Emerson T. Azul

From:	Ed Marie N. Lucion
Sent:	Monday, April 15, 2024 10:52 PM
To:	Emerson T. Azul
Subject:	FW: Your BIR AFS eSubmission uploads were received

From: eafs@bir.gov.ph <eafs@bir.gov.ph>
Sent: Monday, April 15, 2024 10:51 PM
To: Ladianne R. Cayaban <lrcayaban@petroenergy.com.ph>
Cc: Ed Marie N. Lucion <enlucion@petrogreen.com.ph>
Subject: Your BIR AFS eSubmission uploads were received

Hi PETROENERGY RESOURCES CORPORATION,

Valid files

- EAFS004471419TCRTY122023-01.pdf
- EAFS004471419OTHTY122023.pdf
- EAFS004471419RPTTY122023.pdf
- EAFS004471419ITRTY122023.pdf
- EAFS004471419AFSTY122023.pdf

Invalid file

- <None>

Transaction Code: **AFS-0-4RTWW31307HDL9GDCM1NX2R2X0LL9GHDB**
Submission Date/Time: **Apr 15, 2024 10:51 PM**
Company TIN: **004-471-419**

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- The submission is without prejudice to the right of the BIR to require additional document, if any, for completion and verification purposes;
- The hard copies of the documents submitted through this facility shall be submitted when required by the BIR in the event of audit/investigation and/or for any other legal purpose.

This is a system-generated e-mail. Please do not reply.

PetrEnergy
PETROENERGY RESOURCES CORPORATION

7F JMT Building, ADB Avenue, Ortigas Center,
Pasig City 1600, Metro Manila, Philippines
Tel: (+632) 8637-2917
Fax: (+632) 8634-6066
Visit: www.petroenergy.com.ph

A YGC Member
The Power of Synergy

April 15, 2024

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS**

Securities and Exchange Commission

PICC, Roxas Boulevard, Pasay City

The management of PetroEnergy Resources Corporation is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2023 and 2022, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has not realistic alternative but to do so.

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

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

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

Helen Y. Dee Chairman	Milagros V. Reyes President	Arlan P. Profeta Senior Vice President for Corporate Services

SUBSCRIBED AND SWORN to me before this APR 1 5 2024 in Pasig City. Affiants exhibited to me their Tax Identification Numbers (TIN) indicated below each name.

NAMES	TIN
Helen Y. Dee	101-562-982
Milagros V. Reyes	100-732-775
Arlan P. Profeta	164-519-235

Doc. No. 511;
Page No. 104;
Book No. IV;
Series of 2024.

ATTY. LOUIE MARK R. LIMCOLIOC
Appointment No. 357 (2023-2024)
Notary Public for Pasig and Pateros
Until 31 December 2024
7F JMT Bldg. Ortigas Center Pasig City
Roll No. 63341
PTR No. 155011AA / 01-12-2024 / Pasig City
IBP No. 409791 / 01-08-2024 / RSM
MCLE Compliance No. VII-00304

SGV
Building a better working world

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 Board of Directors and Stockholders
PetroEnergy Resources Corporation
7th floor, JMT Building, ADB Avenue
Ortigas Center, Pasig City

Report on the Audit of the Parent Company Financial Statements

Opinion

We have audited the parent company financial statements of PetroEnergy Resources Corporation (the Parent Company), which comprise the parent company statements of financial position as at December 31, 2023 and 2022, and the parent company statements of comprehensive income, parent company statements of changes in equity and parent company statements of cash flows for each of the three years in the period ended December 31, 2023, and notes to the parent company financial statements, including a summary of material accounting policy information.

In our opinion, the accompanying parent company financial statements present fairly, in all material respects, the financial position of the Parent Company as at December 31, 2023 and 2022, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2023 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

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

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

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

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

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Auditor's Responsibilities for the Audit of the Parent Company Financial Statements

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

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

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

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

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

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

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

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

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

Report on the Supplementary Information Required Under Revenue Regulations No. 15-2010

The supplementary information required under Revenue Regulations No. 15-2010 for purposes of filing with the Bureau of Internal Revenue is presented by management of PetroEnergy Resources Corporation in a separate schedule. Revenue Regulations No. 15-2010 requires the information to be presented in the notes to financial statements. Such information is not a required part of the basic financial statements. The information is also not required by the Revised Securities Regulation Code Rule 68. Our opinion on the basic financial statements is not affected by the presentation of the information in a separate schedule.

The engagement partner on the audit resulting in this independent auditor's report is Ana Lea C. Bergado.

SYCIP GORRES VELAYO & CO.

Ana Lea C. Bergado

Ana Lea C. Bergado
Partner
CPA Certificate No. 80470
Tax Identification No. 102-082-670
BOA/PRC Reg. No. 0001, August 25, 2021, valid until April 15, 2024
BIR Accreditation No. 08-001998-063-2023, September 12, 2023, valid until September 11, 2026
PTR No. 10079908, January 5, 2024, Makati City

April 15, 2024

PETROENERGY RESOURCES CORPORATION

PARENT COMPANY STATEMENTS OF FINANCIAL POSITION

	December 31	
	2023	2022
ASSETS		
Current Assets		
Cash and cash equivalents (Note 6)	**₱269,412,818**	₱316,111,405
Financial assets at fair value through profit or loss (Note 7)	**6,958,720**	7,540,090
Receivables (Note 8)	**78,699,021**	40,342,752
Crude oil inventory	**13,676,052**	14,437,192
Other current assets (Note 9)	**8,221,129**	28,466,625
Total Current Assets	**376,967,740**	406,898,064
Noncurrent Assets		
Property and equipment (Note 10)	**633,047,054**	790,481,158
Deferred oil exploration costs (Note 11)	**386,796,965**	311,883,011
Investments in associates and subsidiaries (Note 12)	**4,924,664,737**	2,165,058,153
Investment properties (Note 13)	**1,611,533**	1,611,533
Net retirement asset (Note 19)	**8,075,630**	10,263,804
Deferred tax assets - net (Note 20)	**9,452,461**	6,539,828
Other noncurrent assets (Note 14)	**40,654,751**	59,540,568
Total Noncurrent Assets	**6,004,303,131**	3,345,378,055
TOTAL ASSETS	**₱6,381,270,871**	₱3,752,276,119
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued expenses (Note 15)	**₱169,591,490**	₱121,068,117
Loans payable (Note 16)	**2,762,511,607**	251,000,000
Total Current Liabilities	**2,932,103,097**	372,068,117
Noncurrent Liability		
Asset retirement obligation (Note 17)	**48,056,253**	41,728,602
Total Liabilities	**2,980,159,350**	413,796,719
Equity		
Capital stock (Note 18)	**568,711,842**	568,711,842
Additional paid-in capital (Note 18)	**2,156,679,049**	2,156,679,049
Retained earnings (Note 18)	**316,054,200**	251,413,711
Remeasurements of net accrued retirement liability – net of tax (Note 19)	**4,231,373**	5,196,628
Share in other comprehensive loss of associates (Note 12)	**(1,043,113)**	–
Cumulative translation adjustment (Note 18)	**356,478,170**	356,478,170
Total Equity	**3,401,111,521**	3,338,479,400
TOTAL LIABILITIES AND EQUITY	**₱6,381,270,871**	₱3,752,276,119

See accompanying Notes to Parent Company Financial Statements

PETROENERGY RESOURCES CORPORATION
PARENT COMPANY STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2023	2022	2021
OIL REVENUES	**₱623,038,856**	₱726,054,533	₱461,246,131
COST OF REVENUES			
Oil production (Note 21)	**315,347,519**	355,336,218	236,284,770
Depletion (Note 10)	**101,223,727**	85,286,880	76,513,364
Change in crude oil inventory	**761,139**	(1,820,516)	22,473,648
	417,332,385	438,802,582	335,271,782
GROSS INCOME	**205,706,471**	287,251,951	125,974,349
GENERAL AND ADMINISTRATIVE EXPENSES (Note 22)	**147,074,960**	111,853,310	84,456,924
OTHER INCOME (CHARGES)			
Share in net income of associates (Note 12)	**121,514,623**	–	–
Interest expense (Note 16)	**(107,762,107)**	(9,678,694)	(11,979,915)
Impairment reversal (loss) (Note 5)	**(77,167,996)**	11,299,369	(164,323,294)
Dividend income (Notes 7 and 12)	**75,026,969**	36,079,047	150,964,534
Net foreign exchange gain (loss)	**1,386,526**	11,187,292	4,941,016
Accretion expense (Note 17)	**(2,949,784)**	(2,070,184)	(1,869,946)
Interest income (Notes 6, 9 and 23)	**3,276,253**	3,070,748	821,219
Fair value changes on financial assets at fair value through profit or loss (Note 7)	**(530,445)**	(47,138)	55,641
Miscellaneous income (Note 23)	**22,602,775**	4,381,439	4,013,044
	35,396,814	54,221,879	(17,377,701)
INCOME BEFORE INCOME TAX	**94,028,325**	229,620,520	24,139,724
BENEFIT FROM (PROVISION FOR) INCOME TAX (Note 20)	**(952,244)**	(2,997,940)	4,871,122
NET INCOME	**93,076,081**	226,622,580	29,010,846
OTHER COMPREHENSIVE INCOME			
Item not to be reclassified to profit or loss in subsequent periods			
Remeasurement gain (loss) on net accrued retirement liability - net of tax (Note 19)	**(965,255)**	6,865,326	(4,038,649)
Share in other comprehensive loss of associates (Note 12)	**(1,043,113)**	–	–
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	**(2,008,368)**	6,865,326	(4,038,649)
TOTAL COMPREHENSIVE INCOME	**₱91,067,713**	₱233,487,906	₱24,972,197
Basic/Diluted Earnings Per Share (Note 25)	**₱0.1637**	₱0.3985	₱0.0510

See accompanying Notes to Parent Company Financial Statements.

PETROENERGY RESOURCES CORPORATION

PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2023, 2022 AND 2021

	Capital Stock (Note 18)	**Additional Paid-in Capital** (Note 18)	**Retained Earnings** (Note 18)	**Remeasurement of Net Accrued Retirement Liability** (Note 19)	**Share in other comprehensive loss of associates** (Note 12)	**Cumulative Translation Adjustment** (Note 18)	**Total Equity**
BALANCES AT DECEMBER 31, 2020	**₱568,711,842**	**₱2,156,679,049**	**₱24,215,877**	**₱2,369,951**	**₱–**	**₱356,478,170**	**₱3,108,454,889**
Net income	–	–	29,010,846	–	–	–	29,010,846
Remeasurement loss on net accrued retirement liability	–	–	–	(4,038,649)	–	–	(4,038,649)
Total comprehensive income	–	–	29,010,846	(4,038,649)	–	–	**24,972,197**
BALANCES AT DECEMBER 31, 2021	**568,711,842**	**2,156,679,049**	**53,226,723**	**(1,668,698)**	**–**	**356,478,170**	**3,133,427,086**
Net income	–	–	226,622,580	–	–	–	226,622,580
Remeasurement loss on net accrued retirement liability	–	–	–	6,865,326	–	–	6,865,326
Total comprehensive income	–	–	226,622,580	6,865,326	–	–	233,487,906
Dividend declaration			(28,435,592)	–	–	–	(28,435,592)
BALANCES AT DECEMBER 31, 2022	**568,711,842**	**2,156,679,049**	**251,413,711**	**5,196,628**	–	**356,478,170**	**3,338,479,400**
Net income	–	–	93,076,081	–	–	–	93,076,081
Remeasurement loss on net accrued retirement liability	–	–	–	(965,255)	–	–	(965,255)
Share in other comprehensive loss of associates	–	–	–	–	(1,043,113)	–	(1,043,113)
Total comprehensive income (loss)	–	–	93,076,081	(965,255)	(1,043,113)	–	91,067,713
Dividend declaration	–	–	(28,435,592)	–	–	–	(28,435,592)
BALANCES AT DECEMBER 31, 2023	**₱568,711,842**	**₱2,156,679,049**	**₱316,054,200**	**₱4,231,373**	**(₱1,043,113)**	**₱356,478,170**	**₱3,401,111,521**

See accompanying Notes to Parent Company Financial Statements.

