Risk Management Policy

General Policy Statement

Philodrill is a petroleum exploration and production company, with a diversified portfolio of assets. We provide services that consistently meet customer requirements and expectations. Our right to operate and our reputation as a publicly-listed company wholly depends upon our adherence to the prevailing laws, regulations and technical & industry standards.

In addition to the prevailing laws, regulations and technical & industry standards, Philodrill's management has a focused obligation to manage the risks inherent to its business. This, coupled with individual leadership and accountability empowers the Company to operate profitably while promoting its Risk Management Policy.

The Board and Management is committed to ensuring that it plans, performs the business activities diligently and ensures that the risks inherent in the business are identified and then avoided or kept as low as reasonably practicable.

Management will strive to identify and manage the risks inherent in the business and will continuously seek to improve its risk management performance so that it can protect its stakeholders, the environment, its assets and reputation.

Policy Strategies

To ensure the implementation of this policy we will:

- Comply with all prevailing laws, regulations and standards while aspiring to higher standards.
- Ensure adequate risk management is undertaken for all business activities.
- Delay or stop activities where risk identification has not been undertaken.
- Ensure that all activities are conducted in a safe and efficient manner and risks are avoided or are kept as low as reasonably practicable.
- Apply best industry standards where laws and regulations do not exist.
- Ensure that all employees and contractors are trained and suitably supervised so that they can perform their jobs efficiently.
- Ensure that procedures are in place to identify, assess and control workplace hazards.
- Use due influence to promote this policy in non-operated ventures.

- Promote the Company’s values and culture so that all its employees will act in accordance with this policy.

Application

The Management is accountable to the Board of Directors for ensuring that this policy is implemented. This policy will reviewed on a yearly basis.

This Policy applies to all employees, contractors and joint venturers engaged in activities under Philodrill’s operational control.

Credit Risk Policy

Credit Risk is the possibility of loss for the Company ifits receivable counterparties fail to discharge their contractual obligations. With respect to credit risks arising from the other financial assets of the Company, which comprise of cash in banks, cash equivalents and available-for-sale (AFS) financial assets, the Company’s exposure to credit risk could arise from default of the counterparty.

To mitigate such risk, the Company trades only with recognized, creditworthy third parties. However, the Company’s credit risk exposure is concentrated on a few counterparties which is inherent in the oil exploration and production business.

Liquidity Risk Policy

Liquidity risk is the risk that the Company becomes unable to meet its payment obligations when they fall due under normal and stress circumstances. The Company’s objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and operating cash flows.

The Company addresses liquidity concerns primarily though cash flows from operations and short-term borrowings.

Market Risk Policy

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

a. *Foreign Currency Risk*

   Foreign currency risk is the risk that the value for the Company’s financial instruments dimishes due to unfavorable changes in foreign exchange rates.

The Company's transactional currency exposures arise from sales in currencies other than its functional currency. Its entire share in petroleum operations in revenue is denominated in US Dollars, exposing it to foreign exchange risk arising from its US Dollar- denominated receivables and cash equivalents.

Foreign currency risk has no other impact on the Company's equity other than the profit or loss.

b. *Equity Price Risk*

Equity price risk is the risk that the fair values of investments in quoted equity securities could decrease as a result of changes in the prices of equity indices and the value of individual stocks. The Company is exposed to equity securities price risk exists because of investments held by the Company, which are classified in its statement of financial position as AFS financial assets.

The impact of equity price risk on the Company's equity excludes the impact on transactions affecting profit or loss.

Commodity Price Risk

The Company's petroleum revenues are based on international commodity quotations (i.e. primarily on the average Dubai oil prices) over which the Company has no significant influence or control. This exposes the Company's results of operations to commodity price volatilities that may significantly impact its cash inflows.

However, the Company is exerting its efforts in reducing operating costs in order to counteract any decrease in commodity price.

Production Risk

The Company's crude oil production from the Galoc, Nido, Matinloc and North Matinloc fields may experience decline that are due to normal reserve depletion, production shutdown, adverse weather condition and problems relating to availability of vessels.

To reduce operating costs, improve Galoc system uptime to around 97%, and enhance the overall economic viability of the Galoc field and provide a good basis for the consortium to push through with further development and exploration work in the Galoc area, the SC14C-1 consortium has upgraded the mooring and riser system (M&RS) of the FPSO which basically involves the installation of a revolving external turret on the bow of the FPSO. The newly installed turret would practically eliminate the need for the risk and costly disconnection of the M&RS during adverse weather conditions and its subsequent reconnection which in the past had resulted in expensive damage and prolonged operating downtimes.

Generally, the Company maintains a capital base to cover all risks inherent in the business, with the primary objective of optimizing the use and earnings potential of its resources to ensure that it is able to comply with externally imposed (legal or contractual) capital requirements, if any, and considering changes in economic conditions and the risk characteristics of its activities.