities to resume over the block. FEL has 20 months to drill the two commitment wells under SP 2.

On April 6, 2022, FEL received a directive from the DOE to put on hold all exploration activities for SC 72 until such time that the SJPCC has issued the necessary clearance to proceed. FEL immediately complied with the directive by notifying its contractors of the suspension of activities.

On October 11, 2022, the DOE formally declared *force majeure* in SC 72, granting similar provisions granted to SC75.

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.

On November 17, 2020, Tullow Oil plc (Tullow) issued a Notice of Withdrawal from the contract and joint operating agreement for Peru Block Z-38 located in Peru. As a result, the block's operator, Karoon Gas Australia Inc. (Karoon) acquired Tullow's 35% interest while Pitkin maintained its 25% interest in Peru Z-38.

On November 27, 2020, Perupetro lifted the *force majeure* and advised Karoon that the last day of the third exploration phase will be on July 27, 2021.

In April 2021, Karoon notified Pitkin that it does not wish to enter the fourth exploration period and will withdraw from the contract and the joint operating agreement. In view of this, Pitkin sent a Notice of Dispute to Karoon on May 25, 2021 and issued a claim against Karoon for breach of its farm-in agreement obligations that include fully funding all exploration activities until the second well is drilled. On July 27, 2021, the license contract for Block Z-38 expired due to Karoon's failure to enter the fourth exploration period and to carry Pitkin to one well under the farm-in agreement.

On September 17, 2021, Pitkin and Karoon entered into a Deed of Settlement and Release (the Deed) to settle all disputes in connection with Block Z-38. Under the deed, Karoon will pay Pitkin US$9.6 million in cash in full and final settlement of all claims by Pitkin in the block. The Deed became effective upon the receipt of the cash settlement by Pitkin on October 4, 2021. Gain on settlement of deed recognized in 2021 amounted to ₱442,188, net of related consultancy and legal expenses.

<u>Recovery of Deferred Oil and Gas Exploration Costs</u>
The Group's ability to realize its deferred oil and gas exploration costs with carrying values amounting to ₱2,783,317 and ₱2,243,914 as at December 31, 2022 and 2021, respectively (see Note 11), depends on the success of its exploration and future development work in proving the viability of its oil and gas properties to produce oil and gas in commercial quantities, which cannot be determined yet at this time. The consolidated financial statements do not include any adjustment that might result from these uncertainties.

<u>Authorization for Issuance of the Consolidated Financial Statements</u>
The accompanying consolidated financial statements of the Group as at December 31, 2022 and 2021, and for each of the three years in the period ended December 31, 2022, were authorized for issuance by the BOD on February 22, 2023.

2. Basis of Preparation, Statement of Compliance, Changes in Accounting Policies and Disclosures and Summary of Significant Accounting and Financial Reporting Policies

<u>Basis of Preparation</u>
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 PXP's functional and reporting currency, rounded to the nearest thousand (₱000) except when otherwise indicated.

<u>Statement of Compliance</u>
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 for the adoption of new standards effective as at January 1, 2022. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Adoption of the following new standards did not have an impact on the consolidated financial statements of the Group.

- Amendments to PFRS 3, *Reference to the Conceptual Framework*

  The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The amendments added an exception to the recognition principle of PFRS 3, *Business Combinations* to avoid the issue of potential 'day 2'gains or losses arising for liabilities and contingent liabilities that would be within the scope of PAS 37, *Provisions, Contingent Liabilities and Contingent Assets* or Philippine-IFRIC 21, *Levies*, if incurred separately.

  At the same time, the amendments add a new paragraph to PFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

- Amendments to PAS 16, *Property, Plant and Equipment: Proceeds before Intended Use*

  The amendments prohibit entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

- Amendments to PAS 37, *Onerous Contracts – Costs of Fulfilling a Contract*

  The amendments specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

- *Annual Improvements to PFRSs* 2018-2020 Cycle

  - Amendments to PFRS 1, *First-time Adoption of Philippines Financial Reporting Standards, Subsidiary as a first-time adopter*

    The amendment permits a subsidiary that elects to apply paragraph D16(a) of PFRS 1 to measure cumulative translation differences using the amounts reported in the parent's consolidated financial statements, based on the parent's date of transition to PFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of PFRS 1.

- Amendments to PFRS 9, *Financial Instruments*, *Fees in the '10 per cent' test for derecognition of financial liabilities*
  The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

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

Effective beginning on or after January 1, 2023
- Amendments to PAS 1 and PFRS Practice Statement 2, *Disclosure of Accounting Policies*
- Amendments to PAS 8, *Definition of Accounting Estimates*
- Amendments to PAS 12, *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

Effective beginning on or after January 1, 2024
- Amendments to PAS 1, *Classification of Liabilities as Current or Non-current*
- Amendments to PFRS 16, *Lease Liability in a Sale and Leaseback*

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

Summary of Significant Accounting and Financial Reporting Practices

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

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

All other assets are classified as noncurrent.

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

The Group classifies all other liabilities as noncurrent.

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

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

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

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Parent Company has less than a majority of the voting or similar rights of an investee, the Parent Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:
- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

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

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

A change in the ownership interest of a subsidiary, without a loss of control, including reacquiring the Company's own shares, 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 consolidated statements of 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.
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 3.2103% 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, particularly a 100% operating interest in SC 40 North Cebu.
FGL	FGL was incorporated in Jersey, UK on March 31, 2005 and is involved in oil and gas exploration in the Philippines, particularly a 70% interest in SC 72 Recto Bank.
Forum (GSEC 101) Ltd. - Philippine Branch (FGLP)	FGLP was established as a Philippine branch on October 17, 2005 and is involved in oil and gas exploration in the Philippines.
Forum (GSEC 101) Philippines, Inc. (FGPI)	FGPI was incorporated in the Philippines on February 2, 2022 and is involved in oil and gas exploration in the Philippines.
ForumPH SC72 Holdings, Inc. (SC72 Holdings)	SC72 Holdings was incorporated in the Philippines on January 8, 2020 to primarily act as a holding company.
ForumPhil SC72 ProjectCo, Inc. (ProjectCo)	ProjectCo was incorporated in the Philippines on January 23, 2020 and is involved in oil and gas exploration in the Philippines.
Pitkin	Pitkin was incorporated and registered in England and Wales 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 engaged in exploration of oil and gas in Peru.
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, 2022 and 2021 is summarized as follows:

	2022			2021		
	Direct	**Indirect**	**Total**	Direct	Indirect	Total
FEL	**72.33**	**5.33**	**77.66**	72.33	5.33	77.66
FEPCO	**–**	**77.66**	**77.66**	–	77.66	77.66
FEI	**–**	**52.60**	**52.60**	–	52.60	52.60
FGL	**–**	**77.66**	**77.66**	–	77.66	77.66
FGLP	**–**	**77.66**	**77.66**	–	77.66	77.66
FGPI	**–**	**77.66**	**77.66**	–	–	–
SC72 Holdings	**–**	**77.66**	**77.66**	–	77.66	77.66
ProjectCo	**–**	**77.66**	**77.66**	–	77.66	77.66
Pitkin	**100.00**	**–**	**100.00**	53.43	–	53.43
PPP	**100.00**	**–**	**100.00**	53.43	–	53.43
PVX	**–**	**100.00**	**100.00**	–	53.43	53.43
Z38	**–**	**100.00**	**100.00**	–	40.07	40.07
PPR	**–**	**100.00**	**100.00**	–	53.43	53.43
Z38	**–**	**100.00**	**100.00**	–	13.36	13.36
FEC	**78.39**	**–**	**78.39**	78.39	–	78.39
FEL	**72.33**	**5.33**	**77.66**	72.33	5.33	77.66
BEMC	**100.00**	**–**	**100.00**	100.00	–	100.00

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

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

Business Combination and Goodwill
Acquisition method
Business combinations, except for business combinations 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, which is 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.

The Group determines that it has acquired a business when the acquired set of activities and assets include an input and a substantive process that together significantly contribute to the ability to create outputs. The acquired process is considered substantive if it is critical to the ability to continue producing outputs, and the inputs acquired include an organized workforce with the necessary skills, knowledge, or experience to perform that process or it significantly contributes to the ability to continue producing outputs and is considered unique or scarce or cannot be replaced without significant cost, effort, or delay in the ability to continue producing outputs.

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 the consolidated statements of income. It is then considered in the determination of goodwill.

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

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 the consolidated statements of income.

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 Philippine 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 uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to the consolidated statements of comprehensive income reflects the amount that arises from using this method.

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

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

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

Initial Recognition and Subsequent Measurement of Financial Assets
Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (FVOCI), and fair value through profit or loss (FVPL).

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

In order for a financial asset to be classified and measured at amortized cost or FVOCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. Financial assets with cash flows that are not SPPI are classified and measured at FVPL, irrespective of the business model.

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 has no financial assets at FVPL and FVOCI.

Subsequent Measurement

Financial assets at amortized cost (debt instruments)

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

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

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

The Group's financial assets at amortized cost include cash and cash equivalents, trade receivables and guaranteed deposits (see Notes 5, 6 and 12).

Impairment of Financial Assets

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

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

For trade receivables and other receivables due in less than 12 months, the Group applies the simplified approach in calculating ECLs. 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.

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

The Group considers that there has been a significant increase in credit risk when contractual payments are more than 90 days past due.

The Group considers a financial asset in default when contractual payments are 90 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.

Derecognition of Financial Assets

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

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

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

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

Financial Liabilities

Initial recognition and measurement

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

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables (except government payables), notes payable and other noncurrent liabilities.

Subsequent measurement

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

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

Derecognition of Financial Liabilities

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

Offsetting of Financial Instruments
Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.
Determination of Fair Value
An analysis of the fair values of financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed and further details as to how they are measured are provided in the Note 19.

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

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

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

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

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

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:
- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

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

Inventories

Petroleum inventories are valued at the lower of cost and net realizable value (NRV). NRV 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.

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

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, prepaid taxes 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.

Assets Held-for-Sale

The Group classifies noncurrent assets held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Noncurrent assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable, and the asset is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations
- Is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations or,
- Is a subsidiary acquired exclusively with a view to resale

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of profit or loss.

All other notes to the financial statements include amounts for continuing operations, unless indicated otherwise.

If the criteria for held for sale is no longer met, the Group shall cease to classify the asset (or disposal group) as held for sale. The Group shall measure a non-current asset (or disposal group) that ceases to be classified as held for sale (or ceases to be included in a disposal group classified as held for sale) at the lower of:
- its carrying amount before the asset (or disposal group) was classified as held for sale or as held for distribution to owners, adjusted for any depreciation, amortization or revaluation that would have been recognized had the asset (or disposal group) not been classified as held for sale or as held for distribution to owners, and
- its recoverable amount at the date of the subsequent decision not to sell or distribute

Property and Equipment
Property and equipment are stated at cost, net of accumulated depletion and depreciation and accumulated impairment losses, if any.

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 as expense in the consolidated statements of income when incurred.

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

Oil and gas properties also include its share in the estimated cost of decommissioning the SCs for which the Group is constructively liable. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

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

Depletion of oil and gas properties is calculated using the units-of-production (UOP) method based on estimated proved and probable developed 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
Office machinery and equipment	2 to 5
Surface structures	10

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

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

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

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

Deferred Oil and Gas Exploration Costs

Exploration and evaluation activity involve 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’. The Group’s deferred oil and gas exploration costs are specifically identified for 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 technical services and studies, exploration drilling and testing, and appropriate technical and administrative expenses.