PETROENERGY RESOURCES CORPORATION
PARENT COMPANY STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2023	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱94,028,325**	₱229,620,520	₱24,139,724
Adjustments for:			
Share in net income of associates (Note 12)	**(121,514,623)**	–	–
Depletion, depreciation and amortization (Notes 10 and 14)	**115,283,037**	97,012,576	83,814,245
Interest expense (Note 16)	**107,762,107**	9,678,694	11,979,915
Dividend income (Notes 7 and 12)	**(75,026,969)**	(36,079,047)	(150,964,534)
Impairment loss (reversal) [Note 5]	**77,167,996**	(11,299,369)	164,323,294
Movement in accrued retirement liability (Note 19)	**901,168**	(3,992,269)	2,920,699
Interest income (Notes 6, 9 and 23)	**(3,276,253)**	(3,070,748)	(821,219)
Accretion expense (Note 17)	**2,949,784**	2,070,184	1,869,946
Net unrealized foreign exchange loss (gain)	**552,394**	(1,473,215)	(145,835)
Fair value changes on financial assets at fair value through profit or loss (Note 7)	**581,369**	47,138	(55,641)
Loss (gain) on disposal of property and equipment	–	–	61,160
Operating income before working capital changes	**199,408,335**	282,514,464	137,121,754
Decrease (increase) in:			
Receivables	**(19,142,691)**	6,927,026	(15,219,070)
Crude oil inventory	**761,140**	(1,820,516)	22,473,648
Other current assets	**(3,594,940)**	168,341,785	(15,355,286)
Increase (decrease) in:			
Accounts payable and accrued expenses	**36,607,859**	79,976,157	12,063,515
Cash generated from operations	**214,039,703**	535,938,916	141,084,561
Interest received	**3,318,678**	2,963,288	813,348
Income taxes paid	**(629,500)**	(609,000)	(600,000)
Net cash provided by operating activities	**216,728,881**	538,293,204	141,297,909
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions of property and equipment (Note 10)	**(29,119,430)**	(221,983,870)	(4,094,337)
Dividends received (Notes 7 and 12)	**163,026,969**	36,079,047	150,964,534
Decrease (increase) in:			
Other noncurrent assets	**35,006,705**	(8,568,000)	571,338
Due from related parties	**(19,256,003)**	(1,625,880)	814,356
Deferred oil exploration costs	**(87,144,747)**	(208,597,575)	(59,035,023)
Additional investments in subsidiaries (Note 12)	**(521,211,059)**	–	(74,700,000)
Additional investment in associates (Note 12)	**(2,205,924,015)**	–	–
Net cash provided by (used in) investing activities	**(2,664,621,580)**	(404,696,278)	14,520,868

(Forward)

	Years Ended December 31		
	2023	2022	2021
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments of loans (Note 16)	**(₱451,000,000)**	(₱500,000,000)	(₱307,000,000)
Proceeds from loans (Note 16)	**2,962,511,607**	561,000,000	268,500,000
Interest paid	**(81,329,508)**	(10,887,706)	(11,940,323)
Dividends paid	**(28,435,593)**	(28,435,593)	–
Net cash provided by (used in) financing activities	**2,401,746,506**	21,676,701	(50,440,323)
NET EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(552,394)**	1,473,216	145,835
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(46,698,587)**	156,746,843	105,524,289
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**316,111,405**	159,364,562	53,840,273
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)	**₱269,412,818**	₱316,111,405	₱159,364,562

See accompanying Notes to Parent Company Financial Statements.

1. Corporate Information

PetroEnergy Resources Corporation (PERC or PetroEnergy or the Parent Company), formerly Petrotech Consultants, Inc., was organized on September 29, 1994 to provide specialized technical services to its then parent company, Petrofields Corporation, and to companies exploring for oil in the Philippines. PetroEnergy's shares of stock are publicly traded in the Philippine Stock Exchange (PSE).

In 1997, PERC simultaneously adopted its present name and changed its primary purpose to oil exploration and development and mining activities. Subsequently in 1999, PERC assumed Petrofields' oil exploration contracts in the Philippines and the Production Sharing Contract covering the Etame discovery block in Gabon, West Africa.

On August 11, 2004, PERC's shares of stock were listed at the PSE by way of introduction.

In 2009, following the enactment of Republic Act No. 9513, otherwise known as the "Renewable Energy Act of 2008", PERC amended its articles of incorporation to include among its purposes the business of generating power from renewable sources such as, but not limited to, biomass, hydro, solar, wind, geothermal, ocean and such other renewable sources of power.

The subsidiaries and associates of PetroEnergy and the respective percentage of ownership is disclosed in Note 12.

The registered office and principal place of business is 7th Floor, JMT Building, ADB Avenue, Ortigas Center, Pasig City.

The accompanying parent company financial statements were approved and authorized for issue by the Board of Directors (BOD) on April 15, 2024.

2. Basis of Preparation

Basis of Preparation
The accompanying financial statements have been prepared under the historical cost basis, except for financial assets carried at fair value through profit or loss (FVTPL) which are measured at fair value and crude oil inventory which is valued at net realizable value (NRV).

The financial statements are presented in Philippine Peso (PHP or ₱), which is also the Parent Company's functional currency. All amounts are rounded to the nearest PHP unless otherwise stated.

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

The Parent Company also prepares and issues consolidated financial statements for the same period as the parent company financial statements, presented in compliance with PFRSs, which can be obtained from the Parent Company's registered office address mentioned in Note 1. The parent company financial statements must be read in conjunction with the consolidated financial statements.

3. **Changes in Accounting Policies and Disclosures**

The accounting policies adopted are consistent with those of the previous financial year, except that the Parent Company has adopted the new accounting pronouncements starting January 1, 2023. Adoption of these pronouncements did not have any significant impact on the Parent Company's financial position or performance.

- Amendments to PAS 1 and PFRS Practice Statement 2, *Disclosure of Accounting Policies*

  The amendments provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by:

  - Replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies, and
  - Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures

  The amendments to the Practice Statement provide non-mandatory guidance.

- Amendments to PAS 8, *Definition of Accounting Estimates*
- Amendments to PAS 12, *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

<u>New Accounting Standards, Interpretations and Amendments Effective Subsequent to December 31, 2023</u>

Pronouncements issued but not yet effective are listed below. The Parent Company does not expect that the future adoption of the said pronouncements to have a significant impact on its financial statements.

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*
- Amendments to PAS 7 and PFRS 7*, Disclosures: Supplier Finance Arrangements*

Effective beginning on or after January 1, 2025
- PFRS 17, *Insurance Contracts*
- Amendments to PAS 21*, Lack of exchangeability*

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

The Parent Company continues to assess the impact of the above new and amended accounting standards and interpretations effective subsequent to 2023 on the Parent Company's financial statements in the period of initial application. Additional disclosures required by these amendments will be included in the parent company financial statements when these amendments are adopted.

4. **Summary of Material Accounting Policies**

Cash and Cash Equivalents
Cash includes cash on hand and in banks (demand deposits). Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three (3) months or less from the dates of acquisition and that are subject to an insignificant risk of change in value.

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.

Financial assets - Initial recognition and measurement
Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (FVOCI), and FVTPL.

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

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

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

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

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

The Parent Company has no financial asset classified as financial assets at FVOCI.

Financial assets at amortized cost (debt instruments)
This category is the most relevant to the Parent Company. The Parent Company measures financial assets at amortized cost if both of the following conditions are met:

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

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

The Parent Company's financial assets at amortized cost include cash and cash equivalents, receivables and restricted cash.

Financial assets at FVTPL
Financial assets at FVTPL include financial assets held for trading, financial assets designated upon initial recognition at FVTPL, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at FVTOCI, as described above, debt instruments may be designated at FVTPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at FVTPL are carried in the parent company statement of financial position at fair value with net changes in fair value recognized in the parent company statement of profit or loss.

This category includes derivative instruments and listed equity investments which the Parent Company had not irrevocably elected to classify at fair value through OCI. Dividends on listed equity investments are also recognized as other income in the parent company statement of profit or loss when the right of payment has been established.

The Parent Company's financial assets at FVTPL includes marketable equity securities and investment in golf club shares.

Impairment of financial assets
The Parent Company recognizes an allowance for ECLs for all debt instruments not held at FVTPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Parent Company expects to receive, discounted at an approximation of the original effective interest rate. 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).

The Parent Company may consider a financial asset to be in default when internal or external information indicates that the Parent Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Parent Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial Liabilities - Initial recognition and measurement
Financial liabilities are classified, at initial recognition, as financial liabilities at FVTPL, financial liabilities at amortized cost (loans and borrowings) or as derivatives designated as hedging instruments in an effective hedge, as 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 Parent Company does not have financial liabilities at FVTPL.

Subsequent measurement
After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss 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 parent company statement of comprehensive income.

The Parent Company's loans and borrowings include accounts payable and accrued expenses, excluding statutory liabilities, and loans payable.

Derecognition of Financial Assets and Financial Liabilities
Financial assets
A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

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

Financial liabilities
A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Offsetting of Financial Instruments
Financial assets and financial liabilities are set off and the net amount is reported in the parent company statement 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 asset and settle the liability simultaneously.

Crude Oil Inventory
Crude oil inventory is stated at NRV at the time of production. NRV is the estimated selling price less cost to sell. The estimated selling price is the market values of crude oil inventory at the time of production.

Restricted Cash
Restricted cash is recognized when the Parent Company reserves a portion of its cash for a specific purpose and that there are contractual restrictions directly related to the use of and access of the bank accounts. This includes cash held under escrow accounts. Restricted cash that are expected to be used for a period of no more than 12 months after the financial reporting period are classified as current assets, otherwise, these are classified as noncurrent assets.

Property and Equipment
Property and equipment are stated at cost less accumulated depletion, depreciation and any accumulated impairment losses. The initial cost of the property and equipment consists of its purchase price, including any import duties, taxes and any directly attributable costs of bringing the assets to its working condition and location for its intended use and abandonment costs.

Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance, are normally charged to expense in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

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, *Non-current Assets Held for Sale and Discontinued Operations*, and the date the asset is derecognized.

Wells, platforms and other facilities are depleted using the unit-of-production method computed based on estimates of proved reserves. The depletion base includes the exploration and development cost of the producing oil fields.

Other property and equipment are depreciated and amortized using the straight-line method over the estimated useful lives of the assets as follows:

	Number of Years
Office condominium units	15
Office improvements	3
Transportation equipment	4
Office furniture and other equipment	2 - 3

The useful lives and depletion and depreciation method are reviewed periodically to ensure that the period and method of depletion, depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

Fully depreciated assets are retained in the accounts until they are no longer in use and no further depreciation is credited or charged to current operations.

When the assets are retired or otherwise disposed of, the cost and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in the Parent Company statements of comprehensive income.

Deferred Oil Exploration Costs

The Parent Company follows the full cost method of accounting for exploration costs determined on the basis of each SC area. Under this method, all exploration costs relating to each SC are tentatively deferred pending determination of whether the area contains oil reserves in commercial quantities.

Deferred oil 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 statement of comprehensive income. Exploration areas are considered permanently abandoned if the related permits of the exploration have expired and/or there are no definite plans for further exploration and/or development.

The exploration costs relating to the SC where oil in commercial quantities are discovered are subsequently reclassified to “Wells, platforms and other facilities” shown under “Property and equipment” account in the statements of financial position upon substantial completion of the development stage. On the other hand, all costs relating to an abandoned SC are written off in the year the area is permanently abandoned. SCs are considered permanently abandoned if the SCs have expired and/or there are no definite plans for further exploration and/or development.

Investments in Subsidiaries

The Parent Company’s investments in subsidiaries are accounted for using the cost method less any impairment in value. Subsidiaries are entities over which the Parent Company has control. Control is achieved when the Parent Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Parent Company controls an investee if and only it 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, and
- the ability to use its power over the investee to affect its returns

When the Parent Company has less than a majority of the voting or similar rights of an investee, it considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with the other vote holders of the investee
- rights arising from other contractual arrangements
- the Parent Company’s voting rights and potential voting rights

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

Investment in Associate

An associate is an entity over which the Parent Company has significant influence, generally accompanying a shareholding of 20% to 50% of the voting rights. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

On acquisition of the investment, any difference between the cost of the investment and the entity's share of the net fair value of the investee's identifiable assets and liabilities is accounted for as follows:

- Goodwill relating to an associate is included in the carrying amount of the investment. Amortization of that goodwill is not permitted.
- Any excess of the entity's share of the net fair value of the investee's identifiable assets and liabilities over the cost of the investment is included as income in the determination of the entity's share of the associate's profit or loss in the period in which the investment is acquired.

The Parent Company's investment in associate is accounted for using the equity method. Under the equity method, on initial recognition, the investment in an associate is recognized at cost, and the carrying amount is increased or decreased to recognize the Parent Company's share of the profit or loss of the investee after the date of acquisition. Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment separately.

The Parent Company's share of the investee's profit or loss is recognized in the Parent Company's profit or loss. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the Parent Company's proportionate interest in the investee arising from changes in the investee's other comprehensive income. In addition, when there has been a change recognized directly in the equity of the associate, the Parent Company recognizes its share of any changes, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between the Parent Company and the associate are eliminated to the extent of the interest in the associate.