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, then the remaining balance is transferred to ‘Oil and gas properties’ account shown under the ‘Property and equipment’ account in the consolidated statements of financial position.

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

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

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

The Group assesses, at each reporting date, whether there is an indication that its property and equipment, ROU asset and deferred oil and gas exploration costs may be impaired. If any indication exists, 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 disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets in which case, the asset is tested as part of a larger CGU to which it belongs. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset 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 and CGUs excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognized, impairment loss is reversed only if there has been a change in the assumptions used to determine the asset' or/CGU's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset or CGU does not exceed the lower of its recoverable amount, or the carrying amount that would have been determined, net of depreciation or depletion, had no impairment loss been recognized for the asset or CGU in prior years. Such a reversal is recognized in the statements of income. 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.

Goodwill
Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired.

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

Provisions

General

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

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

Provision for Plug and Abandonment Costs

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

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

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

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

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

The Group recognizes neither the deferred tax asset in respect of the temporary difference on the plug and abandonment liability nor the corresponding deferred tax liability in respect of the temporary difference on a plug and abandonment asset.

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

Retirement Benefit Costs
The Group's retirement benefits liability is measured using the accrual approach based on the minimum retirement benefits required under Republic Act (R.A.) No. 7641, otherwise known as The Philippine Retirement Pay Law. Accrual approach is applied by calculating the expected liability as at reporting date using the current salary of the entitled employees and the employees' years of service, without consideration of future changes in salary rates and service periods.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Foreign Currency-Denominated Transactions and Translations
Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

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

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

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

Borrowing Costs
Borrowing costs are interest and other costs that the Group incurs in connection with the borrowing of funds. Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. Capitalization of borrowing costs commences when the activities to prepare the assets are in-progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use. If the carrying amount of the asset exceeds its estimated recoverable amount, an impairment loss is recorded.

Income Taxes

Current income tax

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

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

Deferred tax

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

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled by the parent, investor or venturer and it is probable that the temporary differences will not reverse in the foreseeable future

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

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss

- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available, against which the temporary differences can be utilized

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

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

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

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

The Group offsets deferred tax assets and deferred tax liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Loss Per Share

Basic loss or earnings per share (EPS) is computed by dividing the net income or 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. Shares subscriptions that are entitled to dividends are part of the computation of the weighted average number of common shares outstanding for basic EPS computation.

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

Segment Reporting

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

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

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

Contingencies

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

Events After the Reporting Period

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

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

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

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

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

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

Determination and classification of a joint arrangement
Judgment is required to determine when the Group has joint control over an arrangement, which requires an assessment of the relevant activities and when the decisions in relation to those activities require unanimous consent. The Group has determined that the relevant activities for its joint arrangements are those relating to the operating and capital decisions of the arrangement. The considerations made in determining joint control are similar to those necessary to determine control over subsidiaries as set out in Note 2.

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

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

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

As at December 31, 2022 and 2021, the Group's joint arrangements are in the form of a joint operation (see Notes 1 and 11).

Assessment of units-of-production depletion
Estimated recoverable proved and probable developed 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 of the asset. Each item's life, which is assessed annually, has regard to both physical life limitations and to present assessments of economically recoverable reserves of the oil field. The calculation requires the use of estimates of future capital expenditure. The Group uses barrels of oil produced as the basis of depletion. Any change in estimates is accounted for prospectively.

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

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

The provision matrix is initially based on the Group's historical observed default rates. The Group calibrates the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., movements in crude oil prices) are expected to deteriorate over the next year which can lead to an increased number of defaults amongst the Group's customers, 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 involves estimates and assumptions to be made. 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.

In 2021, the Group wrote off receivables amounting to ₱10. Translation adjustment in 2022 and 2021, resulted to increase of ₱67 and ₱50 in provision for ECLs as at December 31, 2022 and 2021, respectively. Total carrying value of trade receivables amounted to ₱15,623 and ₱28,952, net of allowance for ECLs amounting to ₱778 and ₱711 as at December 31, 2022 and 2021, respectively (see Note 6).

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

The Group's total current and noncurrent lease liabilities amounted to ₱4,839 and ₱5,056 as at December 31, 2022 and 2021, respectively (see Note 10).

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

The Group estimates and reports hydrocarbon reserves in line with the principles contained in the Society of Petroleum Engineers Petroleum Resources Management 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 income may change where such charges are determined using the UOP method, or where the useful life of the related assets change.
- Provisions for plug and abandonment may require revision - where changes to the reserves 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 an amortization charge proportional to the depletion of the anticipated remaining production from the field.

The life of each item, which is assessed at least annually, has regard to both its physical life limitations and present assessments of economically recoverable reserves of the field for 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 developed reserves, or future capital expenditure estimate changes. Changes to prove reserves could arise due to changes in the assumptions used in estimating reserves.

As at December 31, 2022 and 2021, the carrying values of wells, platforms, and other facilities, shown as 'Oil and gas properties' under 'Property and equipment', amounted to nil. In 2020, depletion expense incurred by the Group amounted to ₱3,551 (see Notes 9 and 14).

Recoverability of property and equipment
The Group assesses its property and equipment in each reporting period to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs of disposal and value in use. The assessments require the use of estimates and assumptions such as long-term oil prices (considering current and historical prices, price trends and related factors), discount rates, operating costs, future capital requirements, decommissioning costs, exploration potential, reserves and operating performance (which includes production and sales volumes). These estimates and assumptions are subject to risk and uncertainty. Therefore, there is a possibility that changes in circumstances will impact these projections, which may impact the recoverable amount of assets and/or CGUs.

In 2020, the Group recognized provision for impairment losses on property and equipment amounting to ₱5,895. No provision for impairment losses was recognized in 2022 and 2021. Movement in provision for impairment in 2022 relate only to effect of translation adjustment. As at December 31, 2022 and 2021, the carrying value of property and equipment amounted to ₱1,480 and ₱1,850, respectively, net of allowance for impairment loss of ₱644,164 and 618,967 as at December 31, 2022 and 2021, 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 reserves, capital expenditures, production and operating costs and discount rate. If the recoverable amount of the unit exceeds the carrying amount of the CGU, the CGU and the goodwill allocated to that CGU shall be regarded as not impaired. Where the recoverable amount of the CGU or group of CGUs is less than the carrying amount of the CGU or group of CGUs to which goodwill has been allocated, an impairment loss is recognized.

In 2021, the Group wrote off goodwill amounting to ₱979,990. The carrying value of goodwill as at December 31, 2022 and 2021 amounted to ₱254,397 (see Note 4).

Determination of the NRV of inventories
The NRV of 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 ₱8,241 and ₱4,240 as at December 31, 2022 and 2021, respectively (see Note 7). Allowance for probable inventory losses amounted to nil as at December 31, 2022 and 2021 (see Note 7).

Estimation of provision for plug and abandonment costs
Plug and abandonment costs will be incurred by the Group at the end of the operating life of its oil fields. The Group assesses its plug and abandonment provision at each reporting date. The ultimate plug and abandonment costs are uncertain and cost estimates can vary in response to many factors, including changes to relevant legal requirements, estimates of the extent and costs of decommissioning activities, the emergence of new restoration techniques or experience at other production sites, cost increases as compared to the inflation rates and changes in discount rates. The expected timing, extent and amount of expenditure may also change, for example, in response to changes in oil reserves or changes in laws and regulations or their interpretation. Therefore, significant estimates and assumptions

are made in determining the provision for decommissioning. As a result, there could be significant adjustments to the provisions established which would affect future financial results.

The provision at reporting date represents management's best estimate of the present value of the future plug and abandonment costs required.

Provision for plug and abandonment costs amounted to ₱138,238 and ₱132,152 as at December 31, 2022 and 2021, respectively (see Note 9). The Group recognized accretion of interest amounting to ₱87, ₱99 and ₱719 in 2022, 2021 and 2020, respectively. The discount rate used by the Group to value the provision as at December 31, 2022 and 2021 is 3.25% and 2.58%, respectively.

Recoverability of deferred oil and gas exploration costs
Deferred exploration costs pertain to expenditures incurred in the exploration stage of its oil and gas assets. Oil and gas assets relate to projects that are currently on-going. These deferred exploration cost shall be assessed for impairment when the facts and circumstances suggest that the carrying amounts exceeds the recoverable amounts. The ability of the Group to recover its deferred exploration costs would depend on the commercial viability of the reserves. In addition, the recovery of these costs also depends upon the success of exploration activities and future development or the discovery of oil and gas producible in commercial quantities. Allowances shall be provided for oil and gas assets that are specifically identified to be unrecoverable.

In 2022, the Group wrote off the allowance for impairment loss recognized in 2021 amounting to ₱3,421,436. No provision for impairment losses was recognized in 2022 and 2020. The deferred oil and gas exploration costs have a carrying value amounting to ₱2,783,317 and ₱2,243,914 as at December 31, 2022 and 2021, respectively, net of allowance for unrecoverable portion amounting to ₱759,570 and ₱4,120,849 as at those dates, respectively (see Note 11).

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

The carrying amount of deferred tax assets amounted to ₱14,655 and ₱15,410 as at December 31, 2022 and 2021, respectively. Details of excess MCIT, NOLCO and temporary differences in which no deferred tax assets were recognized are provided in Note 16.

4. **Business Combination**

Acquisition of Pitkin
On April 5, 2013, PXP increased its stake in Pitkin from 18.46% to 50.28% through the acquisition of additional 46,405,000 shares at US$0.75 per share or a total of US$34.8 million, which resulted in PXP obtaining control over Pitkin. As a result of the acquisition, PXP gained control of Pitkin's key assets including participating interests in Peru Block Z-38 and Vietnam Block 07/03. The goodwill of ₱1,534,168 arising from the acquisition pertains to the revenue potential the Group expects from Pitkin's Peru Block Z-38 and Vietnam Block 07/03.

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 PXP, 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. Goodwill arising from the business combination amounted to ₱258,593.

	Amount
Goodwill attributable to:	
SC 72 (Recto Bank)	₱254,397
SC 14 C-1 Galoc and SC 14 A & B Nido - Matinloc	4,196
	₱258,593

The Group performed its annual impairment test. In 2019, the Group wrote off its goodwill relating to SC 14 C-1 Galoc Oil Field, SC 14 A & B Nido - Matinloc amounting to ₱4,196 which was triggered by downward reserves revisions. In 2021, the Group wrote off goodwill amounting to ₱979,990 related to Peru block Z-38 triggered by the expiration of the service contract effective July 2021.

As at December 31, 2022 and 2021, the Group's remaining goodwill amounting to ₱254,397 is related to SC 72 (Recto Bank).

In assessing whether an impairment is required, the carrying value of the asset or CGU is compared with its recoverable amount. The recoverable amount is the higher of the CGU's fair value less costs of disposal and value in use. Given the nature of the Group's activities, information on the fair value of an asset is usually difficult to obtain unless negotiations with potential purchasers or similar transactions are taking place. Consequently, the recoverable amount of the CGUs was determined based on a value in use calculation using a discounted cash flow model from financial budgets covering the duration of the service contracts for the oil and gas fields. Based on its analysis, management concluded that the remaining goodwill as at December 31, 2022 and 2021 is recoverable.

The calculation of the value in use for the CGU incorporates the following key assumptions:
a) *inflation rates* - which are estimated with reference to external market forecast for long-term inflation rate;
b) *forecasted oil and gas prices* - which are estimated with reference to external market forecasts of Brent crude prices and Japan liquefied natural gas prices;
c) *volume of resources* - which are based on resources report prepared by third party competent persons;
d) *capital expenditure, production and operating costs* - which are based on the Group's historical experience, approved work programs and budgets, and latest life of well models; and
e) *discount rate* - which represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is derived from the Group's weighted average cost of capital (WACC), with appropriate adjustments made to reflect the risks specific to the CGU and to determine the pre-tax rate. The WACC takes into account both debt and equity. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data. Adjustments to the discount rate are made to factor in the specific amount and timing of the future tax flows in order to reflect a pre-tax discount rate. The pre-tax discount rate applied to cash flow projection is 15.8% and 12.5% as at December 31, 2022 and 2021, respectively.

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

5. Cash and Cash Equivalents

	2022	2021
Cash on hand and in banks	**₱106,701**	₱267,959
Short-term investments	–	261,513
	₱106,701	₱529,472

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 amounted to ₱201, ₱113, and ₱695 in 2022, 2021 and 2020, respectively. The Group has cash in bank and short-term investments denominated in US$ amounting to US$1,428 and US$9,884 as at December 31, 2022 and 2021, respectively (see Note 19).

6. Trade and Other Receivables

	2022	2021
Trade	**₱12,589**	₱29,586
Input VAT receivable	**3,656**	–
Others	**156**	77
	16,401	29,663
Less allowance for ECL of receivables	**778**	711
	₱15,623	₱28,952

Trade receivables are non-interest bearing and are currently due and demandable. These include receivables from the sale of petroleum products.

Input VAT receivable represents input VAT of Pitkin which can be recovered as tax refund in a foreign jurisdiction.

Other receivables pertain to cash calls paid to oil operators pending liquidation. These are liquidated upon submission of the financial reports by the operator in the subsequent month following the month of cash call.

The Group has no related party balances included in the trade and other receivables account as at December 31, 2022 and 2021.

Movements in allowance for impairment loss on trade receivables in 2022 and 2021 are as follows:

	2022	2021
Balances at January 1	**₱711**	₱671
Write-off	**–**	(10)
Translation adjustment	**67**	50
Balances at December 31	**₱778**	₱711

7. **Inventories**

The cost of petroleum inventories amounted to ₱8,241 and ₱4,240 as at December 31, 2022 and 2021, respectively. The cost of petroleum inventories recognized as expense and included in 'Petroleum production costs' amounted to ₱40,466, ₱40,586, and ₱34,134 in 2022, 2021 and 2020, respectively (see Note 14).

As at December 31, 2022 and 2021, there are no depletion expenses capitalized as part of petroleum inventories.

8. **Other Current Assets**

	2022	2021
Input VAT	**₱13,882**	₱16,490
Prepaid expenses	**8,567**	6,262
	22,449	22,752
Less allowance for impairment of input VAT	**13,882**	–
	₱8,567	₱22,752

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

In 2022, the Group recognized allowance for provision for impairment of input VAT amounting to ₱13,882.

9. **Property and Equipment**

	2022				
	Oil and Gas Properties	**Machinery and Equipment**	**Surface Structures**	**Construction in-progress**	**Total**
Cost					
Balances at January 1	**₱975,915**	**₱246,126**	**₱37,659**	**₱759**	**₱1,260,459**
Additions	**–**	**39**	**–**	**–**	**39**
Effect of translation adjustment	**70,886**	**5,910**	**–**	**–**	**76,796**
Balances at December 31	**1,046,801**	**252,075**	**37,659**	**759**	**1,337,294**

(Forward)

	2022				
	Oil and Gas Properties	**Machinery and Equipment**	**Surface Structures**	**Construction in-progress**	**Total**
Accumulated depletion and depreciation					
Balances at January 1	**₱535,935**	**₱94,821**	**₱8,886**	**₱–**	**₱639,642**
Depletion and depreciation (Notes 7 and 14)	**–**	**476**	**–**	**–**	**476**
Effect of translation adjustment	**49,088**	**2,444**	**–**	**–**	**51,532**
Balances at December 31	**585,023**	**97,741**	**8,886**	**–**	**691,650**
Accumulated impairment					
Balances at January 1	**439,980**	**149,455**	**28,773**	**759**	**618,967**
Effect of translation adjustment	**21,798**	**3,399**	**–**	**–**	**25,197**
Balances at December 31	**461,778**	**152,854**	**28,773**	**759**	**644,164**
Net book values	**₱–**	**₱1,480**	**₱–**	**₱–**	**₱1,480**

	2021				
	Oil and Gas Properties	Machinery and Equipment	Surface Structures	Construction in-progress	Total
Cost					
Balances at January 1	₱931,559	₱242,229	₱37,659	₱759	₱1,212,206
Additions	–	268	–	–	268
Effect of translation adjustment	44,356	3,629	–	–	47,985
Balances at December 31	975,915	246,126	37,659	759	1,260,459
Accumulated depletion and depreciation					
Balances at January 1	505,219	90,758	8,886	–	604,863
Depletion and depreciation (Notes 7 and 14)	–	586	–	–	586
Effect of translation adjustment	30,716	3,477	–	–	34,193
Balances at December 31	535,935	94,821	8,886	–	639,642
Accumulated impairment					
Balances at January 1	426,340	149,346	28,773	759	605,218
Effect of translation adjustment	13,640	109	–	–	13,749
Balances at December 31	439,980	149,455	28,773	759	618,967
Net book values	₱–	₱1,850	₱–	₱–	₱1,850

No provision for impairment was recognized in 2022 and 2021. In 2020, the Group has recognized provision for impairment of property and equipment amounting to ₱5,895.

The cost of fully depreciated machinery and equipment still being used in the Group's operations amounted to ₱349 as at December 31, 2022 and 2021.

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

	2022	2021
Beginning balances	**₱132,152**	₱5,310
Effect of change in estimate recognized in the consolidated statements of income	**(6,186)**	122,863
Accretion	**87**	99
Actual plug and abandonment costs	**–**	(700)
Effect of translation adjustment	**12,185**	4,580
	138,238	132,152
Less noncurrent portion	**138,238**	132,152
Current portion	**₱–**	₱–

The noncurrent portion of the provision for plug and abandonment costs amounting to ₱138,238 and ₱132,152 as at December 31, 2022 and 2021, respectively, are recorded under 'Other noncurrent liabilities' in the consolidated statements of financial position (see Note 23).

Discount rate of 3.25% and 2.58% in 2022 and 2021, respectively, was used to compute the present values of provision for plug and abandonment costs for the Galoc field.

<u>SC 14A, B&B-1 Nido, Matinloc & North Matinloc Fields</u>
Production in the Nido and Matinloc fields was terminated permanently on March 13, 2019. In May 2019, seven production wells in Nido (3 out of 5), Matinloc (3), and North Matinloc (1) were successfully plugged and abandoned, while the plug and abandonment of the two remaining Nido wells were successfully carried out in early October 2020. Actual costs incurred for the plug and abandonment of these wells amounted to ₱11,354, resulting in an additional recognition of plug and abandonment costs amounting to ₱910 in 2020.

Following the cessation of operations and completion of the plug and abandonment of all production wells, the consortium has agreed to surrender the SC 14A, B&B-1 blocks to the DOE in 2021. Additional costs incurred to wind up the fields amounted to ₱700 in 2021. The relinquishment of the blocks was formally approved by the DOE on May 18, 2022.

<u>SC 14 Block C-1 (Galoc)</u>
As at December 31, 2022, the Galoc Field has already produced about 23.98 million barrels of oil since the start of production in October 2008.

On July 12, 2018, Tamarind Galoc Pte Ltd, a subsidiary of Singapore-based Tamarind Resources (Tamarind), 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.

In 2022, 2021, and 2020, the field produced 565,084, 630,250 and 695,247 barrels of oil, respectively. In 2022, three liftings were made in February, June and October with a total of 479,955 barrels sold. In 2021, three liftings were made in April, July, and November with a total of 631,948 barrels sold. In 2020, three liftings were made in March, July, and November with a total of 750,506 barrels sold to refineries in the region. The Group's share in revenue amounted to ₱74,100, ₱64,198, and ₱30,250 in 2022, 2021, and 2020, respectively. (see Note 22)

On September 14, 2020, one of the consortium partners issued a notice of withdrawal from SC 14 C-1. The participating interest of FEL, held through FEPCO, increased from 2.28% to 3.2103% as a result of the DOE's approval of the Deed of Assignment which was accepted by FEPCO in January 2021.

<u>SC 14 Block C-2 (West Linapacan)</u>
The West Linapacan A Field was discovered in 1990 and produced over 8 million barrels of oil from 1992 before being shut-in in 1996. The Consortium continues with evaluating the viability of redeveloping the West Linapacan A Field. As at December 31, 2022 and 2021, the provision for plug and abandonment costs amounted to ₱119,020 and ₱116,061, respectively.

10. **Leases**

The Company has a lease contract for a parcel of land in used in its operations. Term of lease is 27 years. The Group also has certain leases of office space and machinery and equipment with lease terms of 12 months or less and leases of machinery and equipment with low value. The Company applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

The rollforward analysis of the ROU asset follows:

	2022	2021
Cost		
Balances at January 1	**₱5,175**	₱4,873
Effect of translation adjustment	**483**	302
Balances at December 31	**5,658**	5,175
Accumulated depreciation		
Balances at January 1	**1,311**	829
Depreciation (Note 14)	**468**	423
Effect of translation adjustment	**133**	59
Balances at December 31	**1,912**	1,311
	₱3,746	₱3,864

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

	2022	2021
Expenses relating to short-term leases (included in general and administrative expenses)	**₱4,876**	₱4,876
Depreciation expense of ROU assets	**467**	423
Interest expense on lease liabilities	**392**	405
Expenses relating to low-value assets (included in general and administrative expenses)	**224**	224
	₱5,959	₱5,928

The rollforward analysis of lease liabilities follows:

	2022	2021
Balances at January 1	**₱5,056**	₱5,207
Payments	**(609)**	(556)
Interest expense	**392**	405
Balances at December 31	**4,839**	5,056
Less noncurrent portion	**4,169**	4,447
Current portion	**₱670**	₱609

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

	2022	2021
1 year	**₱670**	₱609
More than 1 year to 2 years	**736**	670
More than 2 years to 3 years	**810**	736
More than 3 years to 4 years	**891**	810
More than 5 years	**4,054**	4,337

11. **Deferred Oil and Gas Exploration Costs**

The rollforward analysis of this account are as follows:

	2022	2021
Cost		
Balances at January 1	**₱6,364,763**	₱5,977,833
Additions	**350,152**	202,023
Reclassification to assets held-for-sale	**(113,183)**	–
Write-off	**(3,421,436)**	–
Translation adjustment	**362,591**	184,907
Balances at December 31	**3,542,887**	6,364,763
Less: Allowance for impairment losses		
Balances at January 1	**4,120,849**	661,771
Impairment	**–**	3,421,436
Write-off	**(3,421,436)**	–
Translation adjustment	**60,157**	37,642
Balances at December 31	**759,570**	4,120,849
Net book values	**₱2,783,317**	₱2,243,914

The total carrying value of deferred exploration costs pertains to Philippine exploration assets as at December 31, 2022 and 2021. In 2021, the Group recognized provision for impairment losses amounting to ₱3,421,436 related to Peru block Z-38 upon expiration of license contract on July 27, 2021 (Note 1).