Upon loss of significant influence over the associate, the Parent Company measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

The financial statements of the associates are prepared for the same reporting period as the Parent Company, using consistent accounting policies.

Impairment of Nonfinancial Assets

The Parent Company assesses at each reporting date whether there is an indication that an asset (e.g. property and equipment, investment properties, deferred oil exploration costs, investments in subsidiaries, and investment in associates) may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Parent Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets.

Where the carrying amount of an asset 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 are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Parent Company makes an estimate of recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

Capital Stock and Additional Paid-in Capital
The Parent Company records common stock at par value and additional paid-in capital in excess of the total contributions received over the aggregate par values of the equity shares.

Retained Earnings
Retained earnings represent accumulated earnings and losses of the Parent Company less dividends declared and with consideration of any changes in accounting policies and adjustments applied retroactively. The retained earnings of the Parent Company are available for dividends only upon approval and declaration of the BOD.

Revenue Recognition
Revenue is recognized when the control of petroleum are transferred to the customer at an amount that reflects the consideration which the Parent Company expects to be entitled in exchange for those goods. The Parent Company has generally concluded that it is the principal in its revenue arrangements.

Oil revenues
Revenue from crude oil is recognized at a point in time when the control of the goods has transferred from the sellers (consortium) to the buyer at the delivery point. Revenue is measured at the fair value of the consideration received.

The revenue recognized from the sale of petroleum products pertains to the Parent Company's share in revenue from the joint operations. The revenue sharing is accounted for in accordance with PFRS 11.

Interest income
Interest income is recognized as the interest accrues taking into account the effective yield on the asset.

Management fee
Revenue from accounting, legal and other support services rendered to its subsidiaries are recognized when earned.

Costs and Expenses
Oil production
Oil production are costs incurred to produce and deliver crude oil inventory, including transportation, storage and loading, among others.

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

Leases

Short-term leases and leases of low-value assets

The Parent Company applies the short-term lease recognition exemption to its short-term leases of parking slots and vehicles (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 storage units that are considered of low value (i.e., below ₱250,000). 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.

Income Taxes

Current Tax

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

Deferred Tax

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

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and their corresponding tax bases (known as temporary differences). Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from excess minimum corporate income tax (MCIT) over regular corporate income tax and unused net operating losses carryover (NOLCO), to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits from excess MCIT and unexpired NOLCO can be utilized.

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

Deferred tax assets and liabilities are measured at the tax rates that are applicable 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 as of the statement of financial position date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in profit or loss or other comprehensive income.

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

Retirement benefits

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method. The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling.

The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Defined benefit costs comprise the following:

- Service costs
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in the statements of comprehensive income. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuary.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in the statements of comprehensive income.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to statements of comprehensive income in subsequent periods. All remeasurements recognized in OCI account "Remeasurement loss on net accrued retirement liability" are not reclassified to another equity account in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund. Plan assets are not available to the creditors of the Parent Company, nor can they be paid directly to the Parent Company. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations).

The Parent Company's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

<u>Asset Retirement Obligation (ARO)</u>
The Parent Company is legally required to share in the abandonment costs associated with the oilfields. The Parent Company recognizes the fair value of the liability for this obligation and capitalizes the present value of these costs as part of the balance of the related property and equipment accounts, which are depleted using the unit-of-production method computed based on estimates of proved reserves, or written off as a result of impairment of the related asset.

The Parent Company amortizes ARO liability using the EIR method and recognizes accretion expense over the service contract term in profit or loss.

The Parent Company regularly assesses the provision for ARO and adjusts the related liability.

Foreign Currency-denominated Transactions

Transactions in foreign currencies are initially recorded using the applicable exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the applicable exchange rate at the reporting date. Differences arising from translation of monetary assets and liabilities are taken to "Net unrealized foreign exchange gain (loss)".

Earnings Per Share (EPS)

Basic earnings per share is computed on the basis of the weighted average number of shares outstanding during the year after giving retroactive effect to any stock split or stock dividends declared and stock rights exercised during the current year, if any.

Diluted earnings per share is computed on the basis of the weighted average number of shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The Parent Company does not have potentially dilutive common stock.

Segment Reporting

The Parent Company has only one reportable segment that is engaged in the oil and mineral exploration, development and production. Financial information on business segments is presented in Note 26 to the financial statements.

Provisions and Contingencies

Provisions are recognized when the Parent Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Parent Company expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

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

Events After the Reporting Period

Post year-end events up to the date of the auditors' report that provide additional information about the Parent Company's situation at the reporting date (adjusting events) are reflected in the financial statements, if any. Post year-end events that are not adjusting events are disclosed in the notes to financial statements when material.

5. Significant Accounting Judgments, Estimates and Assumptions

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

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.

<u>Judgments</u>
In the process of applying the Parent Company's accounting policies, management has made the following judgments, apart from those involving estimations, which has the most significant effect on the amounts recognized in the Parent Company financial statements:

Determination of Functional Currency
The Parent Company determines the functional currency based on economic substance of underlying circumstances relevant to the Parent Company. The functional currency has been determined to be the PHP based on the economic substance of the Parent Company's business circumstances.

Capitalization of Deferred Oil Exploration Costs
Initial capitalization of costs is based on management's judgment that technological and economic feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. If the accounting policy on capitalization of development costs are not met, such costs are expensed. As of December 31, 2023 and 2022, the carrying value of deferred oil explorations costs amounted to ₱386.80 million and ₱311.88 million, respectively (see Note 11).

Assessment of investment in PetroWind and PetroSolar as investment in associates
In 2023, PetroEnergy made direct acquisition of interest in PetroWind Energy Inc. (PetroWind or PWEI) of 20% and PetroSolar Corporation (PetroSolar or PSC) of 44%, as disclosed in Note 12.

With these direct ownership interest, the Parent Company considered the requirement of PAS 28, *Investment in Associates and Joint Ventures,* in assessing if it has significant influence over these entities. Aside from the ownership interest, the Parent Company considered the existence of the following in determining significant influence:
- representation on the board of directors or equivalent governing body of the investee; and
- participation in policy-making processes, including participation in decisions about dividends or other distributions.

Based on the above factors, management assessed that it has significant influence over PetroWind and PetroSolar and classified the investments as investment in associates. Further details are disclosed in Note 12.

Classification of Joint Arrangements
Judgment is required to determine when the Parent Company has joint control over an arrangement, which requires an assessment of the relevant activities and when the decisions in relation to those activities require unanimous consent. The Parent Company assesses their rights and obligations arising from the arrangement and specifically considers:

- the structure of the joint arrangement – whether it is structured through a separate vehicle
- when the arrangement is structured through a separate vehicle, the Parent Company also considers the rights and obligations arising from:
    - the legal form of the separate vehicle
    - the terms of the contractual arrangement
    - other facts and circumstances, considered on a case by case basis

This assessment often requires significant judgment. A different conclusion about both joint control and whether the arrangement is a joint operation or a joint venture, may materially impact the accounting of the investment.

The Parent Company and the parties to the agreement in investment in Gabon, West Africa and investments in petroleum concessions in the Philippines have joint control over its rights to the assets and obligations for the liabilities, relating to the arrangement. Accordingly, the joint arrangements are classified as joint operations (see Note 12).

<u>Estimates and Assumptions</u>
The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date 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.

Impairment of investments in subsidiaries and associates
The Parent Company assesses at the end of each reporting period whether there is any indication that its investments in subsidiaries and associates may be impaired. If any such indication exists, the Parent Company estimates the recoverable amount of the asset.

The factors that the Parent Company considers important which could trigger an impairment review include the following:

- Significant underperformance relative to expected historical or projected future operating results;
- Significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- Significant negative industry or economic trends.

No indication of impairment was noted in 2023 and 2022. As of December 31, 2023 and 2022, the carrying value of investments in subsidiaries and associates amounted to ₱4.92 billion and ₱2.17 billion, respectively. As of December 31, 2023 and 2022, allowance for impairment loss on investment in a dormant subsidiary amounted to ₱2.86 million (see Note 12).

Estimation of Proved and Probable Oil Reserves
The Parent Company assesses its estimate of proved and probable reserves on an annual basis. The estimate is based on the technical assumptions and is calculated in accordance with accepted volumetric methods, specifically the probabilistic method of estimation. Probabilistic method uses known geological, engineering and economic data to generate a range of estimates and their associated probabilities.

All proved and probable reserve estimates are subject to revision, either upward or downward, based on new information, such as from development drilling and production activities or from changes in economic factors, including product prices, contract terms or development plans. Estimates of reserves for undeveloped or partially developed fields are subject to greater uncertainty over their future life than estimates of reserves for fields that are substantially developed and depleted. Estimated oil reserves are utilized in the impairment testing and the calculation of depletion expense using the unit of production method of the investments.

As of December 31, 2023 and 2022, the carrying value of "Wells, Platforms and other Facilities" under "Property and Equipment" amounted to ₱605.04 million and ₱763.83 million, respectively (see Note 10).

Impairment of Wells, Platforms and other Facilities and Deferred Oil Exploration Costs
The Parent Company assesses at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Parent Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less cost of disposal and its value in use.

The recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less cost of disposal and its value in use. The fair value less cost of disposal is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset or CGU and from its disposal at the end of its useful life.

In determining the present value of estimated future cash flows expected to be generated from the continued use of an asset or CGU, the Parent Company is required to make estimates and assumptions that can materially affect the Parent Company's financial statements.

Facts and circumstances that would require an impairment assessment as set forth in PFRS 6, *Exploration for and Evaluation of Mineral Resources,* are as follows:

- The period for which the Parent Company has the right to explore in the specific area has expired or will expire in the near future, and is not expected to be renewed;
- Substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;
- Exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area; and
- Sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

There are no indicators of impairment that would trigger impairment review in 2023 and 2022 other than those mentioned below.

a. <u>Gabon, West Africa</u>
   The Parent Company believes that the fluctuation in crude oil prices in the market, political risks in Gabon, discount rates and changes in other assumptions such as change in production profile which is based on continued production until the term of the existing Exploration Production Sharing Contract ("EPSC") are indicators that the assets might be impaired or if there is reversal of prior impairment loss.

In 2018, the Gabonese Government allowed the sixth amendment to the EPSC that extends the exploitation period for the production licenses by ten (10) years, or from September 2018 until September 2028, extendible by five (5) years and by a final extension of 5 more years. The extension of the EPSC will allow the consortium to maximize the use of the existing facilities that are already in place to increase or maintain production until the field's extended life (see Note 10).

b. SC 14-C2 - West Linapacan
SC 14-C2 has not yet expired and was granted with a 15-year extension of the SC as approved by the DOE from December 18, 2010 to December 18, 2025. The SC 14-C2 consortium proceeded with a third-party technical evaluation to assess potential production opportunities. With the SC nearing its expiration in December 2025, the assets were tested for impairment.

c. SC 6A - Octon-Malajon Block
In March 31, 2021, Philodrill, the operator, gave notice to the DOE that the Joint Venture has elected not to enter the 12th year of the final 15-year term of SC 61 and consequently surrender the Service Contract.

d. Impairment loss (reversal)
In assessing whether impairment is required, the carrying value of the asset is compared with its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. Given the nature of the Parent Company'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, unless indicated otherwise, the recoverable amount used in assessing the impairment loss is value in use.

The Parent Company estimates value in use using a discounted cash flow model using a discount rate of 14.39% in 2023, 14.64% in 2022 and 10% in 2021.

The Parent Company recognized impairment (reversal of impairment) loss for the years ended December 31 presented on a net basis:

	2023	2022	2021
Wells, platforms and other facilities – net (Note 10)	**₱76,864,520**	(₱11,893,541)	₱22,489,016
Deferred oil exploration costs – net (Note 11)	**303,476**	594,172	141,834,278
	₱77,167,996	(₱11,299,369)	₱164,323,294

As of December 31, 2023 and 2022, the net carrying value of the assets forming part of the CGU are as follows:

	2023	2022
Wells, platforms and other facilities (Note 10)	**₱605,037,993**	₱763,828,912
Deferred oil exploration costs (Note 11)	**321,621,106**	246,707,152
Production license (Note 14)	**21,959,213**	26,582,207
	₱948,618,312	₱1,037,118,271

Estimation of asset retirement obligation
The Parent Company has a legal obligation to share in the abandonment costs associated with the oilfields. The Parent Company recognizes the present value of the obligation in its share in the abandonment costs and capitalizes the present value of this cost as part of the balance of the related property and equipment, which are depleted using the unit-of-production method computed based on estimates of proved reserves.

Cost estimates expressed at projected price levels at the date of the estimate are discounted using a rate of 7.32% and 7.13% as of December 31, 2023 and 2022, respectively, to take into account the timing of payments. Each year, the provision is increased to reflect the accretion of discount and to accrue an estimate for the effects of inflation, with charges being recognized as accretion expense (see Note 17).

Changes in the asset retirement obligation that result from a change in the current best estimate of cash flow required to settle the obligation or a change in the discount rate are added to (or deducted from) the amount recognized as the related asset and the periodic unwinding of the discount on the liability is recognized in profit or loss as it occurs.

While the Parent Company has made its best estimate in establishing the asset retirement obligation, because of potential changes in technology as well as safety and environmental requirements, plus the actual time scale to complete decommissioning activities, the ultimate provision requirements could either increase or decrease significantly from the Parent Company's current estimates. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances.

The Parent Company's asset retirement obligation amounted to ₱48.06 million and ₱41.73 million as of December 31, 2023 and 2022, respectively (see Note 17).

Estimation of retirement benefits
The cost of defined benefit pension plans and the present value of the pension obligation are determined using actuarial valuation. The actuarial valuation involves making various assumptions including determination of discount rates and future salary increases, among others. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at the end of each accounting period. The net pension asset amounted to ₱8.08 million and ₱10.26 million as of December 31, 2023 and 2022, respectively (see Note 19).

Recognition of deferred tax assets
The Parent Company reviews the carrying amounts of deferred tax assets at each reporting date and reduces them to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or part of the deferred tax assets to be utilized.

As of December 31, 2023 and 2022, the Parent Company did not recognize deferred tax assets on certain temporary differences, NOLCO and MCIT as the Parent Company believes that it may not be probable that sufficient taxable income will be available in the near foreseeable future against which the tax benefits can be realized prior to their expiration (see Note 20).

6. **Cash and Cash Equivalents**

	2023	2022
Cash on hand and in banks	**₱29,496,758**	₱36,689,565
Cash equivalents	**239,916,060**	279,421,840
	₱269,412,818	₱316,111,405

Interest income earned on cash in banks and cash equivalents amounted to ₱3.28 million, ₱2.98 million and ₱0.09 million in 2023, 2022 and 2021, respectively.

7. Financial Assets at FVTPL

	2023	2022
Marketable equity securities	**₱6,188,720**	₱6,770,090
Investment in golf club shares	**770,000**	770,000
	₱6,958,720	₱7,540,090

Net gain (loss) on fair value changes on financial assets at FVTPL included in the parent company profit or loss amounted to (₱0.53 million), (₱0.05 million) and ₱0.06 million in 2023, 2022 and 2021, respectively. Dividend income received from equity securities amounted to ₱26,969, ₱79,047 and ₱38,134 in 2023, 2022 and 2021, respectively.

8. Receivables

	2023	2022
Accounts receivable from:		
Consortium operator	**₱60,197,945**	₱41,055,254
Due from related parties (Note 23)	**21,021,779**	1,765,776
Others	**57,817**	57,816
Interest receivable	**103,933**	146,359
	81,381,474	43,025,205
Less allowance for doubtful accounts	**2,682,453**	2,682,453
	₱78,699,021	₱40,342,752

The Parent Company's receivables are mainly due from consortium operator and are due within one (1) year.

9. Other Current Assets

	2023	2022
Advances to suppliers	**₱4,428,227**	₱453,612
Prepaid expenses	**1,826,625**	2,216,300
Prepaid taxes	**1,407,976**	4,321,601
Refundable deposits	**458,721**	448,721
Supplies	**99,580**	99,580
Restricted cash	–	20,926,811
	₱8,221,129	₱28,466,625

Restricted cash as of December 31, 2022 represents the Parent Company's share in the current portion of the Abandonment Fund related to FPSO decommissioning and Etame Field Asset Retirement Obligations. These funds were released from the escrow account in February 2023.

Interest income earned on restricted cash amounted to nil, ₱0.09 million and ₱0.73 million in 2023, 2022 and 2021, respectively.

10. **Property and Equipment**

	2023				
	Wells, Platforms and Other Facilities	**Office Condominium Unit and Improvements**	**Transportation Equipment**	**Office Furniture and Other Equipment**	**Total**
Cost					
Balances at beginning of year	**₱2,400,854,152**	**₱42,383,402**	**₱45,107,327**	**₱28,793,301**	**₱2,517,138,182**
Additions	**15,508,546**	**5,153,716**	**2,472,451**	**2,984,036**	**26,118,749**
Change in ARO estimate (Note 17)	**3,788,781**	**–**	**–**	**–**	**3,788,781**
Balances at end of year	**2,420,151,479**	**47,537,118**	**47,579,778**	**31,777,337**	**2,547,045,712**
Accumulated depletion and depreciation					
Balances at beginning of year	**1,467,772,639**	**41,172,900**	**24,034,020**	**24,424,864**	**1,557,404,423**
Depletion	**101,223,727**	**–**	**–**	**–**	**101,223,727**
Depreciation (Note 22)	**–**	**715,655**	**6,371,273**	**2,166,459**	**9,253,387**
Balances at end of year	**1,568,996,366**	**41,888,555**	**30,405,293**	**26,591,323**	**1,667,881,537**
Accumulated impairment losses					
Balances at the beginning of the year	**169,252,601**	**–**	**–**	**–**	**169,252,601**
Impairment loss (Note 5)	**76,864,520**	**–**	**–**	**–**	**76,864,520**
Balances at the end of the year	**246,117,121**	**–**	**–**	**–**	**246,117,121**
Net book values	**₱605,037,992**	**₱5,648,563**	**₱17,174,485**	**₱5,186,014**	**₱633,047,054**

	2022				
	Wells, Platforms and Other Facilities	Office Condominium Unit and Improvements	Transportation Equipment	Office Furniture and Other Equipment	Total
Cost					
Balances at beginning of year	₱2,222,351,170	₱41,590,986	₱27,368,920	₱26,378,693	₱2,317,689,769
Additions	207,643,520	792,416	17,738,407	2,414,608	228,588,951
Change in ARO estimate (Note 17)	(29,140,538)	–	–	–	(29,140,538)
Balances at end of year	2,400,854,152	42,383,402	45,107,327	28,793,301	2,517,138,182
Accumulated depletion and depreciation					
Balances at beginning of year	1,382,485,759	40,719,915	20,335,711	21,748,542	1,465,289,927
Depletion	85,286,880	–	–	–	85,286,880
Depreciation (Note 22)	–	452,985	3,698,309	2,676,322	6,827,616
Balances at end of year	1,467,772,639	41,172,900	24,034,020	24,424,864	1,557,404,423
Accumulated impairment losses					
Balances at the beginning of the year	181,146,142	–	–	–	181,146,142
Impairment reversal (Note 5)	(11,893,541)	–	–	–	(11,893,541)
Balances at the end of the year	169,252,601	–	–	–	169,252,601
Net book values	₱763,828,912	₱1,210,502	₱21,073,307	₱4,368,437	₱790,481,158

There are no property and equipment items that are pledged as security to liabilities as of December 31, 2023 and 2022.

As of December 31, 2023 and 2022, the participating interest of the Parent Company in various service contracts areas are as follows:

Gabonese Oil Concessions	2.525%
West Linapacan - SC 14C2	4.137%

<u>Foreign Operations</u>

Gabon, West Africa
<u>Background</u>
The Group holds approximately 2.53% participating interest in the Exploration and Production Sharing Contract ("EPSC") covering the Etame block in Gabon, West Africa (the "Etame Marin Permit"). The other parties in the consortium are Addax Petroleum Etame, Inc. (33.90%) and VAALCO Gabon (Etame), Inc. (63.58%) (the "Gabon Consortium"), are leaders in their respective areas of operation. VAALCO is the Consortium's operator, and is in charge of conducting the exploration and production activities in the Gabon contract area.

The EPSC is a contract with the Gabonese Government that gives the holder of the said EPSC exclusive rights and obligations to perform exploration, exploitation, and production activities and in the case of the consortium, within the Etame Marin Permit area.

In August 2021, the Consortium entered into a Bareboat Charter Agreement and Operating Agreement with World Carrier Offshore Services Corporation (World Carrier) to provide and operate a Floating Storage and Offloading (FSO) unit at the Etame Marin field for up to eight (8) years with additional option periods available upon the expiration of the current 20-year Floating Production, Storage and Offloading (FPSO) contract with BW Offshore in September 2022.

In December 2021, the consortium commenced a four-well drilling program in the Etame, Avouma and North Tchibala fields using the Borr Norve jack-up drilling rig, aimed to sustain field production to above 20,000 BOPD.

Etame-8H sidetrack was completed in February 2022. Avouma-3H sidetrack was completed in April 2022, South Tchibala-1HB sidetrack in July 2022, and North Tchibala-2H sidetrack in November 2022. Workovers were also conducted on Ebouri-2H, North Tchibala-1H and Southeast Etame-4H wells within 2022. This resulted in an increase in overall crude production of ~18,000-20,000 BOPD by the end of 2022.

Given the extended EPSC period, the Consortium is currently firming up the most feasible Integrated Field Development Plan (IFDP) to extract the remaining recoverable oil volumes until at least 2028 up to 2038 (final extension). This IFDP may include: 1) production from sour oil reserves, 2) outfield drilling opportunities, and 3) facility maintenance strategies.

<u>Update on Production</u>
Production was routed to the Petroleo Nautipa, the spread-moored (FPSO) vessel from the Etame, Avouma-Southeast Etame-North Tchibala and Ebouri platforms, and from the wells tied to the subsea Etame manifold. The produced oils were processed and exported from the FPSO, which had a storage capacity of one million barrels of oil (MMBO).

Throughout 2022, facility reconfiguration works were being completed in parallel for the hook-up and commissioning of the new FSO vessel Teli, which replaced the Petroleo Nautipa FPSO vessel in mid-October 2022. The FSO vessel is now operational and receiving crude from all Etame Marin platform wells. The two (2) old subsea wells – Etame-6H and Etame-7H – which were originally connected directly to the old Petroleo Nautipa FPSO, have been hooked-up to the FSO last December 30, 2022.

Crude production comes from four (4) oil fields (Etame, Avouma, Ebouri and North Tchibala).

In 2023, total crude production reached 6.25 MMBO. The Consortium managed 10 liftings, resulting in net crude export of 6.009 MMBO, with crude oil market prices ranging from US$ 75 – US$ 90 per barrel.

In 2022, total crude production reached 5.94 MMBO. The Consortium managed 11 liftings, resulting in net crude export of 5.133 MMBO, with crude oil market prices ranging from US$76 – US$133 per barrel.

In 2021, total crude production reached 5.42 MMBO. The Consortium managed 11 liftings, resulting in net crude export of 5.867 MMBO, with crude oil market prices ranging from US$50 – US$85 per barrel.

Since the Gabon oilfield has been put on-line in 2002, a total of 135.66 MMBO has been extracted to date over the last 21 years.

As of December 31, 2023 and 2022, PetroEnergy has investments in Gabon, West Africa included in "Wells, platforms and other facilities" account under "Property, plant and equipment" amounting to ₱605.04 million and ₱763.83 million, respectively. With the fluctuation in crude oil prices and recoverable oil reserves, impairment loss (reversal of impairment loss) was recognized amounting to ₱76.86 million in 2023, (₱74.14 million) in 2022 and (₱121.59 million) in 2021 (see Note 5).

Philippine Operations

SC 14-C2 – West Linapacan, Northwest Palawan

West Linapacan was discovered in the early 1990s. It produced oil from 1992 to 1996, peaking at 18,000 BOPD, before it was shut-in due to early water incursion.

The SC 14C2 Consortium, led by operator Philodrill Corp., negotiated with a potential farmee for the drilling of potential drilling targets, in exchange for a majority share and Operatorship of SC 14C2. This farm-in is subject to the approval of the Department of Energy (DOE).

While the consortium awaited the farmee's completion of the farm-in documentation, Philodrill continued to do in-house G&G work over at the West Linapacan area at the interim. For compliance, a "Transition Work Program and Budget, covering November 2020 to March 2021 was submitted to the DOE in November 2020 and was approved.

Throughout the second half of 2022, the SC 14-C2 consortium proceeded with a third-party technical evaluation of the West Linapacan B field, to assess potential production opportunities.

On May 11, 2023, the SC 14-C2 consortium approved to unitize the service contract with SC 6B, subject to the issuance of a DOE Department Circular regarding application for new petroleum service contract. However, the circular which was subsequently issued on December 18, 2023 stated that the application process for new petroleum service contracts would be issued in a supplementary guideline.