PXP and FEL, through their subsidiaries, have various participating interests in petroleum service contracts as follows as at December 31, 2022:

	Participating interest	
Service Contract	PXP	FEL
SC 6B (Bonita Block)	–	2.46%
SC 14 Block C-1 (Galoc)	–	3.21%
SC 14 Block C-2 (West Linapacan)	–	9.10%
SC 40 (North Cebu Block)	–	100.00%
SC 72 (Recto Bank)	–	70.00%
SC 74 (Linapacan)	70.00%	–
SC 75 (Northwest Palawan)	50.00%	–

<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 the 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 in a study made by Weatherford Petroleum Consultants (Weatherford) in 2012.

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

In February 2015, FEL received a letter from the DOE confirming the suspension of offshore exploration activities in SC 72 while a maritime dispute between the 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 October 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.

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

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

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

Complementary with the MOU and in preparation for a possible lifting of *force majeure* over SC 72 at that time, FEL commissioned an Australia-based geophysical contractor to reprocess the 2011-acquired 3D dataset (565 sq. km) over the Sampaguita Field, using Broadband Prestack Depth Migration. The reprocessing commenced in October 2018 and was completed in June 2019. This was followed by an interpretation of the newly reprocessed seismic data and the preparation of an appraisal plan for the Sampaguita Field.

A letter from the DOE received on October 16, 2020 stated that the *force majeure* over SC 72 has been lifted effective immediately and that exploration activities were to resume over the block. FEL has 20 months (equivalent to the remaining SP 2 period from the effective date of the *force majeure*) to complete the SP 2 work commitment comprising the drilling of two wells.

Since then, the 2021 and 2022 Work Program and Budget ("WP&B") for SC 72 was approved by the DOE. Preparations for drilling activities, including the purchase of long lead items ("LLIs"), requisitions for other drilling-related materials, and signing up of technical services, have been undertaken for the conduct of geophysical and geotechnical surveys, and the drilling of wells Sampaguita 4 and Sampaguita 5 beginning the second quarter of 2022.

On April 6, 2022, FEL received a directive from the DOE to put on hold all exploration activities for SC 72 until such time that the SJPCC has issued the necessary clearance to proceed. FEL immediately complied with the directive by suspending its activities in SC 72.

In its April 8, 2022 reply to the DOE, FEL expressed willingness to resume activities immediately. However, FEL also stated that if no written confirmation from the DOE is received by April 10, 2022 that FEL can resume its activities on April 11, 2022, FEL will consider the suspension of work issued by the DOE to be indefinite and a *force majeure* event that will entitle FEL to be excused from the performance of its respective obligations and to the extension of the exploration period under SC 72.

In the absence of any letter from the DOE informing FEL to resume operations, FEL submitted a letter to the DOE on April 11, 2022 affirming a declaration of *force majeure* under SC 72 beginning April 6, 2022. FEL then undertook the termination of its service and supply agreements with several contractors. In the same letter, FEL stated that it is entitled to an extension of the period for exploration under SC 72 due to the recent declaration of *force majeure*.

On October 11, 2022, in response to FEL's letter dated April 11, 2022, the DOE granted the following:

i. Declaration of force majeure for SC 72 from April 6, 2022 until such time as the same shall be lifted by the DOE;
ii. The total expenses that were incurred as a result of the DOE directive to suspend SC 72 activities will be part of the approved recoverable costs, subject to DOE audit, and
iii. The suspension has nullified all the work done since the lifting of force majeure on October 14, 2020. Hence, SC 72 shall, in addition to the period in item 1 above, be entitled to an extension of the exploration period corresponding to the number of days that the contractors actually spent in preparation for the activities that were suspended by the suspension order issued by the DOE on April 6, 2022 (the Extension).

On November 22, 2022, FEL filed a reply letter with respect to item iii, seeking confirmation that the Extension will also cover all the time spent on all activities that are related or connected to, in support of, or necessary or desirable to enable FEL to perform its obligations and work commitments under SC 72. These include the time spent in planning the procurement of goods and services, securing permits and approvals, coordination with JV partners and the DOE, the time spent by external consultants doing work on behalf of SC 72, etc. Total cancellation fees capitalized as deferred oil and gas exploration cost as a result of the *force majeure* declaration amounted to ₱32,150.

On December 16, 2022, the WP&B for 2023 was submitted to the DOE which includes the drilling of two (2) wells, the implementation of which is contingent upon the lifting of the *force majeure* on SC 72 and the issuance by the DOE, in coordination with other concerned Philippine Government agencies, of clearance to resume exploration activities.

Assets held-for-sale

On May 27, 2022, FEL, on behalf of the SC 72 Joint Venture, and Nido Petroleum Philippines Pty Ltd ("Nido"), technical operator of SC 54 and SC 6B, signed a Term Sheet wherein Nido agreed to purchase most of the SC 72 LLIs such as wellheads, casings and accessories, conductor, drill bits, etc. for US$2.9 million, to be paid in tranches within 12 months. The LLIs are currently stored in Singapore and Batam, Indonesia. On June 10, 2022, a Sale and Purchase Agreement (SPA) was executed with Nido to formalize the transaction. Nido paid the first tranche amounting to US$400 thousand in mid-June 2022. The second and third tranches amounting to US$500 thousand each were paid on September 7 and October 7, 2022, respectively. The balance of US$ 1.5 million is payable on or before June 10, 2023. Until such is fully paid, the ownership of the LLIs will remain with the SC 72.

On November 25, 2022, FEL submitted a request to the DOE for approval to sell the LLIs, and which the latter approved on December 15, 2022. The proceeds from the sale of the LLIs will be deducted from the SC 72 historical costs, subject to DOE's validation.

As at December 31, 2022, FEL's 70% share in LLI amounting to ₱113,183 was reclassified to "Assets held-for-sale", while initial payments received amounting to ₱54,640 were recognized as "Deposits" under "Trade and Other Payables" (see Note 13).

SC 6A (Octon Block)
The SC covers an area of 1,080 square kilometers. PXP and FEL's participating interests in the block are 5.56% each.

The current term of SC 6A is set to expire on February 28, 2024, which gives the JV limited time to drill an exploratory well and to develop a field in case of a discovery. In view of this, the Consortium decided to surrender the contract effective March 31, 2021 and, upon its approval by the DOE, apply for a new contract under the Philippine Conventional Energy Contracting Program (PCECP) on area nomination. The surrender of the SC was approved by the DOE on September 5, 2022. Philodrill and the partners are currently preparing the documents for the application for a new SC. PXP and FEL will each have a participating interest of 6.72% in the new SC.

SC 6B (Bonita Block)
An in-house evaluation completed by Philodrill in early 2016 showed the East Cadlao Prospect has marginal resources which cannot be developed on a "stand-alone" basis. However, it remains prospective being near the Cadlao Field, which lies in another contract area. In view of this, the Consortium has requested 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.

On October 17, 2019, the farm-in agreement (FIA), DOA and transfer of operatorship from Philodrill to Manta Oil Company Ltd. (Manta) were approved conditionally by the DOE, requiring Manta to submit additional financial documents. Manta has also been tasked to submit a Plan of Development (POD) for Cadlao before the end of 2021. Under the FIA, Manta will carry the consortium up to first oil to earn 70% interest. As a result, FEL's interest in SC 6B decreased to 2.4546% from 8.182% following DOE's approval of the farm-in.

On December 6, 2021, Manta withdrew as Operator and Contractor in SC 6B as it was unable to fulfill its farm-in commitment to submit a POD for Cadlao Field before the end of 2021. Following Manta's withdrawal, its 70% interest was reassigned to the Consortium partners and the operatorship reverted to Philodrill. The SC 6B Consortium agreed to appoint Nido as the Technical Operator to carry out the technical work, which includes the redevelopment of the Cadlao Field.

In December 2021, Philodrill received a proposal from a third party, with the latter intending to increase its interest in SC 6B by carrying the farming-out companies in exploration and development costs up to first commercial production.

Nido subsequently submitted a farm-in proposal to the JV to increase its participating interest in the Service Contract from 9.09% to 72.727% and take over the operatorship of the Service Contract. Under the farm-in, Nido will fund 100% of the drilling, extended well test, and subsequent development of the Cadlao Field in return for the additional 63.637% Participating Interest. A farm-in agreement was later executed on February 11, 2022 with FEPC's interest being reduced to 2.4546% from 8.182% in exchange for the said carry in Cadlao's development costs.

Nido proposes a two-phase re-development consisting of: Phase 1: A 3 to 9-month Extended Well Test (EWT) using a new single deviated well (Cadlao-4), a mobile offshore production unit (MOPU), and either a floating storage and offloading (FSO) vessel or a shuttle tanker; and Phase 2: Further development of the EWT well and additional wells potentially substituting the MOPU for a small wellhead platform (WHP) and storage barge.

The Deed of Assignment (DOA) of Participating Interest to Nido and the revised 2022 WP&B were submitted to the DOE on April 11, 2022. The WP&B includes the drilling of Cadlao-4 by Q4 2022 at the earliest, to be followed by an EWT. The spud date of the well, however, will be dependent on final contracting, including rig and FSO unit availability.

The DOE approved the WP&B on May 26, 2022, while the documents related to the assignment of interest to Nido remain under review.

In July 2022, the SC 6B JV received a letter from the DOE that before the approval of the DOA from the FIA with Nido, the reassigned Manta's withdrawn participating interest to the original partners must be approved first. In this regard, a JV Resolution on the said item was approved by the partners and was then submitted to the DOE on July 26, 2022. In October 2022, Nido submitted its Audited Financial Statements to the DOE to complete the financial documentation required for the approval of the DOA.

On December 19, 2022, the DOE approved the reassignment of participating interests as a result of Manta's withdrawal and transfer of operatorship to Nido.

The proposed 2023 WP&B with the drilling and completion of a well (Cadlao-4) was approved by the majority of the JV and was submitted to the DOE on December 9, 2022.

<u>SC 14 Block C-2 (West Linapacan)</u>

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

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

In 2019, an expression of interest was received from a foreign company on the possible re-development of 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. The process of finalizing the documents with the company, including the Deed of Assignment (DOA) arising out of the Sale and Purchase Agreement (SPA) and FOA, was severely delayed by the COVID-19 situation. The said company was previously given until March 31, 2021 to finalize the agreements but it has requested an extension until June 30, 2021. The interested company eventually decided not to pursue its farm-in plans for the block. As a result, Philodrill re-assumed the block's operatorship and FEL's participating interest in the block returned to its pre farm-in interest of 9.10%.

In 2019, the SC 14C-2 and SC 74 consortia conducted a joint Rock Physics and quantitative interpretation (QI) studies over the West Linapacan and Linapacan areas using existing 3D seismic and well data. The initial phase of the study was carried out and completed by Ikon in October 2019. The SC 14C-2 consortium decided not to proceed with the second phase of the QI Study in view of the impending entry of a third party to the block.

The Consortium commenced a technical study on the West Linapacan B Field by ERC Equipoise Limited (ERCE) that focuses on a review of available geologic and well data, digitization of well logs, reservoir modeling, and fracture analysis, to be followed by resource estimation. Phase 1 of the study was completed in November 2021, with preliminary results indicating that a stand-alone development for the West Linapacan B Field would not be economically viable. ERCE continued with Phase 2 of the study which comprises the formulation of an appraisal/conceptual development and scoping economics involving the West Linapacan A and B Fields.

The results indicate a joint development of the fields is feasible provided certain conditions related to recoverable reserves, development costs, production rates, and oil price are met.