While waiting for the supplementary guideline, the consortium continues to evaluate farm-in proposals from interested parties. On December 29, 2023, the DOE approved the 2024 Work Program and Budget submitted by the Consortium. SC 14-C2 is due to expire in December 2025.

Due to the limited term remaining, PetroEnergy assessed the recoverability of the investment included in "Wells, platforms and other facilities" account under "Property, plant and equipment" and recorded impairment loss amounting to ₱0.30 million and ₱62.25 million in 2023 and 2022 (nil in 2021), respectively.

As of December 31, 2023 and 2022, PetroEnergy has investments in the West Linapacan Oilfield included in "Wells, platforms and other facilities" account under "Property, plant and equipment" amounts to nil.

11. Deferred Oil Exploration Costs

The movements in deferred oil exploration costs follow:

	2023	2022
Cost		
Balances at beginning of year	**₱615,456,554**	₱418,786,296
Additions	**75,217,430**	196,670,258
Balances at end of year	**690,673,984**	615,456,554
Accumulated impairment losses		
Balances at beginning of year	**303,573,543**	302,979,372
Impairment loss (Note 5)	**303,476**	594,171
Balances at end of year	**303,877,019**	303,573,543
	₱386,796,965	₱311,883,011

Details of deferred oil exploration costs as of December 31 follow:

	2023	2022
Cost		
Gabonese Oil Concessions (Note 10)	**₱622,113,463**	₱547,199,509
NW Palawan -SC 75	**65,175,859**	65,175,859
West Linapacan - SC 14C2 (Note 10)	**3,384,662**	3,081,186
	690,673,984	615,456,554
Accumulated impairment losses		
Gabonese Oil Concessions (Note 10)	**300,492,357**	300,492,357
West Linapacan - SC 14C2 (Note 10)	**3,384,662**	3,081,186
	303,877,019	303,573,543
	₱386,796,965	₱311,883,011

Philippine Oil Operations - Development Phase

Under the SCs entered into with the DOE covering certain petroleum contract areas in various locations in the Philippines, the participating oil companies (collectively known as "Contractors") are obliged to provide, at their sole risk, the services, technology and financing necessary in the performance of their obligations under these contracts. The Contractors are also obliged to spend specified amounts indicated in the contract in direct proportion to their work obligations.

However, if the Contractors fail to comply with their work obligations, they shall pay to the government the amount they should have spent but did not in direct proportion to their work obligations. The participating companies have Operating Agreements among themselves which govern their rights and obligations under these contracts.

The full recovery of these deferred costs is dependent upon the discovery of oil in commercial quantities from any of the petroleum concessions and the success of future development thereof.

As of December 31, 2023 and 2022, the remaining participating interest of the Parent Company in Petroleum SC areas is SC 75 – Offshore Northwest Palawan wherein the Parent Company has 15% interest.

SC 75 - Offshore Northwest Palawan
Service Contract 75 (SC 75) was signed on December 27, 2013 with partners PXP Energy Corporation (PXP energy) [50%] and PNOC-Exploration Corporation (35%). The block covers the West Philippine Sea with an area of 616,000 hectares.

On October 14, 2020, the Department of Energy (DOE) issued a formal notice to the SC 75 consortium, lifting the Force Majeure imposed since September 2015. Through this letter, the consortium was notified to resume its Work Program commitments under SC 75, including the committed ~1,000 sq.km 3D seismic survey over the identified leads in SC 75.

On January 6, 2022, the SC 75 consortium officially engaged Shearwater Geoservices Ltd. for the ~1,100 sq.km 3D seismic survey over SC 75 using the M/V Geo Coral seismic vessel. However, the programmed 3D seismic acquisition campaign was suspended on April 6, 2022 after Operator PXP Energy received a written directive from the DOE to put all exploration activities on hold until the Security, Justice and Peace Coordinating Cluster (SJPCC) issues the necessary clearance to proceed. On April 11, 2022, PXP Energy declared a Force Majeure event over the suspended seismic survey.

The SC 75 consortium is awaiting further instructions from the DOE, while all contracted vessels and personnel for the seismic survey have since demobilized from the SC 75 area.

SC 6A - Octon-Malajon Block
This is one of the first exploration areas in offshore Palawan. It includes about 165,000 hectares of relatively shallow water areas where a string of wells has found non-commercial oil accumulations in varied reservoir horizons. DOE granted in June 2009 the final 15-year extension of the SC-6A service contract.

In 2019, consortium operator Philodrill completed seismic interpretation and mapping works for the northern portion of the Octon-Malajon block, using recent and old SC 6A seismic data and subsurface data from the adjacent Galoc Field.
In 2020, Philodrill engaged Dubai-based consultants LMKR to conduct Quantitative Interpretation (QI) works to determine possible drilling opportunities in the northern portion of the block (Malajon field); the results of which were provided to the consortium in January 2021.

In March 31, 2021, Philodrill gave notice to the DOE that the Joint Venture has elected not to enter the 12th year of the final 15-year term of SC 61 and consequently surrender the Service Contract. The limited term remaining in the SC 6-A until its expiry in February 2024 exacerbated by the Covid-19 situation, greatly hampered the timely execution of the programs that the Joint Venture envisage undertaking to pursue appraisal programs and potential development opportunities in the area. Following the above, as of December 31, 2021, the Group has written-off the ₱159.30 million deferred cost. The DOE formally approved the relinquishment of SC 6-A on September 5, 2022. PERC held a 16.667% participating interest in SC 6-A.

12. **Investments in Subsidiaries and Associates**

On April 24, 2023, PERC and EEI Power Corporation (EEIPC) entered into a Share Purchase Agreement (SPA), wherein PERC agreed to purchase all of EEIPC's equity interests in PetroGreen (7.5%), PetroSolar (44%), and PetroWind (20%) on different payment schedules. PERC executed the respective Deeds of Absolute Sale and fully paid EEIPC the purchase price for the latter's shares in PetroWind, PetroSolar and PetroGreen on May 10, 2023, August 1, 2023, and August 31, 2023, respectively.

This acquisition resulted to additional investment in PetroGreen and investment in associates for PetroSolar and PetroWind which is disclosed below.

Investment in Subsidiaries

	2023	2022
Cost		
PetroGreen		
Beginning balance	**₱2,165,058,153**	₱2,165,058,153
Addition from acquisition of EEIPC's interest	**521,211,059**	–
	2,686,269,212	2,165,058,153
Navy Road Development Corporation (NRDC)	**2,861,646**	2,861,646
	2,689,130,858	2,167,919,799
Accumulated impairment losses	**(2,861,646)**	(2,861,646)
	₱2,686,269,212	₱2,165,058,153

Dividend income received from subsidiaries amounted to ₱75.00 million, ₱36.00 million and ₱150.93 million in 2023, 2022 and 2021, respectively.

Information on the Parent Company's subsidiaries, which were all incorporated in the Philippines, are as follows:

Subsidiaries	**Nature of Business**	**Percentage of Ownership**
PetroGreen	Holding Company and undertakes renewable energy projects.	75% in 2023 and 76.92% in 2022
NRDC	As of December 31, 2023 and 2022, NRDC has not commenced commercial operations and has not incurred any expenses. The management of the Parent Company intends to liquidate NRDC and has provided for full impairment losses on its investment in NRDC.	100%

PetroGreen has subsidiaries which are all incorporated in the Philippines, with PetroGreen respective percentage ownership as of December 31, 2023, 2022 and 2021:

Subsidiaries	**Nature of Business**	**Percentage of Ownership of PetroGreen**
MGI	Engaged in geothermal renewable energy production and generation	65%
PetroSolar	Engaged in solar renewable energy production and generation	56%
PetroWind	Engaged in solar renewable energy production and generation (became subsidiary of PGEC in 2023)	40%

In 2023, PetroGreen incorporated Rizal Green Energy Corporation (RGEC) that shall hold shares in the RE companies that will develop the solar power projects in Bohol, Pangasinan, Isabela and Nueva Ecija.

Investment in Associates
As disclosed in Note 5, PetroEnergy's direct investment in PetroWind and PetroSolar in 2023 are accounted as investment in associates because PetroEnergy already has significant influence on these entities.

The movement in investment in associates follows:

	PetroWind	**PetroSolar**	**Total**
Acquisition cost of EEIPC's interest	₱651,524,962	₱1,443,942,735	₱2,095,467,697
Additional investments	102,206,318	8,250,000	110,456,318
Share in net income of associates	21,953,944	99,560,679	121,514,623
Share in other comprehensive income (loss)	(373,876)	(669,237)	(1,043,113)
Dividends received	–	(88,000,000)	(88,000,000)
Balance at end of year	**₱775,311,348**	**₱1,463,084,177**	**₱2,238,395,525**

The carrying value of the investment in associates is equivalent to PERC's 20% and 44% share in PetroWind and PetroSolar's equity, respectively, plus the goodwill (excess of consideration over the carrying value of net assets acquired) amounting to ₱81.27 million for PetroWind and ₱135.05 million for PetroSolar.

The summarized financial information of the above entities is provided below.

PetroGreen

	2023	2022
Statements of Financial Position		
Current assets	**₱2,819,114,694**	₱3,371,584,178
Noncurrent assets	**3,317,766,501**	2,690,275,699
Current liabilities	**145,957,587**	103,032,041
Noncurrent liabilities	**100,265,643**	167,593,841
Equity	**5,890,657,965**	5,791,233,994
Statements of Comprehensive Income		
Revenue	**315,803,284**	218,146,744
Net income	**225,100,044**	135,288,166
Total comprehensive income	**215,716,392**	135,474,923
Statements of Cash Flows		
Net cash from (used in):		
Operating activities	**651,659,440**	(2,432,557,848)
Investing activities	**(628,439,585)**	(136,137,258)
Financing activities	**(171,575,010)**	3,200,364,448
Effect of foreign exchange rate	**(280,058)**	961,426
Net increase (decrease) in cash and cash equivalents	**(148,635,213)**	632,630,768

MGI

	2023	2022
Statements of Financial Position		
Current assets	**₱904,646,125**	₱949,606,062
Noncurrent assets	**4,635,286,537**	4,739,443,442
Current liabilities	**698,948,441**	780,539,299
Noncurrent liabilities	**1,192,954,723**	1,595,585,695
Equity	**3,648,029,498**	3,312,924,510
Statements of Comprehensive Income		
Revenue	**1,089,837,044**	952,309,263
Net income	**342,024,283**	146,845,509
Total comprehensive income	**335,104,988**	149,024,678
Statements of Cash Flows		
Net cash from (used in):		
Operating activities	**1,054,064,119**	₱590,771,702
Investing activities	**(257,963,413)**	(401,387,822)
Financing activities	**(517,906,789)**	(501,481,196)
Effect of foreign exchange rate	**(99,659)**	81,362
Net increase (decrease) in cash and cash equivalents	**278,094,258**	(312,015,954)

PetroSolar

	2023	2022
Statements of Financial Position		
Current assets	**₱711,606,379**	₱629,908,294
Noncurrent assets	**3,526,998,620**	3,505,603,317
Current liabilities	**325,307,047**	292,131,968
Noncurrent liabilities	**895,047,160**	1,108,639,614
Equity	**3,018,250,792**	2,734,740,029
Statements of Comprehensive Income		
Revenue	**876,818,506**	886,190,108
Net income	**485,031,755**	435,683,914
Total comprehensive income	**483,510,763**	435,662,227
Statements of Cash Flows		
Net cash from (used in):		
Operating activities	**712,945,970**	645,944,095
Investing activities	**(115,532,668)**	(80,352,055)
Financing activities	**(549,695,036)**	(607,631,619)
Effect of foreign exchange rate	**(11,992)**	147,404
Net increase (decrease) in cash and cash equivalents	**47,706,274**	(41,892,175)

PetroWind

	2023
Statements of Financial Position	
Current assets	₱983,911,205
Noncurrent assets	5,407,234,398
Current liabilities	510,143,239
Noncurrent liabilities	2,410,786,341
Equity	3,470,216,023
Statements of Comprehensive Income	
Revenue	727,606,935
Net income	236,616,463
Total comprehensive income	234,747,082
Statements of Cash Flows	
Net cash from (used in):	
Operating activities	808,141,808
Investing activities	(2,065,361,667)
Financing activities	1,531,343,124
Effect of foreign exchange rate	(4,605,155)
Net increase (decrease) in cash and cash equivalents	269,518,110

13. Investment Properties

As of December 31, 2023 and 2022, this account consists of land and parking lot space with cost amounting to ₱1.61 million and is being held for capital appreciation.