On October 20, 2022, Nido, a current member of the SC 14C-2 Consortium, submitted a proposal to drill a well and conduct an Extended Well Test ("EWT") on West Linapacan A in 2023 in exchange for acquiring an additional 62.721% of the Filipino Partners' current participating interest. On October 28, 2022, the Filipino partners submitted a counter-proposal related to sharing in the proceeds during production, which is now under Nido's consideration.

SC 40 (North Cebu Block)
FEL has started planning for the drilling of an onshore well, Dalingding-2. FEL has engaged the services of an operations geologist to prepare the geological program and prospect montage. The Dalingding Prospect is a reefal structure defined by seismic with the 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 FEL's recent re-evaluation of the prospect, it was concluded that Dalingding-1 did not reach the Barili target, which is estimated at 1,740 ft, or 232 ft below the well's total depth. The current plan is to drill a well down to at least 4,000 ft to penetrate the Barili and secondary targets underneath.

In June 2022, FEL contracted a drilling consultant to prepare drilling programs and budgets for two wells, one of which will be located in the Dalingding Prospect.

In August 2022, FEL contracted a third-party for the disposal of the Hycalog Rig and ancillary equipment stored in Brgy. Maya, Daanbantayan, Cebu Province. The sale process started on September 13, 2022 of which the highest bid was offered by a Luzon-based company. The pull-out of items started in December 2022.

On December 16, 2022, FEL submitted the SC 40 WP&B for 2023 with a firm program consisting of an Independent Technical Evaluation of the Maya and Dalingding Prospects to be carried out in the first quarter of 2023.

SC 74 (Linapacan)
In September 2013, Pitkin, with its Consortium partner, Philodrill, acquired acreage on SC 74 in a competitive bid under the Philippine Energy Contracting Round 4, with an operating interest of 70% and a 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.

The results of the Phase 1A test inversion under the joint QI study of SC 74 and SC 14-C2 by Ikon Science (Ikon) were presented to the consortium in October 2019. This involved inversion studies over a 30 sq. km 3D area that includes Linapacan A-1A, Linapacan B-1, West Linapacan A-1, A-2, and A-3, and West Linapacan B-1X wells. From the test, it was concluded that lithology is easier to identify than fluid type in limestone due to the latter's overlapping elastic properties.

In December 2019, the SC 74 consortium decided to proceed to Phase 2 of the project, which is an inversion study over a wider, 400 sq. km 3D data. Phase 2 commenced in February 2020 and was completed in June 2020. The QI study was able to predict the different lithological facies at the well. However, the study failed to differentiate the type and distribution of fluids in the limestone reservoirs due to the nature of the rock properties and poor to fair seismic data quality. Further seismic reprocessing has been recommended to preserve the true amplitudes for Amplitude Versus Offset inversion and to improve seismic imaging especially in dipping structures. It was also suggested that shear sonic data be acquired in future wells for better correlation of well and seismic data.

Preliminary paleodating of samples acquired from the Calamian Islands fieldwork was unsuccessful due to the absence of calcareous nannofossils in the collected samples. This led to the decision to engage the services of Core Laboratories (CoreLab) Malaysia to conduct biostratigraphic and geochemical analyses. An initial 12 samples were sent to Selangor, Malaysia on October 31, 2019, and the results were submitted to the Parent Company in December 2019. Additional samples were sent in July 2020 for further testing as recommended by CoreLab. Analysis of the second batch of samples was completed in October 2020 and the final report was submitted to the DOE in March 2021.

The identification of the radiolarian fossils present in some of the chert samples lead to its age restriction from the Late Permian to the Middle Jurassic. Total Organic Carbon analysis of mudstone and shale samples resulted in an organic richness ranging from poor to excellent. Samples with a good amount of organic matter may characterize them as possible source horizons, however, further geochemical tests suggest that these rocks have low hydrocarbon generative potential.

In March 2020, the DOE approved PXP's request for a one-year extension of SP 3 from December 13, 2019 to December 13, 2020 to allow the completion of geological and geophysical (G&G) studies before entering the next SP.

On July 14, 2020, the DOE approved PXP's application for *force majeure* over SC 74 Block for nine months starting from March 13, 2020 to December 13, 2020 because of delays in the implementation of some G&G activities following the imposition of business, health, and travel restrictions in the country due to the COVID-19 pandemic.

As part of the SC 74 work commitment under SP 3, an in-house seismic interpretation of the 3D data was conducted, which incorporates the results of Ikon's QI study. The technical evaluation includes mapping of time structural horizons, mapping of porous zones, time to depth conversion, and resource calculation. The interpretation work was completed in April 2021, while the resource calculation was finalized in August 2021. PXP's study indicates the Linapacan "A" and "B" Fields contain 43.16 and 27.43 million barrels (MMbbls) of contingent oil resources (P50), respectively. Additionally, PXP was able to identify two leads namely South Linapacan and Edapacan, located on the Southwest and North Eastern part of the Linapacan Field, respectively.

On May 4, 2021, PXP requested another 12 months of *force majeure* starting from April 2021 due to delays in the implementation of certain G&G activities following continuing COVID-19 restrictions and interpretation software issues. This was approved by the DOE on October 29, 2021, with the official letter received by PXP on November 10, 2021.

In late May 2022, PXP completed the Technical Evaluation and Resource Assessment of the Linapacan "A" and "B" Fields and South Linapacan Prospect with ERCE which also conducted an evaluation study in the SC 14C-2 West Linapacan Block in 2021. The appraisal/conceptual development strategy phase of the study focused on the Linapacan B Field as the results of the initial evaluation indicated that Linapacan A Field and South Linapacan Prospect are not viable to develop and produce with the present technology. The base case development/lowest cost option for developing Linapacan B Field comprises two (2) subsea-completed wells and an 11-km tie-back to a future West Linapacan floating production storage and offloading ("FPSO") vessel.

The results of the economic analysis show that Linapacan B is uneconomic in terms of NPV10 for all recoverable resource cases as the minimum economic field size required is 5.1 MMbbl. ERCE later recommended that no further work is justified in developing the Linapacan B Field.

While ERCE's work has deemed the Linapacan B field uneconomic, the SC 74 Joint Venture remains optimistic that there are still other development options that were not considered in ERCE's study that could improve the economics of either a standalone development of Linapacan B Field or a joint development with West Linapacan A and B fields. In this regard, the SC 74 JV decided to request a Technical Moratorium to evaluate other development options for the Linapacan B Field. The request was made with the DOE on August 8, 2022 and is currently awaiting approval.

On September 13, 2022, PXP submitted the JV-approved relinquishment program comprising 25% of the original contract area, in compliance with section 5.01 of the service contract wherein PXP should surrender at least 25% of the initial contract area on or before the end of SP2. The relinquishment program was approved by the DOE on November 14, 2022. In the same approval letter, PXP was also reminded to submit another relinquishment program surrendering an additional 25% of the initial contract area following the completion of SP 3.

The work program for 2023 will consist of various studies to be conducted during the technical moratorium period which are related to the strategies and development options for the Linapacan Fields. On December 23, 2022, PXP requested an extension on the submission of the WP&B for 2023 until January 31, 2023 to give the company additional time to formulate such strategic plans. This was approved by the DOE on January 6, 2023. On January 31, 2023, PXP submitted the WP&B for 2023 to the DOE.

<u>SC 75 (Northwest Palawan)</u>
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 an operating interest of 50%, and 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 the 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*.

Similar to SC 72, a letter from the DOE dated October 14, 2020 which was received on October 16, 2020 stated that the *force majeure* over SC 72 has been lifted effective immediately and that exploration activities were to resume over the block.

In July 2021, PXP sent out invitations to seismic acquisition companies to submit proposals for a 1,100 sq. km 3D survey to be conducted in early April 2022. The seismic survey is estimated to take 30 days to complete, including vessel mobilization and demobilization periods.

In September 2021, Shearwater Geoservices (Shearwater) conducted a Survey Evaluation and Design (SED) Study which aimed at finalizing the acquisition parameters to be used in the survey. The SED was completed in November 2021 and the results were incorporated into the seismic data acquisition contract.

On March 31, 2022, Shearwater's vessel, M/V Geo Coral, left Darwin, Australia, and arrived at the SC 75 project site on April 5, 2022, while its Mariska-G, arrived a day earlier.

On April 6, 2022, PXP received a directive from the DOE to put on hold all exploration activities for SC 75 until such time that the SJPCC has issued the necessary clearance to proceed. PXP immediately complied with the directive by notifying its contractors of the suspension of activities.

Through a letter sent to the DOE on April 8, 2022, PXP expressed its willingness to resume activities immediately. However, PXP also stated that if no written confirmation from the DOE is received by April 10, 2022 that PXP can resume its activities on April 11, 2022, PXP will consider the suspension of work issued by the DOE to be indefinite and a *force majeure* event that will entitle PXP to be excused from the performance of its respective obligations and to the extension of the exploration period under SC 75.

On April 11, 2022, PXP submitted a letter to the DOE affirming a declaration of *force majeure* under SC 75 beginning April 6, 2022 in the absence of any letter from the DOE informing PXP to resume operations. In the same letter, PXP stated that it is entitled to an extension of the period for exploration under SC 75 due to the recent declaration of *force majeure*. PXP then undertook the termination of its service and supply agreements with several contractors, including the contract with Shearwater.

On October 11, 2022, the DOE replied to the April 11, 2022 letter similar to its reply regarding the *force majeure* in SC 72. Thus, PXP also sent a letter to the DOE to clarify the period of extension to include the time since the lifting of *force majeure* in October 2020. Total cancellation fees capitalized as deferred oil and gas exploration cost as a result of the *force majeure* declaration amounted to ₱55,178.

On December 21, 2022, PXP submitted the WP&B for 2023 to the DOE. The implementation of the seismic survey program that includes the acquisition, processing, and interpretation of at least 1,138 sq. km of 3D seismic data will be contingent on the lifting of the *force majeure* that was imposed by the DOE last April 2022.

12. **Other Noncurrent Assets**

	2022	2021
Decommissioning fund	**₱5,657**	₱4,475
Guaranteed deposits	**329**	301
	₱5,986	₱4,776

Funding for the plug and abandonment costs of the Galoc field commenced in 2016. FEL's contribution to the decommissioning fund amounted to ₱765, ₱920 and ₱432 in 2022, 2021 and 2020, respectively.

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

13. **Trade and Other Payables**

	2022	2021
Trade	**₱3,305**	₱11,159
Accrued expenses	**11,243**	14,956
Deposits (Note 11)	**54,640**	–
Withholding taxes	**383**	286
Accrued interest (Note 17)	**280**	–
Other nontrade liabilities	**9,182**	4,241
	₱79,033	₱30,642

The Group's trade payables are non-interest bearing and are generally settled within 30 to 60 days. Accrued expenses primarily include the accruals for light and water, payroll, security and professional consultancy fees.

Deposits include share of FEL on initial payment received in relation to a sale and purchase agreement of LLIs with a third party (see Note 11).

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

The Group has no related party balances included in the trade and other payables account as at December 31, 2022 and 2021.