The fair value of the investment properties of the Parent Company is between ₱1 million to ₱1.70 million as of December 31, 2023 and 2022. The Parent Company determined the fair values of the Parent Company's investment properties on the basis of recent sales of similar properties in the same areas as the investment properties and taking into account the economic conditions prevailing at the time the valuations were made.

As of December 31, 2023 and 2022, the fair value of the investment properties is classified under the Level 3 category.

Except for insignificant amounts of real property taxes on the investment properties, no other expenses were incurred, and no income was earned in relation to the investment properties in 2023, 2022 and 2021.

14. Other Noncurrent Assets

	2023	2022
Restricted cash	**₱17,297,610**	₱31,451,424
Intangible assets	**22,174,795**	26,850,855
Input VAT	**48,048**	–
Others	**1,134,298**	1,238,289
	₱40,654,751	₱59,540,568

Restricted cash
This pertains to the Parent Company's share in the non-current portion of escrow fund for the abandonment of the Etame Marine Permit.

Intangible assets
Intangible assets pertain to production license and software for accounting and for geological interpretation of Gabon Etame oil fields.

	2023	2022
Cost		
Balance at the beginning of period	**₱53,682,145**	₱53,412,802
Additions	**129,863**	269,343
	53,812,008	53,682,145
Accumulated Amortization		
Balance at the beginning of period	**26,831,290**	21,933,210
Amortization (Notes 21 and 22)	**4,805,923**	4,898,080
	31,637,213	26,831,290
	₱22,174,795	₱26,850,855

15. Accounts Payable and Accrued Expenses

	2023	2022
Accounts payable	**₱95,490,153**	₱82,293,549
Accrued expenses		
Accrued interest expense (Note 16)	**26,997,402**	564,803
Profit share	**15,278,985**	15,611,876
Sick/vacation leaves	**5,611,091**	6,933,460
Professional fees	**1,940,097**	3,768,816
Due to related parties (Note 23)	**1,918,700**	2,160,363
Others	**7,113,667**	4,494,016
Due to NRDC (Note 23)	**2,269,737**	2,269,737
Withholding tax and other tax payables	**5,502,267**	2,831,044
Others	**7,469,391**	140,453
	₱169,591,490	₱121,068,117

Accounts payable include dividends payable pertaining to unclaimed checks amounting to ₱11.43 million and ₱10.96 million as of December 31, 2023 and 2022, respectively.

Other accrued expenses include utilities and security services, among others.

The Parent Company's accounts payable and accrued expenses are due within one year.

16. Loans Payable

The Parent Company's short-term loans payable as of December 31 follow:

	2023	2022
Principal, balance at beginning of year	**₱251,000,000**	₱190,000,000
Add availments during the year	**2,962,511,607**	561,000,000
Less principal payments during the year	**(451,000,000)**	(500,000,000)
Principal, balance at end of year	**₱2,762,511,607**	₱251,000,000

The Parent Company entered into unsecured loan agreements specifically to finance its Etame Expansion Project and investments in Renewable Energy Projects.

Omnibus Credit Line Agreement (OCLA) with the Development Bank of the Philippines (DBP)
On April 27, 2015, the Parent Company entered into an OCLA with DBP which provides a credit facility in the principal amount not exceeding ₱420.00 million. Effective January 19, 2021, the credit facility was decreased to ₱300.00 million. Loans payable to DBP as of December 31, 2022 are as follows:

- ₱63 million with interest rate of 5.8% and maturity on January 10, 2023
- ₱108 million with interest rate of 5.5% and maturity on January 26, 2023
- ₱80 million with interest rate of 5.8% and maturity on June 23, 2023

In 2023, the Parent Company already paid the outstanding short-term loans from DBP.

Short-Term Loan Facility with the Bank of the Philippine Island (BPI)

On April 19, 2023, the Parent Company entered into a short-term loan facility with BPI which provides a principal amount not exceeding ₱2.6 billion plus P1.0 billion blanket line with 1 year validity. Loans payable to BPI as of December 31, 2023 are as follows:

- ₱200 million with interest rate of 7.00% and maturity on April 11, 2024
- ₱551.52 million with interest rate of 7.00% and maturity on May 2, 2024
- ₱61.26 million with interest rate of 7.00% and maturity on February 28, 2024
- ₱1.25 billion with interest rate of 7.50% and maturity on January 31, 2024
- ₱422.51 million with interest rate of 7.50% and maturity on January 31, 2024
- ₱272.86 million with interest rate of 7.50% and maturity on January 31, 2024

On January 28, 2024, the Parent Company secured a 10-year long-term loan facility from BPI amounting to ₱2.55 billion with the following drawdown and with maturity date of January 31, 2034:

- ₱1.95 billion with interest rate of 7.2984%; Promissory Note (PN) Date: January 31, 2024
- ₱62.5 million with interest rate of 7.4449%; PN Date: February 28, 2024
- ₱201.5 million with interest rate of 7.4224%; PN Date: April 11, 2024

The proceeds were used to settle the short-term loans due in January to April 2024.

Short-term Loan with Rizal Commercial Banking Corporation (RCBC)
In 2020, the Parent Company obtained a clean loan from RCBC amounting to ₱150.00 million with interest rate of 4.5%, which was paid in 2021.

On November 15, 2021, PetroEnergy obtained a loan from RCBC amounting to ₱120.00 million with interest of 4.5%, which was paid in 2022.

Interest expense related to these loans amounted to ₱107.76 million, ₱9.68 million and ₱11.98 million in 2023, 2022 and 2021, respectively. Accrued interest payable amounted to ₱27.00 million and ₱0.56 million as of December 31, 2023 and 2022, respectively (see Note 15).

17. **Asset Retirement Obligation**

The Parent Company has recognized its share in the abandonment costs associated with the Etame, Ebouri and Avouma oilfields located in Gabon, West Africa.

Movements in this account follow:

	2023	2022
Balances at beginning of year	**₱41,728,602**	₱62,193,875
Change in estimate (Note 10)	**3,788,781**	(29,140,538)
Accretion expense	**2,949,784**	2,070,184
Foreign exchange adjustment	**(410,914)**	6,605,081
Balances at end of year	**₱48,056,253**	₱41,728,602

The asset retirement obligation of the Parent Company is expected to be settled at the end of its EPSC. Discount rate of 7.32% and 7.13% as of December 31, 2023 and 2022, respectively, were used in estimating the provision for the oilfields offshore Gabon, West Africa.

18. Equity

Under the existing laws of the Republic of the Philippines, at least 60% of the Parent Company's issued capital stock should be owned by citizens of the Philippines for the Parent Company to own and hold any mining, petroleum or renewable energy contract area. As of December 31, 2023, the total issued and subscribed capital stock of the Parent Company is 99.83% Filipino and 0.17% non-Filipino as compared to 99.77% Filipino and 0.23% non-Filipino as of December 31, 2022.

As of December 31, 2023 and 2022, paid-up capital consists of:

Capital stock - ₱1 par value	
Authorized - 700,000,000 shares	
Issued and outstanding	₱568,711,842
Additional paid-in capital	2,156,679,049
	₱2,725,390,891

The Parent Company's track record of capital stock follows:

	Number of shares registered	Issue/offer price	Date of SEC approval	Number of holders as of year-end
Listing by way of introduction - August 11, 2004	84,253,606	₱3/share	August 4, 2004	
Add (deduct):				
25% stock dividend	21,063,402	₱1/share	September 6, 2005	
30% stock dividend	31,595,102	₱1/share	September 8, 2006	
1:1 stock rights offering	136,912,110	₱5/share	May 26, 2010	
December 31, 2010	273,824,220			2,149
Deduct: Movement	–			(26)
December 31, 2011	273,824,220			2,123
Deduct: Movement	–			(10)
December 31, 2012	273,824,220			2,113
Deduct: Movement	–			(41)
December 31, 2013	273,824,220			2,072
Deduct: Movement				(29)
December 31, 2014	273,824,220			2,043
Add (Deduct):				
2:1 stock rights offering	136,912,110	₱4.38/share	June 3, 2015	(15)
December 31, 2015	410,736,330			2,028
Deduct: Movement	–			(1)
December 31, 2016	410,736,330			2,027
Deduct: Movement	–			(15)
December 31, 2017	410,736,330			2,012
Add (Deduct):				
1.2:6 stock rights offering	157,975,512	₱4.8/share	January 8, 2018	(8)
December 31,2018	568,711,842			2004
Deduct: Movement	–			(5)
December 31,2019	568,711,842			1,999
Deduct: Movement	–			(1)
December 31,2020	568,711,842			1,998
Deduct: Movement	–			(5)
December 31,2021	568,711,842			1,993
Deduct: Movement	–			(2)
December 31,2022	568,711,842			1,991
Deduct: Movement	–			–
December 31,2023	568,711,842			1,991

On July 26, 2017, at the BOD meeting, the Parent Company was authorized to raise approximately one billion pesos (₱1,000,000,000) in capital, by offering and issuing to all eligible stockholders as of record date, the rights to subscribe up to all of the existing unissued common shares of the Parent Company ("Stock Rights Offer").

On September 29, 2017, the Parent Company filed its application for the listing and trading of rights shares with the PSE. On December 13, 2017, the PSE approved the application to list the Rights Shares.

The rights offer entitled eligible stockholders as of record date of January 12, 2018 to subscribe to one rights share for every 2.6 shares held at an offer price of ₱4.80 per share.

The rights offer was undertaken in January 22 to 26, 2018. Following the close of the offer period, the Parent Company successfully completed the stock rights offer for 157,975,512 common shares with gross proceeds of ₱758.28 million and was subsequently listed on the PSE on February 2, 2018.

The proceeds from the stock rights offer were used for the development and expansion plans of the Group's renewable energy projects and general corporate requirements.

Dividend Declaration
On November 29, 2023, the BOD approved the declaration of 5% cash dividend or ₱0.05 per share to all stockholders of record as of December 14, 2023 and payable on December 28, 2023.

On July 28, 2022, the BOD approved the declaration of 5% cash dividend or ₱0.05 per share to all stockholders of record as of August 15, 2022 and payable on September 8, 2022.

Cumulative Translation Adjustment
In 2018, because of the change in business circumstances of the Parent Company, management changed its functional currency from United States Dollar (USD) to PHP effective January 31, 2018. All resulting exchange differences in the remeasurement of USD balances to PHP balances were recognized as 'Cumulative Translation Adjustment'.

Capital Management
The primary objective of the Parent Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholders' value.

The Parent Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Parent Company may adjust the dividend payment to shareholders or issue new shares.

As of December 31, 2023 and 2022, the Parent Company's sources of capital is the total equity in the parent company statements of financial position.

The table below demonstrates the debt-to-equity ratios of the Parent Company as of December 31:

	2023	2022
Total liabilities	**₱2,980,159,350**	₱413,796,719
Total equity	**3,401,111,521**	3,338,479,400
Debt-to-equity ratio	**0.88:1**	0.12:1

Based on the Parent Company's assessment, the capital management objectives were met in 2023 and 2022. The Company has no externally imposed capital requirements as of December 31, 2023 and 2022.

19. Retirement Benefits

The Parent Company has a funded noncontributory defined benefit retirement plan (the Plan) for all of its employees. The Plan provides for normal and early retirement, as well as death and disability benefits. The latest retirement valuation was as of December 31, 2023.

The retirement fund is administered by Rizal Commercial Banking Corporation (RCBC), appointed as trustee. The fund has no investments in the Parent Company's equity as of December 31, 2023 and 2022.

Pension benefits cost consists of:

	2023	2022	2021
Current service cost	**₱1,651,453**	₱1,504,536	₱3,069,277
Net interest expense (income)	**(750,285)**	203,976	(148,578)
Pension benefits cost	**₱901,168**	₱1,708,512	₱2,920,699

The accrued retirement liability (net pension asset) recognized in the parent company statements of financial position as of December 31 are as follows:

	2023	2022
Present value of defined benefit obligation	**₱25,209,366**	₱21,214,781
Fair value of plan assets	**(33,284,996)**	(31,478,585)
Accrued retirement liability (asset)	**(₱8,075,630)**	(₱10,263,804)

The movements in the accrued retirement liability (asset) recognized in the Parent Company statements of financial position are as follows:

	2023	2022
Beginning balance	**(₱10,263,804)**	₱2,882,233
Pension benefits cost	**901,168**	1,708,512
Re-measurement loss (gains) on defined benefit plan	**1,287,006**	(9,153,768)
Contributions	**–**	(5,700,781)
Ending balance	**(₱8,075,630)**	(₱10,263,804)

The details of the re-measurement gains (losses) recognized in other comprehensive income are as follows:

	2023	2022
Actuarial gains (losses) arising from changes in:		
Financial assumptions	**(₱1,511,873)**	₱1,869,991
Demographic assumptions	**–**	1,477,169
Experience adjustments	**719,541**	7,341,834
Return on plan assets (excluding amount included in net interest)	**(494,674)**	(1,535,226)
	(₱1,287,006)	₱9,153,768

Changes in the present value of the defined benefit obligation are as follows:

	2023	2022
Beginning balance	**₱21,214,781**	₱36,835,491
Current service cost	**1,651,453**	1,504,536
Interest cost	**1,550,800**	1,808,623
Benefits paid	**–**	(8,244,875)
Actuarial loss (gain)	**792,332**	(10,688,994)
Ending balance	**₱25,209,366**	₱21,214,781

Changes in the fair value of plan assets as of December 31 are as follows:

	2023	2022
Beginning balance	**₱31,478,585**	₱33,953,258
Interest income	**2,301,085**	1,604,647
Actuarial loss	**(494,674)**	(1,535,226)
Benefit paid	**–**	(8,244,875)
Contributions	**–**	5,700,781
Ending balance	**₱33,284,996**	₱31,478,585

The actual return on plan assets amounted to ₱1,806,411 and ₱69,421 in 2023 and 2022, respectively.