14. **Costs and Expenses**

	2022	2021	2020
Petroleum production costs:			
Production costs (Note 7)	**₱40,466**	₱40,586	₱30,583
Depletion (Notes 7 and 9)	–	–	3,551
	₱40,466	₱40,586	₱34,134
General and administrative expenses:			
Professional fees	**₱24,939**	₱25,662	₱23,245
Personnel costs	**14,343**	16,854	17,681

(Forward)

	2022	2021	2020
Insurance	**₱5,221**	₱4,017	₱3,243
Rental (Note 10)	**5,100**	5,100	5,100
Taxes and licenses	**2,566**	2,021	2,712
Directors' fees	**1,350**	1,770	1,180
Office supplies	**1,349**	1,172	2,387
Depreciation (Notes 9 and 10)	**944**	1,009	1,010
Stock transfer expenses	**604**	601	791
Donations	**513**	962	257
Travel and transportation	**225**	164	1,066
Communications, light and water	**155**	142	58
Repairs and maintenance	**135**	178	157
Others	**1,662**	2,430	5,642
	₱59,106	₱62,082	₱64,529

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

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 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	
	2022	2021
Common stock - ₱1 par value		
Authorized	**6,800,000,000**	6,800,000,000
Issued and fully paid	**1,960,000,000**	1,960,000,000
Subscribed capital stock	**–**	–
Capital stock	**1,960,000,000**	1,960,000,000

On October 26, 2018, PXP, PMC, and DHC signed a subscription agreement wherein PMC and DHC subscribed to 260,000,000 and 340,000,000 common shares of PXP, respectively, for a total consideration of ₱3,081,000 and ₱4,029,000, respectively. Each share is valued at ₱11.85, which 0represents a 20% discount to the 90-day volume weighted average price (VWAP) of PXP shares. The agreement was approved by the Group or PXP's BOD on October 25, 2018. The subscription is payable in two tranches.

On December 26, 2018, PXP and DHC agreed to reschedule and accelerate the full payment of its subscription agreement to no later than March 31, 2019. DHC shall also pay a downpayment equivalent to 1% of the total subscription on or before January 7, 2019.

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

On January 7, 2019, DHC paid an initial downpayment of ₱40,290, with the remaining balance due on March 31, 2019. On March 31, 2019, PXP and DHC mutually agreed to terminate the subscription agreement. All rights of DHC to subscribe to the aforesaid common shares of PXP, and any obligation of PXP to issue such shares to DHC, are terminated without any residual rights of any kind remaining with DHC. Accordingly, PXP recognized the forfeited down payment amounting to ₱40,290 as other income (see Note 1).

PMC paid subscription payable to PXP amounting to ₱121,114 and ₱63,186 in 2021 and 2020, respectively.

As at December 31, 2022 and 2021, PXP's number of stockholders totaled to 38,518 and 38,599, respectively.

Record of Registration of Securities with the SEC

In accordance with Revised SRC Rule 68, Annex 68–K, below is a summary of the Parent Company's track record of registration of securities:

Issue	Number of shares registered	Issue/offer price	Date of SEC approval	Number of holders of securities as at December 31 2022	2021	2020
Common shares	1,700,000,000	₱1.00 par value; ₱1.20 issue price	September 12, 2011	**38,518**	38,599	38,677

The shares relating to the transaction above were exchanged in the PSE on September 12, 2011, effectively listing PXP via listing by way of Introduction.

The PSE Notice of Approval for the listing of the 260,000,000 shares has not yet been issued due to certain documents pending submission. PXP is expected to complete all requirements by March 2023.

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 an 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 PXP'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 investments 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 in increased ownership of PXP over FEL from 36.44% to 48.77%. A decrease in equity of the Parent Company amounting to ₱31,747 resulted from the transaction.

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

On February 17, 2017, Pitkin tendered its offer to buy back 11,430,500 outstanding shares for a consideration of US$0.35 per share. The Parent Company surrendered 6,107,000 shares for a consideration of ₱107,717, while the NCI owners surrendered their 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 FGL to capitalize a part of the maturing long-term loan of FGL from PXP amounting to US$11,805 into 39,350,920 new common shares of FEL. In addition to the conversion of FEL shares, Tidemark subscribed to additional 6,600,000 shares in FEL for ₱100,650.

On May 17, 2017, PXP bought additional investment from the NCI owners of FEL, wherein Asia Link B. V. sold 1,185,000 shares valued at US$0.30 per share, for a total consideration of ₱17,705. Furthermore, on November 23, 2017, PXP purchased additional 1,000,000 shares held by FEC in FEL for a total consideration of ₱15,219. The loan to equity conversion and subsequent purchases of shares were all priced at US$0.30 per share. As a result of the transactions, the Parent Company's economic interest in FEL increased from 58.90% to 75.92%.

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

On April 16, 2020, PXP increased its direct shareholding in FEL from 72.24% to 72.33%. This increased PXP's total interest in FEL from 75.98% to 76.07%. The additional interest was acquired through a subscription to 6,099,626 new ordinary shares of FEL. The new shares were issued at approximately US$0.30 per share for a total consideration of ₱92,958. Further, major shareholders, Tidemark and FEC subscribed to 1,666,666 shares and 567,038 shares of FEL, amounting to ₱25,400 and ₱8,642, respectively, both paid for in cash.

On August 5, 2020, PXP increased its direct shareholding in FEC from 54.99% to 78.39%. This increases PXP's total economic interest in FEL from 76.07% to 77.66%. The additional interest was acquired through a subscription to 449,999,986 new ordinary shares of FEC through a stock rights offering. The new shares were issued at approximately US$0.00225 per share for a total consideration of ₱49,688. The acquisition of additional shares in FEC did not result in a change in the board of FEC or FEL.

On October 2, 2020, Pitkin bought back 8.5 million of its total issued shares at a price of US$0.10 per share for a total consideration of ₱41,208. PXP sold 4,541,464 of Pitkin shares for a total consideration of ₱22,017 while the minority shareholders sold their pro-rata share of 3,958,536 shares for a total consideration of ₱19,191. The transaction did not affect PXP's 53.43% stake in Pitkin.

On December 2, 2022, Pitkin bought back from minority shareholders its 31,713,464 issued shares at a price of £0.01 per share for a total consideration of US$3,500 or ₱199,588. The transaction increased PXP's stake in Pitkin from 53.43% to 100%.

Non-controlling Interest
Non-controlling interests consist of the following:

	Percentage of Ownership				
	2022	2021	Country of Incorporation and Operation	**2022**	2021
Non-controlling interests in the net assets of:					
Pitkin and its subsidiaries	–	46.57%	UK/Philippines	**₱–**	₱558,283
FEC	**21.61%**	21.61%	Canada	**49,641**	50,461
FEL and its subsidiaries	**22.34%**	22.34%	UK/Philippines	**391,850**	322,949
				₱441,491	₱931,693

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

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

	2022	2021
FEL and its subsidiaries	**₱5,519**	(₱24,188)
FEC	**(1,971)**	(1,665)
Pitkin and its subsidiaries	**211***	(1,403,125)

**Attributable to non-controlling interest from January to December 1, 2022*

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

	2022	2021
FEL and its subsidiaries	**₱63,382**	₱34,220
FEC	**1,151**	(2,164)
Pitkin and its subsidiaries	**11,817***	12,402

**Attributable to non-controlling interest from January to December 1, 2022*

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, 2022:

	Pitkin and its subsidiaries	**FEC**	**FEL and its subsidiaries**
Revenue	**₱–**	**₱–**	**₱74,100**
Cost of sales	**–**	**–**	**(40,466)**
General and administrative expenses	**(8,379)**	**(8,914)**	**(12,378)**
Other income (charges)	**8,833**	**(208)**	**5,722**
Interest expense	**–**	**(580)**	**(13,271)**
Income (loss) before tax	**454**	**(9,702)**	**13,707**
Provision for income tax	**–**	**–**	**34**
Net income (loss)	**454**	**(9,702)**	**13,673**
OCI	**45,603**	**5,327**	**149,656**
Total comprehensive income (loss)	**₱46,057**	**(₱4,375)**	**₱163,329**
Attributable to non-controlling interests	**₱12,028***	**(₱820)**	**₱68,901**

**Attributable to non-controlling interest from January to December 1, 2022*

Statements of comprehensive income as of December 31, 2021:

	Pitkin and its subsidiaries	FEC	FEL and its subsidiaries
Revenue	₱–	₱–	₱64,198
Cost of sales	–	–	(40,586)
General and administrative expenses	(56,188)	(8,135)	(12,887)
Other income (charges)	(2,948,436)	428	(112,784)
Interest expense	–	–	(9,259)
Loss before tax	(3,004,624)	(7,707)	(111,318)
Benefit from income tax	8,313	–	18,459
Net loss	(3,012,937)	(7,707)	(129,777)
OCI	26,631	(10,015)	110,597
Total comprehensive loss	(₱2,986,306)	(₱17,722)	(₱19,180)
Attributable to non-controlling interests	(₱1,390,723)	(₱3,829)	₱10,032

Statements of comprehensive income as of December 31, 2020:

	Pitkin and its subsidiaries	FEC	FEL and its subsidiaries
Revenue	₱–	₱–	₱30,250
Cost of sales	–	–	(34,134)
General and administrative expenses	(7,520)	(11,130)	(15,804)
Other income (charges)	223	284	(16,084)
Interest expense	–	–	(11,775)
Loss before tax	(7,297)	(10,846)	(47,547)
Provision for income tax	–	–	206
Net income (loss)	(7,297)	(10,846)	(47,753)
OCI	(49,826)	11,513	21,439
Total comprehensive income (loss)	(₱57,123)	₱667	(₱26,314)
Attributable to non-controlling interests	(₱26,601)	₱144	(₱5,879)

Statements of financial position as at December 31, 2022:

	Pitkin and its subsidiaries	**FEC**	**FEL and its subsidiaries**
Current assets	**₱316,928**	**₱24,793**	**₱46,647**
Noncurrent assets	**708**	**96,490**	**2,471,263**
Current liabilities	**(377)**	**(24,321)**	**(67,391)**
Noncurrent liabilities	**–**	**–**	**(1,138,770)**
Total equity	**317,259**	**96,962**	**1,311,749**
Attributable to:			
Equity holders of the Parent Company	**₱317,259**	**₱76,009**	**₱1,018,704**
Non-controlling interests	**–**	**20,953**	**293,045**

Statements of financial position as at December 31, 2021:

	Pitkin and its subsidiaries	FEC	FEL and its subsidiaries
Current assets	₱481,488	₱17,674	₱44,097
Noncurrent assets	613	96,490	1,948,857
Current liabilities	(11,322)	(12,827)	(16,868)
Noncurrent liabilities	–	–	(827,666)
Total equity	470,779	101,337	1,148,420
Attributable to:			
Equity holders of the Parent Company	₱251,537	₱79,438	₱891,863
Non-controlling interests	219,242	21,899	256,557

Statements of cash flows as at December 31, 2022:

Activities	**Pitkin and its subsidiaries**	**FEC**	**FEL and its subsidiaries**
Operating	**(₱2,343)**	**₱–**	**₱60,849**
Investing	**–**	**(11,074)**	**(229,910)**
Financing	**(467,799)**	**5,989**	**182,541**
Net increase (decrease) in cash and cash equivalents	**(₱470,142)**	**(₱5,085)**	**₱13,480**

Statements of cash flows as at December 31, 2021:

Activities	Pitkin and its subsidiaries	FEC	FEL and its subsidiaries
Operating	(₱11,746)	₱–	(₱50,960)
Investing	442,188	(10,889)	(233,996)
Financing	–	7,999	273,352
Net increase (decrease) in cash and cash equivalents	₱430,442	(₱2,890)	(₱11,604)

Statements of cash flows as at December 31, 2020:

Activities	Pitkin and its subsidiaries	FEC	FEL and its subsidiaries
Operating	(₱9,123)	₱1,305	(₱72,091)
Investing	(8,826)	8,934	(11,987)
Financing	(25,723)	(22,606)	90,622
Net increase (decrease) in cash and cash equivalents	(₱43,672)	(₱12,367)	₱6,544

16. Income Taxes

In 2022, current provision for income tax amounting to ₱183 pertains to PXP and FEL's MCIT. In 2021, current provision for income tax amounting to ₱8,590 pertains to PXP and FEL's MCIT and Pitkin's RCIT.

The components of the Group's deferred tax assets (liabilities) as at December 31, 2022 and 2021 are as follows:

	2022	2021
Deferred tax assets		
Allowance for impairment loss on deferred exploration costs	**₱13,586**	₱13,586
MCIT	**901**	1,656
Allowance for impairment loss on receivables	**168**	168
	14,655	15,410
Deferred tax liabilities		
Unrealized gain on dilution of interest	**(105,512)**	(105,512)
Unrealized foreign exchange gain	**(3,973)**	(3,978)
	(109,485)	(109,490)
Deferred tax liabilities - net	**(₱94,830)**	(₱94,080)

A reconciliation of the Group's benefit from income tax computed at the statutory income tax rate based on loss before income tax to the benefit from income tax follows:

	2022	2021	2020
Benefit from tax computed at the statutory tax rate of 25% in 2022 and 2021, and 30% in 2020	**(₱7,854)**	(₱1,027,436)	(₱25,519)
Additions to (reductions in) income tax resulting from:			
Nontaxable petroleum revenue	**(17,674)**	(12,252)	(8,641)
Movement in unrecognized deferred tax assets	**14,326**	28,328	8,408
Nondeductible petroleum production costs and depletion	**10,117**	8,117	9,806
Permanent difference due to foreign exchange translation	**2,057**	(68,261)	5,494
Interest income subjected to final tax	**(39)**	(116)	(209)
Nondeductible provision for impairment of assets and write-off of goodwill	**–**	1,100,357	1,869
Reversal of fair value adjustment as a result of business combination	**₱–**	(₱816,658)	₱–
Effect of changes in tax rate due to CREATE	**–**	(178,547)	–
Provision for (benefit from) income tax	**₱933**	(₱966,468)	(₱8,792)

The Company's NOLCO incurred before taxable year 2020 can be claimed as deductions from the regular taxable income for the next three (3) consecutive taxable years from the year incurred. On September 30, 2020, the Bureau of Internal Revenue (BIR) issued Revenue Regulations (RR) 25-2020 implementing Section 4 (bbbb) of "Bayanihan to Recover as One Act" which states that the NOLCO incurred for taxable years 2020 and 2021 can be carried over and claimed as deduction from gross income for the next five (5) consecutive taxable years immediately following the year of such loss.

As at December 31, 2022, 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 of Expiration			
Year Incurred	NOLCO	Excess MCIT	NOLCO	Excess MCIT
2020	2025	2023	₱36,698	₱582
2021	2026	2024	14,538	292
2022	2025	2025	19,263	183
			₱70,499	₱1,057

The following are the movements of the Group's NOLCO and excess MCIT as at December 31, 2022 and 2021:

	NOLCO		Excess MCIT	
	2022	2021	**2022**	2021
Beginning balance	**₱225,572**	₱234,305	**₱1,656**	₱1,868
Additions	**19,263**	14,538	**183**	292
Application	**(1,005)**	–	**–**	–
Expirations	**(173,331)**	(23,271)	**(782)**	(504)
Ending balance	**₱70,499**	₱225,572	**₱1,057**	₱1,656

The Group did not recognize deferred tax assets on the following NOLCO and deductible temporary differences as at December 31, 2022 and 2021:

	2022	2021
NOLCO	**₱70,499**	₱225,572
Excess of depreciation expense and interest expense over lease payments	**1,093**	1,037

Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act

The CREATE Act was signed into law on March 26, 2021 to attract more investments and maintain fiscal prudence and stability in the Philippines. Republic Act (RA) 11534 or the CREATE Act introduces reforms to the corporate income tax and incentives systems. It took effect on April 11, 2021.

The following are the key changes to the Philippine tax law pursuant to the CREATE Act which have an impact on the Group:

- Effective July 1, 2020, regular corporate income tax (RCIT) rate is reduced from 30% to 25% for domestic and resident foreign corporations. For domestic corporations with net taxable income not exceeding ₱5 million and with total assets not exceeding ₱100 million (excluding land on which the business entity's office, plant and equipment are situated) during the taxable year, the RCIT rate is reduced to 20%.

- Minimum corporate income tax (MCIT) rate reduced from 2% to 1% of gross income effective July 1, 2020 to June 30, 2023.

Applying the provisions of CREATE Law, the Group have been subjected to lower RCIT of 25% or the reduced MCIT of 1% of gross income effective July 1, 2020. Likewise, the impact on the December 31, 2020 consolidated financial statements had the CREATE Law been substantially enacted as of then, were adjusted in 2021, as follows:

	Increase (decrease)
Benefit from deferred tax	₱178,547
Deferred tax liabilities - net	(178,547)

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 that 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 enter 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:

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 the first SP work program over SC 72. Obligations arising from funds drawn under this facility agreement are not convertible into FEL's or FPHL's common shares.

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

   On November 21, 2013, PMC assigned its rights and obligations under the facility agreement to the Parent Company. On the same date, the loan facility was increased to US$18,000 and has been extended for an additional three years. The loans receivable from FPHL and loans 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 FGL (the "New Borrower"). This states that all the rights and obligations under the Finance Documents of the Original Borrower will be transferred by way of novation to the New Borrower and the Original Borrower will be released from its obligations and will cease to own any rights under the Facility Agreement.

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

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

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

On April 16, 2020, FGL made a partial repayment of the maturing loan principal amounting to US$431, together with the full payment of accrued interest from March 16, 2017 to April 15, 2020 amounting to US$958. In addition, a further extension of the then-reduced outstanding loan principal of US$5,091, was made from April 16, 2020 to December 31, 2021 and quarterly payments of accrued interest are to be made from April 16, 2020 onwards.

On August 7, 2020, FEC has agreed to purchase 6.8% of the loan due by FGL to PXP amounting to US$346, plus accrued interest. This loan is unsecured, due on December 31, 2021 and bears interest at an annual rate of 3.5% plus LIBOR which is payable on a quarterly basis.

On October 28, 2021, the BOD approved to repurchase from FEC the 6.8% of the loan currently due by FGL to PXP amounting to US$346, plus accrued interest, with all other terms of the loan remaining unchanged.

On July 7 ,2022, PXP approved a ratification on the extension of term of the loan from March 31, 2022 to July 8, 2022 and a further extension of the loan from July 8, 2022 to December 31, 2022 with interest to accrue and payable thereafter on a monthly basis at the end of each calendar month.

In 2022, FGL made a partial repayment of the maturing loan principal amounting to US$1,500, together with payment of accrued interest amounting to US$88.

Interest expense incurred for 2022, 2021, and 2020 amounted to ₱13,271, ₱9,259, and ₱11,056, respectively. The new loan facility does not include an agreement for commitment fee. These were eliminated upon consolidation for the year ended December 31, 2022, 2021, and 2020.

Loans receivable of PXP from FGL amounted to ₱200,228 and ₱259,646 as at December 31, 2022 and 2021, respectively. These were eliminated upon consolidation.

On January 6, 2023, the BOD approved the extension of the maturity date of the loan from December 31, 2022 to March 31, 2023. All other terms of the loan remain unchanged.

b. In March 2022, PXP made interest bearing advances to FEC amounting to US$199. These advances are due on December 31, 2023 and bear interest at an annual rate of 3.5% plus LIBOR (or if unavailable, its corresponding replacement benchmark) payable quarterly in arrears. The proceeds of these advances were used by FEC to partially fund its share of the exploration expenditures in SC 72.

Additional advances amounting to US$60 and US$20 in September and November 2022, respectively, were made by PXP to FEC under the same terms above to finance FEC's working capital requirements.

As at December 31, 2022, advances to FEC amounted to ₱15,534. Interest income in 2022 and accrued interest receivable as at December 31, 2022 amounted to ₱594. These were eliminated upon consolidation.

c. On November 3, 2021, the BOD of FEL approved the request for funding contribution amounting to $3,300 from its major shareholders, pro-rata to their shareholdings in FEL. PXP and FEC shares in the funding contribution in 2021 amounted to $2,417 and $224, respectively, which were eliminated upon consolidation. The fund was used for the pre-drilling activities of SC 72 Recto Bank.

   On February 16, 2022, additional funding was requested from major shareholders amounting to $3,407. PXP and FEC's share in the funding contribution amounted to $2,136 and $199, respectively, which were eliminated upon consolidation.

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

   On August 5, 2019, a deed of assignment was entered by BEMC and PXP transferring BEMC's advances from PMC to PXP amounting to ₱737,815. On December 19, 2019, PXP paid the advances from PMC amounting ₱737,815.

   In 2021, BEMC partially paid advances from PXP amounting to ₱1,500. As at December 31, 2022 and 2021, advances from PXP amounted to ₱736,315.

e. On March 9, 2022, PXP entered into an agreement of promissory note with PMC and Kirtman Limited (Kirtman), both shareholders of PXP. The drawdown amount is both US$375, with principal payable on demand by PMC and Kirtman and at an interest rate of LIBOR plus 3.5% margin per annum payable quarterly in arrears.

   On March 16, 2022, PXP entered into an agreement of promissory note with PMC and Kirtman. The drawdown amount is both US$225, with terms similar to the first promissory note.

   The proceeds of the notes payable were used to partially fund the Group's exploration expenditures in SC72 and SC75.

   In 2022, total interest expense amounted to ₱3,113. As at December 31, 2022, notes payable and interest payable amounted to ₱66,906 and ₱280, respectively.

f. The compensation of key management personnel pertaining to short-term and other long-term employee benefits follows:

	2022	2021	2020
Short-term employee benefits	**₱8,436**	₱8,436	₱8,436
Other long-term employee benefits	**3,024**	3,024	2,376
	₱11,460	₱11,460	₱10,812

g. Material related party transactions (RPT) refer to any related party transaction/s, either individually, or in aggregate over a 12-month period with the same related party, amounting to 10% or higher of the Group's total consolidated assets based on its latest audited financial statements.

18. Financial Instruments

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

The carrying values of the Group's assets and liabilities approximate their fair values as at December 31, 2022 and 2021.

Cash and cash equivalents, trade receivables, trade and other payables (except government payables), notes payable and other noncurrent liabilities
The carrying amounts of these financial instruments reasonably approximate their fair values because these are mostly short-term in nature.

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

There were no transfers between Level 1 and 2 fair value measurements and no transfers into and out of Level 3 fair value measurement as at December 31, 2022 and 2021.