The components of net plan assets are as follows:

	2023	2022
Investments in quoted government securities	**₱33,041,525**	₱31,389,851
Interest receivable	**264,442**	155,955
Trust fee payable	**(20,971)**	(67,221)
	₱33,284,996	₱31,478,585

The principal actuarial assumptions used in determining retirement benefits benefit obligation as of December 31 follows:

	2023	2022
Salary rate increase	**8.00%**	8.00%
Discount rate	**6.10%**	7.31%

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the accrued retirement liability as of December 31, assuming all other assumptions were held constant:

	Increase (decrease)	
Assumptions:	**2023**	2022
Discount rate:		
+0.5%	**(₱659,959)**	(₱1,195,520)
-0.5%	**715,271**	1,315,680
Salary increase rate:		
+1%	**1,448,537**	2,715,176
-1%	**(1,259,801)**	(2,316,283)

Shown below is the maturity analysis of the undiscounted benefit payments as of December 31, 2023 and 2022:

	2023	2022
Year 1	**₱19,821,893**	₱17,347,214
Year 2	**104,905**	64,966
Year 3	**136,217**	81,263
Year 4	**176,114**	101,602
Year 5	**201,219**	127,064
Year 6-10	**2,801,418**	505,593

20. **Income Tax**

The provision for (benefit from) income tax for the years ended December 31 consists of:

	2023	2022	2021
Current	**₱3,543,125**	₱3,049,490	₱1,556,340
Deferred	**(2,590,881)**	(51,550)	(6,427,462)
	₱952,244	₱2,997,940	(₱4,871,122)

Provision for current income tax in 2023, 2022 and 2021 pertains to MCIT.

On June 20, 2023, the BIR issued Revenue Memorandum Circular (RMC) No. 69-2023 reverting the MCIT rate to 2% of gross income effective July 1, 2023 pursuant to RA No. 11534, otherwise known as the "Corporate Recovery and Tax Incentives for Enterprises (CREATE)" Act. MCIT rate was previously reduced from 2% to 1% effective July 1, 2020 to June 30, 2023 upon the effectivity of CREATE Act in 2021. Consequently, the Parent Company recognized MCIT using the effective rate of 1.5% in 2023 in accordance with RMC 69-2023.

As of December 31, 2023 and 2022, the Parent Company did not recognize deferred tax assets on NOLCO, MCIT and allowance for impairment losses, with details as follow as of December 31.

	2023	2022
Allowance for impairment loss	**₱207,243,532**	₱207,243,532
NOLCO	**50,313,166**	43,230,774
MCIT	**8,163,045**	4,662,188
	₱265,719,743	₱255,136,494

The Parent Company believes that it may not be probable that sufficient taxable income will be available in the near foreseeable future against which the tax benefits can be realized prior to reversal and expiration of NOLCO and MCIT. Details of the NOLCO and MCIT follow as of December 31 follow:

	NOLCO		MCIT	
	2023	2022	**2023**	2022
Beginning balance	**₱43,230,774**	₱224,262,306	**₱4,662,188**	₱3,384,311
Additions	**7,082,392**	–	**3,543,125**	3,049,490
Applied	–	(181,031,532)	–	–
Expiration	–	–	**(42,268)**	(1,771,613)
Ending balance	**₱50,313,166**	₱43,230,774	**₱8,163,045**	₱4,662,188

		NOLCO			MCIT	
Year Incurred	Year of Expiration	**2022**	2022	Year of Expiration	**2022**	2022
2023	2028	**₱7,082,392**	₱–	2026	**₱3,543,125**	₱–
2022	2027	**–**	–	2025	**3,049,490**	3,049,490
2021	2026	**43,230,774**	43,230,774	2024	**1,570,430**	1,570,430
2020	2025	**–**	–	2023	**–**	42,268
		₱50,313,166	₱43,230,774		**₱8,163,045**	₱4,662,188

On September 30, 2020, the BIR issued Revenue Regulations No. 25-2020 implementing Section 4 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 a deduction from gross income for the next five (5) consecutive taxable years immediately following the year of such loss.

The components of the Parent Company's net deferred tax assets follow:

	2023	2022
Deferred tax assets recognized in net income:		
Net asset retirement obligation	**₱14,649,555**	₱14,734,652
Unrealized foreign exchange loss	**240,827**	–
	14,890,382	14,734,652
Deferred tax liabilities recognized in net income:		
Crude oil inventory	**(3,419,013)**	(3,609,299)
Net retirement asset	**(2,018,908)**	(2,565,951)
Unrealized foreign exchange gain	**–**	(2,019,574)
	(5,437,921)	(8,194,824)
	₱9,452,461	₱6,539,828

The reconciliation of the statutory tax rate to the effective income tax rate shown in the parent company statements of comprehensive income follows:

	2023	2022	2021
Statutory tax rate	**25%**	25.00%	(25.00%)
Add (deduct) reconciling items:			
Non-taxable income	**(32.31)**	(5.16)	156.34
Movement in unrecognized deferred tax assets	**5.65**	(18.38)	(109.65)
Non-deductible expenses	**23.35**	0.17	(1.24)
Interest income subjected to final tax	**(20.82)**	(0.33)	0.85
Unrealized loss (gain) on FVTPL	**0.14**	0.01	0.06
Others	**–**	–	(1.94)
Effect or remeasurement of current and deferred income tax arising from change in tax rate due to CREATE Act	**–**	–	0.76
Effective income tax rate	**1.01%**	1.31%	20.18%

21. **Oil Production**

	2023	2022	2021
Production, transportation and other related expenses	**₱288,017,917**	₱297,717,142	₱178,665,694
Storage and loading expenses	**21,574,953**	48,992,296	48,992,296
Amortization (Note 14)	**4,622,993**	4,622,993	4,622,993
Supplies and facilities	**892,744**	284,802	284,802
Others	**238,912**	3,718,985	3,718,985
	₱315,347,519	₱355,336,218	₱236,284,770

22. **General and Administrative Expenses**

	2023	2022	2021
Salaries and wages (Note 23)	**₱51,705,545**	₱47,175,622	₱35,682,410
Professional, director's fees and others	**27,608,505**	25,968,474	20,571,035
Taxes and licenses	**19,445,834**	4,655,868	2,809,798
Depreciation and amortization (Notes 10 and 14)	**9,436,317**	7,102,703	2,677,888
Entertainment, amusement, and recreation (EAR)	**4,876,410**	3,941,267	3,001,933
Communication	**2,814,510**	3,276,727	3,451,214
Gasoline, oil, and lubricants	**2,107,977**	2,418,993	1,399,607
Repairs and maintenance	**2,002,563**	1,834,594	2,362,417
Utilities	**1,374,692**	1,464,575	617,459
Insurance	**1,064,792**	1,203,611	865,137
Transportation and travel	**4,857,526**	1,171,030	102,479
Advertisement	**1,807,157**	1,035,591	216,783
Retirement benefit cost (Note 19)	**901,168**	1,708,512	2,920,699
Donation and contribution	**720,662**	1,525,747	1,030,381
Condominium fees	**771,714**	900,333	771,714
Office supplies	**900,774**	792,639	514,126
Rent expense	**688,300**	706,066	605,953
Stock transfer fees	**671,627**	644,577	615,696
Security and janitorial services	**968,796**	631,260	942,418
SRO and listing fees	–	615,753	781,146
Training and seminar	**155,894**	578,103	519,177
Business meetings	**259,562**	521,403	339,428
Dues and subscriptions	**350,955**	382,266	258,920
Others	**11,583,680**	1,597,596	1,399,106
	₱147,074,960	₱111,853,310	₱84,456,924

23. **Related Party Transactions**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or significant influences. Related parties may be individuals or corporate entities.

Details of related party transactions are as follows:

Related Party/Nature	Amount of Transactions 2023	2022	Outstanding Balance 2023	2022	Terms and Conditions
Subsidiaries					
PetroGreen					
Advances	**₱22,839,506**	₱4,916,991	**₱19,227,974**	₱326,444	Note a
Time-writing fee	**6,765,537**	5,292,734	**(1,582,438)**	(1,639,916)	Note b
Accounts payable	**722,88**	463,029	**(197,976)**	(10,847)	Note c
Dividend income (Note 12)	**75,000,000**	36,000,000	–	–	
			17,447,560	(1,324,319)	
MGI					
Advances	**4,833,023**	4,665,294	**642,468**	924,276	Note a
NRDC					
Accounts payable (Note 15)	–	–	(2,269,737)	(2,269,737)	Note e
Associates:					
PetroWind					
Management fee	**2,000,000**	2,000,000	**43,374**	–	Note d
Advances	**2,533,853**	2,754,377	**732,766**	275,248	Note a
Accounts payable	**(65,486)**	–	**(65,486)**	–	Note c
			710,654	275,248	
PetroSolar					
Management fee	**2,000,000**	2,000,000	**161,667**	–	Note d
Advances	**2,041,972**	2,251,039	**213,531**	239,807	Note a
Dividend income (Note 12)	**88,000,000**	–	–	–	Note x
			375,198	239,807	
Investor					
House of Investments, Inc.					
Internal audit services	873,600	873,600	**72,800**	(509,600)	Note f
	₱	₱	**₱16,978,943**	(₱2,664,325)	

a. Advances pertain to the reimbursable operating expenses incurred by the Parent Company on behalf of PetroGreen, MGI, PetroWind and PetroSolar. The related parties paid for the documentary stamp taxes (DST) of these reimbursements. These are non-interest bearing and payable when due and demandable.

b. Time-writing fees are charged by PetroGreen for accounting, legal management and other support services rendered to the Parent Company. These are noninterest bearing and are due on demand within one year or less.

c. Accounts payable to PetroGreen pertain to the reimbursable operating expenses incurred by PetroGreen on behalf of the Parent Company. The Parent Company paid for the DST of these reimbursements. These are non-interest bearing and payable when due and demandable.

d. Annual management fees are collected from PetroSolar and PetroWind representing technical, legal, accounting and other management activities rendered.

e. Accounts payable to NRDC pertain to the noninterest bearing outstanding amount owed by the Parent Company to NRDC as of December 31, 2023 and 2022 (Note 15).

f. PetroEnergy has an Internal Audit Engagement arrangement with House of Investments (HI). These are non-interest bearing and are due and demandable.

g. In 2023, PGEC and PSC declared dividend. In 2023 also, the Parent Company made additional investments in PWEI and PSC. These are disclosed in Note 12.

h. On November 4, 2013, PetroWind executed an OLSA with the Development Bank of the Philippines for a loan facility of up to ₱2.8 billion which was later increased to ₱3.0 billion. The Parent Company signed the OLSA as a guarantor.

Compensation of Key Management Personnel of the Parent Company

The Parent Company has a profit-sharing plan for directors, officers, managers and employees as indicated in its by-laws. The amount, the manner and occasion of distribution is at the discretion of the BOD, provided that profit share shall not exceed 5% of the audited income before income tax and profit share.

The remuneration of the Parent Company's directors and other members of key management are as follows:

	2023	2022	2021
Salaries and wages and other short-term benefits	**₱28,365,908**	₱24,751,739	₱20,810,412
Directors' fees	**8,476,813**	10,140,906	5,438,567
Retirement expense	**538,496**	1,708,512	1,935,011
	₱37,381,217	₱36,601,157	₱28,183,990

24. Financial Instruments

The Parent Company's principal financial instruments include cash and cash equivalents, trading and investment securities (financial assets at FVTPL) and receivables. The main purpose of these financial instruments is to fund the Parent Company's working capital requirements.

Categories and Fair Values of Financial Instruments

The carrying amount of the Parent Company's financial assets and financial liabilities approximate their fair values.

The methods and assumptions used by the Parent Company in estimating the fair value of financial instruments are:

Financial instruments	**Considerations**
Cash and cash equivalents, receivables, and restricted cash	Due to the short-term nature of the instruments, carrying amounts approximate fair values as of the reporting date.
Equity securities	Fair values are based on published quoted prices (Level 1).
Golf club shares	Fair values are based on quoted market prices at reporting date (Level 1).
Accounts payable and accrued expenses; short-term loans	Due to the short-term nature of the instrument, carrying amounts approximate fair values.

Financial Risk Management Objectives and Policies

The Parent Company manages and maintains its own portfolio of financial instruments in order to fund its own operations and capital expenditures. Inherent in using these financial instruments are the following financial risks on liquidity, market and credit.

a. *Liquidity Risk*

Liquidity risk is the risk that the Parent Company is unable to meet its financial obligations when due. The Parent Company monitors its cash flow position and overall liquidity position in assessing its exposure to liquidity risk. The Parent Company maintains a level of cash and cash equivalents deemed sufficient to finance its operations and to mitigate the effects of fluctuation in cash flows. To cover its short-term and long-term funding requirements, the Parent Company intends to use internally generated funds as well as to obtain loan from financial institutions.

	2023			
	On demand	**Within one year**	**More than 12 months**	**Total**
Financial Assets:				
Financial assets at FVTPL	**₱6,958,720**	**₱–**	**₱–**	**₱6,958,720**
Financial assets at amortized cost:				
Cash and cash equivalents	**269,412,818**	**–**	**–**	**269,412,818**
Receivables	**78,699,021**	**–**	**–**	**78,699,021**
Refundable deposits	**–**	**–**	**458,721**	**458,721**
Restricted cash	**–**	**–**	**17,297,610**	**17,297,610**
	355,070,559	**–**	**17,756,331**	**372,826,890**
Financial Liabilities:				
Financial liabilities at amortized cost:				
Accounts payable and accrued expenses*	**155,714,055**	**–**	**–**	**155,714,055**
Loans payable	**–**	**2,762,511,607**	**–**	**2,762,511,607**
	155,714,055	**2,762,511,607**	**–**	**2,918,225,662**
Net financial assets (liabilities)	**₱199,356,504**	**(₱2,762,511,607)**	**₱17,756,331**	**(₱2,545,398,772)**

**Excluding statutory payables and provision*

	2022			
	On demand	Within one year	More than 12 months	Total
Financial Assets:				
Financial assets at FVTPL	₱7,540,090	₱–	₱–	₱7,540,090
Financial assets at amortized cost:				
Cash and cash equivalents	316,111,405	–	–	316,111,405
Receivables	40,342,752	–	–	40,342,752
Refundable deposits	–	448,721	–	448,721
Restricted cash	–	–	52,378,235	52,378,235
	363,994247	448,721	52,378,235	416,821,203
Financial Liabilities:				
Financial liabilities at amortized cost:				
Accounts payable and accrued expenses*	–	118,237,073	–	118,237,073
Loans payable	–	251,000,000	–	251,000,000
	–	369,237,073	-	369,237,073
Net financial assets (liabilities)	₱363,994,247	(₱368,788,352)	₱52,378,235	47,584,130

**Excluding statutory payables*

b. *Market Risk*

Market risk is the risk of loss on future earnings, on fair values or on future cash flows that may result from changes in market prices. The value of a financial instrument may change as a result of changes in equity prices, foreign currency exchange rates, interest rates and other market changes.

Foreign Exchange Risk

Foreign currency risk is the risk that the value of the Parent Company's financial instruments denominated other than the Parent Company's functional currency diminishes due to unfavorable changes in foreign exchange rates. The Parent Company's transactional currency exposures arise from cash and cash equivalents, receivables, restricted cash and accounts payable and accrued expenses.

The following table sets forth the foreign currency-denominated financial instruments of the Parent Company as of December 31, 2023 and 2022:

	2023		2022	
	US Dollar	**Peso Equivalent**	US Dollar	Peso Equivalent
Financial assets				
Cash and cash equivalents	**$3,019,031**	**₱167,758,508**	$1,463,404	₱82,126,238
Receivables	**1,031,907**	**57,339,972**	674,774	37,868,318
Advances to suppliers	**–**	**–**	–	–
Restricted cash	**312,069**	**17,297,610**	933,326	52,378,235
	4,363,007	**242,396,090**	3,071,504	172,372,791
Financial liabilities				
Accounts payable and accrued expenses	**1,298,471**	**72,152,130**	1,187,125	66,621,466
Net exposure	**$3,064,536**	**₱170,243,960**	$1,884,379	₱105,751,325

As of December 31, 2023 and 2022, the exchange rates used for conversion are ₱55.567 per $ and ₱56.12 per $, respectively.

The following table demonstrates the sensitivity to a reasonably possible change in US dollar exchange rates. With all other variables held constant, the effect on the Parent Company's loss before is as follows:

2023	
Increase/(decrease) in foreign currency exchange rate	**Effect on loss before income tax**
+1%	**₱1,677,989**
-1%	**(1,677,989)**

2022	
Increase/(decrease) in foreign currency exchange rate	Effect on loss before income tax
+11%	₱11,134,571
-11%	(11,134,571)

There is no other impact on the Parent Company's equity other than those already affecting loss before income tax.

c. *Credit Risk*
Credit risk represents the loss that the Parent Company would incur if counterparties fail to perform under their contractual obligations. The Parent Company established controls and procedures on its credit policy to determine and monitor the credit worthiness of customers and counterparties. There are significant concentrations of credit risk within the Parent Company since most of its financial assets are with consortium operator, although credit risk is immaterial.

The Parent Company has a well-defined credit policy and established credit procedures. In addition, receivable balances are being monitored on a regular basis to ensure timely execution of necessary intervention efforts.

The table below summarizes the Parent Company's gross maximum credit risk exposure from its financial instruments. These amounts are gross of collateral and credit enhancements, but net of any amounts offset and allowance for impairment losses:

	2023	2022
Cash in banks and cash equivalents	**₱269,412,818**	₱316,111,405
Receivables	**78,699,021**	40,342,752
Financial assets at FVTPL	**6,958,720**	7,540,090
Refundable deposits	**458,721**	448,721
Restricted cash	**17,297,610**	52,378,235
	₱372,826,890	₱416,821,203

An impairment analysis is performed at each reporting date using a provision matrix to measure ECL. The mechanics of the ECL calculations and the key elements are, as follows:

a. *Probability of default (PD)* is an estimate of the likelihood of default over a given time horizon.
b. *Exposure at default (EAD)* is an estimate of the exposure at a future default date taking into account expected changes in the exposure after the reporting date.
c. *Loss given default (LGD)* is an estimate of the loss arising in the case where a default occurs at a given time.

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

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

For cash and cash equivalents and quoted government securities, the Parent Company applies the low credit risk simplification where the Parent Company measures the ECLs on a 12-month basis based on the probability of default and loss given default which are publicly available. The Parent Company also evaluates the credit rating of the bank and other financial institutions to determine whether the debt instrument has significantly increased in credit risk and to estimate ECLs.

The Parent Company considers its cash and cash equivalents and quoted government securities as high grade since these are placed in financial institutions of high credit standing. Accordingly, ECLs relating to these debt instruments rounds to nil.

The following tables show the aging of financial assets as of December 31, 2023 and 2022:

	2023		
	Within one year	**Credit impaired**	**Total**
Cash and cash equivalents*	**₱269,342,818**	**₱–**	**₱269,342,818**
Accounts receivable:			
Consortium operator	**57,515,492**	**2,682,453**	**60,197,945**
Due from related parties	**21,021,779**	**–**	**21,021,779**
Interest receivable	**103,933**	**–**	**103,933**
Others	**57,816**	**–**	**57,816**
Financial assets at FVTPL	**6,958,720**	**–**	**6,958,720**
Refundable deposits	**458,721**	**–**	**458,721**
Restricted cash	**17,297,610**	**–**	**17,297,610**
	₱372,756,889	**₱2,682,453**	**₱375,439,342**

**Excluding cash on hand*

	2022		
	Within one year	Credit impaired	Total
Cash and cash equivalents*	₱316,111,405	₱–	₱316,111,405
Accounts receivable:			
Consortium operator	41,005,254	2,682,453	43,687,707
Due from related parties	1,765,776	–	1,765,776
Interest receivable	146,359	–	146,359
Others	57,816	–	57,816
Financial assets at FVTPL	7,540,090	–	7,540,090
Refundable deposits	448,721	–	448,721
Restricted cash	52,378,235	–	52,378,235
	₱419,453,656	₱2,682,453	₱422,136,109

**Excluding cash on hand*

25. Basic/Diluted Earnings Per Share

The computation of the Parent Company's EPS follows:

	2023	2022	2021
Net income (loss)	**₱93,076,081**	₱226,622,580	₱29,010,846
Weighted average number of shares	**568,711,842**	568,711,842	568,711,842
Basic/diluted earnings (loss) per share	**₱0.1637**	₱0.3985	₱0.0510

Earnings per share are calculated using the net income attributable to equity holders of the Parent Company divided by the weighted average number of shares.

26. **Segment Information**

The Parent Company has only one reportable segment which is oil and mineral exploration, development and production.

Operating results of the Parent Company are regularly reviewed by the management, to make decisions about resources to be allocated to the segment and assess its performance. Segment revenue and segment expenses are measured in accordance with PFRS. The presentation and classification of segment revenue and segment expenses are consistent with the presentation and classification in the statements of comprehensive income.

The Parent Company's primary operations are located in Gabon, Africa. All revenues are generated from sale of oil products in Gabon, West Africa.

PETROENERGY RESOURCES CORPORATION

SUPPLEMENTARY INFORMATION ON TAXES AND LICENSE FEES REQUIRED UNDER REVENUE REGULATIONS (RR) 15-2010

On November 25, 2010, the Bureau of Internal Revenue (BIR) issued RR 15-2010 to amend certain provisions of RR 15-2002. The RR provides that starting 2010, the notes to financial statements shall include information on taxes and license fees paid or accrued during the taxable year.

The Parent Company reported and/or paid the following types of taxes in 2023:

Value added tax (VAT)

The Parent Company is a VAT registered entity. However, being an oil exploration company of which bulk of the revenues are from its share in the sale of crude oil inventory/production in Gabon, Africa, the Parent Company is considered partly VAT-exempt entity.

Input taxes incurred in the pursuance of its oil operations are expensed outright.

In 2023, the Parent Company incurred vatable sales for the management fees rendered to related parties. The sales are vatable upon collection.

Net sales/receipts and output VAT declared in the Parent Company's VAT returns

	Net Sales/Receipts	Output VAT
Vatable sales	₱4,548,939	₱545,873

Taxes and Licenses

DST on loans	₱13,990,909
Business taxes	3,010,588
Fringe benefit tax	1,941,182
Insurance	262,307
Realty taxes	147,626
Others	92,722
Annual registration	500
	₱19,445,834

Withholding Taxes

Withholding taxes on compensation and benefits	₱3,403,172
Expanded withholding taxes	1,319,756
Fringe benefit tax	778,886
	₱5,501,814

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INDEPENDENT AUDITOR'S REPORT
ON THE SUPPLEMENTARY INFORMATION
REQUIRED UNDER REVENUE REGULATIONS NO. 15-2010

The Board of Directors and Stockholders
PetroEnergy Resources Corporation
7th floor, JMT Building, ADB Avenue
Ortigas Center, Pasig City

We have audited in accordance with Philippine Standards on Auditing, the parent company financial statements of PetroEnergy Resources Corporation as at December 31, 2023 and 2022 and for each of the three years in the period ended December 31, 2023 and have issued our report thereon dated April 15, 2024, which contained an unqualified opinion on those financial statements. Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations No. 15-2010 as at and for the year ended December 31, 2023 is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. The information is also not required by the Revised Securities Regulation Code Rule 68. Revenue Regulations No. 15-2010 requires the information to be presented in the notes to parent company financial statements. Such information is the responsibility of the management of PetroEnergy Resources Corporation. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Ana Lea C. Bergado

Ana Lea C. Bergado
Partner
CPA Certificate No. 80470
Tax Identification No. 102-082-670
BOA/PRC Reg. No. 0001, August 25, 2021, valid until April 15, 2024
BIR Accreditation No. 08-001998-063-2023, September 12, 2023, valid until September 11, 2026
PTR No. 10079908, January 5, 2024, Makati City

April 15, 2024