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 notes payable. 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 further be classified to foreign currency risk and interest rate 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:

	2022	2021
Cash in banks and short-term investments	**₱106,699**	₱529,470
Trade receivables	**11,811**	28,875
Guaranteed deposits	**329**	301
	₱118,839	₱558,646

The Group's information about credit risk exposure of trade receivables follows:

As at December 31, 2022:

	Current	Days past due			Specific Identification	Total
		< 30 days	30 to 90 days	>90 days		
ECL rate	–	–	–	–	**100%**	
Estimated total gross carrying amount	**₱–**	**₱11,811**	**₱–**	**₱–**	**₱778**	**₱12,589**
ECL	**₱–**	**₱–**	**₱–**	**₱–**	**₱778**	**₱778**

As at December 31, 2021:

	Current	Days past due			Specific Identification	Total
		< 30 days	30 to 90 days	>90 days		
ECL rate	–	–	–	–	100%	
Estimated total gross carrying amount	₱–	₱28,875	₱–	₱–	₱711	₱29,586
ECL	₱–	₱–	₱–	₱–	₱711	₱711

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, 2022 and 2021, respectively:

As at December 31, 2022:

	On Demand	Less than 3 Months	3 to 12 Months	Over 12 Months	Total
Cash on hand	**₱2**	**₱–**	**₱–**	**₱–**	**₱2**
Cash in banks	**106,699**	–	–	–	**106,699**
Trade and other receivables	–	**11,811**	–	**778**	**12,589**
Guaranteed deposits	–	**329**	–	–	**329**
Total undiscounted financial assets	**₱106,701**	**₱12,140**	**₱–**	**₱778**	**₱119,619**

	On Demand	Less than 3 Months	3 to 12 Months	Over 12 Months	Total
Trade and other payables:					
Trade	**₱–**	**₱3,305**	**₱–**	**₱–**	**₱3,305**
Accrued expenses	**–**	**11,243**	**–**	**–**	**11,243**
Notes payable	**66,906**	**–**	**–**	**–**	**66,906**
Lease liability	**–**		**670**	**6,491**	**7,161**
Other noncurrent liabilities	**–**	**–**	**–**	**200,143**	**200,143**
Total undiscounted financial liabilities	**₱66,906**	**₱14,548**	**₱670**	**₱206,634**	**₱288,758**

As at December 31, 2021:

	On Demand	Less than 3 Months	3 to 12 Months	Over 12 Months	Total
Cash on hand	₱2	₱–	₱–	₱–	₱2
Cash in banks	267,957	–	–	–	267,957
Short-term investments	–	261,513	–	–	261,513
Trade and other receivables	–	28,875	–	711	29,586
Guaranteed deposits	–	301	–	–	301
Total undiscounted financial assets	₱267,959	₱290,689	₱–	₱711	₱559,359

	On Demand	Less than 3 Months	3 to 12 Months	Over 12 Months	Total
Trade and other payables:					
Trade	₱–	₱11,159	₱–	₱–	₱11,159
Accrued expenses	–	30,104	–	–	30,104
Lease liability	–		609	6,553	7,162
Other noncurrent liabilities	–	–	–	191,822	191,822
Total undiscounted financial liabilities	₱–	₱41,263	₱609	₱198,375	₱240,247

The Group plans to address the deficit by employing a mix of financing from related parties and cash calls from other consortium members, as required by the service contracts.

Market Risk

Foreign currency risk

Foreign currency risk is the risk where the value of the Group's financial instruments diminishes due to unfavorable changes in foreign exchange rates. PXP's transactional currency exposures arise from cash in banks. The corresponding net foreign exchange gains (losses) amounting to (₱3,322), ₱775 and (₱408) arising from the translation of these foreign currency denominated financial instruments were recognized by PXP in the years ended December 31, 2022, 2021 and 2020, respectively. The exchange rates of the Peso to US dollar were ₱55.76, ₱50.99, and ₱48.02 to US$1 in the years ended December 31, 2022, 2021 and 2020, respectively.

The Group's foreign currency-denominated monetary assets as at December 31, 2022 and 2021 are as follow:

	2022		2021	
	US$	Peso Equivalent	US$	Peso Equivalent
Asset				
Cash in banks	**US$1,249**	**₱69,659**	US$418	₱21,309

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

US Dollar (Depreciates) Appreciates	Effect on Loss Before Income Tax
2022	
Appreciate by 5%	**(₱3,483)**
Depreciate by (5%)	**3,483**
2021	
Appreciate by 4%	(₱852)
Depreciate by (4%)	852

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

Interest rate risk
Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's short-term debt obligations with floating interest rates. The Group's policy is to manage its interest cost using a mix of fixed and variable rate debt.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates as at December 31, 2022, with all variables held constant.

Increase/decrease interest rate	Effect on profit before tax in 2022 Increase/(Decrease)
+1.0%	(₱5,100)
-1.0%	5,100

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:

	2022	2021
Capital stock, issued and outstanding (Note 15)	**₱1,960,000**	₱1,960,000
Additional paid-in capital	**2,816,545**	2,816,545
Deficit	**(3,450,370)**	(3,414,263)
	₱1,326,175	₱1,362,282

21. Basic/Diluted Loss per Share

Basic loss per share is computed as follows:

	2022	2021	2020
Net loss attributable to equity holders of the Parent Company	**(₱36,107)**	(₱1,714,297)	(₱56,102)
Divided by weighted average number of common shares issued during the year	**1,960,000,000**	1,960,000,000	1,960,000,000
Basic/diluted loss per share	**(₱0.018)**	(₱0.875)	(₱0.029)

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

The Chief Operating Decision Maker is the Group's BOD. Operating results of the Group is regularly reviewed by the Group's President, with the authority from the BOD, for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on core net income (loss). Segment performance is evaluated based on core net income or loss for the year.

The Group uses core net income (loss) in evaluating total performance. 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).

Core net income (loss) is not a uniform or legally defined financial measure. Core net income (loss) is presented because the Group believes it is an important measure of its performance and liquidity. The Group relies primarily on the results in accordance with PFRSs and uses core net income (loss) only as supplementary information.

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

Revenues from oil and gas operations of the Group, which are solely from the share in SC 14 Block C-1 (Galoc) amounted to ₱74,100, ₱64,198 and ₱30,250 in 2022, 2021 and 2020, respectively. From 2020 to 2022, crude oil liftings were all sold to Trafigura Pte. Ltd., a company based in Singapore.

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, 2022:

	Oil and Gas	Coal	Eliminations	Total
Consolidated revenue				
External customers	**₱74,100**	**₱–**	**₱–**	**₱74,100**
Results				
EBITDA	**₱19,446**	**(₱36)**	**(₱46,490)**	**(27,080)**
Interest income	**14,147**	**–**	**(13,946)**	**201**
Income tax expense	**(933)**	**–**	**–**	**(933)**
Depreciation and depletion	**(944)**	**–**	**–**	**(944)**
Interest expense and other charges - net	**(17,443)**	**–**	**13,851**	**(3,592)**
Consolidated net loss	**₱14,273**	**(₱36)**	**(₱46,585)**	**(₱32,348)**
Core net loss	**(₱21,644)**	**(₱36)**	**(₱306)**	**(₱21,986)**
Consolidated total assets	**₱5,825,783**	**₱518**	**(₱2,525,060)**	**₱3,301,241**
Consolidated total liabilities	**₱1,716,397**	**₱736,336**	**(₱1,851,257)**	**₱601,476**
Other segment information				
Capital expenditures	**₱350,191**	**₱–**	**₱–**	**₱340,837**
Non-cash expenses other than depletion and depreciation	**2,520**	**–**	**–**	**2,520**

As at December 31, 2021:

	Oil and Gas	Coal	Eliminations	Total
Consolidated revenue				
External customers	₱64,198	₱–	₱–	₱64,198
Results				
EBITDA	(₱4,082,691)	(₱36)	(₱25,616)	(4,108,343)
Income tax benefit	966,468	–	–	966,468
Interest income	9,565	–	(9,452)	113
Depreciation and depletion	(1,009)	–	–	(1,009)
Interest expense and other charges - net	(9,763)	–	9,259	(504)
Consolidated net loss	(₱3,117,430)	(₱36)	(₱25,809)	(₱3,143,275)
Core net loss	(₱40,400)	(₱36)	(₱7,979)	(₱32,457)
Consolidated total assets	₱6,491,091	₱554	(₱3,397,428)	₱3,094,217
Consolidated total liabilities	₱978,276	₱736,335	(₱1,236,981)	₱477,630
Other segment information				
Capital expenditures	₱202,291	₱–	₱–	₱202,291
Non-cash expenses other than depletion and depreciation	4,524,388	–	–	4,524,388

As at December 31, 2020:

	Oil and Gas	Coal	Eliminations	Total
Consolidated revenue				
External customers	₱30,250	₱–	₱–	₱30,250
Results				
EBITDA	(₱253,504)	(₱38)	₱173,481	(₱80,061)
Depreciation and depletion	8,792	–	–	8,792
Interest income	(4,561)	–	–	(4,561)
Income tax expense	(12,191)	–	11,056	(1,135)
Interest expense and other charges - net	11,958	–	(11,263)	695
Consolidated net loss	(₱249,506)	(₱38)	₱173,274	(₱76,270)
Core net loss	(₱98,432)	(₱38)	₱52,602	(₱45,868)
Consolidated total assets	₱5,754,705	₱2,090	₱998,792	₱6,755,587
Consolidated total liabilities	₱629,826	₱737,836	(₱81,026)	₱1,286,636
Other segment information				
Capital expenditures	₱55,728	₱–	₱–	₱55,728
Non-cash expenses other than depletion and depreciation	16,209	–	–	16,209

The table below shows the Group's reconciliation of core net loss to the consolidated net loss for the years ended December 31, 2022, 2021 and 2020:

	2022	2021	2020
Core net loss	**(₱21,986)**	(₱32,457)	(₱45,868)
Non-recurring gains (losses)			
Provision for impairment of assets:			
Input VAT	**(13,882)**	–	–
Property and equipment	**–**	–	(4,578)
Deferred exploration costs	**–**	(1,828,073)	–
Provision for decommissioning cost	**4,804**	(95,415)	–
Foreign exchange gains (losses) - net	**(3,768)**	8,209	(7,900)
Legal fees	**(1,275)**	–	–
Loss on write-off of:			
Goodwill	**–**	(523,609)	–
Other current assets	**–**	–	(179)
Gain from settlement of deed - net	**–**	236,261	–
Movement in deferred tax	**–**	525,229	–
Net tax effect of aforementioned adjustments	**–**	(4,442)	2,423
Net loss attributable to:			
Equity holders of the Parent Company	**(36,107)**	(1,714,297)	(56,102)
Non-controlling interests	**3,759**	(1,428,978)	(20,168)
	(₱32,348)	(₱3,143,275)	(₱76,270)

23. **Other Noncurrent Liabilities**

	2022	2021
Provision for losses	**₱200,143**	₱191,822
Provision for plug and abandonment costs (Note 9)	**138,238**	132,152
	₱338,381	₱323,974

Share Purchase Agreement (SPA) between FEL and Forum Pacific, Inc.
Under the SPA for FEI dated March 11, 2003, an amount 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 provision for losses for the above-mentioned transaction amounted to ₱200,143 and ₱191,822 as at December 31, 2022 and 2021 respectively.

24. Changes in Liabilities Arising from Financing Activities

	January 1, 2022	**Cash flows**	**Others**	**December 31,2022**
Lease liability (Note 10)	**₱5,056**	**(₱609)**	**₱392**	**₱4,839**
Notes payable (Note 17)	**–**	**62,040**	**4,866**	**66,906**
Interest payable (Note 17)	**–**	**(2,833)**	**3,113**	**280**
	₱5,056	**₱58,598**	**₱8,371**	**₱72,025**

	January 1, 2021	Cash flows	Others	December 31,2021
Lease liability (Note 10)	₱5,207	(₱556)	₱405	₱5,056

Others in 2022 include foreign exchange loss of ₱4,866 and interest expense on lease liability and notes payable of ₱392 and ₱3,113, respectively. Others in 2021 include interest expense on lease liability amounting to ₱405.